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

October 13, 2017

TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) ended the week at 2553.17, up 0.15% for the week, 2.21% for the month, almost 20% since this time last year, and 14% year-to-date. The SPX trailing price-to-earnings ratio remains about where it was last year, meaning that the Index has risen almost solely because of a rise in corporate profits. The anecdotal evidence from news reports on the thoughts of investors and traders is that political and global news stories that once moved the market are now being largely ignored. Investors appear to have filtered out the "noise" of sometimes overdramatic announcements and instead focused on what matters, the "earnings" of publicly traded companies.

The U.S. 10-year Treasury note ended the week yielding 2.275%. Interest rates continue to run ahead of last year, but also remain down year-to-date as the expected increase in borrowing demand has not been realized Instead, the economy has continued to grow slowly but steadily in a largely uninterrupted trend since last year. Interest rates jumped immediately following the election, but have been gradually sagging back ever since.

Some of the larger banks reported earnings during the week and while all were solidly profitable, their earnings growth was decidedly muted. The absence of bond market volatility cut into their trading profits while the continuing low and declining interest rates limited their loan profitability.

West Texas Intermediate Crude oil rose 1.54% for the week to end at $51.38, while gold rose 0.72%, closing at $1,305.80. That puts gold up 2.42% for one year.

The Economy

U.S. oil exports have risen to almost 2 million barrels per day, two times the average export volume of a year ago, and is up 500,000 barrels per day from as recent as a couple of weeks ago. That puts the United States in the position of exporting almost the same oil volume as Kuwait. Oddly, U.S. oil is less expensive to produce than the oil in Southwest Asia (aka the Middle East).

We remain a net oil importer, but the largest import source for the U.S. is no longer desert nations on the other side of the world, but rather Canada. In another oddity of the oil markets, the biggest customer for our oil exports is also Canada. We import and refine oil from western Canada, and export to eastern Canada where the demand is greater. China is our second largest customer, now importing at a rate nearly nine times that of a year ago. If the oil exports to China were to continue to grow at the rate we have seen in the past year or two, our trade imbalance with China could disappear. Of course, there is no guarantee that would happen.

This increasing export trend appears likely to continue. U.S. oil production costs are falling and production continues to increase even as the world clamors for more of our oil.This issue remains quite simple: U.S. oil is as high quality as that of the Arab nations, but ours is both less expensive and closer to the users and thereby cheaper.

In other economic news, U.S. retail sales rose 1.6% in September but the numbers don't look so rosy when examined more closely. If we take out the car sales jump from car purchases generated by hurricane insurance payments and the spike in oil prices caused by Harvey, the net is only a 0.5% increase. Still, if that continued for a year, it would equate to a 6% increase in consumer spending. Such an increase would add a lot to annual GDP numbers and may show up as a good addition to third and fourth quarter numbers this year.

The increase in consumer spending accompanied and may have been partly stimulated by an unexpected and rather dramatic rise in consumer confidence in the first two weeks of October. The University of Michigan's consumer sentiment index rose to 101.5 for the first weeks in October, up from 95.1 in September. The rise was largely credited to expectations of a tax cut and high employment numbers. The index is now up over 15% from where it was at this time last year.

As a further upbeat item, Social Security payments are scheduled for a 2% increase at the beginning of 2018. That follows years of little to no increases as inflation has been largely non-existent. This rise is a quirk, in that the official measurement of the Consumer Price Index from which Social Security adjustments are taken occurred just as fuel prices spiked following hurricane Harvey. That extra cost of fuel bumped the cost of living increase up to 2%.

Nobel Prize to Richard Thaler

We here at The Personal Wealth Coach® have a few economists we follow and who we think come up with some excellent ideas. We attempt to use them in our portfolio construction and are of the opinion that it helps. One of those economists we think highly of is Richard Thaler, who won the Nobel Prize this year in Economics. Dr. Thaler is of the opinion that humans are not rational economic creatures but rather are likely to behave irrationally at least some of the time. He points to the "irrational exuberance" in stock purchases during the late-1990s and the self-generated Ponzi scheme of house flipping in the mid-2000s as examples. We agree with him and build portfolios that are based on very long-term results while trimming asset classes when they appear to have become irrational. His work in many ways represents the opposing view to the proponents of the "efficient market theory" school who hold that investors and consumers are completely rational and produce an "efficient market" that cannot be beaten. That school of thought leads to the concept that an investor should only buy index proxies (funds or ETFs) as no investment manager can beat an efficient market.

We agree with Dr. Thaler that there are inefficiencies in the market that can be exploited to the advantage of an investor. Yes, those inefficiencies sometimes take years to show and thereby provide an advantage, but they do reappear and a patient investor can gain from them. For better or worse, it takes a long time to either be proven right or wrong on that subject, so it is noteworthy to us that the Nobel Committee, looking back on Dr. Thaler's work, concluded that behavioral quirks evidenced by large numbers of investors did produce inefficiencies and could thereby have been profitable to those "who keep their heads when all about them are losing theirs."

We intend to continue to assume that the mob will commonly move in an inefficient direction and by heading the other way, we believe we all can profit. Thank-you Richard Thaler!

Until next week, we remain your faithful servants,

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

Jacob A. McClure, CIMA®