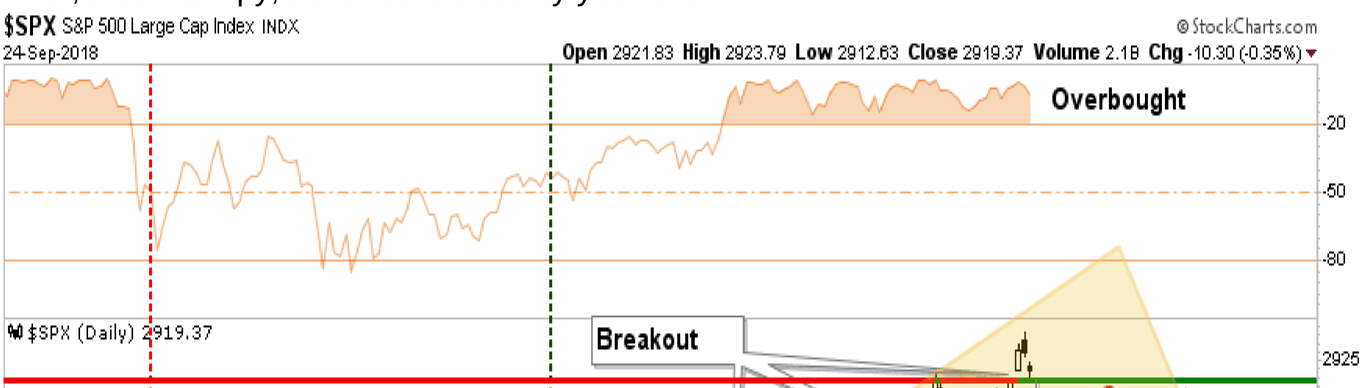
Yesterday, the market sold off modestly over continuing concerns of *"tariffs"* and trade wars. At least that was the headline reason. The real reason was simply that the market is overbought in the short-term and traders were taking profits in a light-volume session. As shown in the chart below, the sell-off yesterday is now turning previous resistance, when the market broke out to new highs, into support. As long as the market holds here over the next few days, we continue to expect a further, albeit bumpy, advance to 3000 by year-end.



In this past weekend's missive, I wrote:

> "***However, between now and then, the markets will likely continue to try and push higher as investor confidence continues to swell,*** *pushing investors to take on ever increasing levels of risk, particularly as it appears as if the economy is firing on all cylinders... With the move in portfolios back to full target allocations, there is not much for us to do right now except to remain on the lookout for the risks which could rapidly take away our performance...* ***At the moment, we are in good shape just to sit back and 'watch the show.'"***

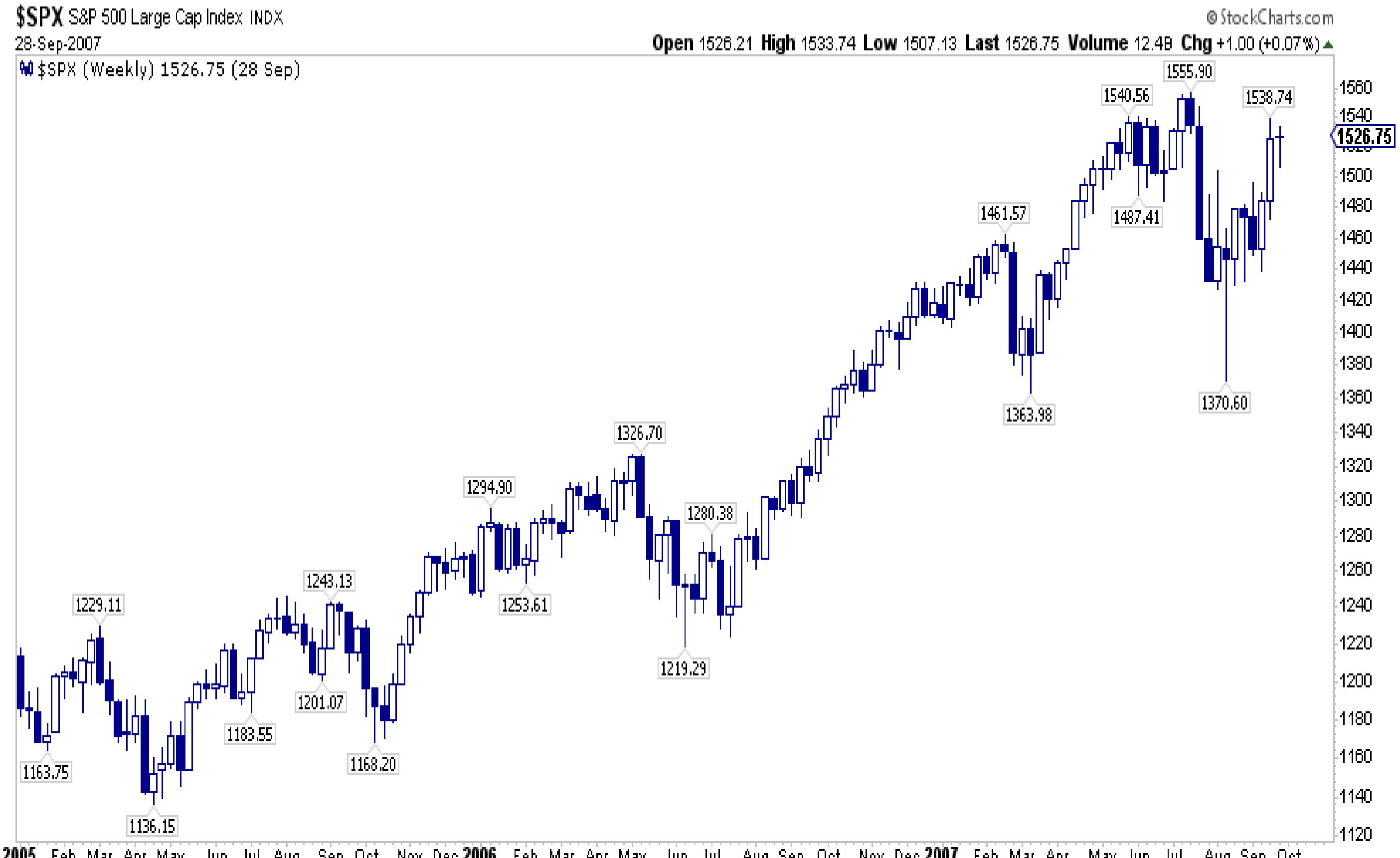
Interestingly, that statement triggered an interesting email:

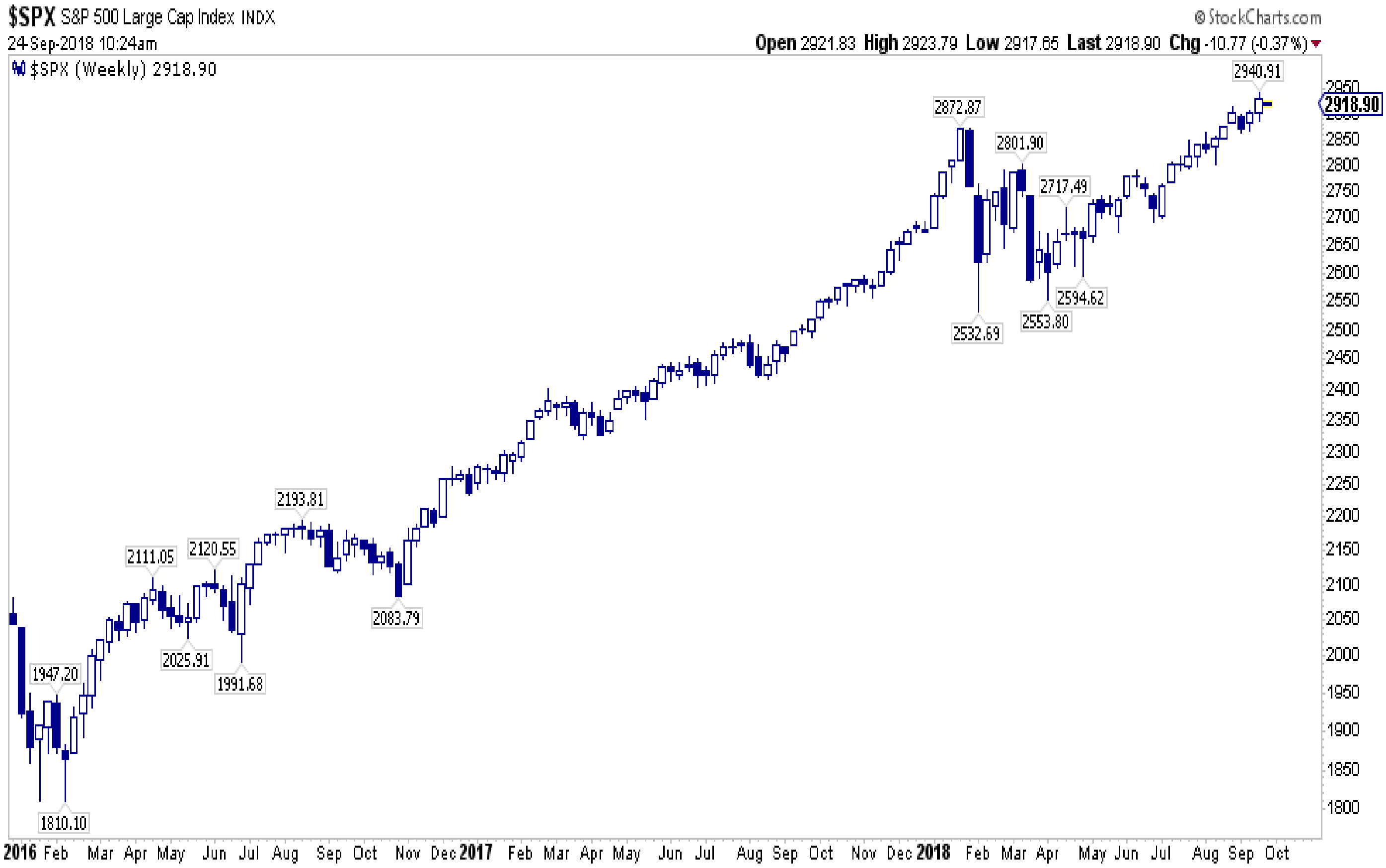
> ***"Can you feel the complacency in your weekly newsletter****? Just sayin'...kinda eerie. I know you know the risks, but to say at this point we need to sit back and 'just watch the show' as the S&P plows on to 3000 and beyond. It sort of puts you on the same side of the crowded ship with everyone else. How many times have you ingrained when everyone agrees something is going to happen, something else likely will."*

No, I haven't abandoned all reason. In the short-term, we have to participate with the *"running of the bull"* as long as possible. This isn't the first time, that I have discussed being long-biased in portfolios. Here is what I recommended previously:

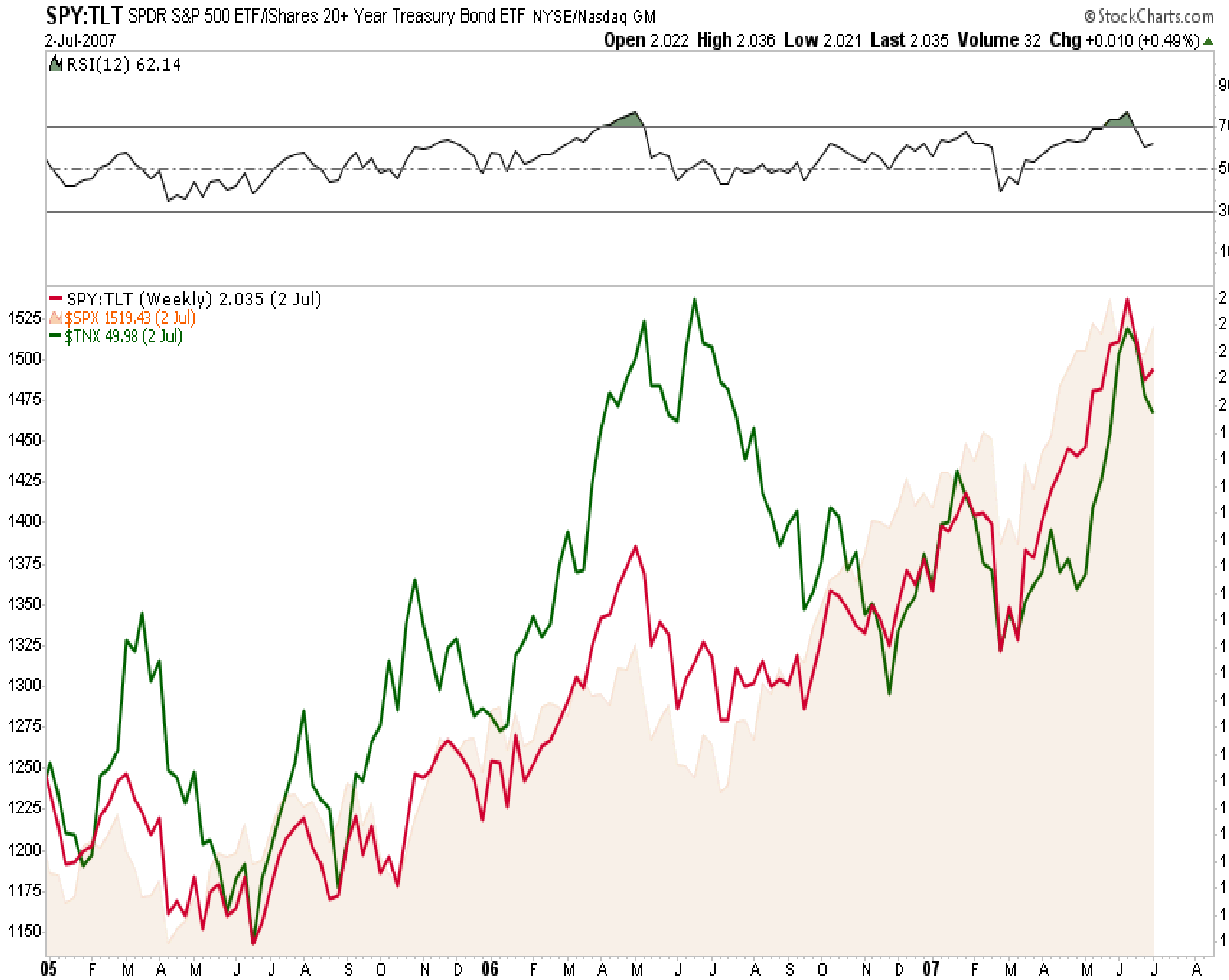
> ***"Risk taken when valuations are rich and market action is poor can produce losses that entirely cancel the successful investment actions of other periods.*** *Though periods of unfavorable valuation and market action can occasionally produce positive returns as well, they don't produce positive returns reliably enough to justify the risk. We continue to believe that bonds will continue to outperform stocks as they have most of the time over the last seven years and that stock market speculators will pay the price for overpaying for stocks.* ***However, for now, you need to be invested in the market and take advantage of this oversold rally.*** *It will look and feel like we are entering a new bull market leg. The media will cheer it, they will 'poo-poo' the bears, and they will ensure you that the worst is behind you. It won?t be."*

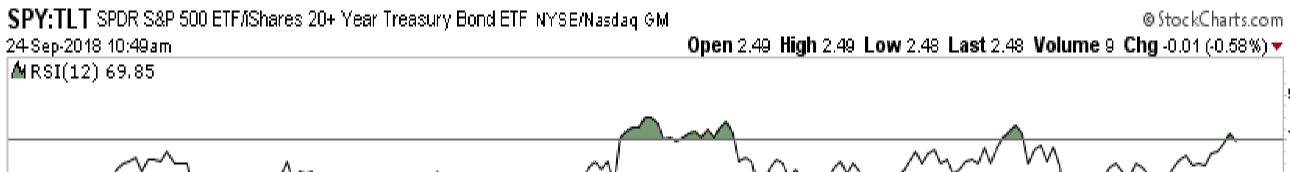
By the way, that was on **December 1st, 2007.** There are a lot of similarities between today and 2007. Bullish trends were solidly in place.



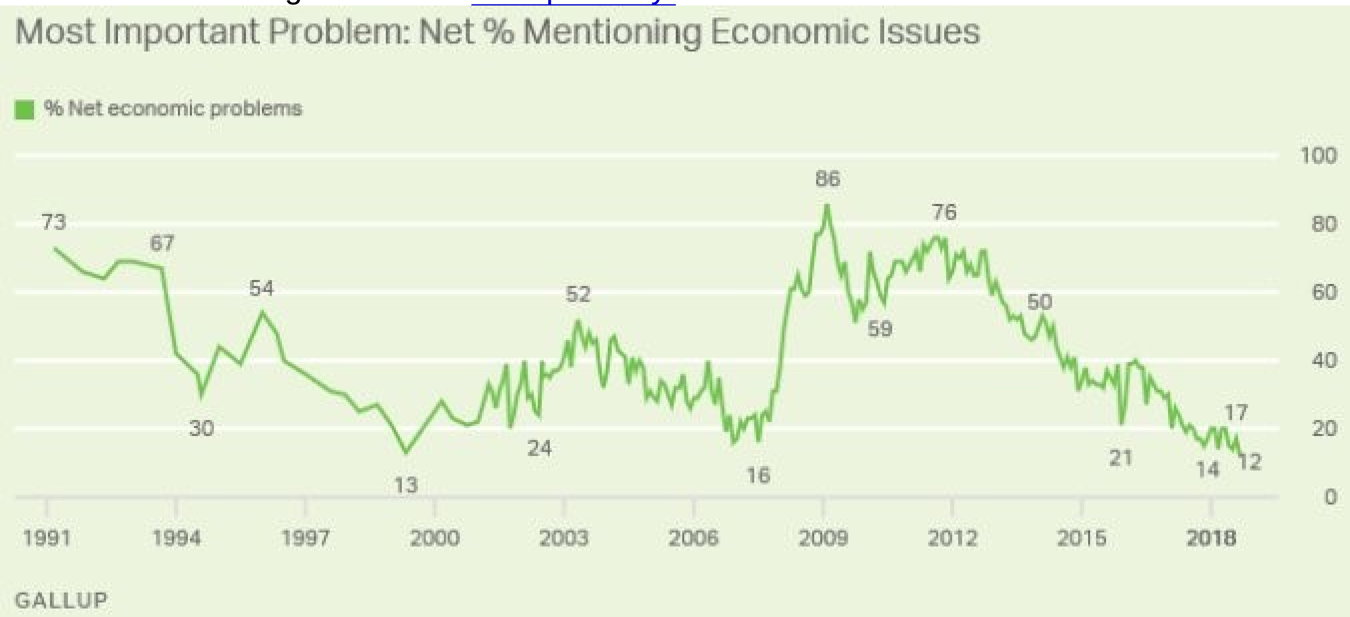


And, just as in 2007, there was a clear preference of equities over bonds as well.

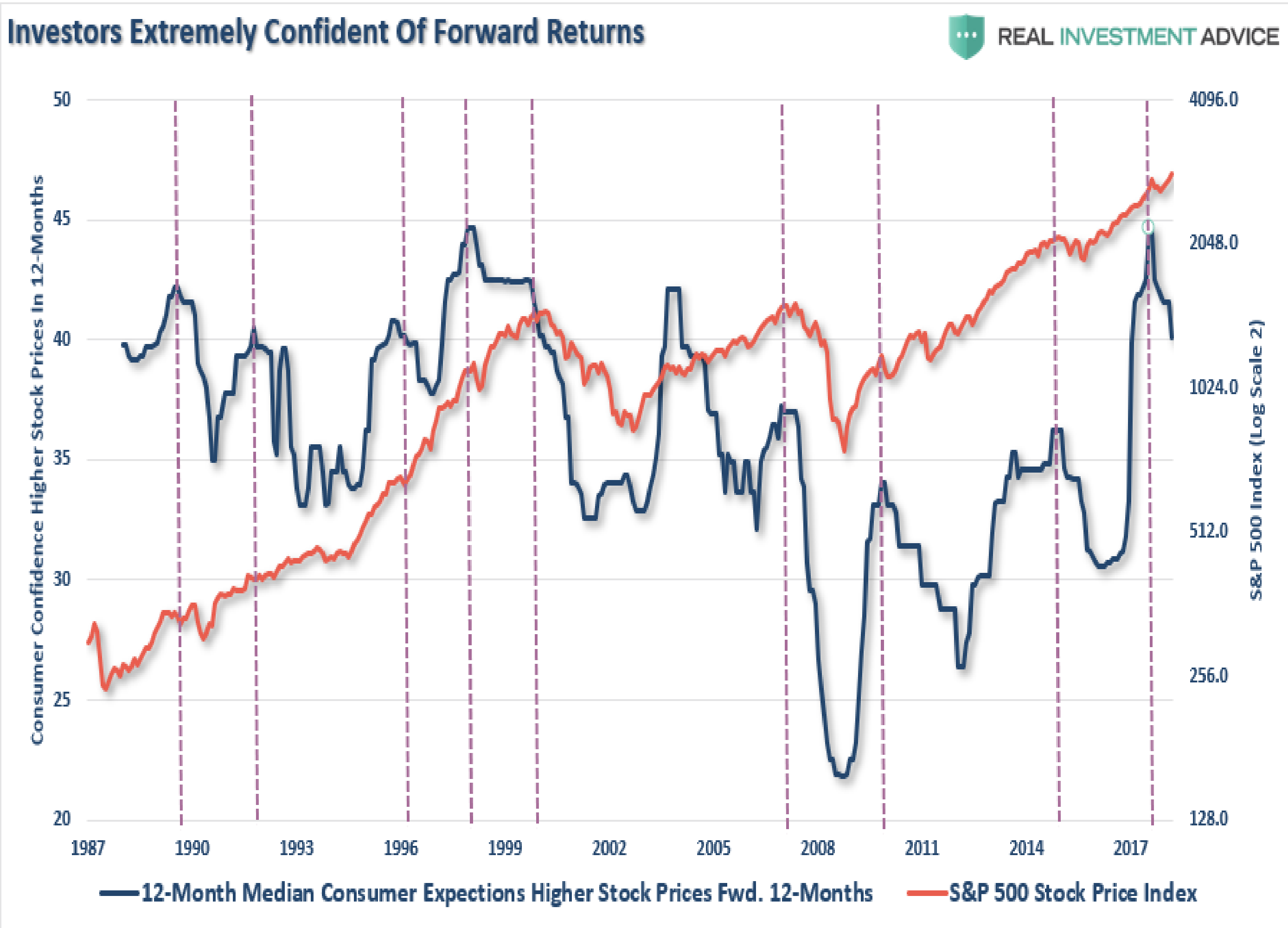




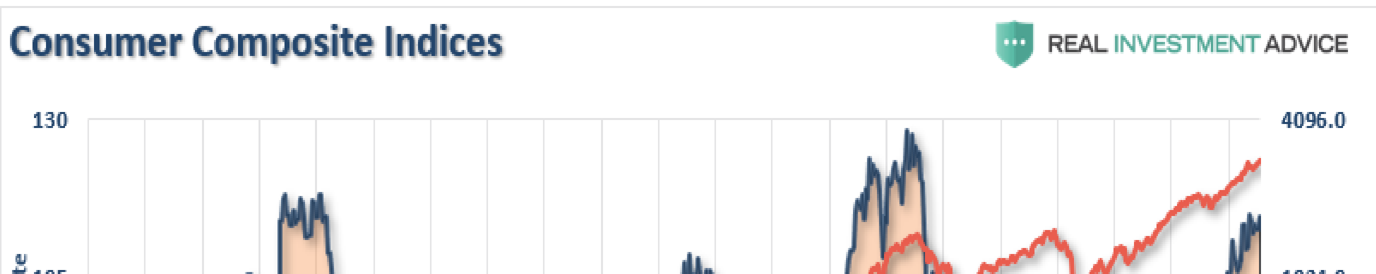
Of course, speculative fervor should not be surprising given the economy is of the LEAST concern since 2007 according to a recent [Gallup survey.]



Individuals are not only overly confident in the economy, but they are even MORE confident of *"forward returns over the next 12-months"* than they were in 2007, and only slightly shy of 1999.



And overall consumer confidence was only higher in 1969 and 1999. *(The confidence composite is the average of both the University of Michigan and Census Bureau surveys.)*



Of course, all of these indicators, when at similar previous levels, preceded some of the largest mean reverting events in the history of the financial markets. Will this time be different. Not likely. But that doesn't mean it all falls apart today. Tomorrow. Or even next month. **The one thing about bullish sentiment is that it begets more bullish sentiment.** The more the market rises, the more ingrained the belief comes that it can only go higher. In a "*Pavlovian"* manner, as each *"dip"* is bought, the *"fear"* of loss is eliminated repeatedly teaching investors they should *"only buy"* and *"never sell."* This cycle can, does, and will last longer, and go farther, than logic would dictate. This is why, as I noted over the weekend, we remain bullishly biased in portfolios for now.

> *"**We are well aware of the present risk.** Stop loss levels have been moved up to recent lows and we continue to monitor developments on a daily basis. **With the trend of the market positive, we want to continue to participate to book in performance now for a 'rainy day' later."***

That *"rainy day"* is coming. Just as it was in 2007. While market participants were all *"giddy"* about the prospects for the markets and a *"Goldilocks economy,"* there was a laundry list of things that had begun to issue warnings signals. Currently, we have a growing list of warnings which are being quickly dismissed, and *"priced in,"* by the markets such as:

- *Growing divergences between the U.S. and abroad*
- *Peak autos, peak housing, peak GDP.*
- *Political instability and a crucial midterm election.*
- *The failure of fiscal policy to ?trickle down.?*
- *An important pivot towards restraint in global monetary policy.*
- *An unprecedented lack of coordination between super-powers.*
- *Short-term note yields now eclipse the S&P dividend yield.*
- *A record levels of private and public debt.*
- *Near $3 trillion of covenant light and/or sub-prime corporate debt. (eerily reminiscent of the size of the subprime mortgages outstanding in 2007)*
- *Narrowing leadership in the market.*

But, for now, this *"wall of worry"* has yielded little concern. The more the market rises, the more reinforced the belief *?this time is different?* becomes. As I wrote previously:

> *"This is why we have been saying for the last two weeks ? the market is rising and you need to be invested?FOR NOW. **However, this is not the next great leg of a bull market so this will be a good rally to liquidate positions into and begin setting your portfolio up for more protectionary investments going into [next year]."***

That was on December 7, 2007. Are we complacent? Absolutely not.