In the wake of the nonstop market advance of 2017, price action during the current year has been relatively restrained. Last year's net result was a hefty double-digit advance with nary a significant pullback along the way. With the exception of the opening weeks of the current year, which seemed to suggest that trees really do grow to the sky, day-to-day volatility has increased dramatically since then, though net gains have been rather modest.

It may well be that investors who were bidding up prices last year were doing so with an eye to the future. We got the gains in prices in 2017 in prospective reflection of the outsized increases in profits being registered by U.S. companies this year. (Thank you, tax cut.)

Taking this view one step further, one might guess that the recent market activity suggests an increased rate of turmoil in the business community next year accompanied by a deceleration in progress.

Who knows, but when this year's relatively blistering pace of progress is followed by a substantial downshift, one has to wonder how investors will respond. And, for the moment, let's not even think about where things might lead in 2020.

Right now, we're enjoying a not too hot, not too cold period, a.k.a. Goldilocks. This could go on for a while, but certainly not *ad infinitum*.

What lies ahead are the midterm elections, more interest rate hikes by the Federal Reserve, and an eventual tapering off of the rate of increase for domestic business profits. Even if the forward momentum continues, a slowdown would seem likely to engender some degree of investor disappointment.

So on one hand, there's concern about taking advantage of whatever's left to the extended upsurge that has been under way since early 2008. But on the other hand, prudence suggests that it would be well worthwhile to assess existing risk carefully and dial down exposure to the potholes that may lie ahead.

Now that prices have recovered from the low point of late last winter, valuations are again becoming richer, though not yet to what might be considered extremes. Even so, richer valuations bespeak expectations of rapid progress ahead, rather than the probable slowdown that will become obvious as we approach midyear, 2019.

There are still worthwhile opportunities, however. Now that interest rates have emerged from the land of nothingness, yields from an increasing part of the fixed-income spectrum have climbed to more interesting levels. At the lower end of the risk scale are floating rate securities, which adjust periodically to reflect changes in prevailing interest rates. Higher returns, albeit with increased risk, are available from short-term, high yield securities as well as deep discount closed-end funds, which have current returns of mid single digits and higher.

Better opportunities on the equity side are in the non-U.S. markets, where valuations are considerably more reasonable by at least 20% and in some cases by as much as 50%. The hitch here is that international markets, both developed and emerging, have lagged far behind the U.S. market for an extended period, though more recently they're begun to awaken.

Those who appreciate the sagacity of the "Sell Pretty, Buy Ugly" approach will probably be well rewarded for their patience by moving in this direction. Indeed, as the recent strength of the dollar fades while the euro rebounds, it seems quite likely that non-U.S. investments may follow a more promising path over the quarters ahead.

Still, as much as we would like to think that objective analysis of the underlying fundamentals is the key to the future, the reality is that the day-to-day market meanderings are primarily driven by the events *du jour*. What's especially interesting is that news developments can sometimes trigger dramatic responses while at other times they are largely ignored.

Over long periods of time, changes in fundamentals are the prime determinants of stock prices. From a short-term perspective, nothing is more powerful than shifting investor psychology. If one were to plot a line indicating proper valuation for the leading averages based on underlying profits, it would have a relatively stable upward slope including occasional dips to reflect economic downturns. The difference between that hypothetical line and the actual concurrent price performance is all about investors' changing views of what is to come.

Which is why I emphasize the importance of watching the climate, not the weather.

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