

# Financial Wanderings

A masterful examination of the previous month's financial events, written by Brad Blackburn, CFP®  
(and made even awesomer by Andrea Dickerson)

March 2018



## The wrong time for stimulus

Recently, Trump and the Republicans passed a major tax cut, and also increased government spending by \$250 billion. Nearly everyone agrees that both of those things will stimulate the economy, at least over the short term; so, the stock market celebrated. However, the market hasn't been as optimistic lately. Ironically, the tax bill and increased budget are part of the problem. It all comes down to bad timing.

When an economy is in a recession, there's slack in the "economic rope." That means there are plenty of people who don't have jobs, lots of empty office buildings to fill, and lots of idle manufacturing equipment to ramp back up.



At times like that, you can stimulate the economy without causing inflation and interest rates to rise. But that's not where

our economy is. At this point, our economic rope is tight – if you pull on it, the whole thing will move.

There's another aspect to this as well. Nearly everyone agrees that the tax bill and increased budget will leave us with a higher national debt.



If you go to the bank for a loan when you already have a lot of debt, and you'll want even more debt in the future – that bank is going to charge you a really high interest rate. We are already seeing that effect here in America. Since the start of the year, the 10-year US Treasury Bond yield has risen more than 15%, which means higher interest rates for everyone.

So, although we might all be saving money on our tax bills, we're already paying more for credit cards, auto loans, and

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**Brad Blackburn, CFP®**

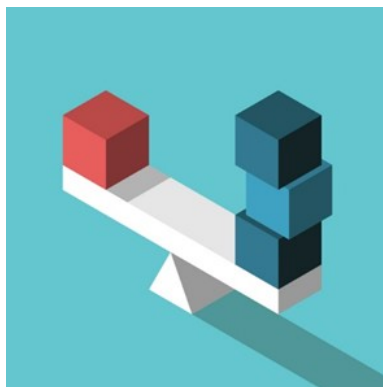
Financial Advisor  
Blackburn Financial  
121 Cottage Ave  
PO Box 775  
Cashmere, WA 98815

509-782-2600

[brad@blackburnfinancial.net](mailto:brad@blackburnfinancial.net)

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.

mortgages. Similarly, if the tax bill allows your employer to give you a 3% increase in your salary, but also causes inflation to pick up to 3% - there's no net benefit to you. In other words, every bit the economy improves from this point will likely be matched by higher interest rates and higher inflation.

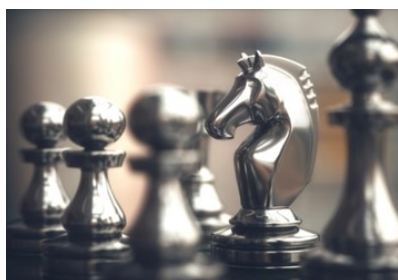


This just wasn't the right time for economic stimulus. If you are fat and happy, that's not the time to stuff your face with even more cake. Unfortunately, that's exactly what America is doing. In fact, if we keep eating cake, we might get a stomach ache. The markets are starting to realize that.

## Trade wars are not "good and easy to win"

My first thought when I heard Trump's plan to slap 25% tariffs on steel imports (and 10% on aluminum) was something like this: *"The global economy is finally clicking on all cylinders, why are you messing with it?"* Upon more reflection, I think that was exactly the right response.

However, Trump is right that there's a problem. While global trade has absolutely benefitted America, we are getting a raw deal in some ways (including steel). The question is how to solve that problem.



There's a broad consensus among financial and economic experts that trade wars hurt everyone. Even among politicians, there's remarkably bipartisan agreement on that point. Of course, Trump isn't really a guy who believes in experts or common wisdom.



It's easy to see why tariffs are appealing. If imported steel is 25% more expensive, American steel producers can raise their prices and still be competitive with imported steel. As a result, they'll make more money, and buy more equipment, and hire more workers - and everyone is happy.

Unfortunately, that's not the end of the story. Higher steel prices mean that anything with steel in it will have a higher price, which hurts consumers. It also hurts any business that makes stuff with steel because their prices will go up for raw materials. Goldman Sachs predicted the tariffs could cost Ford & GM \$1 billion just this year.

The biggest worry for the markets is what puts the "war" in "trade war." Other countries around the world will probably retaliate against American industries, which could encourage Trump to hit right back. It's hard to stop a trade "slap fight" from turning into a trade "fistfight" and then a trade war.

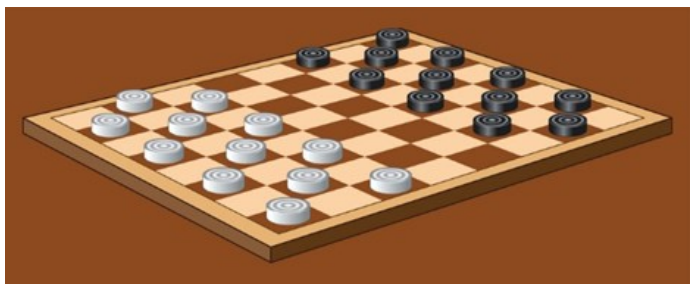
**"That escalated quickly"**

This is why tariffs are such a risky strategy. In an effort to help American steel producers, you're hurting consumers, and any industry that buys steel, and any industry that other countries retaliate against - and adding a lot of uncertainty. So, there are a lot of losers in this deal, and only one winner: Steel manufacturers.

Unfortunately, I don't think Trump understands any of this. He recently bragged to a crowd of supporters that he complained to Canadian President Trudeau about our trade deficit with Canada - even though he "had no idea" if we did or not (we don't, according to the Commerce Dept, we actually have a \$2.77 billion trade surplus with Canada). Just think about that for a moment: Trump talks often about trade deficits as a way to justify his tariff plan, and was talking to Canadian Presi-

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dent Trudeau about trade – yet he didn’t bother to know this very basic fact.



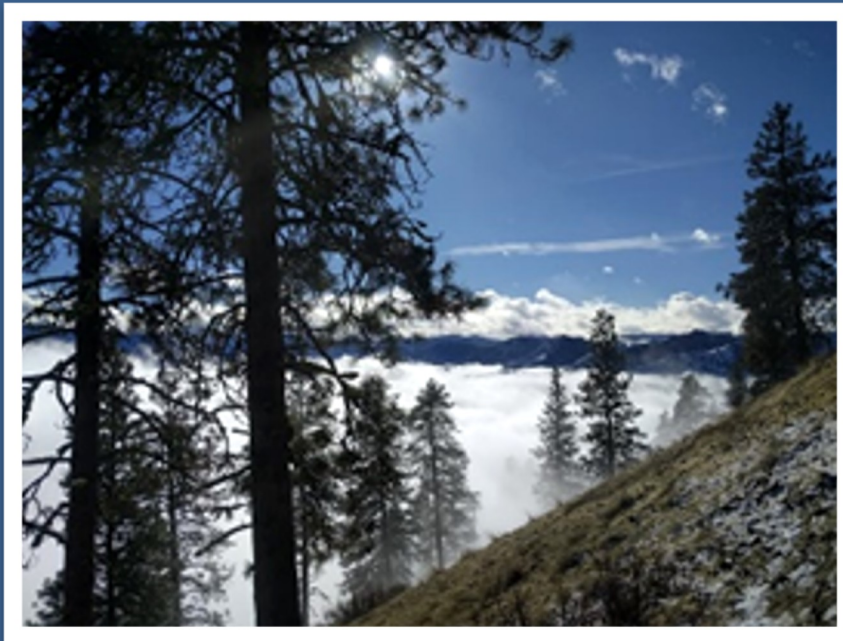
Being aggressive about trade is one of the rare things Trump has been consistent on throughout his adult life. You can find clips from the 80’s where he calls for tariffs on Japanese carmakers. Trump has 3 more years to fight this battle, and plenty of power as President to make it happen. There’s already talk that he’s working on a tariff plan for China. From a guy who tweeted that trade wars are “good and easy to win,” that shouldn’t be a surprise. I sure hope all the experts are wrong.

## Probably a mountain or a lake

The mountains around Cashmere don’t get all the glory. But the views are pretty spectacular.



# Probably a mountain or a lake



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If you would like to receive this newsletter via email, please email me at [brad@blackburnfinancial.net](mailto:brad@blackburnfinancial.net)