Executive Economic Outlook And Summary

MULTOP FINANCIAL
Private Wealth Management & Tax Expertise

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A correction is coming… To some this sounds scary, but it shouldn't. Over the history of the stock market we have seen dozens of market corrections. In the end, the same story prevails - the market goes up over time regardless of corrections. Let's talk more about what this means. There are three certainties about stock market corrections that are important to understand: First, they will happen. Second, nobody can predict with certainty when they will happen. Third, nobody knows what the magnitude of the correction will be. Currently we are in a Bull Market which has been confirmed and reconfirmed according to the Dow Theory. Most economic indicators point to strength in our economy and the chance of the U.S. going into a recession anytime soon is miniscule. Broadly speaking, International markets also appear strong. On the flip side of that coin we have seen price-to-earnings ratios for S&P 500 companies become high by historical measures; currently 57% higher than normal. We also have experienced geo-political tensions recently and there is a significant risk to stocks if congress does not pass legislation on corporate tax reform.

So what should an investor expect if we do experience a stock market correction? If you take a look at historical data you see that the average market decline in a bull market correction is 13.4% and lasts for 108 days. Sounds scary, doesn't it? But the average gain after the correction is 47% and lasts for 495 days. When put in that perspective it's easy to understand that advances are longer and more powerful than corrections by a significant margin. Because nobody knows when a correction will happen or how long it will last, it isn't wise to try and make investment changes to avoid them. In most cases, staying put (assuming you have an appropriate portfolio allocation) makes more sense than trying to time a correction.

Here are a few economic figures we believe are worth noticing:

- **The S&P/Case-Shiller Index** reports that national home prices have steadily increased since 2012 with the index sitting at 198.62 in June. Washington State has led the nation over the past 12 months with home prices increasing by 10.6% on average, the most of any state in the country and nearly double the national average. Whatcom County home prices increased by an average of 11.3%.

- **The Conference Board Consumer Confidence Index ®** which had increased in July, improved further in August. The Index now stands at 122.9, up from 120.0 in July. The Present Situation Index increased from 145.4 to 151.2, while the Expectations Index rose from 103.0 last month to 104.0.

- **The Institute for Supply Management's PMI ® Index** reported at 58.8% in August, demonstrating a 2.5% increase from July. According to the ISM, economic activity in the manufacturing sector expanded in August, and the overall economy grew for the 99th consecutive month. A reading over 50 indicates economic expansion.

- **The National Federation of Independent Business** report overall small business job activity continued to remain strong in August. 59% hired or tried to hire, among which 88% of those had trouble finding qualified workers. Overall, small business owners made a substantial contribution to U.S. job growth last month.

- **The Commerce Department** reported that personal consumption expenditures have increased $44.7 billion or 0.3% in July continuing the positive trend in consumer spending at a slow pace. The increase in personal income in July primarily reflected increases in wages and salaries and personal income receipts on assets.

- **The Bureau of Labor Statistics** reports that the official unemployment rate (U-3) in August was 4.4%. There were 448,000 discouraged workers among the marginally attached, which is down by 128,000 compared to the previous year. The U-6 unemployment rate was 8.6%, which changed 1.1% down from August 2016.

- **U.S. Real Gross Domestic Product** increased at an annual rate of 3.0% in the second quarter of 2017, according to the "second" estimate released by the Bureau of Economic Analysis. The acceleration in real GDP in the second quarter primarily reflects upturns in private inventory investment and federal government spending and an acceleration in personal consumption expenditures.

- **CBOE Volatility Index (VIX)** continues to remain near historic lows with minor spikes over the past year. In that time, it sat as low as 8.84 and as high as 23.01; currently closing at 10.59 at the end of August.

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- **Playing in the oil patch.** Oil prices have seemingly been stuck at the $50 per barrel range for several years now. Unless we have a significant disruption to global oil production, it is hard to reconcile prices moving significantly higher in the next six months.

International and Emerging Markets have continued to show strength. In our previous Economic Outlook we forecasted strength in this area and that has by and large held true. Economic tailwinds continue to exist predominantly in Europe and Asia but many other areas across the globe are experiencing gains as well. Equity valuations in these areas are not nearly as expensive as in the U.S. and that has been a major factor contributing to their success. However, it is important for investors to keep in mind these areas of investing do not operate the same as domestic investments and are largely influenced by movements in the U.S. dollar.

U.S. large company stocks have outperformed intermediate-term treasury bonds in all but one of the 72 rolling 20-year periods since 1926 according to Ibbotson & Associates. The Dow Theory shows we are in a solid Bull Market and currently investors don't seem euphoric (when there is a sense of euphoria surrounding the market, that's the time to reassess). Reasonably valued stocks are still available, as opposed to higher priced growth stocks. Timing the market is difficult and most often unsuccessful. The conclusion is: Don't bail out yet!

What does all of this mean for your investment portfolio? Multop Financial believes that investment portfolios should continue to remain fully invested regardless of whether or not we have a correction on the horizon. The foundational components in our economy point to strength - not weakness. Investors should not ignore this fact. We are currently favoring portfolios with a primary focus on domestic, blue-chip, stocks with stable/increasing earnings. We are also maintaining our exposure to International and Emerging Markets when it is appropriate for a client's risk tolerance and time horizons. Bonds do not appear very attractive and as result we are recommending that you do not hold a substantial position in this area. Overall, we believe the U.S. economic picture remains strong and investors should understand that while we may experience short periods of increased volatility, it should be viewed in the larger context that things are relatively positive for investments. If you are currently one of our valued clients, your portfolios already reflect this investment philosophy. This edition of the Economic Outlook marks the 10th anniversary of our semi-annual publication. At the time of our first release of the Outlook, October 2007 the Dow Jones Industrial Average peaked at 14,164 and then proceeded to drop to 6,547 on March 9, 2009. And look where we are today? The moral of the story is that although markets have always come back, the long-term investment philosophy we employ at Multop Financial has served our clients well, offering a forecast through turbulent times.

If you are not yet a client and would like to get access to these strategies, please contact our team for a complimentary consultation and review of how we may be of service.

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