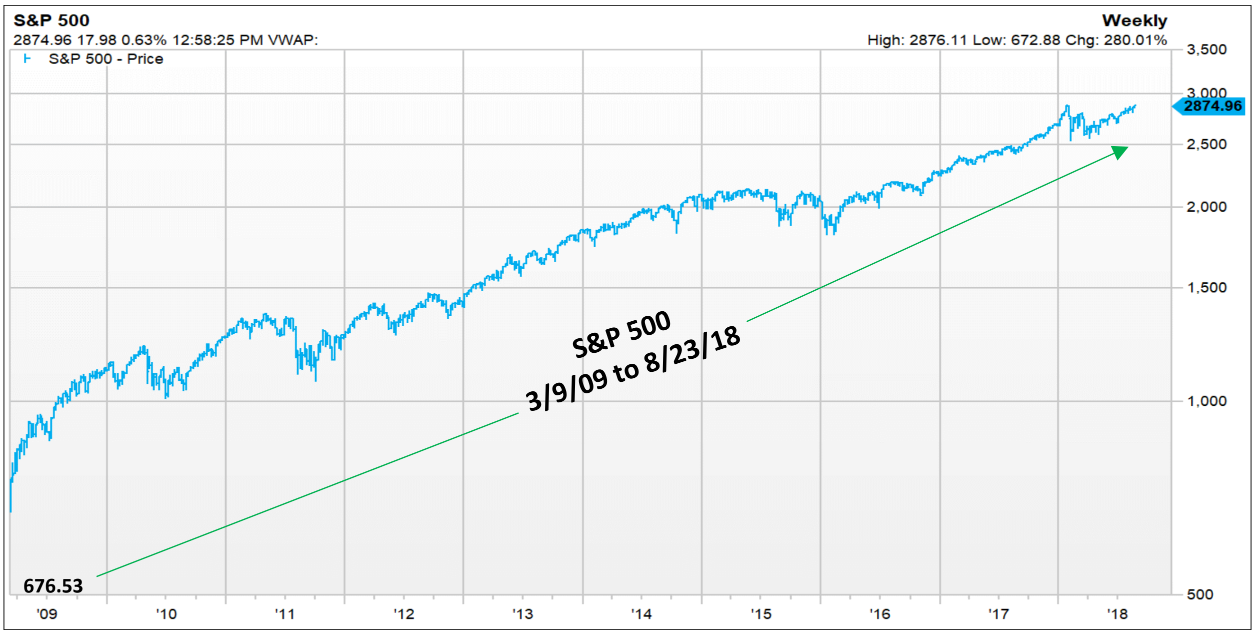
FINANCIAL MARKET UPDATE – IRRATIONAL EXUBERANCE?
We Don't Think So

We chose the subject of this report because as we travel throughout the country meeting with investors and making presentations, we hear questions such as "the market has gone straight up, when will it crack?"; or "isn't the market too high?". We also find reasonable skepticism regarding the sustainability of positive equity markets. As a result, we share the following:

With the stock market (S&P 500) at or near historic highs, up more than 320% (400%+ including dividends) since the lows of March 2009, and extending for almost 3,500 days, many investors may be wondering if the market has reached a level that may be described as "***irrational exuberance***".



Source: FactSet, Inc.

"***Irrational exuberance***" is a term originally used by (previous) Federal Reserve Board Chairman, Alan Greenspan, in a December 5th 1996 speech, at the beginning of the period investors remember as the "dotcom bubble". The term refers to investor enthusiasm that drives stock (or any asset class) prices to levels that aren't supported by fundamentals.

<u>(We Believe) That's Not The Case Today</u>

As previously described, the S&P 500 has advanced more that 320% since the 09' lows, however, corporate profits, the "engine" that drives and validates stock prices, have increased by more than 280% and are anticipated to increase by an additional 10%+ next year.

That increase in corporate profits (and dividends) are the result of a long period of positive GDP growth, historically low interest and inflation rates and, most recently, by a more positive fiscal (lower tax rates) and regulatory environment. The result of the combination of these factors is that the Price Earnings ratio, an oft used measure of how stocks are valued, is far lower today than it was at the market top during the period that Chairman Greenspan was referring to in the mid-to-late 90's.

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Unlike the late 90's when fundamentals did not justify stock valuations of 25+[i] times earnings (a high historic P/E) we believe today's fundamentals support the current historic average Price Earnings multiple of 16.1 times estimated 2019 earnings.

Positive Fundamentals And Other Factors To Consider

When we refer to positive stock market fundamentals, we are considering factors such as continued positive economic (GDP) growth and its impact on corporate earnings growth, high levels of employment, consumer and business sentiment surveys that are at/near decade high levels, leading economic indicators that suggest continued growth, and still, below average levels of interest rates and inflation.

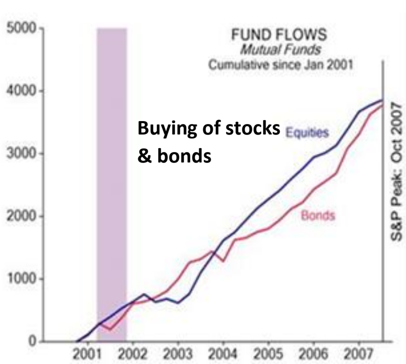
While we remain positive in our outlook and don't see signs of "***irrational exuberance***", we are mindful of the challenges facing the economy and the stock market today. Both interest rates and inflation have been rising, but are currently at unchallenging levels (to stocks); the threat of the potential negative effects of "tariff wars"; geopolitical as well as domestic political uncertainty are all concerns.

There are always factors that investors should be wary of and 2018 has and continues to have its share of those uncertainties – not unlike 2017, 16', 15', etc. We take these uncertainties seriously and will act accordingly if we anticipate changes to the investing environment.

One Final Exhibit – Further Evidence Of The Lack Of Irrational Exuberance

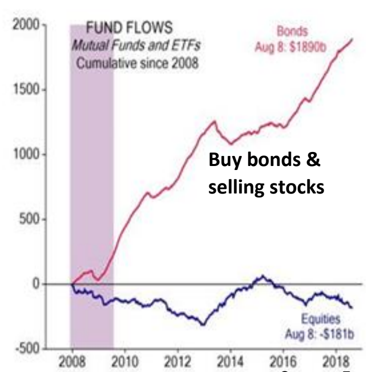
In order to be in a period of stock market ***irrational exuberance***, investors must be ***buying*** stocks and bidding up their prices without regard to valuations. As one can see from the charts below, an accumulation of stocks and bonds was clearly taking place prior to the previous "Bull Market" peak in late 2007 (housing bubble) just as occurred in the "dotcom" bubble of the mid-to-late 1990's. On the other hand, one can see that since the stock market lows of 2008/09 ***the opposite is true***. Investors have been skeptical about potential stock market returns and have actually been *selling* stocks and buying bonds (with historically lower yields) during this period of improving fundamentals, and a resulting "Bull Market". We don't think this action represents ***irrational exuberance***.

Cyclical Trough-To-Peak



2001-2007

Cyclical Trough-To-Current



2008-2018

Source: Evercore ISI

We value highly our relationship with you and welcome your questions, comments and/or critique.

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Stock investing involves risk including loss of principal.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

Investment advice offered through Stratos Wealth Partners, Ltd., a registered investment advisor.

[i] JP Morgan Asset Management, Guide To The Markets, June, 2018