MAJOR TREND INDEX

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REPORT DATE: October 10, 2017

DATA FOR WEEK ENDING: October 6, 2017

Status: Positive
Ratio: 1.15...Up 0.02
S&P 500 P/E on Normalized EPS = 24.5x
(94th percentile, 1926 To Date)

POTENTIAL WEIGHT			LATEST NET READING			
+	-			+	-	Net
1200	1200	Intrinsic Value	Loss 11	60	645	-585
1100	1100	Economic/Interest Rates/Inflation	Gain 4	407	157	250
1200	1200	Attitudinal	Loss 35	104	500	-396
600	600	Supply/Demand	Gain 52	98	88	10
1800	1800	Momentum/Breadth/Divergence	Gain 15	1060	110	950
				1729	1500	229

BALANCE : +229 (+204 Last Week)
*RATIO: 1.15 (1.13 Last Week)

*Total Positive Points : Total Negative Points. (0.95 to 1.05 is a "Neutral" reading.)

The Major Trend Index rose 0.02 to a ratio of 1.15 in the week ended October 6th, with the Supply/Demand work providing the largest boost. Several key valuation measures moved to new extremes for the cycle, and our long-term return forecasts look poor under anything but the most optimistic assumptions. That being said, cyclical and technical conditions suggest **valuations could move even higher before this aging bull gives up the ghost.** Our tactical funds are positioned with net equity exposure of 61-62%.

While the Supply/Demand grouping has the lowest potential weighting of the five MTI categories, its swings over the last four months are largely responsible for both the MTI's brief dip into the neutral zone and its subsequent rebound.

Institutional sponsorship of the rally was very weak throughout the summer months before showing a sudden revival in early September; two key measures proved enough to erase "non-confirmations" that had been in place since February. There's certainly the chance that these measures reflect a panicked and capitulative attempt by lagging managers to play catch-up. But, we'll stick with our traditional (and statistically supported) view that these indicators represent the "smart money."

The Economic work has stabilized at a mildly bullish level in recent weeks. The Dollar Volatility Model has retreated into its bullish (i.e., Low Vol) mode, while the NOPE Index and Bond Momentum also remain positive despite small declines in each. Corporate credit spreads remain extremely tight, but equity investors have historically been very responsive to even a slight widening of spreads. The smoothing algorithm we use to model this effect still shows a tightening trend in spreads, but its distance above the "bear" threshold is now dropping on a weekly basis. Overall, though, the Economic category is unlikely to tip the MTI into negative territory unless the leading inflation work really begins to heat up.

Clients who have questions regarding any of the components or indicators should contact Doug Ramsey at 612-332-1567 or dramsey@LWCM.com

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