Financial Wanderings

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

(and made even awesomer by Andrea Dickerson)

June 2016

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June

Market Numbers:

S&P 500: +0.8% to 2,099

NASDAQ: -2.1% to 4,843

DJIA: +0.8% to 17,930

10-Year Treasury Yield:

-19% to 1.49%

Gold: +8.5% to $1,321/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

For the first time in years, I'm beginning to feel a little skittish about the markets and economy. It's an odd feeling, because the last eight years are littered with embarrassed financial "experts" who predicted imminent doom.

Of course, I'm not going to be nearly that dramatic about it, so I'll put it like this: I don't see much that can push us forward -- but I see lots of things that could push us back.

The Economy

Since 2012, I've been writing about the giant piles of cash American corporations have in their checking accounts. On many different occasions, I've waxed poetically about our amazing future once all that glorious money was invested into the splendor of America Capitalism. And now, I think it's finally going to happen.

Yes, I'm joking. Businesses are still sitting on huge mounds of cash, and still aren't investing for the long-term. It's hard to blame them. The US economy isn't impressing anyone, the global economy is weak, interest rates are negative across the globe, and our political system is hopelessly broken.

Thankfully, it's not all bad news. The American consumer is still standing strong. We've seen good numbers in consumer spending, retail sales, home sales and nearly every other measure of consumer strength. Since consumers make up 2/3rd of the American economy, that's a really good sign. Unfortunately, there aren't many other economic bright spots. The May employment report was truly bad. Manufacturing is still

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weak, and businesses still aren't investing for the long term.

The Global Economy

In my most optimistic moments, I dream of a global economy that actually pulls its weight around here. I'm tired of America holding this whole thing together. If the global economy could finally begin to grow, it could be exactly the boost of energy we need here in America.

China: There's a lot of potential in China, but there's also the potential for trouble. For now, China seems stable, and is still growing. Even better, they seem to have staved off any major "crisis" for the time being. Or maybe everyone's just too busy looking at Europe.

Europe: It's really ugly. Let's move on.

Japan: The only major economic region in more trouble than Europe is Japan. In fact, Brexit may have caused more damage to Japan than to Europe. That's because Japan is desperately trying to force the Yen (their currency)lower , as a way to encourage exports. However, when something like Brexit happens, investors flock to "safe" investments like the Yen. Unfortunately, that pushes the Yen up – which is exactly the opposite of what Japan wants.

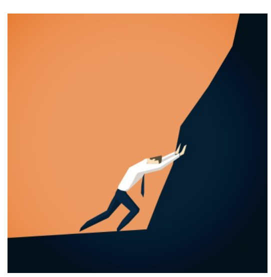
The Fed

The Fed is stuck. If they raise rates, everyone will freak out. However, if they don't raise rates, everyone will freak out.

It's the second scenario that spooks me the most. If the Fed doesn't raise rates, it tells me they don't believe in the American economy. It's hard to imagine any entity having more resources at hand with which to judge the economy than the Fed. If they aren't convinced, it's a bad sign.

So what should you make of all this?

If you asked me to argue that we are near the beginning of an economic boom, I'd have a really tough time. It seems to me like we've hit our peak, and we're slowing down – and that's with the Fed and other central banks around the world pushing with all their might.



If the American consumer gets spooked, what's left to hold up the American economy? If the US economy gets spooked, what's left to hold up the global economy? Even if no one gets spooked, what catalyst is out there to give the economy a dose of energy? Don't you dare say Hillary or Trump.

There's a saying in the financial world that economic growth "doesn't die of old age." Perhaps that's true, but there's no arguing that old age makes you easier to drag down.

I'd compare our economy to a swimmer. For the last few years, we've been doing a breaststroke: Not too fast, but solid. Now, I fear we've moved to a doggy paddle, and I wonder when we'll start treading water. What makes this worse now is that we also have the global economy slowly pulling us down.

Economies don't move forward forever, and it's certainly not crazy to think that sometime in the next year or two we'll fall into a recession. Not necessarily because of any big crisis, but just because of natural ups and downs.

But what happens once the economy does start to slow? Interest rates are already historically low all over the world, and I'm pretty sure we can't count on any brilliant ideas from our political world to save us. For that reason, I fear that a normal economic slowdown could lead to an abnormal recession and market drop.

Of course, I've been wrong lots of times (see page 3 for proof). Let's hope this is another one of them.

The NOT Surest Bet Ever

Before you get too stressed out over my growing pessimism, it's important to understand just how ~~dumb I can be~~ difficult things like this are to predict. Thankfully, I have a perfect example to make that point. Here's what I wrote regarding interest rates in May 2014:

So what's going to happen in the future? The answer is obvious: Interest rates will rise. It's still the surest bet in the history of the world. In fact, according to a recent Bloomberg study, 100% of the economists surveyed expect interest rates to rise over the next 6 months. No, I'm not making that up. As nervous as it makes me to go along with that group, I have to agree. It sure seems more likely for rates to rise than fall. Of course, we all know by now that the predictable thing isn't always what happens. Thank goodness for diversification.

Ugh… I literally called it the "surest bet in the history of the world!"

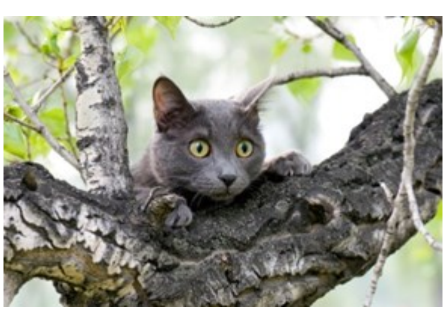
Not only was I wrong (along with all those other economists), I was really wrong. Interest rates haven't just dropped, they've crashed by more than 40% (as measured by the 10 year US Treasury). So much for the "experts."

Brexit Bites

I was too lazy to figure out a clever way to tie these Brexit thoughts together into a cohesive unit. So here are some random things I found important and interesting about Brexit:

<u>Why'd they do it?</u> I really can't blame the UK for voting how they did. They see themselves as British – not European. Here in America, we want to control our own important business too.

On the other hand, getting out of the EU will probably be long and painful. I'm not sure I'd have had the guts to vote for it.



<u>The European Economy</u>: Even before Brexit, it was pretty hard to argue that Europe was headed for an economic boom. After Brexit, is there anyone who thinks Europe is going to have a strong economy anytime soon?

<u>The Global Economy</u>: Uncertainty is a real thing. At times like this, consumers, businesses, and investors may not be as eager to take risks and make long-term investments. That's not good for economic growth. The world is already worried about global growth, and this is just sticking a finger in that wound. Unfortunately, it's not just Brexit that's creating uncertainty.

<u>Peace on Earth</u>: The EU started after WWII as a way to foster economic integration in Europe, a place that had seen centuries of war. The idea was that as economies are stronger, and more intertwined, war should be much less likely. That plan seems to have worked for more than half a century. So, there may be a lot at stake here, especially if Brexit opens the door to other countries leaving the EU.

<u>Is this a "Lehman moment?"</u> The term "Lehman moment" refers to the bankruptcy of Lehman Brothers in September 2008, which is generally considered to be the first domino of the Financial Crisis. There haven't

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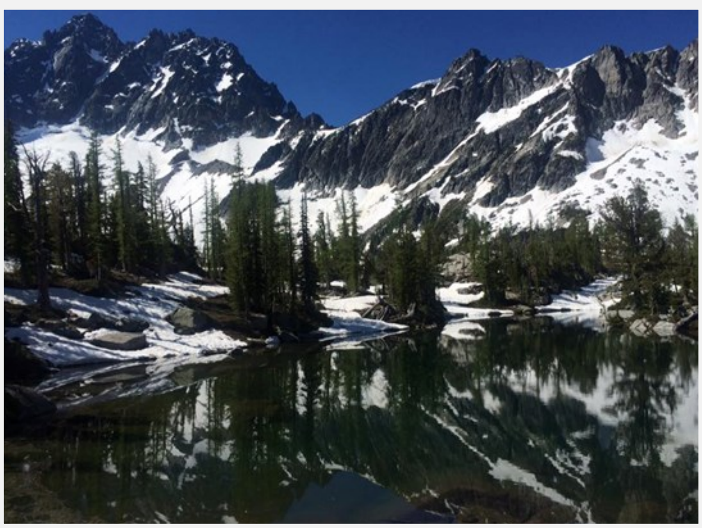
Brexit Bites…………………..Cont'd from page 3)

been many "Lehman" moments in history, so the odds are that Brexit won't be one. However, I do worry that we are on shaky ground. With slow global growth, and negative interest rates all over the world, it might not take something huge to push things in the wrong direction.

Probably a Mountain or a Lake

This beautiful spot is right in the heart of the Stuart Range, and has got to be one of the most popular photo spots in our local mountains. I call it the Mountaineer Creek Meadows, and if you've been to Lake Stuart, you know the spot. It just seems like there should be a big bear or moose tromping through the meadow.



Here's another picture from the heart of the Stuart Range, just outside Leavenworth. This is Horseshoe Lake and Mount Stuart, from just a few weeks ago.

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