Financial Wanderings

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.

Putting it in perspective

After a long period of smooth sailing, something has changed for the stock market this year. However, even at its lowest point of the year, the S&P 500 only fell back to where it was in late November. If the markets had merely remained flat since then, I don't think anyone would be worried. Instead, the markets went on a roller coaster ride – which was much more dramatic. But, no one was complaining about the stock market back in November. So maybe we should all just calm down.

However, since November, a lot of things have gotten a little bit worse. We now have the threat of a trade war and worries about inflation and interest rates. In addition, the economy has lost a little bit of momentum. Given all that, maybe we should be happy the markets haven't dropped even more.

The Trump tariff tussle

Over the last couple weeks, the tariff tussle between China and America has heated up. So far, all the action has been confined to big words and big threats, which is where Trump really shines.

But what will happen next? If the result is that China opens its economy to more American products and stops stealing our technology – the whole world will benefit. In other words, this has the potential to be a wonderful thing for the global economy and stock market.

However, that potential reward comes with a lot of potential risk. Trump claims that China has more to lose than us in a trade war. In a way, he's right. China sells a lot more stuff to us than we do to them (which is part of the problem of course). Therefore, we have more targets to hit with tariffs.

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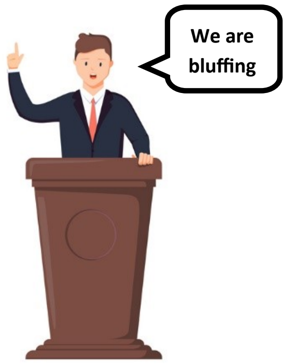
(The Trump tariff tussle......... Continued from page 1)

However, China has advantages too. The biggest one might be the tough negotiating position Trump is in. The tougher he talks, the more he scares the business world and stock market. Already, Trump and his economic advisors have softened their words and assured the world that this is all just a negotiation – which isn't a particularly effective way to negotiate.



The problem is that Trump can't afford to cause much economic pain because there's a mid-term election coming up, and a Presidential election in 2020. On the other hand, Chinese President Xi Jinping is essentially President for life. So, China can make a long-term sacrifice. In addition, China's economy is growing at nearly 7%, so they can afford a little economic pain.

For that reason and more, this trade war (or negotiation) will not be easy to win. However, Trump should get some credit for his courage. For years, China has crossed the line with their trading policies, and Trump is the first President willing to make a fuss about it. He has brought this issue to a head. In the coming months, it's going to go one way or another.

If I had to make a prediction, I think it will work out okay. China knows they've been pushing the limits, and I think they are ready to change anyway - although Trump might encourage them to do it more quickly.

China's economy has matured, and they aren't as focused on selling cheap stuff to the world. They are aiming for a much more "America-like" economy built on consumers. So, I think Trump might have picked the right time to pick this fight with China. Unfortunately, I'm still worried he'll mess it up.

The "Trade Deficit" isn't the problem

In justifying his attacks on China's trading policies, Trump has repeatedly cited the trade deficit. Speaking of the deficit, he recently said "we lose $500 billion a year to China." Not surprisingly, this shows a fundamental misunderstanding of what a trade deficit is (and, our trade deficit with China is actually $375 billion).

I think Trump is fooled by the word "deficit." A trade deficit doesn't mean we actually lose money to China. It simply means we buy more stuff from them than they do from us. If you think of it as a "buying surplus," it has a much nicer ring to it.

In a lot of ways, the trade deficit is a sign of America's strong, consumer-driven economy. In fact, the quickest way to lower our trade deficit would be for our economy to fall into a recession (which would cause us to buy less stuff). The reason we have a trade deficit in America is simply because we spend more than we save. In fact, if Trump is so worried about the trade deficit, he shouldn't have cut taxes and raised spending.

None of this is to argue that there aren't things to fix when it comes to global trade. We just need to focus on the right things – and the trade deficit isn't one of them.

Probably a mountain or a lake

Spring is here!

Here are some of my favorite flower pictures from springs of the past.

Balsam Root on Tibbets Mountain

Glacier Peak and lupine

(Continued on page 4)

Probably a mountain or a lake

A field of flowers

at

Lake Ida

Balsam Root

and

the Enchantments

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