***February 2018***

***MARKET OUTLOOK WINTER 2018***

*There is an old saying that the stock market trades on two emotions:****fear and greed.****Rising equity prices since the Trump election has brought out investor greed.  During the last 10 trading days, with markets entering correction territory, the fear factor has taken hold. Succumbing to these emotions during times of market turmoil can have detrimental effects on your financial well being.*

***The need for financial advise is more apparent in falling markets than in rising ones.****If you have been following the advice in my newsletters, your portfolio will recover and outperform, with less volatility, through different market cycles. The principles set forth such as;****dollar cost averaging, strategic asset allocation, rebalancing, using low cost passively managed index funds, avoiding the use of margin and leverage****, all make sense now, more than ever.*

*Where are we headed from here? The strength in domestic stocks will be in large cap multinationals.****The weaker dollar against other major currencies will make US goods more attractive to overseas buyers.****The lowering of the corporate and individual tax rates will also add fuel to the US economy by increasing corporate profits and personal income, which will result in an increase in spending by businesses and consumers alike.  The repatriation of trillions of dollars held overseas by US companies will boost the US economy in additional domestic investments by these companies.*

*Internationally, I like stocks of both developed and emerging markets.****The valuation of stocks in Europe is well below that of US equities.****The****European Central Bank****is still providing economic stimulus to boost their economies.  Brexit has not had any serious consequences for the Eurozone.  The emerging markets, including the BRIC's, (Brazil, Russia, India, China) will outperform other sectors over time due to their extraordinary growth rates compared to developed markets.  The recovery in oil prices, and other commodities, will aid emerging market economies that are driven by commodity exports.****Although volatile, I believe exposure to these markets is a must.***

*I believe****there will be challenges in fixed income investments****, such as corporate bonds and treasurys.****The Fed has signaled at least 3 rate increases this year****.  Rate increases by the Fed on short term borrowing will have immediate negative impact on short to medium term bond and treasury prices.****Increased economic growth and demand for labor going forward, coupled with the rise in short term rates, may create inflationary pressures****.  Although the yield curve has been flattening lately, if we see a rise in long term rates, and a more historical steepening of the yield curve,****long term bonds and treasurys will be impacted the most to the downside.****We are avoiding these investments at this time.*

*PAUL ZINNO*

*pz03@aol.com*