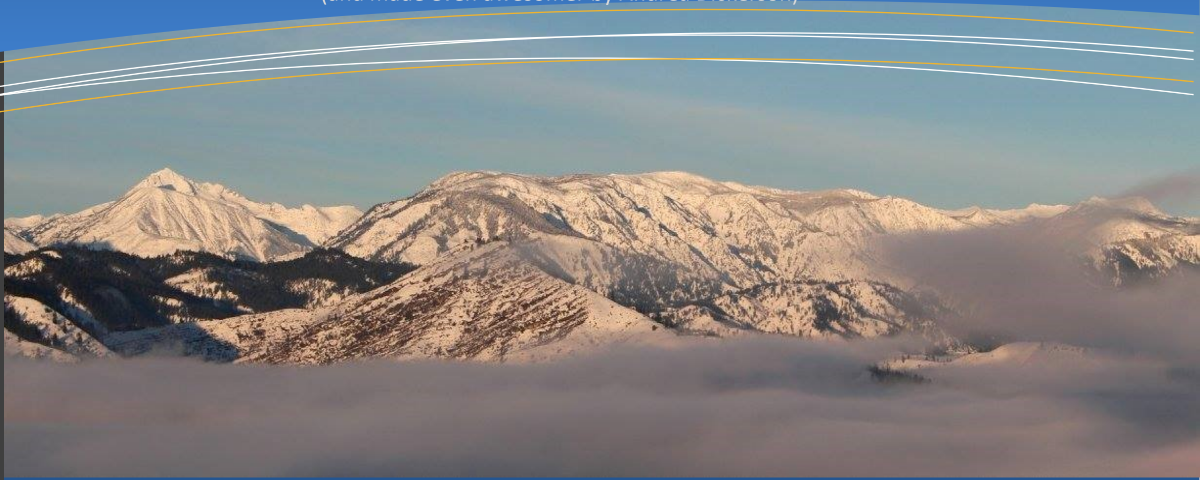
Financial Wanderings

February 2018

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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Is this the right time for a trade war?

After a lot of chest-thumping and trash talk, Trump finally threw the first punch in a trade dispute with China. Tariffs were slapped on Chinese washing machines and solar panels, and Commerce Secretary Wilbur Ross warned there was "more to come."

When I first heard this news, I had my typical reaction to almost anything Trump says or does.

My first thought was: ***"The global economy is humming along like it hasn't in years, why are you messing with it???"*** But then I started to think a little more about it… Maybe this is exactly the right time to make an investment in the future.

One of the arguments against the Trump tax cuts was that this was the wrong time to stimulate the economy. The right time for stimulus is during a recession, which we are far from. When economic times are good, we should make sacrifices for the future.

That's why this might be the right time to pick a fight with China over their trading practices, because we have some legitimate complaints. If we can successfully pressure China to play a little more fairly, everyone might benefit over the long term.

But it won't be easy. Trump may have thrown the first jab in this fight, but China can hit us back, and likely will. Our technology and agriculture industries are particularly at risk.

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There's also the risk that this small trading fight might turn into an all-out trading war, which might be the quickest way to ruin the global economy.

So, while fixing our trading issues with China might be a worthy endeavor, it's also both difficult and risky. Thankfully, our President is a "very stable genius," so I'm sure everything will be okay.

Ten years beyond the Financial Crisis

As the Financial Crisis spiraled deeper and deeper, I did my best to soak it all in and remember how it felt. knew it would be an important experience for the coming decades of my career.

Here's what I recall: It wasn't any fun. I remember trying to figure out any conceivable way we could pull ourselves out of that hole – and coming up with very little. In fact, it's almost the opposite feeling from right now, where the economic news is all good and the markets won't stop going up.

With the benefit of hindsight, I thought it would be helpful to look back at our recovery over the last 10 years and remember what we've been through. It wasn't just the Financial Crisis – even the recovery was traumatic. Initially, there were the financial company bailouts (remember TARP?), and then the car company bailouts, and the Fiscal Cliff, and the Sequester, and the Fed and all the contortions they were doing, and all the problems in Europe, with Greece and the Eurozone, and migrants, and Brexit… Through all of that, the markets just kept climbing higher. So, from the standpoint of the stock market, the recovery since the Financial Crisis has been amazing.

However, the economic recovery hasn't been so impressive. Recently, we've been celebrating 3% GDP growth as if it was a boom. But, 3% is merely average.

If you look at the big picture since the Financial Crisis, we've had a very strong stock market, but a very mediocre economy. That's how we got to where we are now: Our economy is improving, but the stock market is still way out in front of where the economy is. That's not a perfect scenario, but it's not terrible either.

Goldilocks and the disappointing GDP report

The most recent GDP report showed only 2.6% GDP growth over the 4th quarter of last year, which means our economy has slowed a little bit. The first point I should make is that this is only the first estimate of our GDP. These reports are typically corrected over the coming months. However, even if it's correct, a slightly slower economy might actually be a good thing.

The biggest worry for the stock market and economy might be an overheated economy with high inflation and rising interest rates. The Fed already expects to raise rates 3-4 times this year. For every amount the economy improves, the Fed will likely match it with rising rates. Because of that, I'm not sure how much more upside there is in the economy.

However, if we are in the late innings of this economic cycle, it makes sense to stretch out those innings as long as possible. In the financial world, this concept has become known as the "Goldilocks scenario," which means good economic growth – but not so good that the economy might overheat. That might be the best possible scenario for the economy and the stock market.

The fountain of economic youth

It's been almost 10 years since our last recession. Economists like to say that "economic expansions don't die of old age," and that's true. However, people don't die of old age either, but it sure makes them easier to push over.

Not that I would know from experience.

In a lot of ways, this does look like a typical economy near the end of a business cycle. Interest rates are rising, debt is increasing, and bubbles are forming all over the place. Thankfully, there are two things that might keep us young: The youthful global economy, and the Trump tax cuts.

The economies of Europe and Japan just recently began to grow again. That means they are much younger "economically," and can hopefully grow strongly for quite a few more years.

In the same way that hanging out with grandkids can make you feel younger, the global economy might help our economy stay more energetic. Similarly, the tax cuts might bring more energy to our economy as well. If they can encourage more investments from the business world, it could give our economy a second wind.

At some point in the future, the economy will stop growing, and the stock market will stop booming. I'm almost completely mostly sure of it. However, there are certainly some reasons to hope that it's at least a few years away.

Probably a mountain or a lake

This month, I decided to bring you a few of my all-time favorite photos.

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Probably a mountain or a lake

Lyman Lake and Cloudy Peak

Robin Lakes and Mt. Daniel

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