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Dow Jones Industrial Avg.	**24,719.22**	**Standard and Poor's 500**	**2,673.61**
2017(YTD) + 25.1%	4th Qtr. + 10.3%	2017(YTD) + 19.4%	4th Qtr. + 6.1%

Lulled into Complacency? – "Would you like a ride in my beautiful balloon. We could float among the stars together, you and I. For we can fly." - Up, Up and Away" by The Fifth Dimension (1967)

Inflection Point? - Investors appear to be experiencing the euphoria of these ballooners brought about by the heady stock market returns over the past five years. Standard and Poor's 500 index funds have averaged a gain of approximately seventeen percent for the five year period, even with the inclusion of a mere 1.3% return for 2015. The excitement was further fueled by the gains achieved by the major averages in 2017, which ranged from of 20 to 30 percent. As a consequence of this recent good fortune, investors have begun to extrapolate such returns into the future and act as though similar results will become the norm. Institutional investors have continued to be active buyers in order to assure their performance does not disappoint their clients. On the other hand, individual investors, many of whom still carry the scars of the near depression of 2008-2009 are being lured back into the market. What is the source of all this optimism? It would appear there are four primary reasons for this impressive market surge. The first is a leader in the White House who is unabashedly pro-growth. Second is an economy that has risen from its long slumber. The public was lead to believe the extended period of sub-two percent growth was acceptable growth. Now the mantra is three percent growth or higher is attainable and sustainable. Third, this rejuvenated business environment has resulted in more jobs; more profits; better wages; and greater confidence among businesses and consumers. Fourth, these factors have led to a wave of positive earnings surprises, accompanied by more robust, yet unexpected, revenue improvement. All have contributed to the impressive stock market rally, which has occurred since the election. So why is there any cause for worry?

Clouds on the Horizon – The clouds may not even be visible to the naked eye. In other words, the concerns may not be apparent for as much as a year. The economy may be able to sustain this higher level of growth for a year or more before the excesses become widely recognized. Nevertheless investors need to be aware that stock valuations are at the upper end of their historic range. This means investors will show little patience if earnings or revenue disappointments begin to mount.

An early sign is what has occurred with interest rates over the past twelve months. To overcome the deep recession of 2008-2009, the Federal Reserve resorted to the unconventional practice referred to as quantitative easing. Simply put, this meant they employed some extraordinary tactics to suppress interest rates for almost ten years with the express purpose of reviving the near moribund economy. Ultimately the results were mixed with the benefits flowing to borrowers of larger sums starting with the U. S. government and large corporations. Consumers who borrowed for mortgages and car loans were able to take advantage of very low interest rates that had not been seen in decades. Disadvantaged however were savers, particularly retirees. Interest rates were so low on their preferred investment vehicles, certificates of deposit and government bonds, they felt compelled to look elsewhere. Although the stock market represented unwelcomed risk, many regarded it as a necessary move in order to generate the income necessary to maintain their standard of living. This reluctant wave of older investors played a major role in driving the persistent market strength over the past seven or eight years. Now as interest rates begin to become more attractive, will they start to migrate back to the safety of their earlier preferences or will they continue to favor the higher risk, higher returns, and greater volatility?

The answer will likely depend on how soon the next bear market arrives and the pain it inflicts. Fixed income or bond investors are confronted with a bit of a dilemma to either protect principal or to retain current income levels. The consequences of this decision become most apparent with long-term maturities bought when interest rates were much higher. Parting with these bonds may mean sacrificing an income stream based on a past interest rate level of five or six percent compared to current short-term rates of two to two-and-a- half percent. What many bond investors do not understand is how quickly the principal value of their bonds can drop as interest rates rise. One way to inoculate a bond portfolio against such an undesirable event is to shorten the maturity schedule, which will help reduce the risk.

Correction = Opportunity - Early evidence of a long-overdue market correction has appeared within the last week. How quickly the sentiment changes from unbridled optimism to sheer fear may be determined in short order. It has been nearly two years since the stock market retreated 10% (i.e., 2/11/16). Although this is Punxsutawney Phil's day, it seems the Wall Street bear is trying to hog the spotlight with a plunge of 665 points in the Dow Industrials and a comparable tumble of 60 points in the S&P 500. Now is the time for those investors who have maintained a reserve of extra purchasing power to begin reviewing their list of desirable purchases. It is wise to include this as a part of your periodic portfolio review, so if changes are made replacements are readily available. The exercise has become an exercise in futility over the past year as stock valuations became so expensive. The silver lining to this recent correction is price weakness will increase the attractiveness of a greater number of stocks. Investors will once again be able to make their decision to buy based on the long-term prospects of a company rather than being drawn to momentum stocks, which may now be among the most overpriced.

Economic Outlook /Remains Bright – One reason investors should not become too discouraged is the economy has been performing well and has continued to improve. Growth has improved from a pedestrian rate of two percent to a more promising three percent rate for the two most recent quarters. One recent report from the Atlanta FED predicted the growth rate in the first quarter of this year could exceed five percent. Is that likely to be sustainable? Probably not, yet even the most serious skeptic will have to admit the trend is encouraging. How does this help the investor? The answer is fairly simple and straightforward. A growing economy means businesses are generating more revenue and earning more profits. This means those businesses are able to hire more workers, pay those workers higher wages and invest in more plant and equipment. In turn, such activities result in more revenue circulating through the economy. Pointy-headed economists (like me) refer to this as capitalism's virtuous cycle. It is satisfying to see the economy begin to once again function as it should after a long sixteen year dry spell. Nevertheless, it is necessary to remember economic expansions eventually spawn excesses, which take the form of overconfidence, overexpansion and inflation. The eventual result is a recession, and then the cycle repeats. Fortunately most expansions last far longer than most recessions. If what has happened to stocks over the past six or seven trading days turns into an official bear market, it will not be due to the economic conditions, it will be a result of a market that was just too expensive and many participants came to realize it was time for a correction, and the "investment vigilantes" took charge and made it happen. If the economy continues to perform well, any correction may be pronounced, but it should also be brief.

Annual Requirement - Around the Office – Each year at this time we offer you an updated copy of our Form ADV, Part 2, which we file with the Securities and Exchange Commission. Please let us know if you would like to receive a copy or it is available on-line at our web site – "lenkladner.com". For those of you looking forward to paying your taxes or receiving your refund, Schwab will send the necessary tax information Wednesday, February 15th (?). Once you receive it, please contact us if you feel you are missing any information. Now is also a good time to arrange for a review of your account and plan for the year ahead. JML