StraightTalk
PROVIDED BY STRAIGHTLINE FINANCIAL OF RAYMOND JAMES VOLUME 6 DECEMBER 2018

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# 2018 – A Series of Price Events

As I write this on Wednesday, December 5, the U.S. stock markets are closed in observance of a national day of mourning for former President George H. W. Bush. This means that I am in my office, but there are no blinking orange and red banners on either my computer monitors or my television. However, there are still plenty of caustic words being tossed about today regarding yesterday's 800 point drop in the Dow. Words like "rout" and "carnage" and "bloodbath" which, given the context of the market's last month, seem a bit overstated. When we widen the lens to the calendar year, or the last three years – those words seem utterly ridiculous.

If you had no other facts available other than the year-to-date return for the market in 2018, and I presented those facts to you – I'm guessing "bloodbath" would not be the word that would be top of mind. In plain English, the stock market is essentially flat since January 1, having risen 21% last year and 12% the year before that. Bloodbath? Really? If being even for one year is a bloodbath, I shudder to think what the mainstream financial news media will write when we have a 20% correction and/or a bear market year!

The reality of all of the moves the market has exhibited in 2018 is that they have been driven by fear and greed around reported news, which is opining on possible outcomes to politicized events. (In plain English, whether or not Team Trump had a good week.) If the prevailing news opinion is that things look good for trade deals – the market zooms up. If the prevailing opinion is that trade talks have stalled – the market reprices downward in a hurry. Folks – this is called short-term speculating, and it is absolutely a fool's errand. In one sense, we are all speculating on the future, but to shorten the window of time to a calendar quarter or month is ridiculous. Investing your lifetime accumulation of wealth in the great companies of America and the world based on their proven historic ability to grow their earnings and dividends beyond inflation and taxes is a timeless strategy. That is altogether different from betting your 401(k) on whether China will agree to a trade deal by this weekend. And yet, that is precisely what has been going on in the fourth quarter, if not the entire year of 2018.

One of my favorite clients sent me an email (partly in jest) with all of the negative headlines around the EU, Brexit, and China, asking if international investing still made sense. My reply (also partly in jest) was that going back to the start of this secular bull market in 2012, I was certain that we could find a negative U.S. economic or market headline for every day, but during that time the Dow has risen from about 12,000 to about 25,000.

My point was simple – someone, somewhere will write a scary headline virtually every day. The old adage back when the world read newspapers was, "if it bleeds, it leads." Today's digital world version of attention grabbing headlines where websites compete for eyeballs is called "clickbait." Whatever headline gets the most people to click on a story makes the advertisers happy, which in turn results in additional similar stories, which drives ever more internet traffic in a perpetual cycle.

My job, as most of you know by now, is to dispel most of this as noise. Some of it is truly toxic sewage that washes up on your financial beach each day, but most of it boils down to journalists looking for their Andy Warhol 15 minutes of fame.

All of this only becomes an issue when you can no longer tune it out, and then become compelled to act on it, or, at least call me to discuss acting on it. In those discussions, we frequently review the facts as they exist today, in order to try and determine whether the market's recent movement is rooted in deteriorating economics, which is an *economic event*, or whether the market drop is based on investors acting like penguins jumping off of an iceberg, which is a *price event*.

In an effort to give you something to dwell on as we enter into the holiday season, I thought a few positive economic facts (not opinions) might help you to decide whether we are in the middle of an economic event, or a price event.

Let's look at people working today in our country, and tune out the chatter about the supposed health of our economy. At the end of the summer, unemployment in this country was at 3.9%, which my college Economics Professors taught me was impossibly below full employment. Last month that number dropped to 3.7% - the lowest since Joe Namath's Jets won the Super Bowl in 1969! In fact, inside that unemployment number are some other historic figures that demonstrate an economy firing on all cylinders. Black and Hispanic unemployment are near all-time lows, meaning that jobs are plentiful across our national spectrum. More importantly, for several months this year, there were *more jobs available than workers to fill them,* which has never happened since the Bureau of Labor Statistics began collecting this data. I would argue that is not a recessionary signal.

Economic activity is also near all-time highs. The Purchasing Manager's Index is a gauge of economic activity across the U.S., provided monthly to businesses to help guide decision-making. On the scale of 0-100, any number above 50 means the economy is expanding. The most recent month for data was October, which came in above 50 for the 114th straight month. In other words, the economy has been growing over that time period, sometimes faster, sometimes slower, but still expanding. Another clue that does not point to recession.

And since we are in the middle of the holiday shopping season, it is worth pointing out the robust health of the American consumer. Online sales on Thanksgiving Day were up 28% over last year, and the average order was up 8.5% in dollar terms. Black Friday saw a 23.6% increase in online sales over 2017, according to Adobe Analytics. And Cyber Monday broke a sales record, with $7.9 billion dollars spent in one day, an increase of over 19% from last year. Even with foot traffic in malls and stores declining – these numbers mean that overall retail sales are still up this year – another sign that we are not entering a recession.

How about the earnings of the companies where all of this shopping is occurring? According to FactSet, which tracks S&P 500 earnings, 78% of the companies in that index have reported a positive earnings surprise for the third quarter, with an average year-over-year growth in earnings of 25.9%. Given that eye-popping statistic of broad based, massive growth in company earnings, what does the media report? Well….an expected slowing of the growth of earnings next year, of course! The narrative is that the explosion in earnings is a "sugar high" from tax cuts, and will disappear next year. This is profoundly misleading.

Certainly, the rate of growth in earnings will slow next year, but earnings are still expected to grow nicely. The purpose of the corporate tax cuts was not to be more "fair" or to drive stock prices higher – it was to incentivize businesses to invest, build, and hire by increasing their after tax returns. By making the global playing field more level, and making the U.S. a more attractive place to do business, the economic growth from increased business spending will last for years, not months as the doomsayers opine.

This is all indicative of a growing economy, which means any decline in prices is just that – a price decline, not a reason to change your plan. These periodic price events come and go; your plan is built to wait them out. The big picture is quite good and getting better, and we all have so much to be thankful for. Here's to a prosperous 2019!





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