March 2016

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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March Market Numbers:

S&P 500: +6.7% to 2,060

NASDAQ: +6.8% to 4,870

DJIA: +7.1% to 17,685

10-Year Treasury Yield: +2.29% to 1.78%

Gold: +0.4% to $1,236/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

I wasn't worried. I never had any doubts. I knew everything was going to be okay the whole time.

Although the markets are still below their all-time high (which was back in May), this has been an impressive recovery. Over the last 6 weeks, the S&P 500 gained nearly 12% and is now positive for 2016. Who'd have thought that was possible after the nasty way the year started?

What could possibly have been big and awesome enough to move the markets in such a major way? Obviously, it was something very wonderful.

Perhaps it's a coincidence, but the stock market started going up at exactly the same time Donald Trump and Hillary Clinton started gaining delegates. The obvious conclusion is that the markets are celebrating that America's future is in the hands of such selfless, thoughtful leaders.

The more likely reason the stock markets gained so much is simply because they fell so much in the first place. Over the first six weeks of the year, the markets plunged. Over the following six weeks, the markets gained it all back and more. My conclusion? The markets are crazy.

Of course, there's a little more to the story than that. So please keep reading.

Oil

I'm pretty sure I have this complex pattern figured out: If the price of oil drops, the stock market drops. However, if the price of oil goes up, the stock market goes up… Is it really that easy?

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(Why it did what it did.....Cont'd from page 1)

It's no coincidence that both stocks and oil hit their low on February 11th, and have been gaining together ever since. The markets have been worried about the low price of oil for months, so the strong recovery was soothing to the markets. But here's an interesting question: If oil keeps going up, will the markets start to worry about high oil prices? For pure entertainment value, it would be fun to see the markets panic over high oil prices merely months after panicking over low oil prices.

The Economy

Another key to the happy stock market is the economy, which continues to be solid. Employment is still the star of the show as the US economy added 250,000 jobs in February and has averaged more than 200,000 jobs a month for more than two years.

Consumers are also holding up fairly well. According to Marketwatch, retail sales are up nearly 5% over the last 3 months. It's good news that consumers are spending, because they are also saving more money and paying down more debt.

But the best economic news is that manufacturing is beginning to improve. The Philadelphia Manufacturing Index rose to its highest level in a year, and the ISM manufacturing index finally started to grow again. Much of that improvement is probably due to the dollar finally falling after steadily rising for more than a year (as the dollar falls, American exports are more competitive globally). Manufacturing has been a weak link in our economy over the last year or so. It's nice to see some improvement there.

China

Not much has changed in China. There's been some good news and some bad news, and their stock market is still all over the place… However, there was a least one interesting piece of recent news. The Chinese authorities announced their "growth goal" for their economy will be 6.5%, which is a very lofty goal for an economy with so many problems.

Of course, people all over the world chuckled at China's bold announcement. Partly because they don't think China can possibly grow at 6.5%, but also because you just can't trust what the Chinese authorities say. In other words, whether or not they actually grow at 6.5%, they'll probably say they grew at 6.5% no matter what.

However, China announcing such a lofty goal does communicate something important: China is serious about continuing to grow. For years, it appeared China was slowing down their high-flying economy for a "soft-landing." But maybe that was wrong – maybe China wants to keep flying.

I've been arguing for years that China still has plenty of ammunition to "stimulate" their economy. They can lower rates, and throw money at their problems in all kinds of creative ways. Of course, it's easy to argue that all that stuff is merely postponing China's inevitable "crisis" – and I think that's probably true. But hey, at least they're postponing it.

So what should you make of all this?

I think the markets will continue to be rough. While the US economy is solid, the global economy isn't, and there's a lot of weird stuff going on out there. Given all that, it makes sense that the markets will be rough. My plan for the future is to bet on the opposite of what the markets are doing. If the markets are going up, I'll be thinking about selling. If the markets are going down, I'll be thinking about buying. If the markets are flat, I'll be thinking about the mountains.

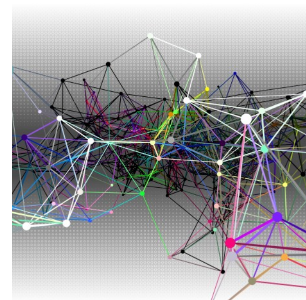
The link between jobs and "productivity"

For years, the most impressive part of our economy has been employment. We've been adding jobs as if the economy was booming. But this ain't no boom.

So what's causing our ordinary economy to produce an extraordinary number of jobs? A big part of it comes down to productivity, which has been one of the weaker parts of our economy in recent years. A simple way to think about productivity is to consider digging a hole. If you dig with your hands, it might take you all day. However, if you use a shovel, it might only take 30 minutes. If you bring in an excavator, it might only take 10 seconds.

That's productivity: Through innovation & investment, the same job gets easier over time. It's a major way the economy improves our lives. So, productivity is very important. But here's what's interesting: Our weak productivity might be the reason our job market is doing so well. That's because although the economy isn't booming, it's still growing, which means more "holes" are being dug. And if you're not improving the process in some way, the only way to dig more holes is to add more workers – which is exactly what our American businesses are doing.

I don't have any wise conclusions from all of this. I just think it's interesting, and shows us again what a complex, interconnected web the economy is.



Congress and the fiduciary standard – this one is SO easy

This is an article that first appeared in this newsletter in June 2015. I'm reprinting it because I've been proven wrong, which is great news: The "fiduciary standard" is officially coming for all financial advisors.

It's fun and easy to be cynical about Congress. Our lawmakers are comically useless when it comes to creating smart laws, or dumb laws, or doing pretty much anything at all. Sometimes it is incredibly obvious what the right choice is, and yet Congress still can't get it right. The question of the fiduciary standard is a perfect example.

Here's the issue: If you hire a financial advisor, is it too much to expect that they will put your interests first? The fiduciary standard, to which attorneys and doctors are held to, says to ***do what's in your client's best interest every time***. That seems like a reasonable standard to me. However, for the vast majority of financial advisors, the only standard they have to live up to is to make "suitable" recommendations. That could mean recommending an investment with higher fees and higher commissions, as long as it's suitable for the investor.

According to Marketwatch, approximately 80% of financial advisors are not held to the fiduciary standard. Of course, I'm part of the other 20% or I probably wouldn't be bringing it up.

It's not fair!

I've explained this issue to every single one of my clients, as well as a few people who were unfortunate enough to sit next to me on an airplane, but it's just not something that resonates with people. The general public thinks all financial advisors are the same – and that isn't right. It's important for me to get credit for being a savvy, sophisticated financial professional capable of highly complex computations with just my fingers.

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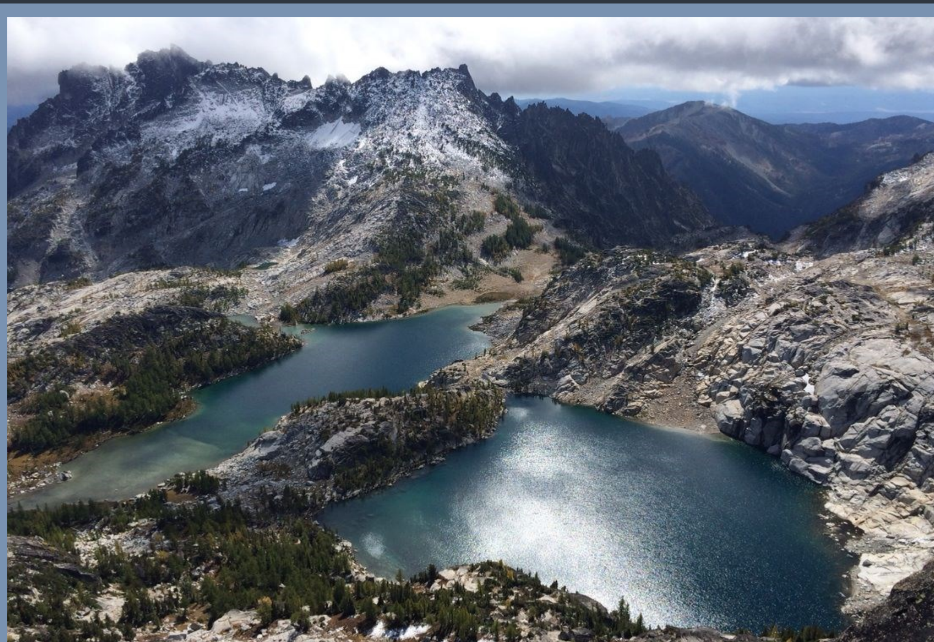
There are a couple ways to solve this problem. The first would be to hold all advisors to the fiduciary standard. That would require many advisors to dig much deeper into their client's situation, and show more diligence in researching investment options. Many advisors wouldn't be up to that task, and maybe they shouldn't have to be. Not everyone needs a tall, handsome, savvy, sophisticated financial planner guy like me. Sometimes, clients just want a hot stock tip or someone to chat about investments with them. Which brings me to my favored solution to the problem: If you are held to the fiduciary standard, you can call yourself a financial advisor. Everyone else gets to call themselves a broker.

I'll give you one guess as to why something so obvious and simple can't get passed by Congress. Here's a hint: It has something to do with huge brokerage houses giving lots of money to the political campaigns of nearly every member of Congress. This is a perfect example of why our political system is so messed up right now. The world is changing rapidly, but the people with the money want to keep things exactly as they are now. That's not a good mix. Wouldn't it be nice if we lived in a democracy built on votes rather than money?

Probably a Mountain or a Lake

It's almost time for people like me (who are terrified of avalanches) to get back into the high country.

This photo is from the heart of The Enchantments, just outside Leavenworth. I took this shot from the slopes of Enchantment Peak. The appropriately named lakes in the shot are Inspiration and Perfection Lake.



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