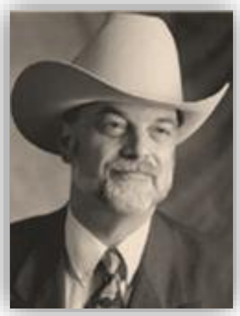

THE PERSONAL WEALTH COACH®

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

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TPWC Market and Economic Update

The Markets

The venerable Standard and Poor's 500 Stock Index (SPX) turned in another positive week ending up 0.85% at the memorable number of 2929.67. The SPX is now up 9.58% for 2018 and 17.08% from a year ago. On Thursday, it set another all-time closing record at 2931, then climbed above 2940 Friday morning only to gradually slip back all day. The driver was continued expectations of high corporate earnings as profit margins for U.S. listed corporations hover at near-record percentages.

The benchmark ten-year U.S. Treasury note yield rose above the psychologically important 3% level on Tuesday, the 18th, then kept on going, peaking at 3.10% before sliding back to 3.064% at the end of the week. Unlike previous ventures above the 3% level, this advance seems likely to stick. The two-year note rose apace but the yield curve stayed positive, indicating this bull may have further to run. The 10-year note is now up 0.86% from a year ago, indicating an increasing demand from borrowers.

Not too surprisingly, U.S. Crude Oil followed suit, rising a substantial 2.58% to $70.71 as inventories were reported declining. A glance at gasoline prices can confirm the rise as oil is now up nearly 38% from a year ago. Gold managed to eke out a tiny gain of 0.42% for the week but remains down over 9% for one year at $1,203.30.

The Economy

Applications for unemployment insurance again were the lowest in nearly 50 years. The combination of record highs for stocks and record lows for unemployment claims is, by any definition, the set of hallmarks for an economy running at full speed. The last time jobless claims were this low was 1968 when the Vietnam war was at its peak and the draft was claiming a large portion of the American workforce. In yet another superlative, the Federal Reserve reported the total net worth of American households hit a record $106.929 *trillion* at the end of the second quarter.

In a peculiar twist, the eurozone economy continued its slow-motion deceleration. The reduction in growth rate was centered on exports. Europe's prime economic engine is Germany and Germany's economy is driven by exports. A combination of the increasing trade-war risks between the U.S. and China and decreasing demand outside of the U.S. is putting a dent in manufacturing growth across the EU. Aggravating the issue is a growing concern about Italy. The new government there appears to be determined to increase borrowing well beyond EU guidelines with little evidence that the Italian economy will be able to pay back the balance. Adding more to worry about is the very real possibility that the United Kingdom's exit from the EU may be an abrupt break with both sides suffering economically. The U.S. economy is roaring along primarily on internal consumption while those economies with a positive trade balances are starting to hurt.

It is hard to know where we are at any given moment in the economic cycle but one thing that history teaches us is that there *is* an economic cycle that is as relentless as the seasonal cycle that takes us from record high temperatures this summer back to cold weather as winter approaches. With the top of an economic cycle, there are dangers to watch for and we are clearly seeing high summer in this economic cycle right now.

The number of sophisticated Ponzi scheme frauds being reported by the Justice Department, state attorneys general, and the SEC seem to be accelerating. Those frauds offer higher returns than can be reasonably obtained elsewhere and involve some obscure investment "secret" that the common folks have missed. They too are almost universally *not* public investment programs filed with the SEC or cannot be traded on any market. Federal attorneys and the SEC just revealed a new scam, based partly in Texas, in which con-men lifted $365 million in mostly small investor's money to supposedly purchase individual debt portfolios for collection or resale. What the investors were really doing was funding an extravagant lifestyle for three crooks who faked statements and paid early investors from money taken from later participants over about a 15-year period. Ironically, the later investors were largely lured in by word of mouth from the early investors. Now will come the hard part as the federal authorities will "claw-back" high returns received by investors who have been on board for a decade or more.

Until next week, we remain your faithful servants,

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

Jacob A. McClure, CIMA®