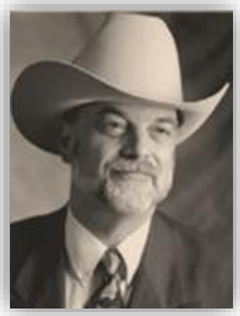

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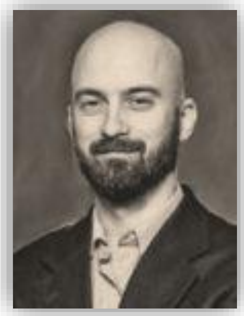

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) started off 2018 with a bang, rising 2.60% for its first week of the year to close at 2743.15. That puts it up 20.47% for one year. Simultaneously, the Dow Jones Industrial Average closed over 25000 for a new landmark. The good news is that the rises, records though they may be, are well justified by the underlying economy. Another piece of good news is that individual investors have yet to join the party and have been selling equities and apparently still are. Bull markets generally have not come close to maturing until individual investors jump on board, and they haven't.

Meanwhile, the dollar continued its slow decline against other currencies and both gold and oil, purchased mostly in those foreign currencies, rose accordingly. Interest rates were fundamentally unchanged with the 10-year T-note yielding 2.467%.

The Economy

There are more than a few economic indicators to report on this week, including the Index of Leading Economic Indicators themselves, but they all are telling the same story we have been hearing for the past six months or more: the U.S. economy is on a roll. Here at the beginning of 2018, almost all the indicators are for fair economic weather and favorable winds for at least six months into the year and possibly longer. Rather than bore you with more of the same. This week let's hit something longer-term.

We are almost certainly well into the third industrial revolution modern history. The "first" industrial revolution had its roots in mechanical inventions beginning in the 1700s and really hit its stride from 1820 to 1840. It upended the established order of about everything in Western society. It was a central cause of the civilization-wide economic depression of the 1830s and the U.S. Civil War.

The next major industrial revolution had its roots in the 19th century but emerged as the defining factor of the early 20th. Once more, mainly rural workers were forced to change occupations and locales. We experienced economic booms, increases in worker output, a massive economic depression, and a couple of world wars. Then, following World War II, things settled down to a steady-state growth environment as we refined what we already had and global stability was the norm.

The last decade of the 20th century saw the widespread introduction of the digital computer, and with it came the beginnings of the third industrial revolution. Once again, it looks like almost every occupation that existed at the beginning of the revolution will be eliminated, and other, more technically demanding occupations will take their place.

What does all this mean to us here and now? First, from a very practical perspective, it means that the traditional domestic business cycle that dominated post-WWII, 20th century America is probably gone. The post-WWII business cycle became well understood as producers produced based on last year's demand and sellers ordered according to the same data. That led to an excess of inventory when consumers reached their limits, followed by a relatively sudden reduction in orders that would persist sometimes for a couple of years followed by a boom as producers and businesses rushed to fill the demand when consumers again started buying.

As the 21st century has unfolded, that cycle appears to have been disrupted. Just as in the 1830s, and again in the early 20th century, new transportation capabilities have opened both markets and suppliers that were previously too far away to affect local markets. Again, as in those two previous events, that reduction in the cost of transportation has been accompanied by dramatic technological advances that are disrupting the traditional wage sources and relationships.

If history is a guide, we are likely to see the result in the form of an economic boom that depopulates rural areas and creates greater income disparity. It also means that many of our traditional economic indicators of where we are in the business cycle are no longer reliable. In short, we are likely to be in for an interesting ride with much opportunity and reward for the flexible investor, and potential pain for those who refuse to adapt to change.

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
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