Demming Financial Services Corp.

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2st Quarter

Special Notes…

As a friendly reminder, for your protection, it is now our policy that any **requests** for funds sent to us via email **will also be confirmed by phone**.

Please be sure to let us know if there are any changes to your contact information (address, work address, phone number, email, etc.)

Please be sure to send us a copy of your 2016 tax returns as they are completed!

Also, please be sure to check out our website at www.demmingfinancial.com!

What a Market Top Looks Like

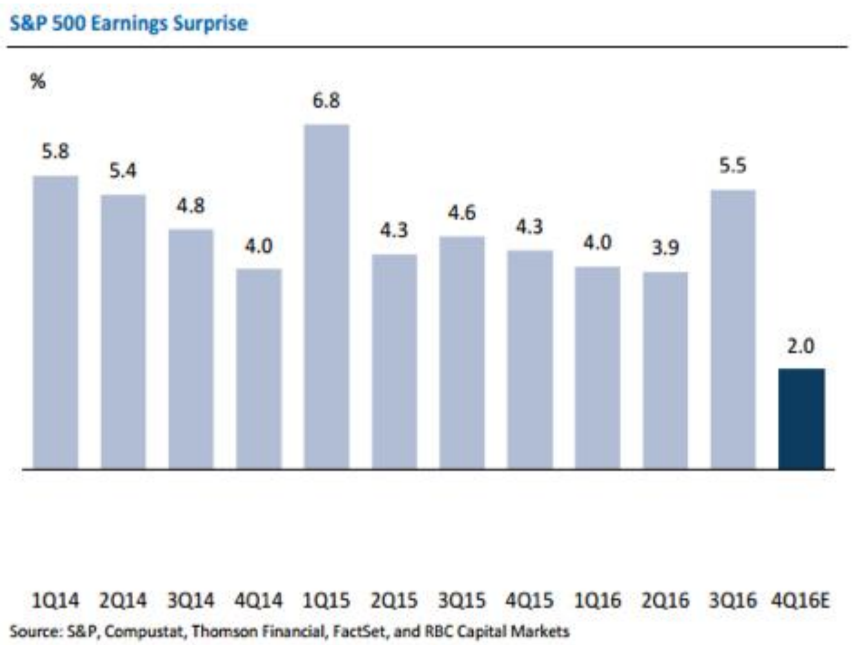
The current bull market in stocks will reach its 8th anniversary, and for about the last four years, professional investors and financial planners have been scratching their heads. The markets have gone up and up and up, and we all know that they won't go up forever, which means there's a correction looming somewhere on the horizon.

"HE'S BACK ON THE LEDGE AGAIN! THIS TIME, HE SOLD EVERYTHING, AND THE MARKET WENT BACK UP."

The problem is that the wisest professionals generally know what a market top looks like—and what it doesn't. For most of those eight years, investors were constantly looking over their shoulders, waiting for the next shoe to fall, being very cautious about their stock allocations. As long as that generalized anxiety persisted, it was unlikely that we would see the exuberance and overconfidence that typically precedes a major market decline.

The markets generally top out when the average person starts feeling like he or she is missing out on future returns. Suddenly money that has been on the sidelines for years starts to flow back into the market, causing it to rise faster than it ever did during the buildup early years of a bull market. You start to see pundits, touts and market prognosticators get really enthusiastic. Nobody could see any sign of that swell of overconfidence—

Until now, with what Wall Street has been calling The Trump Trade. The trade means that people everywhere are investing in anticipation of lower corporate taxes and fewer regulations.



An excellent description of how to spot a market top was published on the MarketWatch website, entitled "7 Signs We're Near a Market Top, and What to Do Now."

What are the signs? The first one is when you see retail investors start pouring money into stock mutual funds, in fear of missing out on another year of growth. Second: the survey of professional investors starts showing a low proportion of bears to bulls, basically meaning that the bear market prognosticators (and there are some who nearly ALWAYS predict one) start to give in.

Third, market sentiment indicators like the VIX index (that tells us what traders think of future market volatility) start to look complacent. Fourth: you see record price/earnings ratios, which means people are ignoring value and simply expecting future growth. Fifth: investors are finally starting to forget the last market crash, and have stopped looking over their shoulders. Sixth, the article says that the Nasdaq index of mainly tech stocks will begin a bull run. And seventh, investors reach a tipping point where greed outweighs fear. Instead of fearing a market pullback, they fear missing out.

Does any of this look familiar when you look at today's markets?

To many professional investors, the signs are everywhere that the investment markets have finally reached those last heady stages of a bull market, when prices begin to soar faster than they ever did in the run up. You can't expect a major, painful bear market until those conditions have been met, and we're finally meeting them now. You're going to hear that earnings per share for American corporations have been beating expectations in the latest quarter, but as the chart shows, the margin has shrunk.

With all this wisdom and insight, what's the best course of action? Trying to time the market is never a good strategy. Even though valuations are high right now, there is no good reason, with all the euphoria, that they won't keep getting higher—and the euphoria could last days, weeks, months… or years. If you get out now, there's a good chance you'll miss the most exciting part of the bull market.

More importantly, if you get off of the roller coaster and do manage to miss the next dip, how will you know when to get back in again? Bear markets have a habit of suddenly reversing themselves, and it's possible that by the time you feel confident that the market is finally on an upswing, you'll be buying at prices higher than what you sold for.

A better possibility is to quietly start to raise the cash allocation in your portfolio, with the idea that when the bear market finally does manifest, you'll have money to invest at bargain prices. This isn't for the faint-hearted, however, since it's tough to miss the last stage of a roaring bull, and even tougher to re-invest when everybody else is selling out.

A safer way to weather the storm is to simply hang onto the restraining bar in your roller coaster seat and endure the bumpiest part of the ride. If you believe that stocks will eventually recover, as they always have in the past, then eventually you'll be looking at gains again while a lot of your friends and neighbors will have sold near the bottom in the last stages of a bear market capitulation.

Most importantly, you should recognize that the best, most seasoned market watchers can and will be way off on their timing. You can't rely on any of us to know the future. That MarketWatch article that talked about the seven signs of a market top? It advised people to start edging out of the market as soon as possible, because the red flags, it said, were everywhere.

And it was published in March, 2014.

Article courtesy of Bob Veres

Drone Transport

The advent of driverless cars has made the future look awfully confusing. Will you even OWN a car ten years in the future, when all you'll have to do is pull out your phone and request an automated ride to wherever you want to go? Will there be automated drones that fly above the streets?

Perhaps the clearest picture of the next transportation era has been unveiled by the Airbus organization—the European consortium that makes commercial airplanes. Airbus has recently demonstrated how you will be picked up at your home in a vehicle that looks like a futuristic car. Then, at a transit site, a three-fanned drone will latch onto the car, lifting it from its wheels to take you dozens or even hundreds of miles away. The drone will deposit the cab you're riding in onto another set of wheels, which will take you on the streets to your final destination.

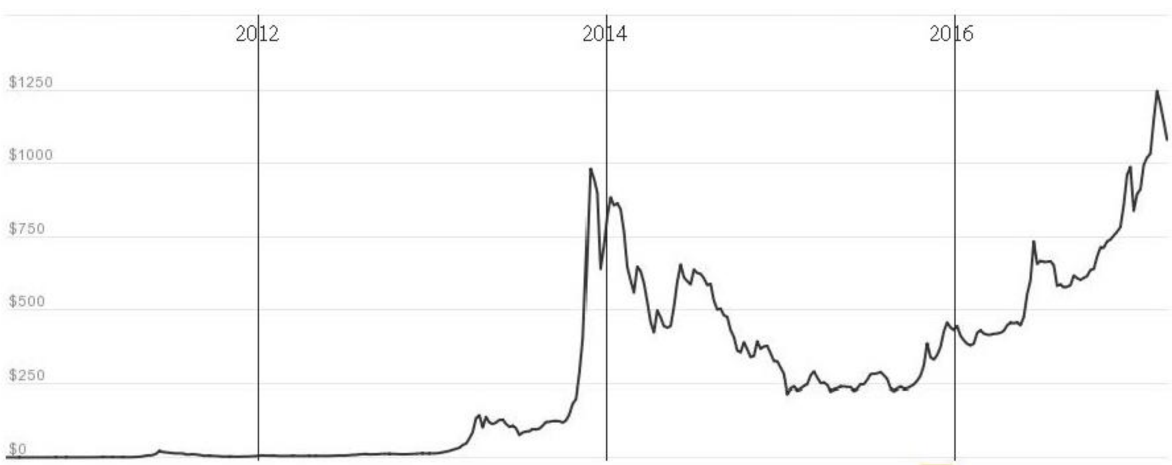
The technology will go on trial sometime within the next ten years, with battery technology cited as the biggest hurdle to full implementation.

Article courtesy of Bob Veres

Money in Cyberspace

One of the strangest investment vehicles ever designed is something called the Bitcoin, which is at once an exciting new technology for managing online transactions and an alternative currency to national currencies like the dollar, yen and euro. Last week, people who owned bitcoins discovered that electronic "coins" worth $1,350 were suddenly worth just under $945. Around the same time, U.S. regulators rejected an effort to create a bitcoin exchange-traded fund (ETF).

Bitcoins are "mined" electronically by computers as they solve complex algorithms, and they are recorded in a distributed "blockchain" network of "wallets" that are tracked on multiple computer devices everywhere in the world. Few retailers accept bitcoins, although it is reportedly the currency of choice for global arms dealers and illicit narcotics transactions, in large part because the transactions cannot be traced—or taxed. New cryptocurrency competitors like Ethereum, Dash and Monero have sprung up, vying for this small market, while a small group of bitcoin miners, known collective as AntPool, has seized control of the bitcoin network.



You can see from the chart of bitcoin prices since inception that this is not an "investment" for the faint-hearted, and there is some question whether the currency has a future outside of the small network of miners and shady dealers. If you're approached to invest in bitcoins, check first to see if anybody you want to buy from is willing to accept this alternative currency.

Article Courtesy of Bob Veres

2017 First Quarter Report

Are we in the late stages of a bull market—that time when the market suddenly takes off like a rocket for no apparent reason?

Over the last eight years, the S&P 500 index has returned more than 300% but the tail end of this run seems to have accelerated the trend. The first quarter of 2017 provided the highest returns for U.S. large-cap stocks since the last three months of 2013. The Nasdaq index has booked its 21st record close of the year so far, and the indices have recorded a 30% rise over the past six quarters, marking the fastest advance since 2006.

The first quarter of 2017 has seen the Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—rise 5.72%.

Looking at large cap stocks, the Wilshire U.S. Large Cap index gained 6.01% in the first quarter, while the widely-quoted S&P 500 index of large company stocks was up 5.53% in the first three months of 2017.

Meanwhile, the Russell Midcap Index gained 5.15% in the first quarter.

As measured by the Wilshire U.S. Small-Cap index, investors in smaller companies posted a relatively modest 2.26% gain over the first three months of the year, while the technology-heavy Nasdaq Composite Index rose 9.83% in the first quarter, continuing its record-breaking climb.

Even the international investments were soaring through the start of the year. The broad-based EAFE index of companies in developed foreign economies gained 6.47% in the first three months of calendar 2017. In aggregate, European stocks gained 6.74% for the quarter, while EAFE's Far East Index gained 5.13%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, rose 11.14%.

Looking over the other investment categories, real estate investments, as measured by the Wilshire U.S. REIT index, eked out a 0.03% gain during the year's first quarter. The S&P GSCI index, which measures commodities returns, lost 2.51%, in part due to a 5.81% drop in the S&P crude oil index. Gold prices shot up 8.64% for the quarter and silver gained 14.18%.

In the bond markets, rates are incrementally rising from practically zero to not much more than zero. Coupon rates on 10-year Treasury bonds now stand at 2.39% a year, while 30-year government bond yields have risen to 3.01%.

The pundits on Wall Street have been telling us that the market's sudden meteoric rise—which really accelerated starting in December of last year—is the result of the so-called "Trump Trade," shorthand for an expectation that companies and individuals will soon be paying fewer taxes and be burdened by fewer regulations, leading to higher profits and greater overall prosperity. Add in a trillion dollars of promised infrastructure spending, and the expectation was an economic boom across virtually all sectors.

However, there is, as yet, no sign of that boom; just a continuation of the slow, steady recovery that the U.S. has experienced since 2009. The latest reports show that the U.S. gross domestic product—a broad measure of economic activity—grew just 1.6% last year, the most sluggish performance since 2011. The U.S. trade deficit widened in January, and both consumer spending and construction activities are weakening from slower-than-average growth rates.

The good news is that corporate profits increased at an annual rate of 2.3% in the fourth quarter, which shows at least incremental improvement. However, the previous three months saw a 6.7% rise in profits, suggesting that the trend may be downward going forward.

It's possible to read too much into the recent failure of health care legislation, and imagine that we're in for four years of ineffective leadership. There will almost certainly be a tax reform debate in Congress in the coming months, but the surprising aspect—as with the healthcare legislation—is that there seems to have been no pre-prepared plan for Congress to vote on. We know that the Republican President and Congress want to lower corporate tax rates and simplify the tax code—which, in the past, has meant adding thousands of new pages to it. We know that there is general opposition to any form of estate taxes, but nobody is proposing which deductions would be eliminated in order to make this package revenue-neutral.

Similarly, there have been no details about the infrastructure package, which means we don't know yet whether it would be a budget-busting package of pork barrel projects or a real contribution to America's global competitiveness.

We can, however, be certain of one thing: as the bull market ages, we are moving ever closer to a period when stock prices will go down, perhaps as dramatically as 20%, which would qualify as a bear market, perhaps more or less. This is a good time to ask yourself: how much of a downturn would I be able to stomach either before panic sets in or my lifestyle is endangered? If your answer is less than 20%, or close to that figure, this might be a good time to revisit your stock and bond allocations.

On the other hand, if you're not fearful of a downturn, then you should look at the next bear market the way the most successful investors do, and envision a terrific buying opportunity, a time when stocks go on sale for the first time in the better part of a decade. For some reason, people go to the shopping mall to buy when items go on sale, and do the opposite when the investment markets go down. Knowing this can be an unfair advantage to your future wealth, and even make you look forward to the end of this long, unusually steady, increasingly frantic bull run in stocks. After all, if history is any indication, the next downturn will be followed by another bull run.

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As a friendly reminder, please be sure to forward us your 2016 tax returns.