THE PERSONAL WEALTH COACH®

An SEC Registered Investment Adviser

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TPWC Market and Economic Update

The Markets

The venerable S&P 500 Stock Index ended the week with a small but productive gain of 0.55%. The market bobbed around a bit but held its ground for the week following its 10% decline early in the month and then its recovery of about half that value by mid-month. It remains down 4.37% for one month, up 2.76% year-to-date and up a healthy 16% for one year. Gold declined 1.39% to $1,330.80 for the week but remained up about 4.35% for one year. The 10-year US Treasury note closed out the week about where it started at a 2.87% yield after briefly rising to nearly 3% at mid-week. Oil continued its slow rise to $63.57, up 3.33% for the week and 17.44% for one year.

The Economy

All the indicators, including the iconic Conference Board's Index of Leading Economic Indicators, released on Feb. 22, point to an accelerating and healthy economy for at least the next six months. In the short to intermediate term, all lights are green and the economic engine is revving up! The Federal Reserve's January notes, released on the 21st, indicated that the Open Market Committee saw an increasing economic growth rate for the next year or more and planned to raise interest rates in response. Meanwhile, the Labor Department reported the lowest number of unemployment claims since 1973! New manufacturing orders are surging as are business capital expansion plans. Moody's Analytics though is forecasting that the outlook for 2019 is beginning to look like stormy weather.

Going back at least 250 years, the developed economies of the world have tended to have ten-year economic cycles. Around the years ending in "0," plus or minus a couple of years, there generally have been economic downturns, some severe and some less so. Those are followed by expansions such as the one we have seen since 2009. Towards the end of the typical ten-year cycle, the expansions have tended to "overheat", then stall into an economic "crash." Recently we have seen those "crashes" in 2000-2002 and in 2008-2009.

As a side note, from an investor's perspective, forecasting the exact time when such things happen is a fool's game, so we advocate holding a steady course. Market timing has the worst record of any investment strategy.

The various schools of economics often disagree on the finer points, but all are in complete accord that major moves in economic growth or decline center around the money supply and the velocity at which it moves around in the economy. Money supply in an economy can be compared with the blood supply in a human body. If blood pressure falls either from blood loss or insufficient circulatory impulse, the body declines and goes into shock. Alternatively, if blood pressure rises too much, organs start to fail in the longer term, and that can be devastating.

One of the prime reasons developed economies have central banks like the U.S. Federal Reserve Board ("the Fed"), is an attempt to cushion those sometimes devastating "booms" and "crashes." One of the prime missions of the Fed is to raise interest rates to reduce the money supply when the economy approaches full capacity and then to infuse money back into the economy during economic downturns. Ideally, the federal government would do the same, borrowing and spending in bad times then taxing and paying off the debt in good times. When all that happens in sync, historically, neither the expansion nor the downturn tends to be excessive.

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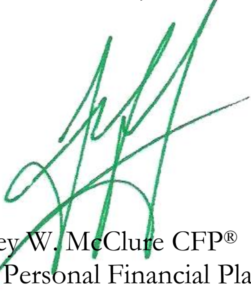
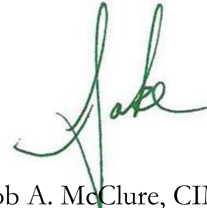
The issue we face today is that the economy is running at near full capacity, but Congress and the President just created a law that added about two trillion dollars to the money supply, a percentage greater than any we have seen since World War II. Much of that newly created (borrowed) money will hit the economy this year and next. Economic theory warns that if a large amount of money is infused into an economy when it is already running hot, it will tend to overspeed, generate inflation and higher long-term interest rates, then stall out as it burns through its capacity.

What happens over the next few years will likely be prominent in economics textbooks for the next century as we charge into the future in a grand test of an economic theory, and some would say, imprudence.

Until next week, we remain your faithful servants,





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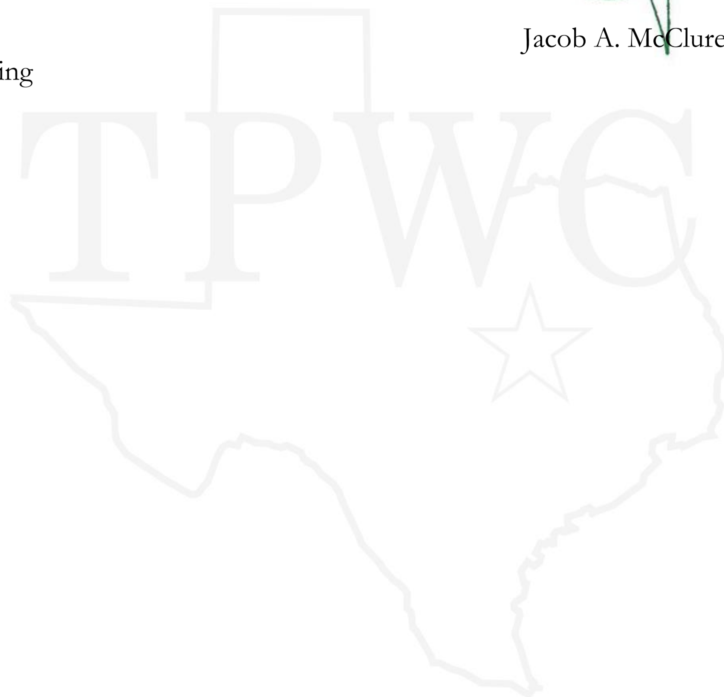

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