

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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April

Market Numbers:

S&P 500: +0.3% to 2,065

NASDAQ: -1.9% to 4,775

DJIA: +0.5% to 17,774

10-Year Treasury Yield:

+2.8% to 1.83%

Gold: +4.4% to \$1,290/oz

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.

Why it did what it did

After three months of drama in the stock market, the S&P 500 calmly gained 0.26% during the month of April. I think we all deserved a stress-free month.



GDP:

The initial estimate of our 1st quarter GDP was a very disappointing 0.5%. Over the last 3 quarters, our GDP has averaged only 1.5%. Unfortunately, that means weak GDP is becoming a trend. However, I don't want to completely discourage you, so here are a couple silver linings.

First, consumers are still solid. Personal consumption (which is another measure of spending) grew nearly 2% in April and the personal savings rate increased to 5.2%. That means Americans are still spending solidly, but are also saving more

money. Although more savings hurts today's economy, it's a good investment for the long-term.



Another silver lining to our weak GDP revolves around the falling price of oil. As the price of oil dropped, oil companies understandably cut way back on their spending (which means job cuts and less investment in equipment, and vehicles etc...). However, that damage has already been done. Oil companies can't cut back any more. Even better, if the price of oil continues to stabilize, they might ramp up their spending, which would be a bonus for the economy.

But maybe I don't have to keep pointing out silver linings; maybe

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we can just ignore the GDP report altogether. Many experts believe there is a problem with the way we calculate our 1st quarter economic numbers (though I haven't heard anyone convincingly put their finger on what the problem is). Looking back the last few years, it does seem strange that the 1st quarter of the year is always so weak ("bad weather" has often been blamed).

For whatever reason, the stock market doesn't seem to be concerned about US economic growth. I hope the markets are right.

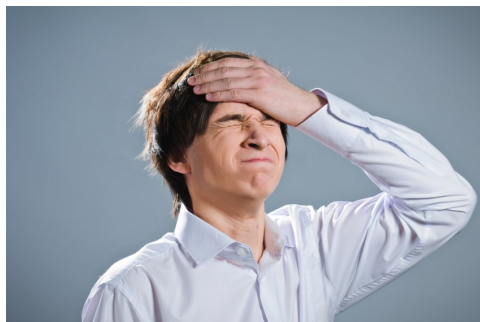


Japan:

The Japanese economy is infamous for how long it's been languishing. For more than 20 years, their economy has suffered from deflation and

stagnation. Unfortunately, their prognosis is still questionable, as they have huge problems with debt, and an aging workforce.

In an effort to spur on their economy, Japan's Prime Minister, Shinzo Abe, has introduced what's being called "Abenomics," which is based on very aggressive monetary policy like negative interest rates and massive QE programs. Unfortunately, after more than a year of experimentation, Abenomics isn't working. In fact, it seems to be making things worse (because Japanese deflation is getting worse, which is exactly the opposite of what they want).



As a result, Japan has taken recent steps to pull back on Abenomics, which sent shockwaves through the global markets. Think of it like

Superman flying in to save the day, then failing miserably and limping away.



Japan still has many strengths, like a well-educated workforce and a highly technological society. But the world's 3rd largest economy is really struggling – and their leaders have no idea how to fix it.

So what should you make of all this?

I have less conviction in my crystal ball than I can remember having in recent years. So I'm just going to end this thing right here.

Please throw away your vote!

Let me just start out with something that is almost certainly true: Every single one of our Washington State electoral votes will go to Hillary Clinton. Therefore, our votes are already "thrown away" by the system. So why not make a statement with your vote?

Our political world is changing, and I think we can give it another big push. Here's my crazy idea: If you don't like Hillary Clinton or Donald Trump – don't vote for them.



Imagine if just 20% of presidential voters vote for someone other than one of the two choices we've been force fed. That would be groundbreaking. Not only would it be a statement, but it might embolden even more "outsiders" to join the Presidential race in 2020. Further, it might just encourage our existing politicians to reconsider how they conduct their business.

I want that

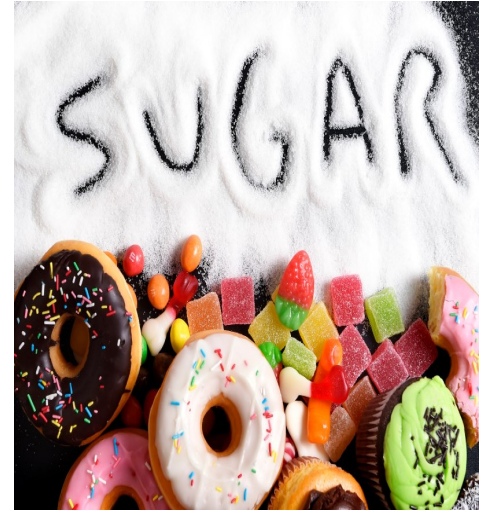
The Fed is the only game in town

Here's the best, most compelling argument for all the gyrations and contortions of the Fed: The Fed is the only game in town. In other words, the Fed has to do all this crazy, aggressive stuff because the rest of our government is completely incapable of doing anything constructive for the economy. The thinking goes something like this: Of course it would be better if our politicians started doing positive things, but that's not happening, and something has to be done. So, the Fed is forced to save the day.



It's a good point; and I definitely admire the ability of the Fed to at least try to help the US economy. The problem is the Fed has very imperfect tools – and that's a very big problem. The longer the Fed keeps hammering away with crude tools, the more damage it will do over the long term.

The good news is that the markets completely disagree with me and love every last treat the Fed gives them.



So, maybe I should just shut up and enjoy it.

Begrudgingly backing the Fed

For years, I've complained about how the Fed has completely owned the attention of the markets. On one hand, it's been a very good thing, because the Fed has given the markets everything they ever wanted, and the markets have steadily risen.

So today, I'm begrudgingly supporting the Fed, which has come under fire recently for merely acknowledging that they are paying attention to global events. The problem with that is that the Fed has long been understood as having a "dual mandate:" They are supposed to pay attention to American ***inflation*** and ***employment***—and that's all. However, Fed Chairman Janet Yellen has repeatedly mentioned the weak global economy in recent comments.

Of course, that led to all sorts of cynical talk from Fed-haters like me about the Fed overstepping its role. I'll admit that I had the same initial instinct: "What's this about the global economy? The Fed is supposed to be paying attention to inflation and employment IN AMERICA."

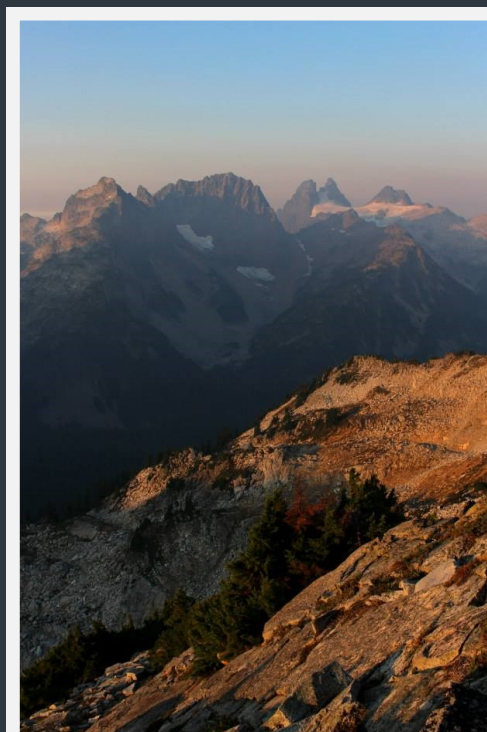
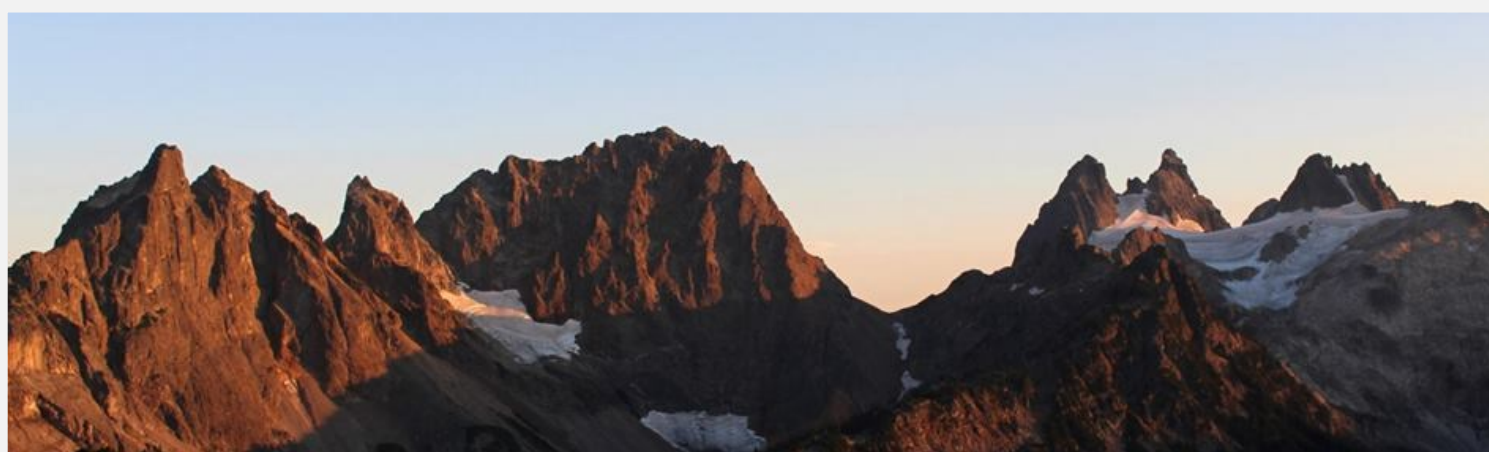


However, the more I thought about it, I realized that American inflation and employment are absolutely impacted by the slow global economy. Is the Fed supposed to ignore that?

It's not just that the weak global economy impacts America, but the Fed also impacts the global economy. When the Fed raises rates, it sucks money from the rest of the world into America (money tends to follow higher interest rates), which hurts the global economy even more, which then hurts America.

In some ways, the Fed's hands are tied. It's a big complex world, and a very intertwined global economy. The Fed has to pay attention to that.

Probably a Mountain or a Lake



These two photos give you two different perspectives of Summit Chief, Chimney Rock and Overcoat Peak, which are some of the most beautiful peaks anywhere in the world. These photos were taken from the La Bohn Lakes area, outside of Skykomish.



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