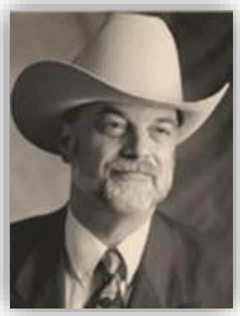

THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

Jeffrey W McClure CFP® *Jacob A McClure* CIMA®

PO Box 1029 / 918 N. Main Street
Salado, TX 76571

(254) 947-1111
(800) 914-7526

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com jake@tpwc.com

August 10, 2018

TPWC Market and Economic Update

The Markets

The venerable Standard and Poor's 500 Stock Index (SPX) declined 0.25% for the week, ending at 2833.28. That still leaves it up almost 6% year-to-date and up a whopping 16% for twelve months. SPX companies earnings have averaged double-digit growth this year, and are on track to be up 25% for the second quarter, but their collective stock valuations have not followed suit even though earnings growth is the fastest since 2010. The good news is that the rapid increase in earnings combined with the very limited growth in stock prices is effectively making the stock market less expensive. Professional investors value stocks on potential future earnings, not current or past earnings. As long as the threat of worsening trade wars hangs over the market, prices are unlikely to rise to the pace of earnings. Still, the consensus among market analysts is that this bull market has more rise in it once the dog days of summer are behind us. In a notable event, the total market value of all U.S. publicly traded stocks rose to a record high this week at about $30 trillion or 145% of the U.S. GDP.

In an interesting parallel, "value" stocks seem to be coming back into favor. Money appears to be leaving the "growth" side of the market where the "hot" stocks reside and migrating into companies where the share price may be below the intrinsic value of the company that issued them. For the first time in years, last month the Russel Value Index rose more than the Growth Index. If this marks a shift in the market, that too is good news and may signal a saner approach to investing.

Meanwhile, the price of American oil declined 1.3% for the week and is down over 3% for the trailing three-months to $67.75. Gold continued its long slide, down 0.21% for the week and well over 8% this year to $1,219.20. The dollar continued its relentless climb, with the WSJ Dollar Index up 1.58% this week and nearly 5% this year. Since the Trump administration announced broadly based tariffs against Chinese imports, the dollar has risen over 8% against the Chinese Yuan. That effectively neutralized the 10%, across the board tariffs and put a major dent in the steel tariff imposed earlier. The U.S. ten-year Treasury note's yield slipped to 2.873% in another reflection of worry about the longer-term prospects for the economy. That yield is still 6/10 of one point (26%) higher than it was a year ago.

The Economy

The Labor Department announced that for July prices only rose 0.2%, but they were 2.9% higher than they were a year ago. 3% inflation is the average we have seen for the past half-century or so, so that was not an unreasonable number. The downside is that the Fed has set short-term bank rates at 2% and they like to have their rates higher than inflation, so another rate increase next month is very likely.

On the same day the inflation figures were released, the U.S. Treasury announced that the budget deficit for the first ten months of this fiscal year, which ends in September, was 21% higher than last year's. Worse, in the month of July, the federal deficit was 79% higher than last year. Government revenues were down 3% while spending rose 10%. The Treasury also announced that federal borrowing is up 63% from last year. In the debate over whether the tax cuts

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would create more revenue and reduce the deficit, those who warned the cuts combined with increased spending would dramatically increase the federal debt seem to be winning.

In a bit of good news, Moody's Analytics, the economic forecasters with probably the best record, have the U.S. GDP on track to rise at an annualized rate of 3.6% in the third quarter and a likely 3% for the full year of 2018. In a further suggestion of slowing growth, mortgage applications dropped 1.8% and home sales were down in July. As home sales fell, so did light truck and auto sales, down 3.1%. Moodys continues to forecast slower growth next year and a possible recession in 2020.

The macro view is that we still have an economy going at full steam, but the peak in growth may have been in the second quarter with a declining growth rate in the quarters to come. That is consistent with economic science as we know it and the historically cyclical nature of the U.S. economy.

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
M.S. Personal Financial Planning

Jacob A. McClure, CIMA®

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