







Macroeconomic Overview

Domestic

United States	Price	Day	Weekly	Monthly	Yearly
 Dow Jones	20665	▼ 62 -0.30 %	0.32%	-2.14%	16.13%
 S&P 500	2362	▼ 6 -0.24 %	0.80%	-1.39%	13.99%
 NASDAQ 100	5436	▼ 3 -0.06 %	1.35%	0.84%	19.95%
 NASDAQ	5912	▼ 3 -0.04 %	1.42%	0.13%	20.29%
 Russell 2000	1390	▲ 8 0.55 %	2.31%	-1.96%	24.00%
 S&P VIX	12.37	▲ 0.83 0.83%	-0.59%	-0.17%	-0.73%

Many professional and retail investors were expecting a large correction in the major indices after the GOP failed to repeal and replace Obamacare. We did experience a small dip on Monday morning but not what many were expecting and possibly turned out to be a buying opportunity for many bulls. Volatility

remains low during this time of extreme political and economic uncertainty and I believe I can provide a brief explanation to why. We all know the proposed corporate tax cut and deregulation will boost bottom line earnings and the infrastructure spending expectations combined will lead to economic expansion. We also know republicans are facing jealous democrats that will disagree with anything that is proposed out of spite and are also facing challenges within their own party. This type of regulatory action will greatly affect markets and that is why we are overwhelmed with political news on a daily basis because we could experience a large move to the upside relatively fast. Yes, there is a downside but how big is it really? Bears will argue that we are heading towards a recession because of our current state in the market cycle which implies a large move downward. We have to ask ourselves realistically if that is the case even though the economy is already posting positive signals such as GDP growth which exceeded expectations of 2% in the 4th quarter. University of Michigan's consumer sentiment signals a growth in confidence from February to 96.9, which is near the 13 year high, even though it missed its excessively high expectations of 97.6. The unemployment rate continues to be stable around 4.7% while those participating in the labor force continues to rise. Now I understand there are better/more indicators that can be used to gauge the market direction but if you look at it from a basic point of view you can see that underlying fundamentals are relatively stable (even slightly positive) and any correction would be a long term buying opportunity because our markets are stable at the least. The great opportunity for the markets are the regulatory actions that may or may not take place and even if they don't happen or the extent that we expect our markets are still strong and, as a long-term investment, still a good opportunity but not the best. Now, if corporate and personal income taxes are reduced to what we were promised or at least what we could realistically expect then corporate profits will dramatically increase. With all of that free cash flow available to companies, investors will have a field day jumping into companies with high effective tax rates and to a lesser extent those not at the highest tax rate. This is an opportunity that professionals do not want to miss and plan to take full advantage of. How are they going to take full advantage of it? My theory is pretty simple; professionals are waiting for retail investors and traders to get scared out of positions which they can then buy at a discount to the current price.

In conclusion, volatility cannot increase because on any downward move there will be buyers for those fleeing scared giving support to the underlying. Once we receive more information regarding the tax plan and when/if it is going to make it through the house and senate we can be more confident in establishing a position. If you are already in a position that allows you to take advantage of this huge upward movement you would want definitive evidence that your theory is incorrect to make you exit the position; right? So, for now I suggest you stay calm and take advantage of others fears because the move will happen fast and you will not want to miss the upside.

