Financial Wanderings

November 2019

A masterful examination of the previous month's financial events, written by Brad Blackburn, CFP ®

(and made even awesomer by Andrea Dickerson)

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Although the commentary in this newsletter has been thoroughly researched, well-reasoned and contains many impressive multi-syllabled words, please enjoy it responsibly. There are many economic minds that are far smarter than mine—and even they can't agree on even the simplest economic questions. In other words, please enjoy this newsletter with the full understanding that it may be entirely wrong.

Deal or not, the trade war will continue

The stock market (S&P500) has once again pushed into all-time highs. One big reason for the stock market celebration is hope for what is being called a "phase one" trade deal with China. Both America and China have announced in recent weeks that a deal is close. However, I worry that the stock market is far too optimistic.

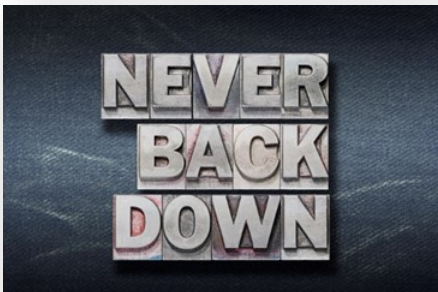
As the name implies, a phase one deal is only the first step. So, even if a deal is successfully agreed to, we'll still be in a trade war. In addition, from what I've seen of the phase one deal, it looks a lot like the "trade truces" we reached back in June of this year and December 2018. Unfortunately, those deals fell apart in a matter of weeks. What reason do we have to believe a new deal will hold for any longer?

On one hand, it looks like China is trying to outlast Trump. If the Chinese can hold out for another year, they might be able negotiate with a new American President. However, that's a risky strategy for China, as it might be even more difficult to deal with a Democrat. After all, the Far Left has been complaining about China for a lot longer than Republicans.

If I were China, I might try to a reach a small deal with Trump – and soon.

If a small deal is reached now, it's less likely that a new Democratic President, or a newly emboldened Trump, would aggressively come after China again in 2021. For the stock market, that is probably a best-case scenario.

However, that best-case scenario still isn't very good. The stock market and the global economy need a full resolution to this, and that isn't likely. While both sides seem to want a deal, there's no obvious way out that allows everyone to save face.



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So, unless one side completely folds, the trade war will continue, which means tariffs will continue. That's bad news, because a tariff isn't like a bomb, which only does damage once. A tariff does damage day after day after day. So, even if we get a "deal" in the coming weeks, the negative impacts of the trade war will likely continue for much longer. That's not good news for investors.

A stock market storm is coming, someday – how should you prepare?

It has been more than 10 years since the depths of the Financial Crisis – and what a glorious ride it has been. The economy has grown consistently, and the stock market has more than tripled. However, nearly everyone I speak with is nervous about the future. To be fair, I could have written the same thing 5 years ago. But we all know a storm is coming. It might arrive tomorrow, next year, or a decade from now. It might be a gentle rain, or a mega-hurricane. So, how should you prepare for it?

Build up an emergency fund:
It's probably not advisable to bury a big can full of cash in your backyard, but it's certainly a step in the right direction. A better plan is to set aside 3-6 months of expenses in an FDIC insured savings account. If you are nervous about a recession, you could aim for 6 months, or even more. If your income falls, or you lose your job because of a recession, you'll be grateful for your fully filled emergency fund.

Pay down debt:
Another good way to prepare for a recession is to pay down your debt. That's especially true of any high-interest rate debt. The most obvious reason is that debt is expensive, and extra money will be harder to come by during a recession. Perhaps more importantly, the worst way to go into a recession is with a massive amount of debt. It's a little bit like beginning a marathon with a big tire around your neck.

Revisit your portfolio:
After 10 years of strong stock market growth, your stock allocation might have grown far too large. So, this is a great time to take a close look at your investment portfolio. How risky is it?

If you have a long time before retirement, a large stock allocation might be okay – even IF a recession is coming. However, if you are close to retirement, or might need your money soon for another reason, you should be sure that too much of your money isn't exposed to the turbulence of the stock market.

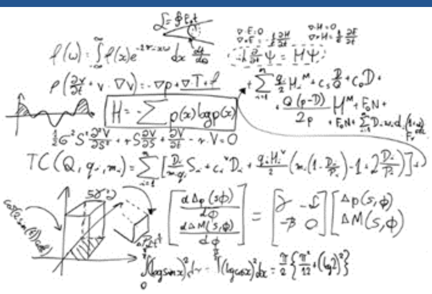
Identify ways to cut back:
Most of us spend money carelessly, at least every now and then. So, it makes sense to step back and take a close look at your expenditures. Are there places you could cut back? Perhaps a less expensive car, eating more meals at home, or fewer monthly subscriptions. Any money you save now can be put to good use building up your emergency fund or paying down debt.

The bottom line:
If you were certain a recession was coming, the appropriate action would be to panic and sell everything. However, if you were certain a recession was coming – you have too much faith in your predictive abilities.

No one can predict when the next recession will hit, or how bad it will be. But recessions are normal and can even be healthy for an economy over the long-term. So, as long as you are well-prepared, you shouldn't lose much sleep over them.

Is it ethical to invest in China?

In this day and age, investing in China is simple. There are dozens of mutual funds and index funds that focus completely on China. But whether or not you *SHOULD* invest in China is a much more difficult question.



The first thing to say is that investing in China is obviously very risky. However, where there's risk, there's often reward – and there's an amazing amount of potential reward in

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Is it ethical to invest in China?......................Cont. from page 2)

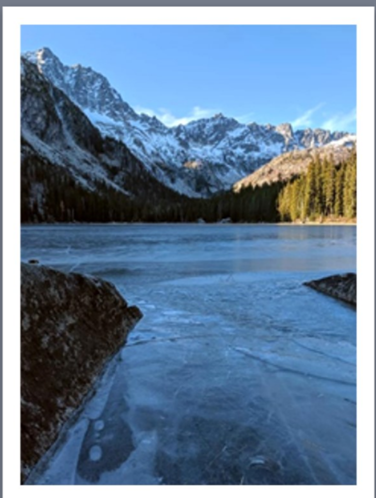
China. Chinese consumers only make up 40% of the Chinese economy. If you compare that to 70% in America, you can see that the Chinese consumer has lots of room to grow. The opportunity becomes even more clear once you realize that China has 4 times more consumers than America. So, there's a lot of money to be made from Chinese consumers over the coming decades – American investors should think hard about benefitting from that.

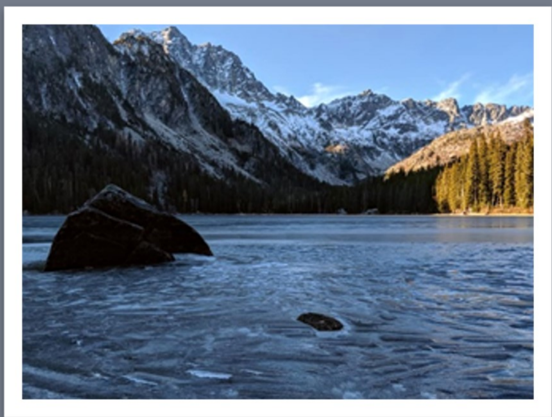
However, there's another important angle to consider. Even if there is incredible profit potential in China – we are in a trade war with them! Both Democrats and Republicans generally agree that China is taking advantage of us. Should patriotic Americans profit from those advantages? During the Cold War, I don't think many Americans rushed to invest in the Soviet Union. On the other hand, a lot of countries take advantage of us – and vice-versa. If you start limiting your investments to only the highest ethical standards, you'll end up only investing in non-profits that make the world a better place.

So, investing in China comes with a lot of risk, a lot of potential reward – and a lot more to think about than your typical non-US investment. Each investor should give it some thought and decide for themselves. If you'd like to talk more about it, I'd be happy to help.

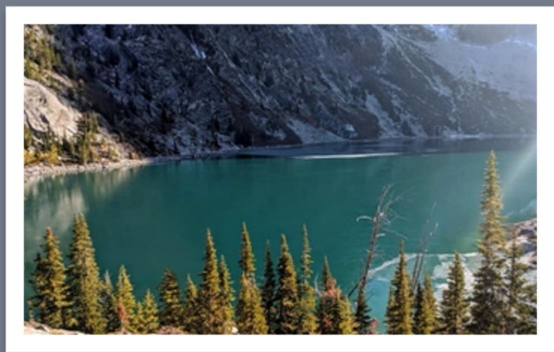
Probably a mountain or a lake

I recently visited Lake Stuart and Colchuck Lake. Lake Stuart was already completely frozen over, which was quite an experience.





Icy Lake Stuart with Mt. Stuart behind



Colchuck Lake with encroaching ice

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