Financial Wanderings

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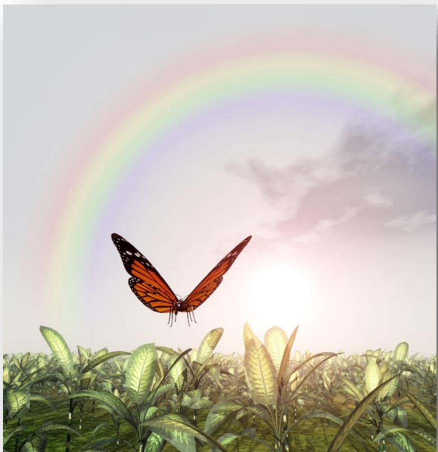
Although the commentary in this newsletter has been thoroughly researched, well-reasoned and contains many impressive multi-syllabled words, please enjoy it responsibly. There are many economic minds that are far smarter than mine—and even they can't agree on even the simplest economic questions. In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

Ten years since the start of the Financial Crisis

It's been 10 years since Lehman Brothers collapsed, which is the event most people mark as the start of the Financial Crisis. Looking back, it's amazing how far we've come over the last 10 years. Even the rosiest projections wouldn't dare predict that stocks would triple, and we'd see 10 years of economic growth.



The obvious lesson for investors is to not panic when the stock market crashes. But it wasn't just the Financial Crisis. Investors have had many reasons to be scared over the last 10 years: The US economy was weak at times, and there were major problems in Europe (remember Greece?).

We also endured the Fiscal Cliff, and the Sequester, and Brexit, and oil dropping to $26 a barrel… So, investors have been through a LOT over the last 10 years. It hasn't been easy, but those investors who stuck it out have been rewarded.

I can't help but wonder, what the next 10 years will bring?

Our gain is the world's pain

The US economy is growing strongly. How could that possibly be bad news? It's definitely better than "we're in a recession." However, the strength of the US economy is causing major problems for the rest of the world.

It's Trump's Fault!

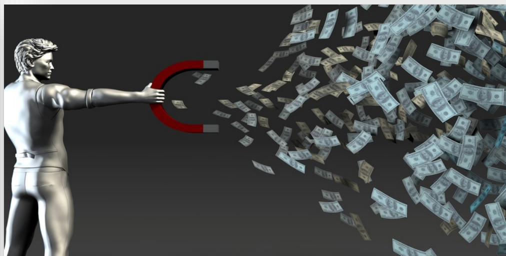
At this point, a wise person might ask: "Why should I care if the strong US economy is causing problems for the rest of the world?" The answer is that in our globalized economy, investors simply can't ignore what's happening abroad. According to Standard & Poor's (S&P), the stocks that make up the S&P 500 (which are all American companies) receive nearly half of their revenue from outside of the United States.

However, it goes even deeper than that. In 2011 and 2012, problems in Europe caused major headaches for the stock market. More recently, over the first six weeks of 2016, the S&P 500 dropped 17%. That drop was caused in large part by problems in China. So, the global economy absolutely impacts the US economy and stock market.

Why is it a problem that our economy is so much stronger than the rest of the world? The problem lies in the enormous flow of money from all over the world toward America. That flow is a result of our relatively high interest rates, but also because people want to invest where the economy is strong.

However, for the countries all that money is flowing out of, it's a real problem. The result is that some parts of the global economy have been thrown off balance. Turkey, Argentina, and South Africa are all struggling through serious crises, in part because of the rise of the dollar (which is a result of the flow of money towards America). This has prompted many discussions in the financial world as to whether we could see an economic "contagion" that could spill into the rest of the world – including America.

This brings up an interesting question for the Fed. A major reason so much money is flowing to America is that interest rates are far higher here than in other major economics across the world. For example, a 10-year government bond from Germany pays only 0.5%, while a 10-year US government bond pays almost 3%. That discrepancy attracts a lot of money to America.



So, if the Fed keeps raising rates, which they plan to do, it could cause even more problems abroad. There's already talk in the financial world about how much attention the Fed should pay to the pain they might be causing to the global economy.

It's a tough question for the Fed because their "dual mandate" is to focus only on employment

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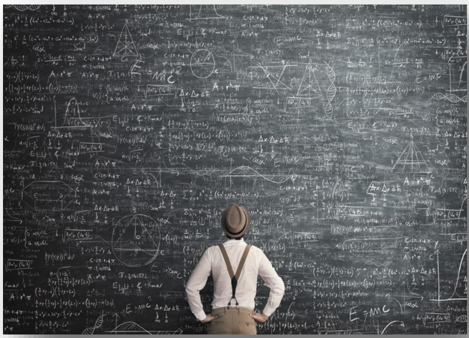
and inflation here in America. However, you could make a case that in this globalized world, we have an interest in not wrecking the global economy. In other words, a weak global economy could hurt employment and inflation in America. The Fed might be compelled by that line of thinking.



However, if the Fed doesn't raise rates, they risk a spike in inflation (the whole point of raising rates is to limit inflation). So, the Fed is in a tough spot. If they continue to raise rates, it could destabilize the global economy – which could destabilize the American economy. The Fed could also keep rates low, which would increase inflation – which could destabilize the American economy. It's a tough decision.

In a perfect world, the global economy will pick up again, and we'll all live happier ever after. In an imperfect world, the weak global economy will bring the US economy down. Let's hope we get something closer to perfect.

No, the markets won't tank if Trump is impeached

President Trump recently said: "If I ever got impeached, I think the market would crash, I think everybody would be very poor." Thankfully, I think Trump is wrong. Although an impeachment would likely be ugly and depressing, it wouldn't cause the stock market to crash. In fact, if Trump is thrown out of office, I'm not sure what difference it would make to the stock market at this point. What more was Trump going to accomplish? After the mid-term elections, gridlock will likely be back regardless of who the President is.

While that means no new corporate "goodies" will be coming, it also means that Trump's tax and regulation cuts aren't going away anytime soon.

Perhaps more importantly, I don't think "President Pence" would fight our various trade battles with nearly as much enthusiasm as Trump. That would be a huge plus for the markets.

For these reasons, rather than crash, I think the stock market might heave a sigh of relief if Trump was somehow removed from office. That's just one more reason to keep your fingers crossed 😉.

Probably a mountain or a lake

I recently visited Gatlinburg, TN, which is in the heart of the Great Smoky Mountains.

A beautiful sunrise from the top of the Gatlinburg Ski Area

The Great Smoky Mountains living up to their name.

No, this bear didn't scare me up a tree, the photo was taken from the deck of our vacation home.

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