

Greetings!

The market closed up last week, with the Dow gaining 2.4% and the S&P improving 1.7%. Despite last week's increase, both the Dow and S&P posted a negative quarter, the first in 9 quarters. The Dow closed the quarter down nearly 2% and the S&P down nearly 1%. (Source: John Hancock)

The volatility has continued this week, on Monday the Dow dropped 458 points (1.9%) and the S&P closed down 2.2%, though it should be noted that this close was well off the over 3% declines we saw mid-day. Then Tuesday the market reversed course with the Dow up 389 points (1.6%) and the S&P adding 1.3%. Today marked a large one day swing as the Dow opened down over 510 points in the early hours of trading and finished up 230 points. In fact, this is the first time the Dow has ever finished in positive territory after being down over 500 points. Both the Dow and S&P are positive on the week following today's rally.

Trading concerns seem to be the leading cause of the market volatility. Last week President Trump announced a tariff on \$60 billion of Chinese goods. China responded over the weekend by announcing tariffs on \$3 billion in US exports including fruit, pork and steel pipes. As of now the US has not specified products that will be subject to the tariff, but it is expected to punish the theft of intellectual property from American companies.

Additionally, there are concerns about the ongoing North American Free Trade Agreement (NAFTA) negotiations. President Trump has threatened to tie border security to the passage of the agreement. It should be noted that NAFTA is more beneficial to Mexico than it is for the US, as the agreement accounts for a third of Mexico's economy and only 3% of ours. Despite this inequity, the US companies invested nearly \$100 million in Mexico, while Mexican companies only invested around \$20 million in the US. (Source: Forbes)

There are also some individual stocks, specifically in the tech sector, that are facing added volatility, including the data security issues with Facebook and concerns regarding the regulation of Amazon.

The bottom line is that now is not the time to cut and run, despite the current kneejerk emotional reactions. If we thought this was the beginning of a long or even intermediate-term bear market, we would do so; however, the market conditions and economic dynamics are still strong, indicating the economy will continue to move forward.

A factor in the current volatility could be President Trump's negotiation modus operandi. Paraphrased from his book "The Art of the Deal," is that you should always ask for more than you expect to receive and promise less than you are able to give. While this is a good mantra in business, it creates uncertainty in the market, which leads to increased volatility.

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