

## MARKET SNAPSHOT

December closed out 2017 much like each of the previous 11 months of the year: higher. Most of the broad market indices traded to the upside, with large caps delivering the best performance and smaller caps the worst, again in line with performance throughout the entire year. In fact, the Dow Jones Industrial ETF (DIA) was up the most for the month at +1.87%, and the Russell Micro Cap ETF (IWC) was down the most at -.92%. Looking at ETF market capitalization ranges, we saw clear linear performance deterioration from high to low. We also saw a style shift in December with value outperforming growth fairly handily as the S&P 500 Value ETF (IVE) was up 1.27% and the S&P 500 Growth ETF (IVW) advanced only .37%. Overseas markets remained mixed with some areas of the globe outperforming US markets and others lagging.

## MARKET VITALS

Our market internal analysis remains positive as odds favor more positive performance heading into 2018:

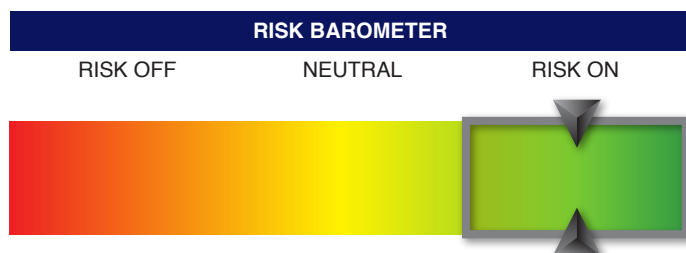
- The percentage of stocks in an uptrend—our most heavily weighted market risk variable—continues to be bullish, holding steady from last month at 69%.
- Our suite of breadth measures—advance/decline lines, new highs/new lows, up/down volume—remain mostly bullish although our breadth momentum analysis has fallen into the neutral range. This is likely due to the continued lagging performance of smaller cap issues as this particular indicator looks at all stocks.
- International markets closed out a strong 2017 (the strongest performance we've seen in some time) and in good shape moving forward based on our internal analysis with 82% of the country ETFs we follow in uptrends.

## US EQUITIES

The month delivered mixed returns in broad markets as the SPDR S&P 500 ETF (SPY) was up 0.70%, the iShares Russell 2000 ETF (IWM) was down 0.92% and the PowerShares NASDAQ ETF (QQQ) up .039%. On a sector-trend leadership basis, we continued to see some flux as consumer discretionaries (XLY) led the way, up 2.11%, while interest-rate sensitive utilities (XLU) were down 6.73% amid continued rate increases.

## INTERNATIONAL EQUITIES

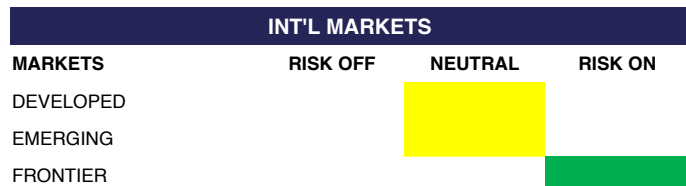
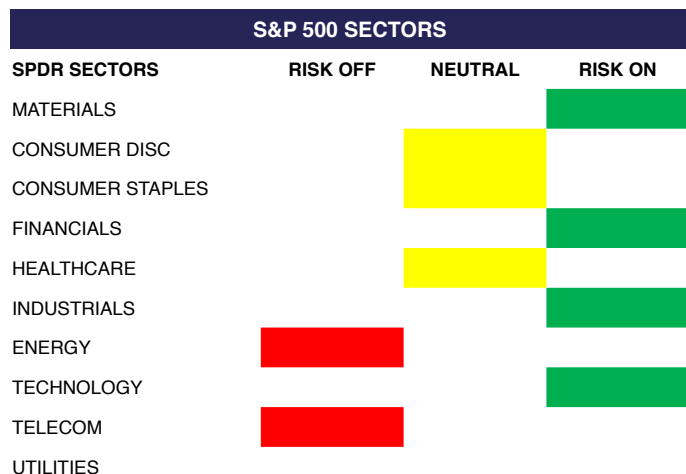
Overseas, we saw positive results on a broad-market basis with the iShares MSCI Emerging Markets ETF (EEM) up 2.21% for the month, the developed markets iShares MSCI EAFE Index Fund (EFA) up 0.29% and the MSCI Frontier (FM) up 1.07%. For the year, the emerging and frontier markets MSCI Frontier returned in excess of 30% while developed markets were up more than 22%. Drilling down a bit on the month we saw (as always) a wide range of returns with the iShares Turkey ETF (TUR) leading the upside at 14.70% while the iShares Russia ETF (RSX) lagged, as it has for most of the year, down 2.17%.



**Risk Barometer** – An illustrated snapshot of current market conditions, risk levels, based on Niemann's proprietary risk-management analytics.

**Risk Off** – Elevated risk in the current equity market environment, taking on risk not advisable.

**Risk On** – Lower risk in the current equity market environment, constructive for taking on more risk advisable.



**Past performance does not guarantee future results.**

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## CONCLUSION

Markets trended higher for the most part in December as the tax reform plan was finally passed into law at the end of the year. Some of the short-term leadership rotations we saw in November continued in December with value outpacing growth and consumer-related issues outperforming technology for a second consecutive month. While risking sounding like a broken record month after month, highly valued markets and extremely low volatility over an extended period continue to warn of a potential pullback in the short term. Yet there is no rule saying this will happen any time soon. Our analytic work continues to indicate we'll see even further upside over the intermediate term as no serious red flags have been raised as we head into January. In fact, trading activity in our US based strategies was extremely light in December and the fourth quarter as intermediate-trend leadership remains intact. As always, we continue to diligently monitor the markets for any potential rotations and in search of new opportunities. Happy New Year!

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