B&H Wealth Strategies
The Retirement Specialist

July, 2019

My Views from Wall St. to Center St.

" Get your facts first, then you can distort them as you please. " ~ *Mark Twain*

- Records are Made to be Broken
- Causes of Recessions
- Where are we Today?
- A Sneak Peek at the Rest of the Year
- Is a Recession Inevitable?
- The Fed to the Rescue
- Final Thoughts
- Personal Notes

Records are made to be broken

We have all heard it said, "Records are made to be broken." We celebrate record-breaking winning streaks from our favorite teams. Conversely, we hope to avoid a long string of losses.

The bull market that began in 2009 is not the best performing since World War II. That title belongs with the long-running bull market of the 1990s. But it is the longest running since WWII.

So, while this is the longest expansion since WWII, or will be at the end of July, it has been the slowest since at least WWII, according to data from the St. Louis Federal Reserve.

Growth was much more robust in the 1960s, and we experienced a strong recovery from the deep 1981-82 recession.

Yet, economic booms and long-running expansions can encourage risky behavior. People forget lessons learned in prior recessions and overextend themselves.

Consumers can take on too much debt. Businesses may over-invest and build too much capacity. We saw euphoria take hold in the stock market in the late 1990s and speculation run wild in housing not too long ago.

That brings us to the silver lining of the lazy pace of today's economic environment.

Slow and steady has prevented much of the speculative excess from building up in much of the economy. In other words, a mistaken realization that the good times will last forever has not seemingly taken hold in today's economic environment.

Causes of Recessions

The long-running expansions of the 1960s, 1980s, and 1990s led to a mistaken belief that various policy tools could prevent a recession.

Yet, expansions don't die of old age. A downturn can be triggered by various events. So, let's look at some common causes and see where we stand.

1. Rising inflation leads to rising rates. In the early 1980s, the Federal Reserve pushed rates to historically high levels in order to snuff out inflation. The Fed's policy prescription succeeded, but led to a deep and painful recession.
2. The Fed screws up. A policy mistake can be the trigger, (and usually is), for instance if the Fed raises rates too quickly and restricts business and consumer spending. This is a derivative of point number one. There were fears the Fed was headed down this road late last year. Credit markets tightened, and investors revolted until the Fed reversed course.
3. A credit squeeze can snuff out growth. In 1980, the Fed temporarily implemented credit controls that briefly tipped the economy into a recession.
4. Asset bubbles burst. In 2001 and 2008, recessions were preceded by speculative excesses in stocks and housing.
5. Unexpected financial and economic shocks jar economic activity. The OPEC oil embargo in the 1970s exacerbated inflation and the 1974-75 Recession. The tragedy of 9/11 jolted economic activity in 2001. Iraq's invasion of Kuwait pushed oil up sharply, contributing to the 1990-91 recession. Such events don't occur often, but their possibility should be acknowledged.

Where are we Today?

Inflation is low, the Fed is signaling a rate cut, and credit conditions are favorable for the most part. Stock prices are near or at record highs, but interest rates are still near record lows today, which tends to support richer valuations.

Now, that's not to say we won't see market volatility. Stocks have a long-term upward bias, but the upward march has never been and never will be a straight line higher. As I've repeatedly stressed, a financial plan is designed, in part, to keep you grounded during the periods when volatility may tempt you to make a decision based on emotions. Such decisions are rarely profitable.

A Sneak Peek at the Rest of the Year

The Conference Board's Leading Economic Index, which has a good record of predicting (if not timing) a recession, isn't signaling a contraction through year end. But one potential worry: a protracted trade war and its impact on the global US economy, business confidence, and business spending.

Exports account for almost 14% of US GDP. It has risen over the last 20 years, but we've never experienced a US recession caused by global weakness.

By itself, trade barriers with China are unlikely to tip the economy into recession. Total exports to China account for about 1% of GDP. Even with higher tariffs, exports to China won't grind to a halt and erase 1% of GDP.

What's difficult to model is the impact on business spending and confidence, which in turn could slow hiring, pressuring consumer confidence and spending. Simply put, there is not a modern historical precedent to construct a credible model. Hence, the heightened uncertainty we've seen among investors.

Is a Recession Inevitable?

I believe the answer is yes and it will occur sometime next year, but other countries have more enviable records. Australia is enjoying its 28th straight year of growth!

If trade tensions begin to subside (a big "if") and the fruits of deregulation and corporate tax reform kick in, we could see growth well into 2020. But, let me caution, few have accurately called economic turning points.

The Fed to the Rescue

Most of the rise of market indexes this year can be traced to a pivot by the Fed, positive US-China trade headlines, and continued economic growth at home.

We witnessed a pullback in May after trade negotiations with China hit a snag. The threat of tariffs against Mexico added to an uncertain mood until June, when Fed Chief Jerome Powell signaled the Fed would consider cutting rates to counter any negative economic headwind. While Powell's not promising to deliver rate cuts, one key gauge from the CME Group that measures fed funds probabilities puts the odds of a rate cut at the end of July at 100%.

I'll keep it simple and spare you academic theory explaining why lower rates are tailwind to stocks. In a nutshell, stocks face less competition from interest-bearing assets.

But let's add one more wrinkle – economic growth. Falling rates in 2001 and 2008 failed to stem the outflow of stocks as economic growth faltered. And, rising rates between late 2015 and September 2018 didn't squash economic growth.

During the mid-1980s, mid-1990s, and late-1990s, rate cuts by the Fed, coupled with economic growth, fueled market gains. It's not a coincidence that bear markets coincide with recessions and that bull markets are inspired by economic expansion. Ultimately, steady economic growth has historically been an important ingredient for stock market gains.

All Seasons Strategy Summary Statistics for month ending

SUMMARY STATISTICS	1 MTH	YTD	1 YR	5 YR (Annlzd)	10 YR (Annlzd)
All Seasons Strategy	4.5%	10.8%	2.5%	3.4%	7.2%
1 US Large Cap	7.0%	18.5%	10.4%	10.7%	14.7%
2 US Mid Cap	7.6%	18.0%	1.4%	8.0%	14.6%
3 US Small Cap	7.4%	13.7%	-4.9%	8.4%	15.0%
4 Intl Developed	5.8%	14.1%	0.1%	2.8%	7.7%
5 Emerging Mkts.	5.6%	12.1%	3.1%	3.4%	6.4%
6 Global REITs	2.1%	16.2%	10.1%	6.4%	13.4%
7 Natural Resources	9.7%	13.8%	-4.0%	0.7%	3.5%

8 Commodities	2.7%	5.1%	-6.8%	-9.1%	-3.7%
9 US Bonds	1.3%	6.1%	7.9%	2.9%	3.9%
10 US TIPS	0.8%	5.8%	4.6%	1.6%	3.5%
11 Intl Bonds	3.4%	5.3%	4.2%	0.1%	2.0%
12 Cash	0.2%	1.2%	2.3%	0.8%	0.4%

Source: S&P Dow Jones Indices

Final Thoughts

Control what you can control!

You can't control the stock market, you cannot control the headlines, and timing the market is not a realistic tool. But you CAN control your portfolio. Your plan should consider your time horizon, risk tolerance, and financial goals. There is always risk when investing but we tailor our recommendations with your financial goals in mind.

If you are unsure or have questions, let's have a conversation. That's what I'm here for. As always, I'm honored and humbled that you have given me the opportunity to serve as your financial advisor.

PERSONAL NOTES

Cathy Rhinehart

As most of you know, Cathy Rhinehart retired on May 31st after 21 years with the firm. While I'm very happy for her and Charles, it was a bittersweet moment for me and the staff. If anyone deserves a happy peaceful retirement, it's Cathy and her family. If you don't know "her story" ask me sometime and I will tell you. But, briefly – she not only took care of me and you every day from 8 to 5, the rest of the time she took care of her mother until her death last year – she was 33 days short of her 102nd birthday. She has also been helping raise her twin grandsons, Ben and Jack since they were born in 2008.
Cathy is one of the finest people I have ever known. It was a privilege to work with her these last 21 years. I know you all are with me in wishing her the very best in retirement!

Jake Bingham

Yet, as one chapter ends another one begins. My son, Jake is now working with the firm and handling our marketing. He has been in this role for the last couple of months and is learning a lot and doing very well. It's really a very exciting time for me, because not only is he taking over Cathy's role, he is beginning to learn the "family" business much as I did 30 years ago when I began learning/working with My Dad.

We have had a great history as a firm and we now have begun our future. Next time you are in the office make sure to meet Jake and welcome him to the B&H family.

B&H Wealth Strategies

1402 East Center St. / Kingsport, TN 37664
423-247-1152 / Toll Free 877-247-1152
Fax 423-247-5714 / www.BHRetire.com
Follow us on Facebook at B&H Wealth Strategies, on Twitter @BHRetire and connect with Jeff on LinkedIn.

07282019-GB-6472