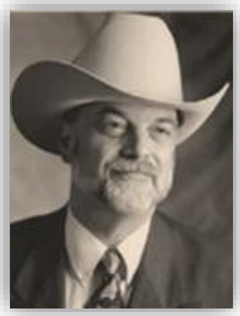

THE PERSONAL WEALTH COACH®

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TPWC Market and Economic Update

The Markets

The S&P 500 Stock Index (SPX) closed out the third week of the year with a solid gain of 0.86% putting the index up 5.11% in 2018 and a whopping 23.73% since this time last year, closing at 2810.30. The secret that the stock market is the place to be must have leaked out to the public because individual investors committed a net $58 billion to equity mutual funds in the last four weeks with a surge of almost $24 billion in the last week alone according to a Wall Street Journal article. This inflow of capital from smaller investors is the greatest recorded since 2002, and last week was the seventh-largest ever reported. The Index closed above 2800 for a new record.

That's the good news but you can depend on economists to find the dark cloud in every silver lining. The stampede of individual amateur investors into the stock market historically marks the final leg of a bull market and is commonly referred to on "the street" as a "melt-up." It is not solely confined to the United States as, unsurprisingly in our globalized economy, the same investor behavior appears to be happening in Japanese, European, and emerging markets stocks. One counterintuitive plus is that inflows to bond markets also appear to have surged despite the warning signs that interest rates are headed upward. Another positive is that while the final leg of this long-running bull market may have begun, final legs have historically extended for as long as six years in the past and there is little on the near-term horizon that would create bad times for stocks as an asset class.

Meanwhile, the ten-year U.S. Treasury bond experienced a surge in yield to 2.66%, doubling its yield from a year and a half ago. As bond prices move down when interest rates move up, that equates to a declining bond market. The dollar was largely unchanged, oil declined 1.29% to $63.57, and gold prices slipped half a percent to $1,331.10. As a side note, Bitcoin is down 21% year to date and about 42% in the last month. Perhaps the most notable thing about the markets is that they appear to have ignored the shutdown of the U.S. federal government as a non-event.

The Economy

While there was a flurry of economic indicator releases in the week ending on January 12, this most recent week is one with a corresponding dearth of new data. Almost all of the long-term indicators still point to continued economic growth and even the potential for some acceleration.

The headlines are about the federal government to "shutdown" because Congress has failed to pass a bill authorizing the borrowing and spending of federal funds. Fortunately, our system is quite resilient and most critical government functions will continue with or without a "shutdown."

The once mighty General Electric is in a slump and reportedly is considering breaking itself up. At the heart of its woes is the unlikely culprit of long-term-care (LTC) insurance. Across the insurance industry financial stresses are starting to show as, for example, CNA Financial has reportedly increased monthly premiums for its LTC policy-holders by over 90% in the last two years. Since 2000, the number of insurance carriers offering LTC insurance has declined from over 100 to about a dozen, and the older policies are causing distress in both the carriers and their customers. General Electric in its 4th quarter 2017 report this week announced it would take a $9.5 billion charge to cover unexpected reinsurance costs in the LTC market.

The smaller lesson to be learned here is that LTC insurance premiums can go up, and go up a LOT after the policy is in place. A slightly bigger issue comes into focus when we recognize that LTC insurance companies do fail. Penn Treaty Insurance Company entered into liquidation last year, leaving tens of thousands of LTC policyholders in the lurch. State guaranty associations sometimes will cover some of the loss if a company goes under, but those associations operate under the assumption that failures will be rare. GE's $9.5 billion charge for LTC reinsurance losses may be a red flag that trouble is ahead.

Until next week, we remain your faithful servants,

Jeffrey W. McClure CFP®
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