

Financial Wanderings

March 2017

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.



An optimistic take

After months of leaning to the pessimistic side of things, I thought it would be a good exercise to make the most optimistic case I could for the future of the markets and economy. After all, the stock market is charging ahead like the next golden age is upon us. Maybe I should join the party.

The Economy

The economy has clearly picked up since the middle of last year, but it still isn't impressing anyone. Our 4th quarter GDP was only 1.9%, and estimates for the first quarter of 2017 are even lower than that. However, the economy isn't showing much weakness either. We continue to add jobs at an impressive clip, and nearly all the other economic numbers are solid. A recession seems very unlikely anytime soon.

There are also very positive signs for the future. Small business confidence and consumer confidence are higher than they've been in more than a decade. The hope is for that confidence to translate into more spending and investment, which would be great for the economy. We haven't seen

that yet, but it's good news that Americans are more confident.



The Trump Effect

I've already written (or podcasted) about this quite a bit, but Trump's promises of deregulation, tax cuts, and infrastructure spending ought to benefit the economy and stock market, at least over the short-term. However, they are mostly still promises. Trump and the Republican Congress still must step up and get legislation passed.

The bigger consideration might be that Trump has had a steady stream of business leaders visiting the White House.

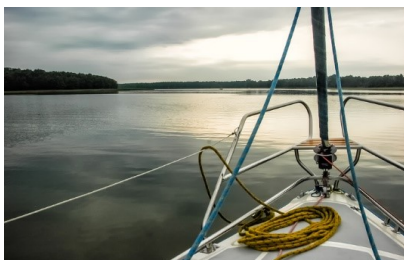
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The business world has Trump's attention in a very big way. They are telling him exactly what they want, and he seems eager to please. It has to help the confidence of the business world to know that Trump will do everything he can to try to make life easier for them.

Sometimes the markets keep going up

Many worries about the stock market boil down to the same general idea: ***"The stock market is at an all-time high! Stocks have risen so much, for so many years – they have to crash soon."*** I've argued similar points over the years. However, if the markets fell every time they reached an all-time high, we wouldn't make much progress. There's nothing stopping the stock market from reaching new highs, month, after month, after month... That's what happens in a strong market.

I worry that we have fallen into a "crisis mindset." The last 20 years of investor experience were marred by two of the biggest booms and busts the world has ever seen. Because of that, it seems like everyone is waiting for the next big crisis. However, the 2008 financial crisis and the technology bubble were very rare events. The next big crisis doesn't have to be around the corner.



TINA

The great Warren Buffet recently sounded an optimistic note on the stock market. He said, "measured against interest rates, stocks actually are on the cheap side compared to historic valuations." If that isn't perfectly clear to you, let me explain. When interest rates are this low, it makes stocks more attractive. If I could get my clients a 5% CD in today's world, I would jump on that deal. So would millions of other investors. That would mean much less demand for stocks, which could mean a big fall in the stock market.

This idea has become known in the financial world as "TINA," which stands for There Is No Alternative. In other words, unless interest rates go up significantly, there is no alternative for investors other than stocks. That demand ought to keep stocks from falling too far.



There are still lots of "haters"

I don't have any scientific evidence to point to, but this stock market still has a lot of haters (me included). In a strange way, that's a good thing. It's been said that the stock market likes to "climb a wall of worry." As long as there are worried people who've been too scared to invest, there's new

money that can flow into the markets. It's that new money that pushes stock prices higher. Thankfully, in today's world, there are still plenty of people doubting the markets.

No more Trump

There is nothing the stock market would like more than for Mike Pence or Paul Ryan to take over as President tomorrow. If that happened, the markets would get all of the positive parts of Donald Trump – without all the childish ignorance.



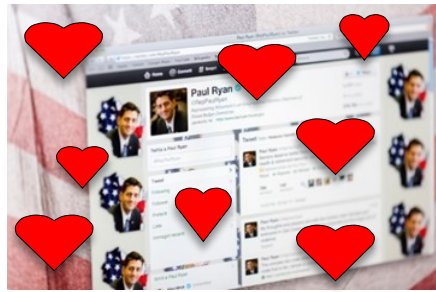
I have no idea what's truly going on with Trump and Russia, and it's not something I spend a lot of time thinking about. However, he has repeatedly ridiculed the FBI, the CIA, and the media. So he better be squeaky clean, because he's created a lot of enemies.

Even if it turns out that there is nothing sinister at all about Trump's ties to Russia, there's still a satisfying bit of justice to this. Donald Trump made his political name by relentlessly questioning Obama's birth certificate, until he finally admitted he was wrong just weeks before the election. If you live by the sword, you risk dying by the sword.

(An optimistic take.....cont. from page 2)

Of course, if he wanted to help the situation, he could always release his tax returns as he repeatedly promised to do. But that doesn't seem likely, so this will probably continue to drag on. But I don't think the markets will be worried about it. Even if it gets much more serious, and it looks like Trump might be impeached, the markets might celebrate that. Just like me, I think the markets are secretly hoping for a President Mike Pence or Paul

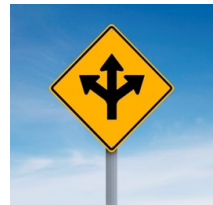
Ryan. I think a lot of Republicans might be secretly hoping for that too.



So what should you make of all this?

I can't remember a time when the potential outcomes for the economy

and stock market were so wildly different. The most likely scenario might be for more of the same slow economic growth we've had in recent years. However, it's not difficult at all to paint a very scary picture. On the other hand, I can also make a strong case for a coming economic boom... So, as much as I'd like to tell you what's going to happen, I guess we're going to have to wait and see.



When Trump acts like a grown-up, the media likes him

Donald Trump's "war on the media" really gets under my skin. So, I thought it was worth pointing out that the media reacted positively to Trump's recent speech to Congress. Here's a sampling of headlines the morning after Trump's speech from CNN, which has received the majority of Trump's anti-media whining:

"The Moment Last Night When Trump Became President." *ego."*

"Trump's optimistic Vision for the Country"

"70% say they feel better after watching speech"

The most negative headline I could find was this:

"Reality check: What was true and what was not"

As it turns out, if Trump acts like a serious person, the media eats it up. I thought Trump's speech was serious, thoughtful, and optimistic. I truly hope he can continue that tone for the next four years.



However, I recall telling anyone who would listen that once Trump won the Republican nomination, he'd start acting a little more "Presidential." Then I thought perhaps he'd tone down his act once he actually became president. Then, after his recent speech, I actually said these words to my wife: *"Maybe he'll change because of the positive response to his speech. All the kudos must be good for his ego."*



Unfortunately for America, in the days since the speech, he's proven me wrong once again.

Probably a mountain or a lake

When life gives you a cold, snowy winter...
After a while, you might notice that your
neighbor's retaining wall might be really fun
to ski off.



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