Financial Wanderings

November 2015

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

(and made even awesomer by Andrea Dickerson)

Brad Blackburn, CFP ®

Financial Advisor
Blackburn Financial
121 Cottage Ave.
Cashmere, WA 98815

509-782-2600

brad@blackburnfinancial.net

November Market Numbers:

S&P 500: +0.10% to 2,080

NASDAQ: +1.1% to 5,109

DJIA: +0.3% to 17,720

10-Year Treasury Yield:

+2.31% to 2.21%

Gold: -6.74% to $1,065/oz

Why'd it do what it did?

I don't want to jinx it, but I never miss an opportunity to gloat. So here was my prediction at the end of last year:

"…given that stocks are up more than 40% over the last two years, and the global economy is a mess, my official 2015 prediction for the markets is this: Zero. I expect a year of pushing, pulling, and grinding our way to the same place we are now."

In related news, with only one month to go, the S&P 500 has gained exactly 1.2% on the year, which is pretty darn close to zero. You have to admit, that's a decent prediction.

Given where we were just a couple months ago, a flat stock market seems like a gift. The S&P 500 is up nearly 11% from its lows of the year. So why have the markets recovered so strongly? As much as I'd like to amaze you with a deep, thought-provoking analysis, I'm as puzzled as you.

The Economy

The current economy is a story of really good news, semi-good news, and bad news. The really good news is that the economy is still creating lots of jobs. In October, the economy added a whopping 271,000 jobs. That makes 61 consecutive months of job growth, which ties an all-time record. But the economy has been adding lots of jobs for a long time. What's been missing has been wage growth. But in October, hourly wages rose at 2.5%, the fastest rate since 2009. That's really good news (for more on wage growth, please see the related article in this newsletter).

The semi-good news is that the broad economy is semi-good. The 3rd quarter GDP was a solid but not spectacular 2.1%. Consumer spending and retail sales have been decent. With gas prices falling so much, many experts hoped consumers would be stronger. Unfortunately, we haven't seen that yet.

(Cont'd on Page 2)

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

The bad news is that American manufacturing is really struggling, and fell to its weakest rate in more than two years. While manufacturing isn't as important to the economy as it has historically been, it still matters.

The World

Remember that the main reason the markets tumbled so much late in the summer was worries over the global economy. The concern was that Europe was still a basket-case and China was quickly becoming one. While the panic has clearly subsided, the news from China and Europe is still pretty weak. The only major pieces of "positive" news from China and Europe revolved around their respective central banks lowering rates. That's not good news. Did the markets just decide to ignore the weak global economy?

In my more hopeful, optimistic moments, I dream of a fully recovered Europe and resurgent China. How great would it be if the global economy started to hit on all cylinders? Unfortunately, that scenario still seems very far away.

The Fed

It looks like the Fed will raise rates in December. I really think it might happen this time.

But here's what's really interesting: The stock market doesn't seem to care. When the notes from the Fed's recent board meeting came out and showed how serious the Fed is about raising rates in December, not only did the markets not panic, it was the best day in weeks. How cool is that? The markets are cheering a likely rate hike. This is a special moment.

So what should you make of all this?

Although I always try to explain "why'd it do what it did," the truth is no one really knows why the stock market does what it does. The reason the markets recovered so quickly in the last couple months is the same reason they fell so quickly: The markets are crazy. Of course, that means people are crazy since people are the ones making the decisions in the markets (or programming the software that makes the decision).

There's a theory in the economic world that the stock market is "efficient" (conveniently called the "Efficient Market Theory"). That theory says that stock market efficiency causes stock prices to perfectly reflect every piece of relevant information at any given time. In other words, the markets are always right. That means in some convoluted way it made sense for the S&P 500 to bleed off trillions of dollars in a matter of weeks, and then promptly gain all those trillions of dollars back. Needless to say, I think the efficient market theory is a bunch of nonsense.

What amazing series of events caused the markets to recover so strongly after falling so steeply? I honestly have no idea. The markets are crazy; sometimes they go up and down for no good reason.

Wages finally rose, but don't get used to it

One of the most promising aspects of the employment situation is that wages have finally started to grow. According to Marketwatch, over the last year, hourly wages have grown at the fastest rate since the Financial Crisis. That's a sign that the growing economy might finally be starting to benefit the general public.

However, while wages may continue to rise in the near future, over the long-term, it seems like a losing battle to me. Technology and globalization are unstoppable forces. Unless the basic rules of capitalism change, it's going to be hard to convince corporations to increase wages in America when it's so easy to save money by going overseas, or investing in technology.

We've seen much of the impact of globalization, but the impact of technology is probably just beginning. New technologies will continue to devour American manufacturing jobs, but it won't stop there. As technology improves, how many fewer drivers, pilots, teachers, waiters, financial advisors, accountants, and doctors will we need? Will we need as many human soldiers? I'd rather send in the drones and self-driving tanks.

Unfortunately, regardless of any technological advancements, it seems we'll always need human politicians…

But technology isn't going to stop gobbling up huge swaths of the workforce. This is a real problem facing our society. If computers and machines can do the majority of the work that needs to be done, what will we do with the millions of people with nothing to do?

Perhaps our society can morph into a dreamland where everyone works less and indulges in a life of leisure and art, but that seems unlikely… It seems more likely to me that society will degenerate even more into elites versus the unemployed masses. In that way, technology has the potential to cause huge enormous social problems in the coming decades.

It's true that I sound a little bit like the Unabomber. It's also true that living in a tiny cabin in the middle of the woods sounds pretty awesome to me.

However, I'm definitely not anti-technology. But my livelihood depends on looking forward to the future as best I can, and this seems like an issue we'll have to deal with. It also might be an opportunity to invest in technology stocks and ride the wave.

What's the value of a financial advisor?

Recently, I was meeting for the first time with a very nice couple. Everything was going well until they had the audacity ask: *"So… What exactly is it that you do for the money we're considering paying you?"* I was understandably offended at their disregard for my status as an expert. A few days after I chased them out of my office, I started to realize it was a very fair question. So, here's my official reply. If you're considering whether or not to hire a financial advisor, it comes down to the following three considerations.

1. <u>Do you want the job?</u>

I'd like to think that I understand the markets and economy better than most of my clients, and that helps inform my judgement. But good investing doesn't have to be rocket science. Many of my clients are capable of doing their own investment management and financial planning. The best part about managing your portfolio yourself is that you don't have to pay some chump like me.

But managing your own money is definitely not "free." There's plenty of time and stress involved – and when the markets go down, don't you want someone to yell at? Even if your portfolio ends up at exactly the same size managing money yourself as it would with a financial advisor, there's real value in you not having to do the job.

(Cont'd on Page 4)

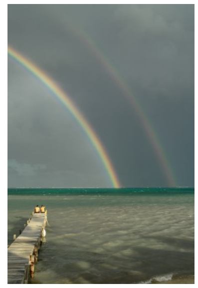
What's the value of a financial advisor?.......... Cont'd from page 3)

The precise value of that differs for each person. Maybe you're like me, and you're fascinated by the world of financial planning. But most people aren't weird like that.

2. ***Can an advisor do better than you?***

Of course there are no promises, but I'd like to think I'd beat most of my clients in a "pick the best investment portfolio" contest. If, through the value of experience and knowledge, a financial advisor can help you avoid the pitfalls many investors wade into, there's a value to that in actual dollars. The trick, of course, is that no one knows what's going to happen in the future. Your brilliant investment ideas might perform far better in the coming years than the junk your financial advisor is touting.

3. ***Financial Planning***



If you're looking ahead to retirement, how valuable is it to know you're on track? There's real peace-of-mind in that.

But what if you're not on track? I think that's even more valuable, because it gives you the ability to make the necessary changes.

But it's not just the big-picture retirement planning stuff. What if an advisor can help you choose a better mortgage, or a better social security strategy, or tax saving strategy, or the right pension option, or a better college savings plan? There are many ways a good financial advisor can make an impact.

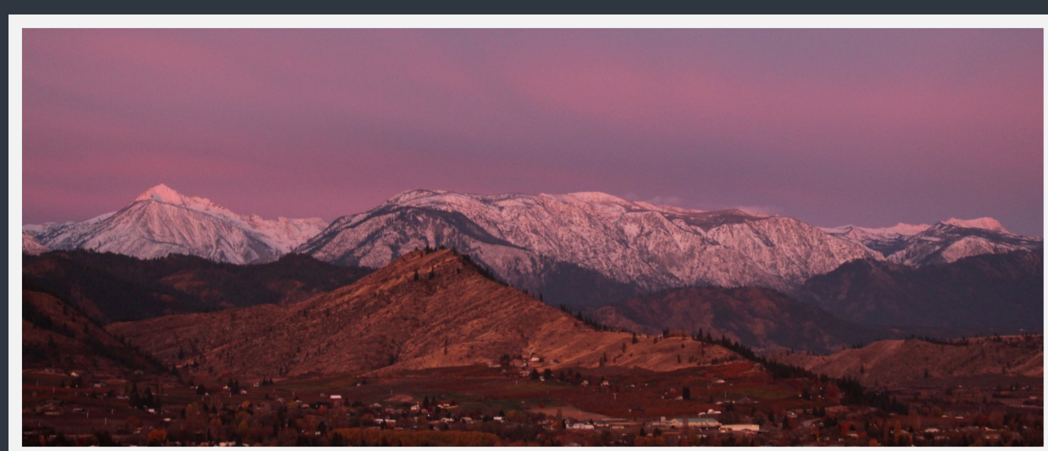
So… should you hire a financial advisor?

The answer lies in how you value each of the above three considerations. There's an obvious cost to a financial advisor. But there are also obvious benefits. Based on my highly unscientific survey of the general public, most of you should stick with me.

Probably a Mountain or a Lake

This is a picture of Cashmere taken just a few weeks ago. It's still fall in the valley but it's winter in the mountains. How lucky are we to live in the Wenatchee Valley?

The peak to the left is Mt. Cashmere, the broad mountain in the middle is Icicle Ridge, and the peaks to the right are Big Lou & Big Jim.



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