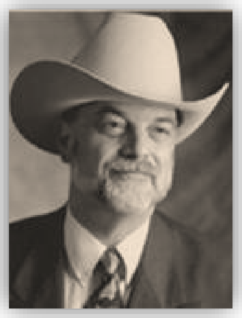


THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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

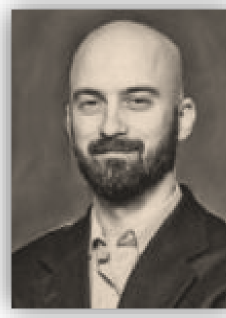
PO Box 1029 / 918 N. Main Street
Salado, TX 76571

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

Serving Investors Since 1982

www.tpwc.com

jeff@tpwc.com



jake@tpwc.com

February 5, 2016

TPWC Market and Economic Update

The Markets

First, a little perspective. Since the news media regularly report the Dow Jones Industrial Average (the Dow) as if it is the market, we will use those numbers here. We prefer the S&P 500 Stock Index, but the Dow is better known.

Last year, the Dow peaked at about 18,351 in May. From near that high in mid-August, it plunged to 15,370, a drop of 16%. From there it climbed back up to nearly 17,888 in early November then dropped to 15,766 on January 20 of this year, a drop of 11.9% from November or about 14% from last May. At the close of the market this week it stood at 16,205, still about 9.5% down from the November peak and about 11.7% down from the May, all-time high. So, the venerable Dow is down about 11.7% from its all-time high but up about 5.4% from its low last year.

In 2011 that same Dow was down to about 10,900 in the last correction we experienced before this one. Just before that correction, the Dow hit a record 12,810.54. In short, "the market", at least as represented by the Dow Jones Industrial Average, found a market bottom last August that was about 25% higher than the record level it hit three and one-half years ago. The supposed looming disaster credited with causing the market to decline back in 2011 was the impending collapse of Greece and the Euro combined with a governmental shut-down here in the United States. The fear that drove the market down in August was the impending collapse of the Chinese economy. The downturn we are witnessing now is reportedly a result of the price of oil being too low and far that low oil and gasoline prices will wreck the world economy.

The takeaway from all of this is that the things that were so fearful and certain to cause a recession or economic collapse turned out to be so inconsequential that four years later we have forgotten about them. If I may be so bold, I am of the opinion that we are seeing that again. The reported word on the street is that fear of an imminent recession in the United States is the fear du jour on Wall Street. The future is always uncertain, but read on to see what the real data suggests about the probabilities of a recession in the near future.

The Economy

<u>Employment and why it is important</u>

We have long held that 2016 was going to be a good year economically for the United States. The evidence continues to accumulate indicating that to be a good forecast. Today the Labor Department reported that non-farm payroll employment rose by 151,000 in January, enough new hires to accommodate new entries in the labor force and to slightly reduce those who have been looking for jobs longer, reducing the unemployment rate to 4.9%. More interesting, at least to us geeky economist types, was the fact that the biggest gains were in retail trades, health care, and manufacturing. Yes, manufacturing! Manufacturing added 29,000 employees last month, with the largest gains in metal fabrication. That set of hires, particularly in chilly January, is a strong indicator of what business owners see coming down the road. Metal fabrication is a very slow changing industry and new workers are only brought on board when there is significant future demand in the form of orders for new product.

To put all that in perspective, over the last twelve months the number of unemployed persons in the United States who were actively looking for work declined by about 1.1 million, and that with about 1.7 million new people entering the job-seeker population. A year ago the household survey indicated we had about 118 million people working full time. In January 2016 that number had risen to over 123 million, a gain of about 5 million. That five million workers in the next year will add somewhere between $100 billion and $200 billion to the economy. That alone equates to about a 2% increase in U.S. GDP for 2016.

Just as importantly, January was a month of media pessimism and market decline. Despite that news environment, employers were hiring, and hiring at a rate that is greater than new workers are entering the market. As an employer, we can say without question, that hiring is a long-term investment, and employers do not hire in the fields where that hiring took place unless they see a long-term demand buildup. If the market and media pundits who are calling for bear markets and recession were correct, then January's jobs report would reflect layoffs, not new hires. In the end, it is the businesses that are the engines that drive our financial well-being. If businesses are hiring, then we are growing, no matter what the financial prognosticators are proclaiming.

Oil Prices, Positives and Negatives

In 2014 U.S. consumers spent an average of $2,500 on gasoline. In 2015, that number dropped by about $650 or about 1.1% of their income. Add to that their wage increases last year and average net income rose about 2.7%. Consumers actually spent most of that. So why did the economy only grow 2.4% and average corporate earnings drop about 4.8% for 2015? The answer is to be found in two things. First, the price of oil has declined about 75% in that same period. With the oil price decline has come a dramatic drop in capital investments in oil-related manufacturing, employment, and the services to those industries. The second element is a side effect of having the strongest, most stable economy on the planet; the dollar has risen, and as a result, our exports are more expensive for non-dollar users to buy.

The bottom line here is that while consumer income rose nearly 3%, the price of oil fell 75% and the dollar rose about 12%. The good news is that all indicators suggest that consumer income will continue to rise, but if oil fell another 75% it would be about $7.50 per barrel, and that is, to say the least, unrealistic. Oil will find a bottom, and it looks like that bottom is somewhere between $25 and $30 per barrel. The dollar actually dropped over half a percent on Thursday against the Euro and other currencies, so we may be near equilibrium there too.

The unanswered question that is scaring professional investors is just how exposed to oil losses is the rest of the economy? The answer appears to be revealing itself, but we will not know the whole answer until at least several months go by. Venezuela and probably other countries are going to default on debt. That will equate to some losses, but anyone with half a brain could see that coming. The unknown is just how much pension, mutual fund, and bank money was invested in high yield (junk) bonds and loans issued by or to pipeline and oil related companies. The answer there is very likely to be, "Not as much as many people seem to think." Banks have had regulators breathing down their necks forcing them to not repeat the stampede to higher interest "sure thing" loans. Residential mortgages were a sure thing until they weren't. Master limited partnerships in pipelines were too, but put simply, there just wasn't that much money invested there, and what was invested there was not multiplied out of the known universe by derivatives.

It would have been nice if oil prices had fallen nice and slowly over a three or four-year period, but that is not the way things happen in the real world. Money is now shifting from the weakening areas in search of better investments. That will result in some weakness and some bumpiness. Still, we live in an overwhelmingly free-market, capitalist system. Capitalism has its weaknesses, but it is by far the most efficient redirector of capital to more productive investments. That process takes time when there is a relatively sudden disruption, and that is what we have had.

One last element is in the mix of causes. We have just experienced the warmest and wettest December on record. That means that oil use was unusually low in the northeast U.S. It also means that a lot of cold weather clothing is still sitting there waiting to be sold. All that is bad for investors in that clothing and in oil, but combines to put more money in the consumers' pockets. The deep-running engine that drives our economy is still chugging along and is gradually speeding up. There is a shift underway on where the money that machine generates is going. That is not a bad thing. A shift does not equate to a stall.

Be patient. Keep watching. Mark our words. As always your thoughts and comments are welcome.

Jeff will be all alone on the radio tomorrow, so feel free to give him a call to stir his brain up! KTEM 1400AM, or ktemnews.com, 10:00 AM until Noon.

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

Jacob A. McClure, CIMA®