Tweet-Tweet Tariff-Tariff

Dear Friends and Clients:

Here we are at the end of the second quarter of 2018. Yes, it's an interesting world we live in. Who predicted in 2016 that markets and the political arena would become so influenced by Tweets? Seems President Trump's daily tweets cause market reaction either positively or negatively and sometimes both in the same day. The market started out with a bang in January then has become volatile. The daily noise of tweets and re-tweets in my opinion, is responsible for much of this. Is it justified or is the market ignoring the real issues that move the market?

As long-time readers will know, I follow Brian Westbury, Chief Economist of First Trust Portfolios. He often speaks on the major news outlets and his theme is; being the "antidote to conventional wisdom". I have met him in person and have found his commentary and wisdom to be not only helpful but accurate. I recently listened to his Westbury 101 economic video commentary from July 18, 2018. If interested this can be viewed at: www.ftportfolios.com. I will paraphrase and highlight his main points below.

- Massive gains in productivity in US corporations is why corporate profits are exploding. Thirty-nine companies have reported second quarter profits and 92% have beat estimates. Corporate profits are growing at 20%.
- Unemployment rate dropped to 4% despite predictions that productivity, technology and robots steal jobs. In fact, there is a trend of people coming off of food stamps and social security disability to re-enter the job market.
- The housing starts number recently reported was much weaker than expected however, it's a one month move of a very volatile indicator and one month isn't a trend. Brian doesn't read too much into a one-month change.
- He doesn't believe we are getting into a real trade war. The last real trade war in the 1930's tariff's were greater than 70% around the world. Today Japan and the European Union just negotiated lower trade tariffs. May not be good for the US but is good for worldwide trade. China has reacted by trying to reach other deals to shut out the US. But the US is the leader in technology so effectively can't be shut out.
- US economy is growing faster today than over the last 8-9 years. Brian believes real GDP growth will be 4.5% to 5% for the second quarter.

- Corporate profits expected to grow 20% and are 10-15% higher than on December 31, 2017. He believes the market was 10% under valued at the end of last year and today could be as much as 20% undervalued.

I have attended two national conferences this year. First was SEI Private Trust SAC meeting and then our Broker Dealer Securities America conference. I heard Alan Greenspan talk via video conference and answer questions reading Tariffs and other issues. James Carville and Mary Matalin spoke in person (most interesting) and provided their views on the current political climate. SEI portfolio managers discussed their outlook for both domestic and international investing. Below I will summarize the main takeaways from these conferences.

- There is concern of the potential of escalating tariff wars however, at this time they don't feel this will be a major issue. But warn it would be if it escalates.
- Consensus that existing tariffs against US goods and services need addressed.
- Corporate profits are good and expected to continue.
- Unemployment numbers have dropped which has caused some labor shortage. This may increase labor wages which is a good thing since wages haven't increased much over the last several years.
- Inflation is ticking up but most are not concerned this will become a major issue.
- The Federal Reserve will most likely continue to gradually increase rates. Getting back to normal interest rates is a good thing. (Think of earning more than zero on bank deposits!).
- Current PE ratios are on the high end. However, considering corporate profit predictions the case can be made that the market is still undervalued.
- Value investing is expected to start outperforming growth style investing.
- There is risk in static investing such as buying index investments. Much of the returns in technology companies (GOOGLE, Microsoft, Apple, Netflix and Facebook) are responsible for a significant amount of index returns. Static Index investing is more risky than active investment going forward.
- Our goal-based strategies using short term, mid-term and long-term allocations will help navigate the current market volatility.

Hope everyone is enjoying their summer and taking time to have fun with family and friends. If you have any questions please don't hesitate to call. Thanks for reading.

Sincerely,

G. Pete Fields, CLU, ChFC