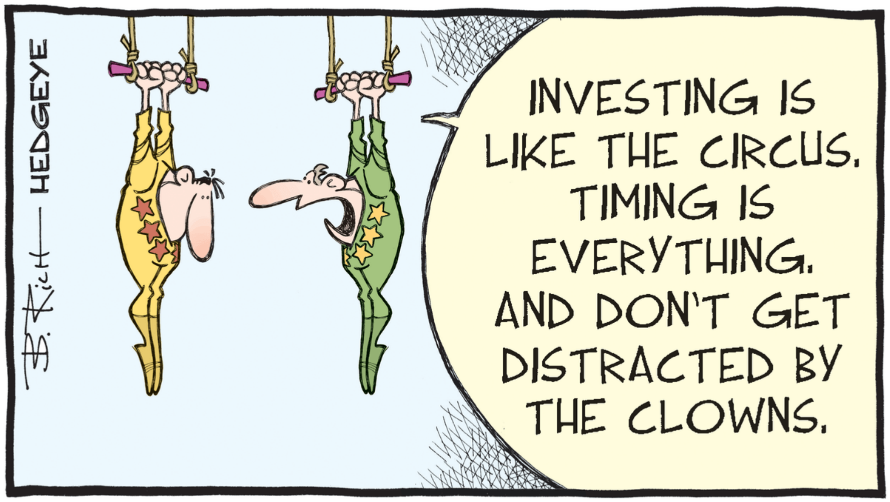
For this newsletter update we wanted to try and touch on a few of the current happenings in markets last quarter. With the year starting off as one of the best performing Januarys on record, only to go into a sharp correction, we still weight the evidence that this will great opportunity for our strategy to shine.



The S&P 500 Index is down as of today -4.5% and our composite average performance is -1.0% (essentially flat on the year). *For clients that have been fully invested since Jan 1, 2018

Now at first glance this might not feel like it's an amazing return but for us its very gratifying that our models have done to this point in the cycle exactly what they're meant to do. Reduce overall maximum drawdown in comparison to the overall stock market benchmark

Now remember our model is not designed to eliminate all drawdowns, that is literally impossible in the stock market and we want to make sure as we continue the journey together its deeply understood that 3 things are very possible.

1. We will have short term stop losses
2. We will at some point be underperforming the benchmark: to the downside and possibly to the upside This is by design (for capital safety)
3. Because of this design we will go into CASH 100% and stay there for long durations when the evidence in the data signals we need to be out of stocks completely.

The challenge for us as managers is to try and communicate what the model data is telling us and decipher if it's still classified as a "correction" or are bigger more dangerous bear market conditions ahead.

The below passage was previously published in our Year End Newsletter and we thought it was an even better time to revisit these cornerstone concepts so we can further understand our risk management process.

Volatility, Risk, Corrections and Recessions

Truth be told, the market didn't even drop -3% in 2017. The largest drawdown during the whole 2017 calendar year was -2.8%.

Not Even A 5% Correction. ***This is very abnormal***

United States equities went up for 372 trading days, or almost 18 months, without a -5% correction. This is very rare.

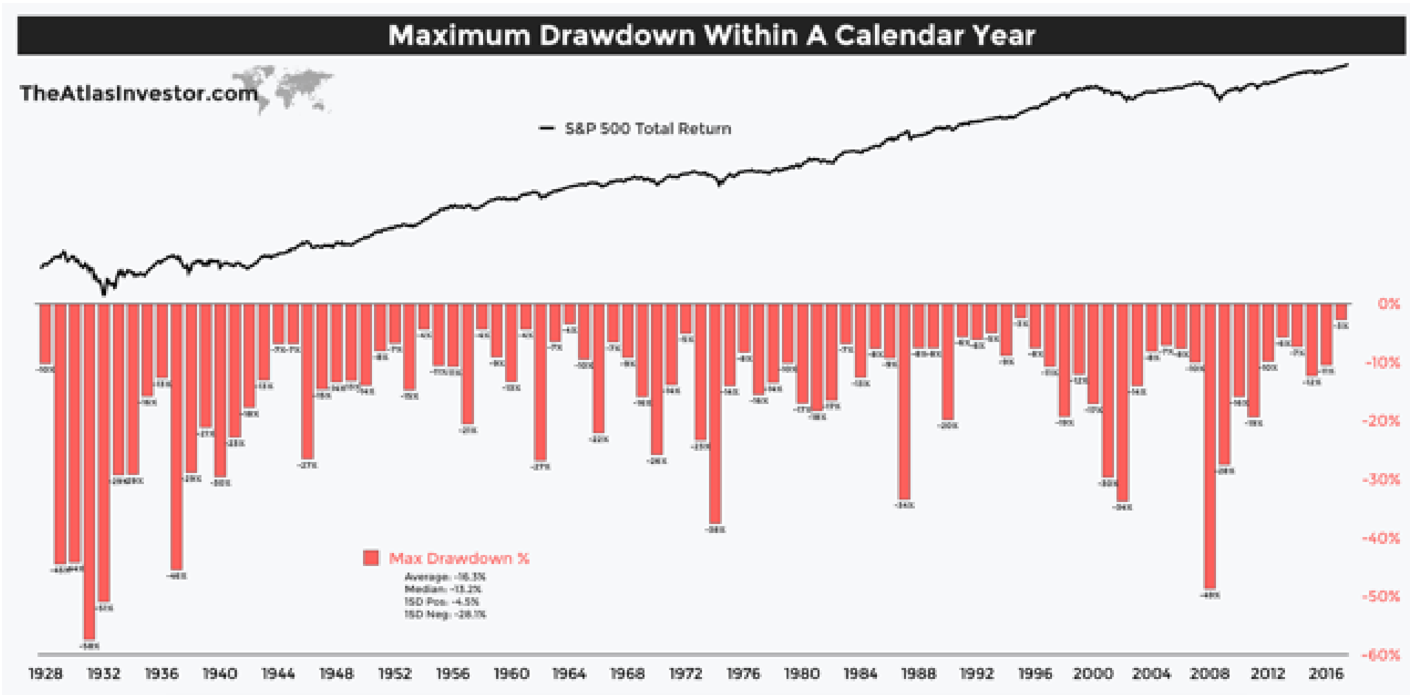
Going back to the late 1940s, this is the third longest rally without even a slight sell-off. Basically, a straight line up since the Brexit panic occurred in the summer months of 2016.

Observing the data since World War 2, record-breaking rallies were experienced in:

- 1959 @ 371 trading days
- 1965 @ 386 trading days
- 1994 @ 370 trading days
- 1996 @ 399 trading days

Analyzing almost 90 years of data, the only year that matches current peacefulness of 2017 and lack of downside volatility was the year 1995.

So what is normal volatility ?



Since 1926 The average and median calendar year drawdowns are -16% and -13%, respectively. Therefore, one standard deviation on the positive side is around -5% and years like this should be considered abnormally low volatility and low risk.

Throughout the last century, we've seen a handful of these including 1954, 1958, 1961, 1964, 1972, 1991, 1993, 1995, 2013 and 2017. So, what happened the following two years to the average drawdown?

- In 1955/56 drawdown doubled to -11% & -11%
- In 1959/60 drawdown also doubled to -9% & -13%
- In 1962 drawdown jumped six-fold to -27%
- In 1965/66 drawdown rose to -10% & -22%
- In 1973/74 drawdown exploded to -23% & -38%
- In early-90s drawdown stayed in single digits
- In 1996/97 drawdown rose to -8% & -11%
- In 2014/15 drawdown rose to -7% & -12%

Apart from the mid-1990s, all other periods saw intra-year drawdowns increase meaningfully over the next 12 and 24 month periods. In some cases - like in 1962, 1966, 1973 and 1974 - it led to substantial downside volatility.

When Winning Streaks End

Watching the market rally for more than 10 months in a row is a pretty rare occurrence. My data, produced by the Global Financial Data company, states that 10 was best record - which ended in May 1959. With the March close being a negative return it has ended our current monthly winning streak.

So, what happened right after at least a 15-month winning streak ended?

- In 1905 a two month -6% pullback
- In 1926 a two month -10% pullback
- In 1936 one month drop of -8%
- In 1950 one month drop of -6%
- In 1954 one month drop of -3%
- In 1959 a two month -6% pullback
- In 1995 next month was flat, then another 8-month winning streak

Once again, risks clearly stand out apart from the mid-90s. However, analyzing these statistics can easily turn into a data mining exercise. For example, markets rose 8 months in a row by April 2011 and then fell by -18% in the next 5 months. Or even during the powerful bull run of 1975, just after the generational low in 1974, markets rose for 6 months straight and then sold off by -11% over the coming 3 months.

The key takeaway here, once again, is even the strongest of trends need to take a rest, even a dip and that is **NORMAL** and **EXPECTED.**

The most important fact to always remember is this: stocks in the US have high propensity to rise each year. The *S&P has risen in 79% of the years since 1980, and in 72% of the years since 1950*. In other words, the long-term historical odds of stocks rising next year are about 2 to 3 times greater than for stocks falling.

Bear Markets Usually Only Happen During a Recession

In the post-World War II era, there have been 10 bear markets, only two of which have occurred outside of a recession. The first (1966) occurred amid rapidly rising interest rates (from 4% to 6%) and spiraling inflation. The second (1987) occurred after a euphoric 50% rise in equities over a 10-month period. At present, the current market and economic environment are unlike either of these situations in our view.

Bull Markets								Bear Markets							
Rank (Gain)	Start	End	# Days	# Months	Start Index	End Index	% Gain	Rank (Loss)	Start	End	# Days	# Months	Start Index	End Index	% Loss
16	11/13/29	4/10/30	148	5	17.7	25.9	47%	5	9/16/29	11/13/29	58	2	31.9	17.7	-45%
20	12/16/30	2/24/31	70	2	14.4	18.2	26%	6	4/10/30	12/16/30	250	8	25.9	14.4	-44%
21	6/2/31	6/26/31	24	1	12.2	15.4	26%	13	2/24/31	6/2/31	98	3	18.2	12.2	-33%
18	10/5/31	11/9/31	35	1	8.8	11.5	31%	7	6/26/31	10/5/31	101	3	15.4	8.8	-43%
9	6/1/32	9/7/32	98	3	4.4	9.3	112%	1	11/9/31	6/1/32	205	7	11.5	4.4	-62%
8	2/27/33	7/18/33	141	5	5.5	12.2	121%	8	9/7/32	2/27/33	173	6	9.3	5.5	-41%
17	10/19/33	2/6/34	110	4	8.6	11.8	37%	15	7/18/33	10/19/33	93	3	12.2	8.6	-29%
6	3/14/35	3/10/37	727	24	8.1	18.7	132%	14	2/6/34	3/14/35	401	13	11.8	8.1	-32%
14	3/31/38	11/9/38	223	7	8.5	13.8	62%	2	3/10/37	3/31/38	386	13	18.7	8.5	-54%
19	4/11/39	10/25/39	197	7	10.4	13.2	27%	20	11/9/38	4/11/39	153	5	13.8	10.4	-24%
23	6/10/40	11/7/40	150	5	9.4	11.4	21%	16	10/25/39	6/10/40	229	8	13.2	9.4	-29%
5	4/28/42	5/29/46	1492	50	7.5	19.3	158%	11	11/7/40	4/28/42	537	18	11.4	7.5	-34%
22	5/19/47	6/15/48	393	13	13.8	17.1	24%	17	5/29/46	5/19/47	355	12	19.3	13.8	-28%
3	6/13/49	8/2/56	2607	87	13.6	49.7	267%	23	6/15/48	6/13/49	363	12	17.1	13.6	-21%
11	10/22/57	12/12/61	1512	50	39.0	72.6	86%	22	8/2/56	10/22/57	446	15	49.7	39.0	-22%
12	6/26/62	2/9/66	1324	44	52.3	94.1	80%	18	12/12/61	6/26/62	196	7	72.6	52.3	-28%
15	10/7/66	11/29/68	784	26	73.2	108.4	48%	21	2/9/66	10/7/66	240	8	94.1	73.2	-22%
13	5/26/70	1/11/73	961	32	69.3	120.2	74%	10	11/29/68	5/26/70	543	18	108.4	69.3	-36%
7	10/3/74	11/28/80	2248	75	62.3	140.5	126%	4	1/11/73	10/3/74	630	21	120.2	62.3	-48%
4	8/12/82	8/25/87	1839	61	102.4	336.8	229%	19	11/28/80	8/12/82	622	21	140.5	102.4	-27%
1	12/4/87	3/24/00	4494	150	223.9	1527.5	582%	12	8/25/87	12/4/87	101	3	336.8	223.9	-34%
10	10/9/02	10/9/07	1826	61	776.8	1565.2	102%	9	3/24/00	10/9/02	930	31	1527.5	776.8	-37%
2	3/9/09	12/11/17	3200	107	676.5	2658.0	293%	3	10/9/07	3/9/09	517	17	1565.2	676.5	-52%
Average since 1940				64			174%					15			-32%
Median since 1940				61			102%					15			-28%

Prices are closing basis
Source: BAML

In the past month, new home sales reached a new 10 year high, industrial production has reached a new 10 year high new all-time high, unemployment claims reached a new 45 year low and US manufacturing growth reached a new 3+ year high. *On balance, all this data strongly suggests* ***the risk of a recession in 2018 is low***, although monitoring incoming data is essential to have a clear view ahead.

Great Article about These Data Points :

https://www.advisorperspectives.com/dshort/updates/2018/03/16/the-big-four-economic-indicators-industrial-production-up-1-1-in-february

What Matters Most

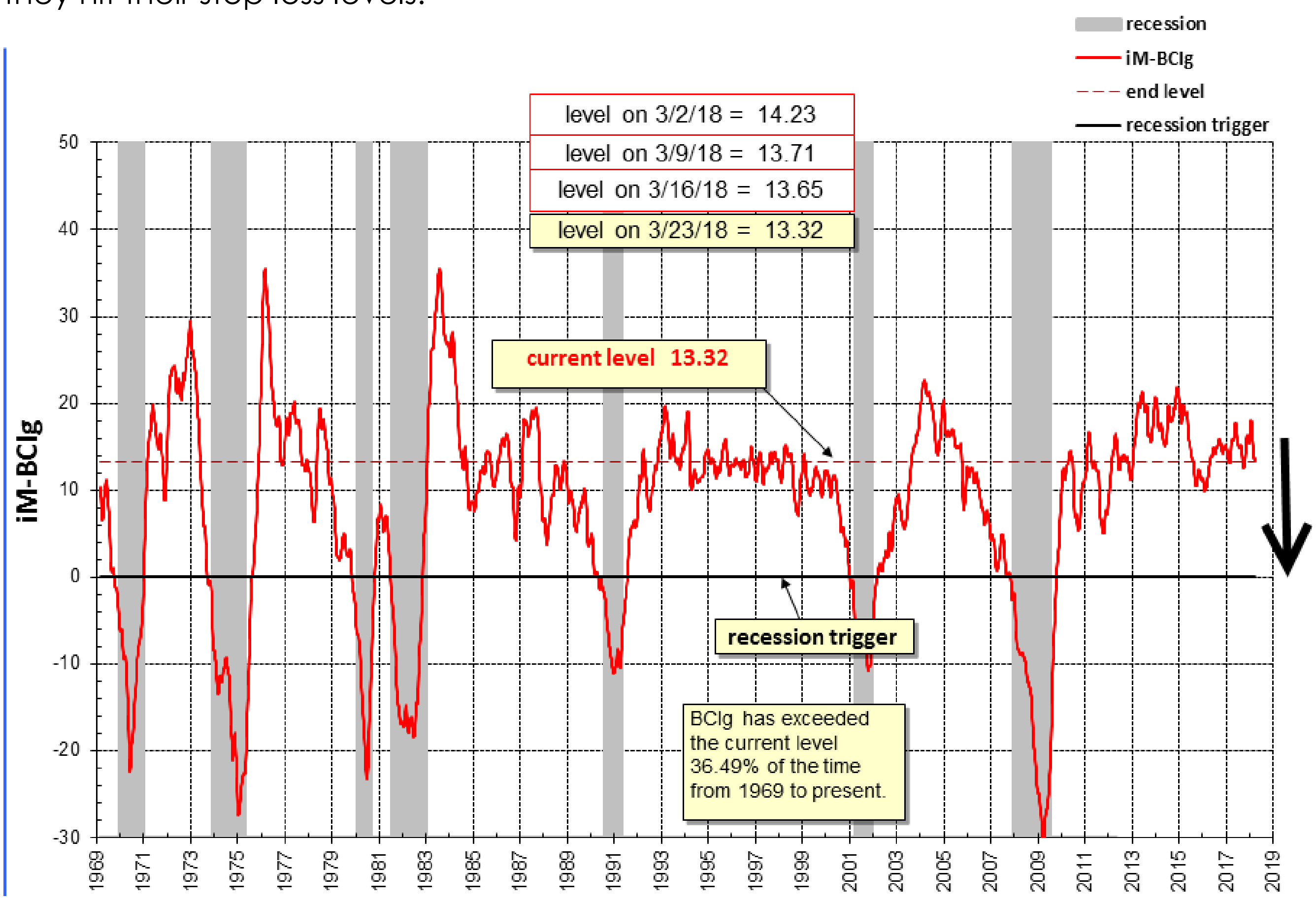
So what does this data mean for us? I means that albeit we are in the middle of a correction the economic backdrop is steady still improving. This statistically makes a bear market in the year unlikely. Since we don't want to relay on any single data point or model we always have a stop strategy in place and regardless of any data point good or bad. Our mandate is to honor these stops as happen and protect from downside risk as much as possible.

Remember because of this design we will have small and moderate losses from time to time . This is so we don't have a catastrophic situation where we are invested during a period of prolonged falling prices in the next bear market.

The last few weeks getting stopped out of many positions is the "Seat Belt" mechanism working which we phrase as managing "*Volatility*" or enduring corrections in a Bull Market. As we showed in the last Speakers bureau, Volatility can actually provide Us with opportunities to outperform the benchmark.

Probability of Pulling the "Eject Handle"

The Below Graph is the one of the KEY data point in our ensemble system to exit all our stocks and go100% to cash in anticipation of a upcoming recessionary period and bear market in stocks. At this level it is measuring economic activity as being moderately strong. It would have to decrease substantially over the next quarter to signal to us to exit all stocks. In the near term our stop strategy will help reduce downside risks on our portfolio because if stocks start to fall before the "Eject Handle" or Risk Macro says to exit we will be selling our stocks as they hit their stop loss levels.



Closing Thoughts

With recent happenings the media have switched its F.U.D. (Fear of Disaster) song to *Trade Wars, Tariffs, Debt & Deficit Spending* and *Market Volatility*. Headlines that read "Second Biggest Point Ever Drop in the Dow" omit the fact that in todays "points" a 700 Point Drop is only 2.8%. Where 10 years ago the percentage drop is magnitudes higher. The Dow Jones ia also a PRICE based index so it is not used by any professional managers since it's clear that 30 stocks is not enough to represent the entire "Market". This is the *Burning Car Crash Effect* we keep talking about. They need some type of FEAR mongering to get viewers to watch and tune in.

All this is absent that fact that Unemployment in the USA is the lowest in decades, with more people employed than in the history of the United States. Inflation is currently 2.21% (very good), Industrial production is a record highs and Taxes (Tax Cut and Jobs Act's (TCJA)) just got lowered drastically for most Americans and Corporations. Additionally, the S&P 500 and Nasdaq both high records highs last month.

We hope over time you all will notice this F.U.D. effect as well and be able to focus on the data rather than the nightly news.

We look forward to continuing our education sessions in May, with some more research we are doing here at JCN.

John C Neyland

Sincerely,

John Neyland

John Neyland

Disclosures

This newsletter is a publication dedicated to the education of individual investors. This newsletter is an information service only. The information provided herein is not to be construed as an offer to buy, sell or hold a stock of any kind. The newsletter selections are not to be considered a recommendation to buy any stock but to aid our clients in making an informed decision based on the fundamental and technical analysis. It is possible at this or some subsequent date, the editors, and staff of JCN Financial & Tax Planning Group LLC, may own, buy or sell stocks presented. All investors should consult a qualified professional before making any investment. The information provided has been obtained from sources deemed reliable but is not guaranteed as to accuracy or completeness. JCN Financial & Tax Planning Group LLC makes every effort to provide timely information to clients but cannot guarantee specific delivery times due to factors beyond our control.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by JCN Financial & Tax Planning Group), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from JCN Financial & Tax Planning Group. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. JCN Financial & Tax Planning Group is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. If you are a JCN Financial & Tax Planning Group client, please remember to contact JCN Financial & Tax Planning Group, **in writing**, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or

Copyright Notice

All material contained in this newsletter are protected under copyright laws of the United States. You may not reproduce, post or transmit, in any way, any part of this letter or any material on the website, without the prior written consent of the author. Chart and data information provided courtesy of MarketSmith® Inc. Morningstar Inc. The Vanguard Group Inc. and W.E Donoghue & Co. Inc.