

Executive Economic Outlook And Summary



Market Update - January 2020

By the advisory team of Clarity Capital and Multop Financial

In this first part of the new decade, the US market performance started out strong with positive growth, but it has become more evident lately that volatility is back. We recently had the worst day in the Dow Jones since early October with more bad news regarding the Corona Virus. Volatility, however, does not necessarily mean we are heading into a bear market. Even though we have recently had a few days in the red, it comes to us from several record high closings in the S&P 500 and the DJIA. In fact, there's still a lot of good news regarding the economy; strong US GDP earnings, continual low unemployment, low interest rates, strong corporate earnings, the lowering of global corporate tax rates and strong consumer confidence and spending.

At times like these we can be tempted to invest in the market, but can this Bull market continue? We know we are well overdue for a major correction in the market historically. Is the market over valued? Is that major correction right on the horizon? If so, what can we do to minimize the effect on your portfolio? We want to underscore the importance of why you should hire a financial advisor to begin with. Sifting through all the noise to make sense of the incredible sensationalism thrown at us daily can be overwhelming to say the least. Our job as advisors is to help you remain disciplined with your investments and keep a focus on the long-term picture. That's probably the most valuable piece of advice we can offer today. Let us work for you.

Facts to consider:

- **FIRST QUARTER** - Over the last 30 years (1990-2019), the S&P 500 has gained an average of +2.28% (total return) during the 1st quarter (January-February-March), a total that represents 23% of the index's 30-year average annual return of +9.96%. 47% of the index's overall gain has occurred during the 4th quarter (October-November-December) over the last 30 years. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).
- **RED AND BLUE PROBLEM** - The national debt increased +86% during George W. Bush's 8 years as president, reaching \$10.63 trillion as of 1/20/09. The national debt increased +88% during Barack Obama's 8 years as president, reaching \$19.95 trillion as of 1/20/17. The national debt has increased +16% during Donald Trump's first 3 years in the White House, reaching \$23.2 trillion as of 1/20/20 (source: Treasury Department).
- **A HUNDRED YEARS** - U.S. field production of crude oil was 13.0 million barrels a day for the week ending 1/17/20, the highest total recorded in our nation's history based upon data maintained since January 1920 (source: Department of Energy).
- **STILL A TRADE WAR** - Even after the signing of a "Phase 1" trade truce on 1/15/20, the average tariff imposed by China on US exports is 21%, and the average tariff imposed by the US on Chinese exports is 19%. When the current China/US trade war began in February 2018, the average tariff imposed by China was 8% and the average tariff imposed by the US was 3% (source: Peterson Institute for International Economics).
- **ADVANTAGE: SELLERS** - The number of existing single-family homes for sale has been tracked nationally since July 1982, for nearly 4 decades. The total peaked in July 2007 at 3.4 million but has now fallen to its all-time low of 1.22 million in December 2019 (source: National Association of Realtors).
- **UNLIKELY** - The Fed Funds futures market is forecasting an 87% chance of no change in rates by the Federal Reserve at this week's meeting as of the close of trading last Friday 1/24/20 (source: CME Group).

We don't have a crystal ball and don't know for sure what the future holds with the market, however with the facts above and commentary by some of our favorite economic sources, we don't believe there will be a major market correction in 2020. Though the market has grown considerably, the numbers do not show the stock market to be overvalued. There are certainly holdings in the market which are highly priced but there's value to be found in the domestic and international stock universe. According to the S&P Capital Profits Model compared to the S&P 500 index, stocks were overvalued by 60% in 2002 and 62% undervalued in 2009. Right now, they are about 3% undervalued. With that

in mind, invest in defensive sectors and stocks and concentrate on the quality and value of the investments.

Even though we are still bullish on the stock market, we are only cautiously optimistic, and the topic of Risk is one of the most frequent discussions we have with our clients. Every time we meet, we want to review the current risk of your portfolio and your tolerance to that risk. Most portfolios have become over-weighted with risk from the growth of the equity portion of their portfolios. There are things we can do to lower risk but not necessarily lower return potential. If risk is a concern of yours, please set an appointment to talk with us, whether you are an existing client or not. We need to be proactive about risk management, not reactive. Additionally, income management of portfolios is a very important topic as well as estate planning and more wholistic financial planning. Let's find the amount of money you will need to save for your proposed retirement date. The Multop and Clarity Capital advisors meet on a weekly basis to discuss risk management, portfolio design, economic indicators and the use of advising tools. We feel this is valuable to our clients to know we take a team approach to provide our clients the best information, tools and products for their success.

If you have questions regarding your current portfolio with us, or allocation on your 401k, or Federal TSP, please reach out to us for a risk and allocation review. If you are not currently working with our financial advisory team, a no-obligation consultation is just a phone call away.

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The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Diversification does not protect against market risk.

Stock investing involves risk including loss of principal.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors