



WEALTH
STRATEGIES

The Retirement Specialist

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My Views from Wall St. to Center St.

"The greatest mistake of the individual investor is to think that a market that did well is a good market rather than a more expensive market." ~ Ray Dalio

"The most important rule is to play great defense, not great offense. Every day I assume every position I have is wrong.... I have a game plan for getting out. ~ Paul Tudor Jones

- Early February market "correction"
- My worry index continues to increase
- Conditions remain solid
- Personal Notes

My last "views" included my predictions of the 2018 capital markets. I stated that I thought the U.S. and most global markets would be positive for the year. That date was 1/29/18 and the market was up almost 7.5% at that time. I also stated that I believed that 2018 would be much more volatile than 2017 and that our convictions in our beliefs and process would be challenged. In the next 9 trading days the market lost over 10% making it an official correction, which according to LPL Research, was the quickest on record.

Let's review the landscape. Moderate economic growth at home and abroad has been fueling corporate profits; analysts have been sharply revising 2018 profit estimates higher (Thomson Reuters); inflation has been low, and interest rates, while creeping upward, remain near historically low levels. It created an ideal environment for stocks, i.e., low volatility and upward momentum. However, when you're priced for perfection, or something near perfection, any disappointments are likely to be amplified.

What sparked the sell-off? Yields on the 10-year Treasury were rising, which began to create a stiffer headwind for stocks. But what likely would just have been a mild downturn snowballed. As we entered February, speculators who had piled into products designed to take advantage of low volatility were suddenly forced to jump ship, which exacerbated selling pressure in stocks. Further, computer program trading kicked in, adding to the turbulence.

Let me take a moment to repeat a familiar refrain. Making investment decisions during times of emotional duress is rarely profitable.

In the words of Ray Dalio, "Don't play the "game" it's the pros vs. individuals/amateurs. The best you can do is have a balanced portfolio, "All Seasons Strategy", because you can't win the game. The mistakes that individual investors make is to think that a market that is going up is a "good" market rather than a more expensive market and that a market that is doing "badly" is a worse market, and the individual doesn't want any part of it, rather than it's a cheaper less expensive market. Don't try to play the game."

My Worry Index to go Higher

Even though my "worry index" continues to climb, the majority of economic indicators that I follow remain green. However, we are seeing a weakening in strength of some of our green lights and some "red" lights in our fixed income signals. But, we remain with a "risk on" bias in our "All Seasons Strategy".

The storm clouds that are forming are a combination of things that might be seen as counter intuitive but are the result of a strong economy, tax cuts, and a real possibility of an infrastructure plan sometime this year as early 2019. On the surface this seems like a great idea to really get this economy humming – can anybody imagine a 4% gross domestic product (last qtr. it was 3%). The Trump Administration can and I believe is determined to see 4% GDP no matter the long term consequences. I have described the tax plan and an infrastructure plan to an already healthy and expanding economy like giving a well- conditioned athlete a dose of steroids and stimulants. While the short term results will spike upward and improve performance, the long term implications tend to cause injury and damage that is irreparable.

I believe by introducing tax cuts and infrastructure spending, that the economy is going to accelerate, the labor market will tighten and inflation will rise. This will cause the Federal Reserve to continue to raise % rates and they are doing this at the same time they are selling U.S. Government Securities back into the market place (they currently hold about \$4 trillion). I believe the result of this will be as the economy grows faster in the short term (next 2-3 quarters) ultimately they will slow growth, stall growth, and kill growth – just as they have done for the last 100 years. I believe the current period looks a lot like 1937 – if you want to know more about that, please call or email and we will discuss.

I believe the likely timing of the next recession will be during the next presidential election cycle, late 2019 or 2020 and I believe the likelihood is greater than 75%. Another concern/storm cloud is the tariffs that are now going to be imposed on steel and aluminum imports. I will write more on this later but suffice to say "trade wars" are not a good idea and not sure there can be any winners...certainly not for the average American.

All Seasons Strategy Summary Statistics for month ending February, 2018

| SUMMARY STATISTICS | 1 MTH | YTD | 1 YR | 5 YR (Annldz) | 10 YR (Annldz) |
|----------------------|-------|-------|-------|------------------|-------------------|
| All Seasons Strategy | -3.1% | -0.6% | 9.9% | 5.3% | 4.5% |
| 1 US Large Cap | -3.7% | 1.8% | 17.1% | 14.7% | 9.7% |
| 2 US Mid Cap | -4.4% | -1.7% | 9.5% | 12.8% | 10.7% |
| 3 US Small Cap | -3.9% | -1.4% | 10.3% | 14.0% | 11.2% |
| 4 Intl Developed | -4.6% | -0.2% | 20.8% | 7.8% | 3.7% |
| 5 Emerging Mkts. | -4.1% | 4.1% | 29.8% | 6.0% | 3.4% |
| 6 Global REITs | -6.6% | -8.1% | -3.3% | 5.4% | 4.9% |
| 7 Natural Resources | -5.1% | -0.1% | 18.9% | 2.4% | -0.1% |
| 8 Commodities | -1.7% | 0.2% | 1.6% | -8.1% | -8.3% |
| 9 US Bonds | -0.9% | -2.1% | 0.5% | 1.7% | 3.6% |
| 10 US TIPS | -0.9% | -1.6% | -0.1% | -0.1% | 2.7% |
| 11 Intl Bonds | -1.2% | 1.8% | 11.6% | 1.2% | 2.0% |
| 12 Cash | 0.1% | 0.2% | 0.9% | 0.3% | 0.3% |

Source: S&P Dow Jones Indices

I hope you have found this review to be educational and helpful. If you have any concerns or questions.....
Let's talk! That's what I am here for!

Personal Notes ~

One of our 2018 firm incentives is to increase our presence on social media...Facebook, Twitter, etc. These new communication tools are as foreign to me as they are to many of you reading my letter(s). But, whether I'm "comfortable" with using them or not it's the future and the future is now.

"Change is inevitable. Growth is optional." - John C. Maxwell

I have learned over the years to focus on the things that I do well and put people/teams together to do the things that I struggle with (believe me that's a lot!). By developing these teams, the firm is a much more effective and efficient business that is able to provide the level of service you deserve in your lives. I am your wealth advisor of course, but hopefully our team provides much more than that. What we try to do is create "lifestyle" experiences and opportunities to achieve your life goals, whatever they may be. We call this our *Four Seasons Experience*. We will be introducing this more during the first half of 2018.

An example of this is our relationship with Performance Medicine <https://issuu.com/vipseen/docs/vipjanfeb18/92>
The synergy between our business and theirs is natural and Dr. Tom Rogers and I have been friends for nearly 50 years. His practice is truly on the cutting edge. It is what health care should be, and that is keeping people from getting sick, keeping them performing at a high level throughout their lifetime regardless of age! In 30 years, discussing with clients their goals and dreams, I have never had a client tell me they wanted to get old and sick and run out of money. Our universal goals and fears are all the same:

- Have enough money to enjoy life and not run out before they die
- How much will it take to provide health care in the later stages of life if they get sick

Your goals, my goals, our goals are to help you increase your "healthy life" span by making available and utilizing all the resources/teams that are available. Performance Medicine is one of those resources. If you have not visited them at their new location – 1325 E. Center St., which is about 500 yards from our office, I strongly encourage you to do so. It's never too early or too late to take control of your finances or your health. If you would like, our office will help coordinate your initial visit with Dr. Rogers.

As always, I'm honored and humbled that you have given me the opportunity to serve as your financial advisor. Please reach out to me or my team if you have any questions. I can be reached at 423-247-1152 or email me at Jeff@BHRetire.com.

Jeff

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