

Dear Client,

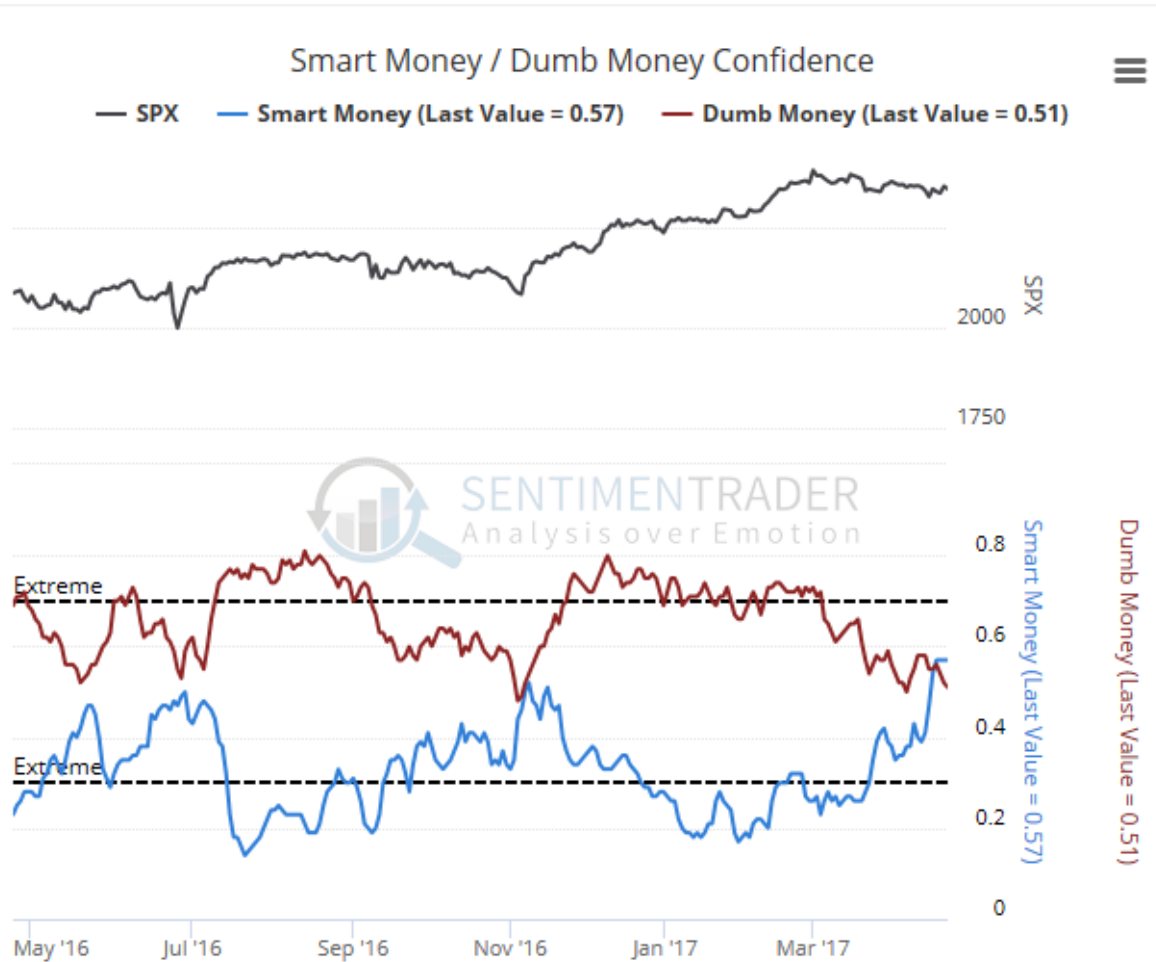
A wise old friend of mine, who recently passed after living a long and rewarding life, once gave me the following advice: “Be a thermostat, not a thermometer”. A thermometer bounces around, instantly reacting to every minute change in temperature. Thermometers also measure extremes—“The record high for this day was set in 1927 at 89.2 degrees F”—interesting but pretty much useless information. Thermostats control their environment, instead of being controlled by it like their mercurial cousins. They don’t care if they are directing the AC or the furnace, their goal is to maintain a nice, even temperature.

Investors could learn a lot from thermostats and thermometers. Spend enough time in this business, and you get to see how lots of different folks react to changes in what I will call “stock market temperature”. Most people are thermometers, even on a micro level. They react to every reading created by that infinite tug of war between buyers and sellers known as the market. As the temperature rises they get more excited and confident, and more convinced of their own ability to navigate and forecast the future direction. As the temperature plunges they get more worried and scared, wondering why everyone else seems to be selling, and if they should do the same. Bull markets are born when their mood reaches despair, and the last terrified investor sells. Bull markets die when the mood reaches euphoria, when the last holdout finally throws in the towel and says, “I can’t stand missing out any more, get me in!!”

Thermostats don’t get excited when the market temperature hits triple digits. Nor do they despair when the mercury plunges below freezing. They merely accept that they cannot control the market, but they can control their emotions. Like a thermostat, they force their jubilant desire to make even more money back down to room temperature when things get frothy. They do this by taking some chips off the table, reducing their stock exposure by selling to an excited investor. What makes a thermostat excited? They love it when they can take stock off the hands of panicky or bored investors by increasing their exposure when the mercury drops. When the thermometer goes back up to room temperature, they are happy. Pleasing outcome versus pleasing method. It feels good to dump out of a “loser” and add to a “winner”. This is the pleasing method. The pleasing outcome is derived from being the thermostat.

So what does Mr. Thermometer say right now? He is first and foremost a forward looking animal. He cares not a bit about what has happened in the past. He has risen about 10% since last fall, which many people attribute to the potential for a new tax (lower) and regulatory (less) environment. This may or may not happen. So far, about 100 days into the new administration, not much has changed on either front. However, things were actually improving before the election. Unemployment continues to hit cyclical lows, and the rest of the world, particularly Europe, has been showing signs of growth. Some of the sentiment indicators we follow, like the Smart Money/Dumb Money Confidence Ratio*, is starting to suggest a much better level for stocks. Not to sound condescending, but a contrary indicator shows that when less sophisticated investors get worried, more sophisticated investors get excited.

Right before the election, on 11/7/16, the Dumb Money/Smart Money Ratio was 52/50. The market exploded on the upside, and peaked at SPX 2400 on 3/1/17. The Ratio then stood at 73/26! In other words, the excitement level of Dumb Money went from 52 to 73, and the smart money from 50 to 26, on a scale of 0-100. For seven weeks now, the lines have been converging, with the ratio now at 51/57. This and a lot of other technical indicators we follow, make us feel pretty good about the outlook for the near to intermediate future.



If we have not reviewed your financial plan in a while, it may be a good time to do so soon. Once created, you can access your financial plan on our website when you log in to your accounts. The program allows you to perform various “what if” scenarios, like retiring earlier, accelerating gifting, or adjusting retirement income. Please let us know if you would like to access this feature of the site.

Regards,



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*<https://www.sentimentrader.com/users/>

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