Markets at Record Highs – How to Trade it Now

It's a question we've all asked.

While there's still tremendous excitement over Donald Trump we have to consider that the markets weren't just running on that catalyst alone.

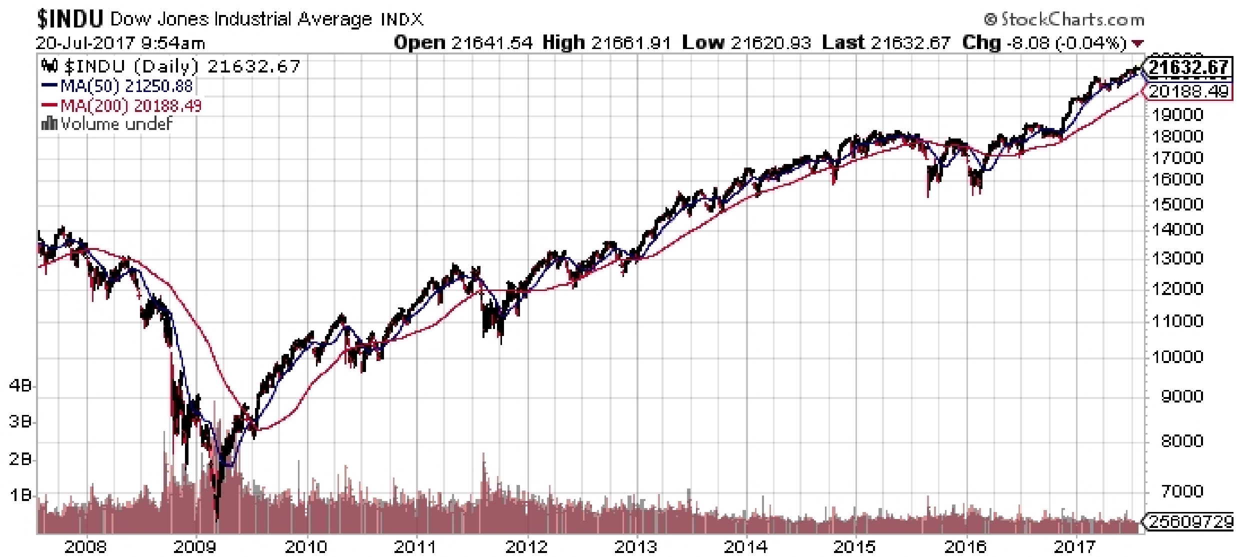
The other big catalyst is corporate America.

The bad news is that second quarter earnings aren't likely to match the 15% growth of the first quarter. That's okay, though. The growth we're still seeing is incredibly explosive, likely to mark the fourth quarter of strong growth.

That's important because earnings are more likely to drive growth, than politics.

According to analysts in July 2017, earnings were likely to grow another 6.5%.

That news – coupled with Trump – meant the bull market was alive and well for the eighth straight year. Over the last eight years, we've watched the Dow Jones explode 15,074 points. The NASDAQ tacked on 5,001 points. The S&P 500 was up 1,700 points.



And to be honest, the bull market is showing no signs of slowing.

In fact, many believe that growth could continue for quite some time, especially as corporate earnings keep on showing signs of marked improvement.

CSX Corporation for example posted a 2% rise in revenue to $2.93 billion, with an 8% drop in expenses to $1.98 billion. That resulted in net earnings of $510 million, $148 million higher than the previous quarter. EPS soared from 39 cents to 55 cents.

United Health Group reported a 30% jump in second quarter earnings, boosted its full-year earnings guidance, and posted $2.28 billion in earnings on $50.05 billion revenue.

Morgan Stanley topped analyst expectations with EPS of 87 cents on revenue of $9.5 billion, as compared to $8.9 billion year over year. And while companies like IBM managed to post its 21st consecutive quarterly revenue decline, analysts were still optimistic overall.

For the second quarter 2017, S&P 500 companies were expected to post 8% earnings growth on a 4.6%

gain in revenues, according to Thomson Reuters, as reported by Investors Business Daily. “That's a big reversal from a 2.1% profit decline in Q2 2016 as the energy-led earnings slump extended to a fifth consecutive quarter. And it solidifies the comeback that has seen S&P 500 profit growth of 4.3%, 8% and 15.3% in the last three quarters.”

Even better, the third quarter could be just as surprising, according to analysts at the time.
It was all very encouraging, and could very well fuel the bull market for some time.
With corporate growth on a tear, it’s a good bet that we’ll see further market upside.

The question now is how do we trade the excitement?

Every time there’s even a remote possibility of a pullback, markets absorb any negative shocks and run even higher. That could continue not just on the heels of Trump, but also on the heels of stronger corporate growth.

There are two ways to trade potential upside here.

One, we can always take a position in index ETFs, such as the following:

- SPDR Dow Jones Industrial ETF (DIA)
- Power Shares QQQ (QQQ)
- SPDR S&P 500 ETF (SPY)

That’s a great way to expose your portfolio to the markets. Another way to trade further potential upside is with call options on the DIA, for example. In fact, a lot of options traders have been flocking to the DIA January 2018 220 calls, as well as the DIA September 220 calls.

Just keep in mind that nothing is ever a sure thing on the markets.

But with corporate earnings and Trump in the White House, the markets seem to love what they’re seeing. Trade safely. And be sure to stay tuned for updates on all open trades.

Take good care…