THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The grand old S&P 500 (SPX) finished out the week at 2,383.12, up 0.67% from last week, up 6.44% year-to-date, and up 19.16% for one year (52 weeks). It is worthy of note that the decrease in return for the one-year period when compared with last week's number has little to do with what the market did this week and much to do with the fact that a year ago, the market was recovering from its February 11 low point. Speaking of that low point last year, the SPX is up just over 30% since discovering that low oil prices are neither to be feared nor were likely to last.

Once again, the rise in the market this week was all in a very short period. After the President's Tuesday night speech, on the following morning the SPX shot up to almost 2,400, then gradually sagged for the rest of the week. The theme continues that the promise of tax cuts and spending increases is music to investors' ears. Also again, we believe we need to warn that while the promises do sound great, if Congress does not find a way to make it happen, the disappointment could cause the market to drop as far as it has risen.

Even as the stock market jumped with renewed hope, interest rates on the ten-year Treasury rose to 2.81%, causing a reduction in bond prices while gold dropped about $22 to end the week down 1.83% at $1,235.

The Economy

Manufacturing Activity Rises

The ISM Manufacturing Index rose to 57.7 in February after being recorded at 56 in January. Any reading above 50 indicates growth in manufacturing, and February's number is the highest in three years. The high reading is even more significant when we consider that electric power usage and oil drilling are part of the index. As February was the warmest on record since such things have been measured, utility production was down and oil drilling and production continue to be depressed, a 57.7 reading means that the rest of the U.S. manufacturing sector is really going strong.

Historically, manufacturing is a strong leading indicator for the entire economy. Recessions are, without exception historically, preceded by a manufacturing downturn. As with other indicators, manufacturing declines sometimes occur without a recession, but recessions historically don't happen without manufacturing declining first.

Recessions

Speaking of recessions, the United States is in the third longest economic expansion in its history. The economy has been growing without interruption for the past 93 months. While there are often complaints that this expansion is one of the slowest on record, its very slowness may be a prime reason for its longevity.

The 2008-2009 recession, sometimes called "the Great Recession," was an unusual event. Most recessions are "business cycle" recessions resulting from a gradual expansion in businesses and their inventories. As businesses expand to accommodate their growing sales in an expansion, eventually they hit a point where they grow beyond the spending power of their customers. Because businesses must plan and buy in advance to meet demand, they wind up with excess inventory and too great a number of employees and business space. At about that time, consumers tend to look at their credit card, auto loan, and other debts and decide to reduce spending and begin to pay down those debts. It is then we enter a typical "business cycle" downturn. After a few months, those consumers have their debts paid down to a point where they are comfortable and begin to buy again, creating the next wave of business expansion.

The 2008-2009 event was anything but a business cycle issue. Instead it was a "financial" recession. We don't get those very often, but when we do they tend to be quite severe and the recovery typically takes as long as a decade to properly get going. In a business cycle recession, there is some money lost as retailers need to sell off inventory at reduced prices and manufacturing facilities go on shortened work weeks, but no permanent loss is typically seen. In a financial recession, typically large dollar amounts of loans simply become worthless. When that happens, as it did in the 1930s and more recently in 2009, the losses are permanent and commonly devastating.

It not only creates huge losses in the economy, it shakes the foundations of business growth and puts fear in the hearts of both investors and business owners.

Another factor that drags out the recovery following a financial recession is the regulatory attempts to prevent the collapse from happening again. Congress typically over-reacts, as do the financial regulators, with the result that financial institutions hesitate to make loans. Since loans are what are needed for business to come into existence and to grow, it often takes as much as a decade for the capital to begin to flow again.

By most metrics, we are just now reaching a par with where the economy was prior to the Great Recession. The good news is that following a big, financial collapse we commonly do not see another one for a long time. A second piece of good news is that the slow growth that typically follows a financial recession does not readily lead to the next business cycle recession very quickly. The back-side to that is that as we seem to finally be returning to something that looks like "normal" we can expect to reenter normal business cycles again at some point. For the moment, though, we have plenty of room to grow.

<u>The Fiduciary Rule</u>

We have had clients contact us with concerns about the new "Fiduciary Rule" coming up. They have told us that they have heard "financial advisors" tell them that there is a new set of rules coming out and they need to change their accounts to or some dire things will happen.

The rule to which the sales agents are referring is indeed called the "Fiduciary Rule" but if you are a TPWC client, you already are under a fiduciary rule. "Financial advisors" (sales persons) on the other hand are not currently required to be a fiduciary, but rather are only restricted from selling you something that is not "suitable," a rather broad term. The Department of Labor (DOL) has proposed a new rule that would place a financial sales agent such as an insurance agent or a financial advisor under a limited fiduciary requirement when selling or modifying a retirement account.

We here at The Personal Wealth Coach® are already fiduciaries so we will need to change pretty much nothing. You may ask, "What is a fiduciary?" A fiduciary is a person or organization that is required to act in the best interest of another person or organization. Conversely, a standard business relationship is adversarial in that each party is trying to get the best deal at the expense of the other and is referred to as "caveat emptor" or "buyer beware." In a fiduciary relationship, it is quite different as a fiduciary is required to avoid conflicts of interest, or if they are unavoidable, to fully disclose them and to get the best price and best possible products for his or her client.

In contrast, an insurance agent or "financial advisor" is obligated by law and custom to find the highest price and the best profit for his or her employer that the buyer will tolerate. That is not to say that financial sales agents are immoral, or "bad" but that they are not required to be fiduciaries under the current set of rules and laws.

As a side note, the DOL's Fiduciary Rule may not happen. There has been intense lobbying by financial sales organizations to not require insurance agents and financial advisors to act in your best interest or to fully reveal what they are being paid to sell you investments to go in your IRA. That lobbying appears to have been effective and the new Secretary of Labor has announced he will attempt to prevent the Fiduciary Rule from going into effect.

If you have any questions, please do not hesitate to contact us. We are quite familiar with the issue of being fiduciaries as we have been acting as fiduciaries for a long time!

Until next week, we remain your faithful servants,

Jake

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