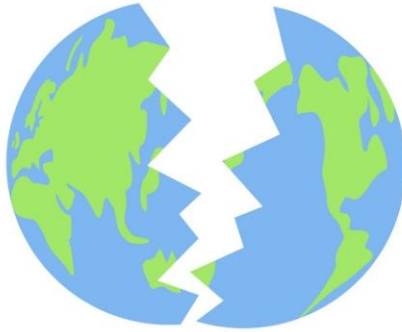


# THOUGHTS ON AN IMPERFECT WORLD



**RONALD FINKE**



# Chapter 1: Investing and the Stock Market



# Sell in May?

Article first published May 11, 2021

From decades of American stock market experience comes the saying that one should sell in May and go away. It is May and we have experienced a tremendous run up in stock prices since March, 2020, so it seems a good time to examine this old adage.

There is a strong historical difference between the average returns for the six months of May through October of each year and those of November through April. From 1950 through 2016, *The Stock Trader's Almanac* (Wiley, [www.stocktradersalmanac.com](http://www.stocktradersalmanac.com), 2018), the average Dow Jones 30 Industrials Index rose by .4 percent in the lackluster six months and 7.6 percent for the fall to spring time frame. However, hope springs eternal and most years we are tempted to continue to slug it out in spite of the odds. But as the late, great trader/teacher, Christine "Candy" Schaap often said, Hope is not a trading strategy!

If you wish to put these odds in your favor, how do you do so? First, cull out your losing positions. Most major losses are to be taken more quickly and will not improve much during a weaker market climate. Second, in your tax sheltered accounts, take profits and move money into better income producing investments.

Most middle-class Americans' wealth is held in 401k and IRA accounts. Even though there is no penalty (and now often no trading cost) for selling and reallocating your accounts, most do not because they do not know what to do or do not pay enough attention to spend the time on it.

In the 401k's we manage through our Capital Maximizer program, we are reallocating this week and taking some risk off the table in view of the current changes in expectations of rising interest rates and what I will call general squirrely-ness. Take for example the plan of T-Mobile plan which has thousands of new employee participants from the Sprint merger.

We have a client who is approaching retirement with about a half million dollars in the account. The plan was improved recently by the addition of T. Rowe Price mutual fund choices in addition to some Vanguard holdovers and individual best of class funds.

Many large company retirement plans do not have a sufficient number of defensive choices in them, but the T-Mobile has four fixed income portfolios plus the T. Rowe Price Stable Value Fund.

In this case, we are taking 60 percent out of the stocks and dividing that equally between the Vanguard Inflation Protected Securities Fund and the aforementioned Stable Value Fund. The latter has earned a little more than 2 percent in the past twelve months while the Vanguard fund has made over 6.

Because stocks of the value style are beating those of the growth style this year by a wide margin, we are splitting the other 40 percent between the T. Rowe Price Equity Income and Mid Cap Value funds, the William Blair Small Cap Value and the Dodge & Cox International funds. For now, including some stock funds gives us the chance of making some money in those which appear to have the best opportunity to continue their current uptrends. In your IRA's you probably have many choices. I currently prefer the Inflation Protected bond funds followed by High Yield bond funds for defense.

# Has the Market Made a Major Rotation?

Article first published March 31, 2021

If you have grandchildren or children, you obviously need to spend more time talking with them about the benefits of capitalism. Somehow as a nation, we have come to rue uncertainty and reward risk avoidance, at least from a governmental perspective.

Therefore, we have a Federal Reserve Bank on hallucinogenic Ph.D. Economists that dreams it can banish economic cycles. How? By punishing savers in the form of ridiculously low interest rates and pushing as many as possible to speculate. (By the way, the Fed's supposed risk avoidance scheme will someday cause the next market and financial crash. But not today. It is rather like trillions of dollars of annual deficit it will kill us someday, but not today!) The stock market is the only playing field allowing for most people's hope of gain. How else can one explain the price of Tesla?

The growth style of investing has reigned supreme since the zero interest rate policy began as the medicine for the Great Recession disease. Therefore, diversification has been punished as well in favor of the new techie darlings of Facebook, Apple, Amazon, Netflix, Google, and Tesla. Since the S&P 500 is weighted by market worth, its normal companies have been like ants in comparison.

According to YCharts a rising February market closed with the total value of the 500 companies at \$32.12Trillion. So Apple at \$2.1 Trillion is a full 6 percent of the total.

Microsoft in second place is worth another 5.6 percent. Throw in Amazon and Google and you have 23 percent of the entire market value of the largest 500 companies!

For a decade, it did not matter that Tesla had no profits, same for Amazon for several decades. It has been only and always about the growth of sales and dreams of the future. That is how Tesla is still selling at \$953 of stock price per \$1 of profit. Its profits are growing rapidly now too, but from an extremely small number.

But in the past four months or so, the inevitable rotation from the growth style to the value style has taken root. For value investors, a garage sale type of price is the key. The stodgy and steady companies can finally get some attention. General Motors (GM), no longer Government Motors, produces millions more autos than Tesla but is valued by Mr. Market at a mere 16 percent of Tesla's stock value. In comparison, you can pay \$9.55 of stock price for \$1 worth of profit.

After all, trees do grow to a stopping point in height. If you like buying great stuff at garage sales, the candidates are especially in the Energy, Financials, Industrials, and Materials bins. Those sectors are up double digits year to date while Technology is up an anemic 1.97 percent as of yesterday morning. Happy bargain hunting!

# Where Do You Find Value?

Article first published April 14, 2021

Last time, I discussed the market rotation currently in evidence from the high flyer growth stocks to the more mundane garage sale value stocks. Today I want to give you a better idea of how this presents itself to investors. Since you have thousands of choices available to you, how can you determine where to look or what to buy if you want to invest in the value style?

Even among the brand name Exchange Traded Funds (ETF), you can usually find these choices with access to the trading platform you use or one of the internet finance websites such as MSN or Yahoo. For example, iShares (offered by Black Rock) has a selection of growth, value and combined styles.

Best known of this brand is probably iShares S&P 500 Index Fund (IVV). It currently contains the stocks of 496 of the largest companies by market value in our domestic universe. Year to date, it has produced a little more than 10 percent appreciation (as of yesterday about 9:30 a.m. CST). However, IVW is the symbol for the growth style ETF and it has earned about 8.6 percent thus far in 2021. IVE is the value version containing 431 companies stocks. It has outperformed with an 11.8 percent rise.

iShares also has a group of ETFs known by Russell Index sizes including the Russell 1000, 2000, and 3000 among specific style names.



Think of the numbered series as having more stocks represented, the higher the number the smaller the included company sizes. So, the iShares Russell 1000 Growth ETF (IWF) has risen by 7.3 percent year to date while the Value Version (IWD) has gained 12.7 percent.

The difference has been even more pronounced in the smaller company space. The iShares Russell 2000 Value Index Fund (IWN) has run up 20.6 percent in price this year while the growth version (IWO) has managed a 5 percent gain.

Mutual funds are also categorized by their style orientations between growth, value or blend. The largest growth mutual fund is American Funds Growth Fund of America, weighing in at \$269B total. Its Class A shares have produced a total return in 2021 of 6.69 percent. The largest fund of the value style is American Funds Washington Mutual with over \$150B in it. Its gain thus far has been 11.1 percent in total return.

One of my favorite value funds is the American Century Small Cap Value fund, run from right here in Kansas City. I learned to love its performance in 2000 through 2002 when it rose in value handily in spite of the horrific general stock market collapse, caused by the growth stocks. Its 2021 total return is 28 percent this year. These returns are registered through Monday, April 12. One currently providing benefits to us is Hodges Small Intrinsic Value Retail Fund (HDSVX). It can be characterized by feast or famine, but it is higher in one year by 134 percent and has risen by 29.8 percent since January 1. Style and size of investments matters a great deal if you want to gain more than the typical averages for the investment markets.

# Principle Investing

Article first published March 10, 2021

When you think about ways to make money by investing, are there certain companies or industries that you would refuse to benefit by supporting them with your capital? We are probably all unique in the exact set of those businesses we do not favor. The concept of responsible investing is millennia old, but recently your choices have been expanding rather quickly.

In the Pentateuch, the law of Moses presented rules, Tzedek, to ensure fair dealings in business. Adding to this, the law of love from Jesus in the New Testament provides a less defined, but more encompassing view of business practices. This has become known as Biblically Responsible Investing. Shariah law from the Qur'an also presents guidelines including prohibitions of promoting alcohol, pork, gambling, weapons, gold and silver (except as money for transactions).

In the early years of the United States, Methodists renounced investing in slavery, smuggling, liquor, tobacco, and gambling. The Quakers about 1898 added war-related industries to its prohibitions. Pioneer Fund began in 1928 with similar restrictions soon after the world's first mutual fund was created in 1924. In recent decades, companies involved in apartheid or enabling abortion have been added to the lists.

Finally, now environmentally green portfolios have surfaced and are becoming more popular. Many investors, especially using mutual funds or Exchange Traded Funds (ETF's), have thought it too difficult to find a fund clean enough to make a difference.

Or they have been unwilling to investigate a company prospectus to determine activities they might find objectionable. But the difficulties involved are primarily overcome today by a broader selection of organizations motivated to help investors with the process.

In alphabetical order and probably not all-inclusive, fund families and ETF's of which I am aware include mutual fund families of Ave Maria, Calvert, Catholic Investor, Crossmark, Domini, Eventide, Guidestone, James Advantage, LKCM, Pax, Praxis, Thrivent, and Timothy Plan. ETF's include those of Global X Catholic Values, Inspire, and Timothy Plan.

Regardless of what your personal beliefs are, most people want to feel that the actions they have taken in their life will leave the world a better place than when they found it. How you invest can be one of those ways. We have focused more of our attention in recent years on this type of ethical investing and because of that, are hosting a seminar on the subject on March 17th.

# Buy, Hold, or Sell? That is the Question.

Article first published January 19, 2021

While the best principles concerning investing are probably first, to begin early and second, to invest often and regularly, selling is a whole different proposition. Will Rogers, American humorist of a century ago, wrapped up the whole process like this with a bow: Don't gamble; take all your savings and buy some good stock and hold it till it goes up, then sell it. If it don't go up (sic), don't buy it. At this time in our history, are you not amazed at the stock market behavior? One thing about which I have been banging the drum is that political fears and change obviously do not control investment decisions. In general, your emotions provide the worst correlation in making these decisions. Time after time, history shows that when you are frightened the most, it is exactly or almost the right time to invest more.

This truth about human nature provides us with a negative correlation we can use. In general, when everyone is buying like there will never be another correction, it is time to be wary. Note I did not say to sell. Mr. Market can be irrational for much longer than you have money!

The behavior of investments whether stocks, bonds, commodities, etc. is permanently cyclical.

Some believe in the rational market theory, that prices are always rational given the existing conditions and information. I believe prices are rational for about 15 minutes while rising and again about 15 minutes as they plummet!

Example? Tesla could be an all-time best. It truly looks as if it could rise forever. On Tuesday morning, January 19, it sells at \$842, up more than 117 percent since October 30. Last year on March 18, it bottomed at \$70.10. It is now higher by over 1,100 percent. Which price is more likely rational?

If you sold every time such a stock reached a new high, you would be sorely disappointed. I know folks, even experts, who decided that prices were too high, they sold out, and waited months or years for a correction. One finally came, but they lost huge amounts of money in opportunity cost. Consider a trip to Pikes Peak. What if you have GPS, a self-driving car, but can only see for 100 feet ahead? How many hilltops would you cross on your way to 14,115 feet? While investing, you can see indicators but not very far ahead. You cannot know you reach a hilltop until you begin the decline. Technical indicators help determine the likelihood of it being an intermediate top or a long-term top because they indicate what is happening behind the curtain of price.

Now let's consider the research conclusions of Investor's Business Daily founder, William O'Neill. His study of 130 years of market history led him to observe a couple main principles. One, your first priority is to preserve your capital, your principal.

Two, that you should sell even the best stocks if they decline more than 8 percent from your purchase price. If you do, especially when you can buy and sell most stocks and mutual funds without trade charges, you will live to invest another day.

There are other selling rules, but you must have at least one. One of my favorite market sayings: Pigs get fatter and hogs get slaughtered! Do not grow up to be a hog. Remain a pig and make plenty of profits for your future. Your old self will thank you.

# What Element Puts the Spark in Growth?

Article first published November 11, 2020

The good news for Mr. Market is the lack of any earthshaking mandate coming from the election last week. He loves legislative inertia or gridlock, the popular term. Why? If it is more difficult to sweep through major policy changes, then it is easier to determine the natural financial winners and losers.

The Republicans actually picked up seats in the House of Representatives, making the House more nearly divided. From the looks of things, the Senate will still be Republican led by one seat. The Founders of our Republic wanted it to be difficult to make policies in the first place, much less major change in our national direction. That difficulty has been part of our 200 plus years of longevity.

One development that needs little encouragement is the technology of storing energy for later use batteries. I did a little research on battery technology this week. I learned that Lithium became the most popular ingredient in our batteries because it provides the highest energy density with a low cost per cycle of recharging. In a round trip of discharge and charge, it is the most efficient battery system.

While other substances are being investigated for energy storage even paper batteries and other potential biodegradable solutions lithium is the substance of our present day.

The lightest metal of earth, the greatest concentrations today are found at high altitude in Bolivia, Argentina, and Chile in combined forms of salt. However, some research is being done with extraction from clay here in Nevada.

The companies producing the most lithium presently are Albemarle (ALB), Sociedad Quimica (SQM), and FMC Corporation (FMC). Although the first two have risen by more than 50 percent year to date, all three are just above good stock prices to be purchased. (By way of disclosure, our firms growth-oriented clients own shares of SQM.) These companies are in the industry classification of Specialty Chemicals.

For an Exchange Traded Fund that removes some individual stock performance risk, examine Global X Lithium fund (LIT). It has actually outperformed these three primary company stocks year to date and is even higher than its early top in March of 2011. With electric vehicles becoming even more popular regardless of Presidential administration, this trend is bound to last for a much longer time period.



# Enduring Reasons for Optimism

Article first published July 18, 2020

When discussing the first half of 2020, the description I hear most is Unbelievable! There are few still living who have any recollection of the 1918 Influenza Pandemic. The other pandemics in the past 70 years were not met with the same hysteria. These included those of 1957 and 1968. The CDC reports the latter killed about 1 Million worldwide and about 100,000 in the US.

Perhaps even more amazing has been the performance of our stock market, especially since the bottom on March 23. When everyone is still so frightened by the pestilence, why should investors be putting money back to work? First, examine the first half results.

Although the S&P 500 lost 30 percent of its value by the low point, it rebounded over 38 percent by June 30. This left the index at -3.08 percent for the six months. But the tech-rich NASDAQ 100 rose far more, gaining over 16 percent in the first half. With its transportation and financial components being horribly battered, the Dow Jones 30 lost about 9 percent. Now, back to the question at hand: Why so bullish now? First, I speculate that people are realizing that we are not all going to die from Covid-19. Yes, cases are up substantially, especially among younger people who will achieve herd immunity but testing positive is not the same as being dreadfully ill, in most cases.

In Eastern Jackson County, we mourn 40 deaths through four months ending Monday, but note that no one under age 50 has succumbed. Even those age 80 and above have a mortality rate of 111 per 100,000. The highest number of the 40 deaths, 13, have been those in their 70's. But there are many more thousands of them. ([www.jacohd.org](http://www.jacohd.org).)

Second, we are coping with new ways to stay productive as a workforce. Time and expense are both saved by Zooming or Skyping our meetings. Most necessary activities continued. Now that I finally am resupplied with toilet paper, my life is great!

Third, despite the cataclysm of initial unemployment, May and June numbers have rebounded. Even manufacturing regained 606,000 jobs last month. Overall, 4.8 Million jobs were restored in June and unemployment fell to 11.1 percent. Gasoline usage is only 10 percent lower than normal. According to the TSA, on July 6th, 755,555 airline passengers braved a flight, compared to 87,534 on April 14.

I know a lot of investors. It is not that they do not care about their family, friends and neighbors becoming ill or dying. But like the national economic recoveries following wars and other pandemics, Americans adapt, get back to work, and create even greater products and services. I am betting on progress.

# Income, Wherefore Art Thou?

Article first published May 26, 2020

Today we will explore a different vehicle for income. First, some context. When you speak of a mutual fund, it is usually what is known as an Open End fund. It is open in the sense that new investors can buy shares at whatever the composite value per share at the end of each day of trading. Likewise, the fund redeems shares at that same price whenever an investor wants to sell.

A Closed End fund is one in which an investment company issues a fixed number of shares in an initial public offering. Like a stock, each share trades at a price determined by supply and demand all day every trading day. Mr. Market determines the value on an ongoing basis. Usually shares trade at a discount of about 8 percent from its actual composite value.

We are now dreadfully short of attractive old reliable income payers like government bonds. As of May 15, you could lend your money to Uncle Sam for 30 years at 1.33 percent. If that is too long a period, you can get at .64 percent per year for 10 years. Such a deal! (Source: Federal Reserve Bank of NY).

In comparison, closed end funds can contain investments of different kinds both bonds (debt) or stocks (equity). For example, in January 2009 in the midst of the so-called Great Recession, I was turning over every rock to find healthy promising investments. I happened to find a closed end bond fund, PIMCO High Income, (PHK) as a possibility.

Back then, Bill Gross was still the world's bond king. He managed billions and billions of bonds for PIMCO. The name, High Income, means junk in laymen's terms. But looking inside, I found that Gross had sold low quality bonds and replaced them with US government bonds and those of big banks like Bank of America. Since the government had promised to support them, even bank bonds were definitely not junk anymore.

Because the price per share of PHK had fallen from \$16.39 on June 1, 2007, to a low of \$2.88 by mid-November, 2008, the distribution of monthly dividends had skyrocketed as a percentage yield. I bought our shares at \$6.74 in mid-January, 2009, giving clients a yield exceeding 22 percent. (Caveat: the yield was also higher because the fund borrows money to purchase more bonds. This is called leverage.)

When investors throw up their hands and sell everything indiscriminately, most investments sink to bargain basement prices. There are usually diamonds in among the gravel they toss out. By the way, not only did we continue to receive the 12 plus cents per share for months, but we sold at a 100 plus percent profit within three years because fear subsided and prices returned to more normal levels.

What is available now? PHK still trades although we do not currently hold any shares. On December 31, 2019, it closed at \$7.51. At \$5.20 per share (Friday, May 22 close), it is distributing 74 cents per year at present, over 14 percent. Its lowest price this cycle has been \$3.55, but now is still about 35 percent below its 52 week high of \$8.12. Similar situation to 2008-09. Instead of a discount, Morningstar reports it is selling at a premium of 11 percent and that it contains 11 stocks and 451 different bonds.

I am not recommending PHK or even the category. But you should know that several hundred of them exist at various risk levels. They are not guaranteed, but the income can be great. But based upon centuries of historical economics, I am not well convinced Uncle Sam is a good credit for another 30 years either.

# Don't Stop Investing!

Article first published April 15, 2020

A strong trend change in investing has developed over the past few years. Particularly after 2008, many folks have given up on private investing for growing their long-term wealth. This latest correction of both debt and equity markets obviously will not help.

In the Midwest, we do not even like the term wealth. A person may have become a multi-millionaire, but he or she does not feel wealthy. The Millionaire Next Door by Dr. Thomas Stanley explains the phenomenon of the average successful US person or family.

We all have the opportunity to be financially successful, but our life choices can make it very difficult to achieve. If a young person does his best to get as well educated as possible for what he is well suited, does not have children before getting married, then gets married and is able to stay married for a long time, that success is easier.

Another means of making it much easier is to always save some money for the inevitable rainy day. Both in an emergency fund and for long term growth. The problem arises currently because we have not apparently taught our children well about risk and reward as it is found in financial markets. The Millennials are saving money but not investing. I want to encourage you and everyone you know by this following information. If you heard someone talking about the stock market in the Great Depression, you probably heard an anecdote about your great uncle Bob.

How much did he lose? He lost it all! If he was stupid, as many apparently were, and borrowed money to get rich quick—everyone was doing it—then he probably did lose it all.

However, what is true about the 1930's is that you could make money on an investment like the Dow Jones 30 industrial companies by either dollar cost averaging or tactical investing. Your 401k contributions are the classic example of dollar cost averaging. Keep putting in every month and in a decade or two or three, you will be rich (at least compared to 90 percent of the world's population). Despite some strong periods of uptrend, from September 1, 1929 to June 30, 1932, the Dow lost roughly 88 percent of its value. That is horrible! But from July 1, 1932 to February 26, 1937, it grew in value by about 350 percent. You never hear about that, do you?

If you do not take advantage of the reasonable risks and rewards of our American and now world economy, please do not complain about not having enough money in your old age. It will be here sooner than you imagine.

# The Long View

Article first published March 18, 2020

This morning I received a call from a wise octogenarian client. Is it time to buy? he asked. What was he thinking? He described his experience of 1987. In October that year, the S&P 500 index dropped by 30 percent, over 20 percent on that one Monday, October 19. (Sounds familiar.) Soon after, he bought more stock. He remembers it was very profitable. I answered, probably not yet. While the S&P rose by over 18 percent by November 6, 1987, it fell by 14 percent until December 4. The prices of almost everything rise and fall by moves 3 steps one way and 1 to 2 steps back.

Currently we face a crisis of uncertain measurements. The Federal Reserve Board has done almost everything it can to ensure a gigantic supply of money is available. However the facts about the real problem the virus will unfold over weeks and months. People are frightened now, but those affected will rise. More people will die. Fear will probably rise. Fearful investors sell at very low prices.

Turn with me to a longer term perspective. What things are most important? We write about the financial matters of life each week. But money is now and has always only been a tool to use in our lives.

It is disconcerting to see some fellow citizens taking little regard for their neighbors. I personally have a really strong physical constitution. But what if by a lackadaisical attitude I were to pass the virus to anyone who might succumb to it?



Is not life itself to be valued over our temporary comfort, convenience, and even money? As VP Pence said, I don't need a test to know this.

Now back to the less vital. Over the next weeks and months, facts will develop about the pandemic's course. I believe the disease will wane, life will continue, and companies (read people) will do their best to produce goods and services to meet demand and make a profit.

Mr. Market always looks 9 months to a year into the future. He decides whether the future is likely to be better or worse than the present. As I have already mentioned, I think that viewpoint may be worse before it gets better.

I have no crystal ball (Only the one my associates gave me for Christmas a few years ago. It does not work!), but technical indicators will provide clues as to when wealthiest folks are putting money back to work. We will try to provide you with our best observations and thinking.

Consider this. If you live for 15 years or your money will go to those likely to live that long. Suppose you bought the S&P index at its October 2007 all-time high of 1576.09. Suppose you held it until yesterday morning when it dropped to 2,726.73. Pretty bad timing, right? You would have earned 50.1 percent, about 3.3 percent compounded, better than average fixed income rates. What if you had perfect timing, buying the same index at its 2009 low, 666.79, selling it in February, 2020, at the high of 3,393.52? You earned 4,089 percent, approximately 13.2 percent compounded. Recommendation? Invest for the long term. Use dollar cost averaging. Do something. Do not miss out!

# Sound Principles Still Hold Value

Article first published February 12, 2020

In all areas of life, there are principles to be learned and applied. Finance is no exception. Many bedrock fundamentals found in the Bible have proven their worth over the past two thousand years or more. One is diversification. Spelled out in Ecclesiastes 11, verse 2, Solomon counsels, Divide your portion to seven, or even eight, for you do not know what misfortune may occur on the earth. Another is changes in circumstances.

Unfortunately, our human nature provides us a strong bias toward giving greatest weight to the most recent circumstances. Although this tendency includes bad times as well as good, recent financial results have been quite positive. In the recent past, diversification in your portfolio has likely not been helpful. The past decade (2010-2019) was pretty unusual. Because most commonly used stock indexes give the most weight to its largest tech companies such as Facebook, Apple, Amazon, Google, and Netflix, indexes like the S&P 500 and the NASDAQ had an incredible performance. But the large capitalized companies segment is just one of several major investing categories.

According to data of Novel Investor, in the past decade, the S&P 500 had one losing year in total returns, 2018, at -4.38 percent. On the other hand, international stock indexes had at least four losing years. Even the much less volatile segment of investment grade bonds had two loss periods in the decade. What to make of this? Is there a new paradigm

that makes diversification irrelevant or unwise? Not in my opinion.

Changes in circumstances, or reversion to the mean, is another market principle. While unusual periods do continue for a while, sooner or later, the more normal averages or trends will return. Thus, a decade of unusually great S&P 500 results is not likely to be repeated. However, more DIY investors have decided that putting all their money on this one stock group will be both effective and safe. Even though current economic conditions continue to be very favorable, the most important question is whether you will be ready for the inevitable major downtrend when it begins.

However, it is a terrible idea to be arbitrary in your expectations. Many are making a negative bet now, selling otherwise reliable stocks and stock funds. According to the Investment Company Institute, in the last two weeks of January, about \$12B left equity funds while over \$23B flowed into taxable and municipal bond funds. The incredible demand for safety and income from bonds has caused them to be extremely expensive by historical comparisons. A bursting of this bubble is likely.

Perhaps 90 percent of investment companies and advisors will never sell as market prices drop. But losing as little as possible in the inevitable bear markets is a key to long term success. If you are preparing to retire, this principle is particularly important for you. Beginning to draw on your investments in a poor market cycle can be deadly to your future financial health. In my opinion, auto-pilot is not a safe means for managing resources.

# What Ever Happened to Diversification?

Article first published January 8, 2020

Perhaps there have always been preachers of one solitary investment asset class. I remember Howard Ruff with his Ruff Times touting gold, silver and survival tips. He was correct about inflation in the later 1970s.

(According to Dr. Mark Skousen, millions of dollars went through his hands in the 1970s and 1980s. He said, For Ruff, money was like water in his hands –

**[www.markskousen.com](http://www.markskousen.com)**. His obituary may be found at **[www.nytimes.com/2016/11/17/](http://www.nytimes.com/2016/11/17/)**.)

But Ruff sang the same song in the 1980s and beyond, long after President Reagan and Fed Chairman Paul Volcker beat down inflation with the hammer of record high interest rates. Apparently due to the level of financial fear currently existing, some advisers have taken a similar tack.

These days even normal volatility in the markets has produced such anxiety that many are willing to limit their choices to fixed-income products with guarantees. These include CDs, fixed-interest annuities, and bonds.

What exactly are these? They are all promises to pay an investor a certain amount at certain periods with certain interest rates. The investor is lending money to a bank, a government or a company. He hopes he will get back his principal and some interest on time. He also hopes the

interest will be high enough to justify the time spent as a lender without the cash in hand.

The Federal Reserve tells us inflation is not a problem now, so it is doing its best to guarantee consumer prices rise by at least 2 percent per year. Therefore, your money needs to grow faster than inflation. And taxes – don't forget those. If not, I suppose the good news is you're only losing money at a guaranteed rate, a little each year. You may be better off buying next year's toilet paper and toothpaste and forget investing.

One local adviser with a radio show says individual bonds are the only safe course now. Last week he mentioned that one might be able to get a bond paying 5 percent per year for \$900 (instead of \$1,000, the issue price), but that the fixed interest payment is the paramount issue.

Let's examine that proposition. Ignoring for the moment that current-issue bonds of investment-grade borrowers paying 5 percent are scarce as hens' teeth, inflation must not rise to a 4 to 5 percent rate during the bond's life for this to be a good investment.

The longer you are willing to lend the money, the higher the interest rate you must require to be safe from inflation. But 30-year Treasury bonds were yielding 2.29 percent yesterday as I wrote this. Would you lend the government money for 30 years at that rate? TD Ameritrade's Yield Grid shows that the lowest rated investment grade bonds, BBB, now yield 4.487 percent per year for those maturing at least 20 years in the future. Same problem.

During some periods, these might be the very best places for your money. But in the past 40 years, we have experienced 14.8 percent 30-year Treasuries in 1980 with 12.5 percent inflation down to the present ultra-low rates ([www.thebalance.com](http://www.thebalance.com)). At one time, I personally thought 6 percent was a new floor for our economy. Now I know to never say never. My next column will examine the past decade in light of the diversification principle.

# What Ever Happened to Diversification? Part II

Article first published January 15, 2020

Last week I opined concerning the dangers of the supposedly conservative strategy du jour, that of having only guaranteed, fixed income investments such as bonds, CD's, or fixed annuities. Today we will look back at relative performance of different assets during the Teens decade to see if, even during the bull market for bonds that continued the past decade, would have been wise.

In the past decade, through battles of Congress and President Obama leading to government shutdowns and of Congress and President Trump leading to impeachment, painfully slow economic growth, zero interest rate programs of the Fed, continuing terrorism in the world, on and on—owning pieces of companies (stocks) reigned supreme. The end results may amaze you.

<u>Index</u>	<u>2010-19 Total Return</u>
Nasdaq 100	369%
S&P 500	256%
DJ Ind. Avg.	251%
Russell 2000	205%
International*	28%

High Yield Bonds            107%

BbgBarc Agg. Bonds        44%

Recall that some promote only fixed income for safety, that you should just spend less than these meagre returns for long term success. At less than 4 percent total return before taxes and inflation, you had better not need too eat much. Even junk bonds do not provide enough safety and return in the long term by themselves.

Therefore, we are proving the superior nature and effects of diversification. Consider the addition of only 20 percent stocks to your portfolio. Worth a little more volatility? That 44 percent total from bonds equals 3.75 percent per year. Adding 20 percent of the S&P 500 to 80 percent of the same bonds would have increased the return to a compounded 5.68 percent per year.

Just that extra 1.93 percent would give you a much higher probability of success so that your money may last as long as you do. Investing according to what is safe at this moment and sticking with it is a recipe for disappointment and disaster. Diversification is priceless!



# Too Late to Benefit?

Article first published December 11, 2019

In the past year or more, we have met with a growing number of folks, ultraconservative in their current investment philosophy. They explain that they jerked their money from any stock or diversified investment portfolio years ago, some before and some after the sub-prime mortgage fiasco of 2008-09. They have never felt confident enough to re-enter the water, so to speak. What are they to do? This situation and so many others like it call for this advice: Forget about what has happened or failed to occur, except for the educational profit of the experience. The real question must be, What is the next right (or wise) thing to do?

Whether they are invested in 5 year CD's at 2 point something or 30 year US Treasuries yielding less than 3 percent, they know that this current artificial government subsidy for borrowers (and knife in the heart of savers!) will not protect them against running out of money in their old age. With inflation of 2 or more percent, they are truly lending their money out at less than 1 percent net return.

If we just knew when the next crash is coming, we could tell them to hold on and be ready to invest in the best long term investment vehicles known to man, stocks (or equities). Alas, we do not. But we do know it is closer in time now than we were yesterday. All cycles will end, whether good or bad. You already know about the value of diversification of investment types and kinds. Another common reduction of risk is the practice of dollar cost averaging. This practice

relies upon a person putting money each period, usually monthly, into a basket of diversified choices. So, as the price of Investment A drops in value, the same amount of dollars purchases more shares of it during that month. When A rises again, there is even more profit in those shares.

This works both on the accumulation side and the liquidation side of the equation. Averaging smooths out the highs and lows while you are saving money for later life. Because you are automatically putting money into your 401k plan by payroll deduction, you have a greater likelihood of steady gains over the intermediate to longer term. (However, if the end of the world occurs before you retire, it won't matter so you can still be happy!) The reverse is also true if you set up your distributions during retirement using this principle. As prices of your investments fluctuate, you can choose to take out the same number of dollars from each position each month. You will need to make some adjustments to rebalance the positions, at least annually in my opinion.

My conclusion is this. If the future is anything like the past 100 or more years, you could safely switch 1 percent per month into a good basket of investments for the longer term. If the crash never came (a doubtful proposition), then you will have averaged into an incredible gain by the end of 100 months. But when the crash most likely occurs before the period ends, you would want to buy the investment positions while they are on sale!

Consult your investment advisor and stop waiting for a perfect time that might not come within your lifetime.

# August and the Stock Market

Article first published August 14, 2019

At Rotary Club of Independence on Tuesday, we heard Randolph G. Russell, a musician and businessman by past vocations. Now he is a historian and author by choice. He travels and encourages Americans to take up the cause of protecting our cultural heritage by promoting knowledge of our history to young and old alike. His book is “History in No Time.”

With respect to financial markets, those engaged in the industry are legally bound by federal law to warn that past performance is no guarantee of future results. Even if you are not financially literate, hopefully you have seen or heard this. With respect to perhaps a broader range of topics, Patrick Henry said I know of no way of judging the future but by the past. This was in addition to, Give me liberty or give me death!

I happen to agree with President Truman’s declaration that the only thing new in the world is the history you do not know. Therefore, I will today briefly share a bit of the history of the month of August in relation to the American stock market.

From 1901 through 1951, the farm harvests or their outlooks made August the best month of the year. In more recent decades, it has produced some of the worst results. On average, it is the 10th worst month for the Dow Jones Industrials Index, and the 11th for both the S&P 500 and Nasdaq indices.

This year, August is reinforcing that observation. The S&P 500 appears to be lower by 1.8 percent through Tuesday. The NASDAQ Composite Index and the DJ 30 have lost 1.94 and 2.17 percent month to date. (These numbers do not consider any dividends.) Furthermore, when there have been summer rallies for stocks, on average those of the summer (8.9 percent), are fourth in line behind those of winter (12.9), spring (11.3) and fall (11).

If you are at least an occasional reader of this column, you know I am an optimist by present nature. I like to focus upon the history of best results usually come during the period of the fourth quarter of any given year and the first quarter of the next.

Why do these matters lend themselves to statistical probabilities? In my opinion, the causes lie with our human natures and psychology. Every new challenge to our general economic lives – whether unrest in Hong Kong, changes in national currency values, fears of Mideast war, outrageous President Trump tweets – causes various individual and mass effects in the values of companies, and therefore their stock prices.

One of the reasons I love to study economic and financial cycles is that the developments are always new and different while the principles remain the same. There is hardly ever a dull moment. As the title of the book of the late comedienne, Gilda Radnor, cited, “It’s Always Something!”

# A Closer Look at How Big Stocks Work

Article first published January 30, 2019

In the past few years, the S&P 500 Index has had some good results when many investors' portfolios have experienced lackluster to poor results. Lend me a few minutes and I will attempt to explain this and hopefully provide some light on the subject. A large part of this phenomenon has come from the fact that most indexes are market capitalization weighted.

What in the world does that term mean? Simply that the results for the gigantic companies far outweigh the effect of those with the least values. In the past few years, you may have read about the FAANG stocks. This is an acronym of these companies: Facebook, Amazon, Apple, Netflix, and Google.

The value of these behemoths far outweighs that of the combined value of those in the bottom quartile of companies. Let me give you an example. At yesterday's market close, Microsoft was actually valued the highest of all those in the 500 Index, at \$805.8B. The 250<sup>th</sup> most valuable US company, Verisign, was worth \$20.3 billion, and the 500<sup>th</sup> most valuable, Leggett & Platt, located down in southwest Missouri, was valued at 5.2 billion.

The cumulative value of these largest 500 U.S. companies was over \$22 trillion as of year-end 2018, according to SIBLIS Research Ltd. Microsoft by itself represents almost 4 percent of the total. Smallish Leggett & Platt is only 2.3 ten-thousandths of one percent of the total.

So what? Many investment gurus like the late John Bogle, founder of Vanguard, concluded from their study and experience that no one should try to outperform a broad basket of stocks like the largest 500. In the past few years, those mentioned above represented such a large portion of the 500's value, however they fared virtually determined the general result of the whole basket.

When the bull market falters and loses steam as it began to in late September, the results of individual stocks tend to become more critically important again. From the high point of September 20 through Monday, January 27th, the best returns have come from the smaller members of the 500 for a change. Since then the FAANG stocks have lost between 8 and 28 percent of their total values. Apple has performed the worst.

A total of 26 stocks have produced greater than a 10 percent increase in value during that time. Only two companies over \$100 billion in value are in this group, McDonald's and 21st Century Fox. Starbucks is in the top 10 and is worth \$90 billion, but the lion's share of the rest are worth less than \$35 billion.

The point is that stock markets are and will always ultimately be huge collections of individual companies. When you judge everything by the movements of one or two indexes, even though they may represent the elephants of the jungle, I believe you miss out on many opportunities. This is why there is always great opportunity for those who do their homework and mine for the richest veins over time.

# Looking Back, Looking Ahead

Article first published January 9, 2019

Life can only be understood backwards; but it must be lived forwards, observed Soren Kirkegaard, 19th Century Danish philosopher. Therefore, we must examine at least briefly what occurred during 2018 in the worldwide financial markets.

As noted in prior columns, probabilities were high that it would produce a stock market slump in the second half of the year if only because it was the second full year of the Presidential cycle. Nothing in life is certain but we continue to have confirmation of this from the terms of Presidents Trump back through Reagan. The exact reasons for this phenomenon are unknown, but it is more profitable to know the fact than the reasons behind it.

I know of only one friend who may own only the S&P 500, but almost all pay attention to it so we will begin with it. Total return including dividends was minus 4.39 percent. The Dow 30 Average lost 3.48 and the Nasdaq 100 eked out a .04 percent gain from its dividends.

The reason you may have dropped more in value than those lies in diversification. The MidCap index shed about 11 percent.



The SmallCap Growth index fell by 4.09 percent without dividends, but those stocks rarely pay them. The Value SmallCaps lost 12.68 percent. The worst of all results came from international markets with the MSCI\* World (ex US) index dropping 14.2 percent in price. This year, diversification actually cost money.

Almost all indexes are weighted by the worth of the company values (market capitalization weighting) and so, results varied greatly from one stock to another. In the S&P 500, Advanced Micro Devices rose by 79 percent while formerly blue chip General Electric plummeted another 56 percent. Only 174 of the index gained any price increase.

Even the so-called FAANG stocks divided this year. While Netflix and Amazon gained quite a bit, Google lost a little bit, Apple dropped over 6 percent and Facebook dived by 25 percent. Mark Zuckerberg is feeling a little bit poorer these days, but I doubt if you feel too badly for him.

The other side of the table, fixed income, fared a little better by year end since the proceeds from stock sales moved to the supposed safety of bonds and cash. On the last business day of 2018, Bloomberg Barclays US Aggregate Bond Index finally went positive and gained .01 percent! If not for that, it would have been the first year in history that both the S&P 500 and the Aggregate Bond Index had lost money in total returns.

Intermediate US Treasuries gained 1.4 percent because dividends received were a little higher than the value lost. Same with Ginnie Mae's at 1.03 percent and long dated municipals at .34 percent total return. The higher yielding Investment Grade and High Yield US Corporate bond indexes lost value even with dividends paid, each down over 2 percent.

The bottom line is that those of you with bank money in the form of CD's of a couple years or longer in maturity finally won the annual contest.

Don't gloat because, while this happens once or twice a decade, the third Presidential years are the highest for stocks again. It is a perfect 19 times in a row and 21 of 23 since 1927.

Speaking of 2019, the economy is still doing fine. We have gone from stocks priced for perfection in September to now being priced as though we were already in a recession. The S&P 500 PE ratio is now just over 15. Our friends at First Trust LP expect earnings of the S&P 500 to grow by another 20 percent this year. Interest rates can stand to be higher without choking off US economic growth. The sky will probably not fall even if growth slows.

All statistics from Bloomberg, By the Numbers Research, or Worden Brothers, Inc., TC2000, 2019.

# When We Least Expect It

Article first published December 6, 2018

I may not have harped on the subject lately or you might have become a more recent reader of this column, but today—short and sweet—I am explaining why investors should be surprisingly hopeful and positive about the stock market in the next 12 -14 months.

Long time readers can recite with me: history repeats itself and the stock market performs consistently over four year presidential term cycles. It matters little which party holds the oval office. Since World War II, only once, in 2015, did the Dow Jones Industrial Average suffer a loss during the year prior to the presidential election year. Under President Obama in his second term, the Dow lost 2.2 percent. This comes from a statistical treasure trove known as The Stock Trader's Almanac.

If one reviews the cycles back to President Jackson in 1833 and averages every one, the third full calendar year has produced an average 10.2 percent gain. And the next best year is the fourth year or 2020 in which we will next regularly schedule a chief executive vote. That average comes in at 6 percent positive.

Does it matter what else is going on in the world? Apparently not since positive results marked even years during which we were fighting in Viet Nam, replacing President Nixon, fighting the Cold War, the Iraqi War, or suffering the effects of Zero Interest Rate Policy.

There are suggested reasons for this phenomenon, mainly having to do with extra (federal spending) gas often poured on the national economic fire. But I have not the foggiest notion why it should be such a strong trend.

What I do know is that it follows the mid-term election year. The second year, 2018 for example is usually the worst or second worst year of the cycle. Is that because we vilify everyone so vehemently who may not agree with us? I don't know that true causation either.

Most financial experts still promote the efficient markets hypothesis. That proposition holds that at any given time, each stock's price makes sense because it is in equilibrium between those willing to buy and to sell.

The Fike Market Hypothesis holds that stock prices make sense for about 15 minutes as they rise and 15 minutes as they plummet. Was the stock market priced correctly on September 20th when a new high of 2,939 was reached? Or was it rationally valued a few weeks later when it touched down to 2,598, almost 12 percent lower? One of our favorite market watchers said that the latter value was pricing in a full-blown recession in the very short run. Sounds pretty unlikely to me.

After a Monday of wonderful gains, the bottom dropped out yet again. Again, I do not know why. The important factor to remember is that this element of volatility is absolutely essential for anyone to be able to make a greater return than found in a perfect Certificate of Deposit guaranteed by your local bank and the FDIC.

But when a statistic holds true decade after decade, I believe it is more likely than not, that this trend will continue. More importantly, you and I can make money using it. The economic fundamentals are still getting better and better. If I were a betting man, which I am not, I would bet you will be surprised at how well Mr. Market behaves in the next year.

# Investment Strategies Put to the Test

Article first published October 3, 2018

If you are a serious investor, your biggest question has been or will be, “When will this present bull market come to its end? Over the decades, I have talked to hundreds of people who have had experiences and results from one end of the spectrum to the other.

Most folks in the universe undoubtedly practice the buy-and-hold approach. In this method, one is to buy a selection of diversified mutual funds or other investments according to his or her risk tolerance and hold on to them (sometimes for dear life!), no matter what develops in the markets or how wretched the financial weather.

The primary problem with this approach is that a large group of people create the absolute bottom of the cycle based upon psychology – fear, to be specific. When the greatest number of investors can no longer stand losing another dollar of value, they sell in lemming-like fashion, causing another drop in values.

When everyone who is the slightest bit tempted to sell has sold – usually everything they have – Mr. Market reverses course and the buyers take over. This sends prices upward in their usual ratcheting, bullish trend. Something like two or three steps upward, one step down.

The last time this occurred was in the December 2015 to February 2016 period. It so happens that this was the sharpest drop in about three weeks in history. Fortunately, the economy was such that the drop from the prior May to the February low of about 14 percent shook out enough sellers, the bulls' regained control and went on their merry ways.

Prior to this, the squabble between President Obama and Congress touched off a frightening fall in stock values between May and October 2011. Even this was said to be insufficient to define an end to the bull market that began on March 9, 2009, when the insane mark-to-market accounting rule was finally lifted. A bear market is defined as one in which index prices drop by at least 20 percent.

The buy-and-hold proponents tell us that unless one knows the exact day in the cycle to sell out, there is absolutely no good way to manage your money otherwise. In fact, one of my friends in the business with that group told me in no uncertain terms that providing better results by adjusting with the conditions is impossible. If we were getting those results, it was by sheer luck!

Au contraire, I protest. There is a small but mighty and vocal minority of the world's professional investment community admitting to the use of technical analysis to try and determine the relative health and direction of Mr. Market in his wanderings.

Why is it such a minority? In my opinion, this is primarily because the last thing investment companies want is more volatility in their level of assets and, therefore, their revenue. But when those brutal drops occur, they experience that anyway. Plus, it is more difficult a task for any advisers who would dare to take some responsibility for clients' results.



# Are Bonds the Best Option?

Article first published January 24, 2018

Investors talk about bonds as a financial holding and most own some. But I find few people really understand them. Why are they are considered safer than stocks? Why at times might they not be as safe as thought? Within the investment realm, one can only choose among four basic types:

- own money (currency)
- own tangible stuff (land, gold, silver, paintings, etc.)
- own a business or part of it (stock)
- lend it to borrowers for a time period (bonds)

Everything else is an offshoot of these I would suggest. I am using *bonds* as a much-too-general term for this lending. The concept could include Certificate of Deposits, a loan to your cousin due with 5 percent interest on January 1, 2020, or one to the US Government due in November, 2047, 30 years hence. In each case, the investor does not primarily care about the financial welfare of the borrower so long as he or it will be able to pay back the principal with the agreed upon interest rate. The interest rate is the cost of the money.

Since the 2008 financial crisis, the Federal Reserve has felt the need to make the cost of money almost nothing.

This is the primary reason why the recovery from it has been the weakest or slowest in our history.

In some other countries, lenders are paying the borrowers to take their money and use it! This is called negative interest. In other words, the borrower is doing the lender a favor to take his money and the lender takes a loss on the investment. My advice? Don't ever make that investment.

One of the most important determinants of interest rates (cost of money) is the level of inflation, both currently and expected. If you are willing to lend money to your Uncle Sam at about 2.9 percent\* per year until November 2047, and you are otherwise rational, you are optimistically expecting the inflation rate for almost 30 years to be extremely low.

If you receive annual interest of \$2,900 a year on \$100,000 invested, the total interest equals \$87,000 plus you receive \$100 grand back. If inflation and taxes cost you more than 2.9 percent per year over the 30 years, you also will have lost money on the transaction. That is, the money that you are repaid even including the interest is less than the value it takes to buy your cost of living. That is also not a good idea.

Why do people do this then? Since 2008, worried investors have most focused on the supposed safety of their principal. If the government runs out of money, it will just print more and send you some, right? When anxiety reaches this level, people would rather lose some money slowly than to risk losing more. Even in a bond bear market, losses of value are usually less than in stock market corrections or crashes.

\*2.86 percent yield quoted, January 23, 2018, TD Ameritrade Institutional.

# January Barometer Redux

Article first published February 8, 2017

A few weeks ago, I described the stock market January Effect test as an indicator of the probable direction of indexes for the rest of 2017. Since one-twelfth of the year has zoomed by, let's look to see what happened. By the way, the indicator is infinitely more accurate than Punxsutawney Phil with his weather forecasting gig in spite of last year's non-compliance.

The performance of the first five days was positive and this is useful as an early warning indicator. All three primary indexes, the S&P 500, Dow Jones 30 Industrials, and the Nasdaq 100, were positive. The Nasdaq flew out of the New Year's gate and has not really slowed down.

Through the 31<sup>st</sup>, the tech heavy Nasdaq 100 gained over 5 percent. The S&P 500 came in second, up 1.79 percent, and the Dow Industrial Average took a relative breather and its fast and furious uptrend during November, higher by .51 percent.

In an unusual fit of brevity, I will close by saying that with over 80 percent accuracy in recent decades, this indicator bodes extremely well for the rest of 2017 and its financial equity US markets. There is nothing in the general economic climate to put a damper on this current outlook.

When it fails to correctly predict a good market for the succeeding eleven months, an external shock is often to blame. A shooting war or a major terrorist event can derail the optimism that seems to be breaking out concerning the US economy. And as I think I will become most tired of hearing, we could be only a tweet away from a misstep.

Statistics are from Worden Brothers, Inc., TC2000, 2017.

# Application of the January Effect

Article first published January 11, 2017

For long term readers of this column, you might remember the stock market January Effect from prior years. The basic premise is that if the stock market is higher after the first five trading days of January, and if it ends the month higher than the end of December, odds are quite high that the stock market will end that year with a decent increase of more than 5 percent.

The market observer who found this correlation originally in 1972 is Yale Hirsch. He noted that since the 20<sup>th</sup> Amendment (concerning the terms of presidents and Congress) to our US Constitution was ratified in 1933, as stock indexes performed during January, so went the year. Full explanations and data are updated annually in the *Stock Trader's Almanac* published by John Wiley & Sons, Inc., Yale and his son, Jeffrey A. Hirsch now serving as Editor at Large and Editor in Chief. The 2017 version of which I am a satisfied owner is the 50<sup>th</sup> Anniversary Edition.

The first five trading days of 2017 ended on Monday, the 9<sup>th</sup>, this year. Although the bellwether index is the S&P 500, all three major stock indexes filled the requirement of positive results this year. We are off to a good start and most of us would probably confess that we have been pleasantly surprised by the so-called Trump rally since the initial shock that Mrs. Clinton did not win the election. Since November 9, the S&P 500 has risen 4.88 percent through Monday's close. The Dow 30 is up almost 7 and the Nasdaq 100 higher by almost 4 percent.

Does this predictive tool really matter and if so, to whom? Since 1950, there have been only 8 years that have not followed this pattern within a margin of error of plus or minus 5 percent. That is an amazing record to 87.9 percent. But if you throw out the margin of error, the performance is still 75.8 percent. For those who really want odds to be on their side, this is definitely statistically significant. If you are already invested as you want to be and you never change anything, it at least can be mildly reassuring that you may be financially better off by December 31.

If you want to attempt to drill down a little more, let me provide some additional information. Since November 9, 2016, the only sector of 11 that has barely shown an increase is that of Consumer Defensive, sometimes called Consumer Staples, at less than .2 percent. Healthcare and Utilities, also defensive stock sectors, come in at 2.16 and 2.1 percent respectively.

The hottest sectors were these: Financial, 11.2, Energy, 9.2, Real Estate, 7, and Industrials, 6.4 percent respectively. Consumer Discretionary/Cyclical, Basic Materials, Communications, and Technology fill out the rest with increases between 5.6 and 4 percent. As you can see, the S&P 500 at 4.88 is almost at the median of the 11.

By the way, the surest instances of derailment of this barometer usually involve wars or major changes in US financial policy. But it is never a dull moment and perhaps that is why the financial markets hold my attention so well.

General market statistics from Worden Brothers, Inc., TC2000 software, 2017.

# Climbing a Wall of Worry

Article first published December 29, 2016

I must be getting very mature in annual lap counts. Even though I do not feel old at all, the New Year's Day celebrations are clicking off with but a few days in between them. Seems like a couple of months ago that I was saying good riddance to 2015 since even the S&P 500 eked out less than 1.4 percent total return only by virtue of dividends paid.

I claimed optimism about 2016 one year ago this week in these same pages. I just didn't know we would experience the worst period of 28 stock market days in the past six decades even before Ground Hog Day. By the time the year's stock market low occurred on February 11<sup>th</sup>, some experts were saying things like, You ain't seen nothin' yet!

In April, BlackRock CEO, Larry Fink, opined that the market had gotten about 70 percent of the drop that should have occurred in the market correction ([www.cnbc.com/2016/04/14/blackrocks-fink-expects-stocks-higher-by-year-end.html](http://www.cnbc.com/2016/04/14/blackrocks-fink-expects-stocks-higher-by-year-end.html)). But the citation shows his expectation for the stock market by year end.

As recently as August 4, Brian Kelly a CNBC contributor noted that Warren Buffett's preferred method of valuing the stock market—comparing Total Market Capitalization to the US Gross Domestic Product—suggested stocks are significantly overvalued. ([www.cnbc.com/2016/08/04/if-you-follow-warren-buffets-strategy-this-market-is-significantly-overvalued-commecommmentary.html](http://www.cnbc.com/2016/08/04/if-you-follow-warren-buffets-strategy-this-market-is-significantly-overvalued-commecommmentary.html)).

In the meantime, the stock indexes climbed their proverbial wall of worries and have marked numbers of record highs in the past couple of months. Happy Days must be here again if you consider that stock prices express the optimism of investors out about six to nine months. Through last Friday, the Dow Jones Industrial Average has risen 17.5 percent this year. The S&P 500 registered 13 percent up. The tech heavy Nasdaq 100 lagged with an 8.9 percent rise, a little better than the S&P 500 Growth Index at 8.1.

If you added a global focus for safety through diversification, you failed to keep up. The MSCI EAFE index comes in with just under .4 percent year to date. Emerging market stocks suffered an incredible loss of 32 percent in 2015 and just recently have begun to make upward progress. The traditional safe haven of bonds as measured by the US Aggregate index delivered you 1.97 percent, behind the 2.1 percent of core inflation (<http://www.ftportfolios.com/Commentary/MarketCommentary/2016/12/27/week-of-december-27th>).

Just in case you think all watchers are sanguine about a wonderful 2017, Robert Schiller, Yale professor, has his own stock market valuation method called the Cyclically Adjusted Price Earnings ratio (CAPE). Using this one, we should all run, not walk, to the stock market exits. Markets are greatly overvalued using this comparison, according to Nicholas A. Vardy ([www.marketwatch.com/story/will-us-stock-markets-soar-20-in-2017-2016-12-23](http://www.marketwatch.com/story/will-us-stock-markets-soar-20-in-2017-2016-12-23)).



For my part, I expect a reasonably good rise in stock prices during 2017 again. There are some excellent supports for this including the optimism that greet most new Presidents in their first year, and the rise in the growth rate of revenues and profits that began in the past several quarters after a flat period. I just hope the rise will not be so exciting this year. I did not care much for the 2016 roller coaster experience.

# Chapter 2: Faith and Community



# Giving Thanks, Even in Difficult Times

Article first published November 24, 2020

As I try to collect my usual optimistic thoughts for this particular column I have written for over 20 years, I am having difficulty. I am still extremely thankful to God for His infinite blessings and I could provide more specifics than any of us would want to read. My heart aches however for our nation.

Now, perhaps more than ever in my short 68 years, Jesus' description of us—humanity in general—of being sheep without a shepherd seems painfully accurate. A cliché like the perfect storm could describe this year. Many would blame our deep malaise upon the very existence of President Trump. But will those most rabid in their hatred for him or even their support of him continue to be consumed by anger, discontent, and profound unhappiness?

From even before 1776, American politics has been messy, often uncontrolled in its nastiness and maliciousness. Steve Scalise, Republican US Representative of Louisiana, has fortunately recovered by his attempted murder by a quite unhappy Bernie Sanders supporter in June, 2017. From here in Kansas City in October, 2018, an editor of Raw Story called Scalise an accomplice in his own shooting since he supports the Second Amendment.

In our lives, we have not witnessed Congressional physical violence though. In May, 1856, Democratic US Representative Preston Brooks of South Carolina came into the Senate Chamber after adjournment and beat unarmed US Senator Charles Sumner of Massachusetts into unconsciousness with his cane. Sumner had two days earlier given his speech, The Crime Against Kansas, severely criticizing Senators defending slavery.

There were scores of physical fights between Congressmen prior to the Civil War in the Capitol chambers. In a Maryland honor duel in February, 1838, a Kentucky Representative killed a Maine Representative on his third rifle shot. Each had missed the other the first two times!

Perhaps knowing this history should make me feel better about current incivility. As a Christian, I care for the welfare of all. I believe I also respect the rights of those who disbelieve in God. Expressing my own faith is not an act of hatred. But before this present time, I have never read so many social media posts suggesting our national and personal ills are due to the very existence of Christians and their faith. To me, this is a frightening trend in public discourse.

Politics has not and will not save us. The disgraced attorney, Charles Colson, expressed this view long after his conversion and years of service to the incarcerated: I meet millions who tell me that they feel demoralized by the decay around us. Where is the hope? The hope that each of us have is not in who governs us, or what laws are passed, or what great things that we do as a nation.

Our hope is in the power of God working through the hearts of people, and that's where our hope is in this country; that's where our hope is in life. What I know by faith is that no matter how rotten our society may be and become, God will be the same. He will love and show faithful mercy to each who renounces his or her personal selfishness and embraces His infinite grace. For this I will be eternally grateful.

# Rules by Which to Thrive

Article first published June 24, 2020

Are you concerned by signs of social disintegration of the past month? Is there injustice, inequity, racism, hatred and other evidence of sin in our world?

Absolutely. Does it help anyone of any group to allow, much less encourage willful rioting and looting? Absolutely not. Neither does it help for those whom we entrust to protect us to give blanket amnesty to those tearing up local neighborhoods.

What is the long-term answer? Strong nuclear families. Examine the writings of economist Walter E. Williams of George Mason University. Now 85 years of age, he often describes the strength of African-American families of the 1950s versus the plague of family disintegration in the past two generations since, with the relative consequences of each.

The Brookings Institute is no hotbed of conservatism, but Ron Haskins, Senior Fellow of its Center on Children and Families, gave the key to American financial success before the Senate Finance Committee, June 5, 2012. He said, Young people can virtually assure that they and their families will avoid poverty if they follow three elementary rules for success complete at least a high school education, work full time, and wait until age 21 and get married before having a baby. How much difference could that make?

Haskins research showed that those who followed all three had only a 2 percent chance of being in poverty and a 72 percent chance of joining the middle class (income of at least \$55,000 at that time). Those who broke all three had a 77 percent probability of living in poverty with only a 4 percent chance of hitting that \$55,000 income.

Who helps young people to hit those targets? Parents. Having spent 12 years as a school board member, we all knew parents are the single most important determinant in student success.

In the U.S., we don't have major economic problems. We have a major family problem. It does not matter much if you are well educated, white, Black, Hispanic, Asian if you are a mess in your personal life, you will not become or remain successful.

We can wish all we want about all the effects of poverty and social disintegration, but until our nation finds its social and cultural health, horrible consequences will remain. Let's go back to the basics. This will save lives and help us all to get along much better.

# Reasons for Thanksgiving

Article first published November 26, 2019

If you have ever been on a mission trip to a lesser developed country, you probably witnessed that native people, especially children, seem to be happy despite their horrible living conditions. Why is that? Perhaps because they are not so spoiled as we are? I wonder if that will continue as they access cellphones and see all of our toys they do not have.

This American Holiday is probably my favorite. It began as a feast (no matter the exact circumstances or participants) of incredibly poor people thanking God for their very lives. So many immigrants had already died and more would die soon.

The observance is really not about stuff—not NFL football, not Black Friday deals nor any of the superficial trinkets we pile up around us. In my view, it is all about the grace of Almighty God, Creator of the universe, owner of everything including you and me. For His own purpose of love, He desires a relationship with each of the seven billion souls currently on this globe. For this message I take to be true, I am extremely grateful.

While He focuses upon each individual, collectively we here in the United States have been enjoying the fruits and heritage of a people who worshiped God, albeit imperfectly. Yes, our founding was imperfect. It is easy to note there were slaves in the Western Hemisphere including the Colonies. This despicable condition of the past several thousand years existed almost everywhere at that time.



(However there are more people enslaved now than ever in the history of the world. We are still fighting it.)

One can cite many imperfections not only in our national roots, but which also continued for decades or centuries in our development. But there has not been any other single country so dedicated to improving, to become right in ourselves and in our behaviors within the United States and with respect to all those in the world.

During most of our history, the great advances in this process have come from those who worship this God of the Jews and Christians. As in England, these people were the instigators who would risk the very division of the Union in order to free slaves. Also long before there was a government welfare program, churches and synagogues provided food, clothing, shelter, began schools, colleges and universities, and hospitals as well.

Although such beliefs and principles are coming under attack seemingly from all quarters, I am confident that God will continue to reward those who desire His grace and mercy and that they will continue to make a significant difference for the good of others. I am grateful that at this time of history, I have the freedom to state my beliefs and you, gentle reader, have the freedom to evaluate this and other communications and to accept them or reject them.

In closing, I wish you well and hope you and your family enjoy this week and holiday. I will be openly thanking God for His goodness to us in spite of our never ending imperfections and transgressions.

# Life's Unexpected Results

Article first published July 10, 2019

Last week, some family members and I drove to northern California and back. Never doing things the easy way, we drove 1900 plus miles in the first two days, enjoyed two days with extended family members, and drove 1900 plus miles on Friday and Saturday. Like the terrible joke about flying somewhere, Boy, were my arms tired!

Our cousins had lost their home and all of their stuff in the Camp fire that destroyed most of Paradise, California. Our purpose was to deliver a load of good used woodworking machinery and equipment to them so our cousin can get back to making wonderful creations for other people. Mission accomplished. They loved it!

Paradise was a small city in the foothills of the Sierra Mountains with a population of about 26,000 in 2010. For comparison, that is about 5,000 more than Sedalia, Missouri. At least 6,450 homes and 260 commercial business buildings were destroyed in one day.

When we drove up into what is left of Paradise today, a number of matters came to my mind. Of the remains of burned out homes and businesses I just saw, how many owners had sufficient fire insurance to rebuild? It is too early to tell. Of the businesses, how many owners had business interruption insurance?

This is unusually short and hopefully sweet today. Do you have all the coverages you need for your own home, your business if you have one, your income in case of sickness or injury, your life in favor of your beloved family members?

None of us are planning to have a fire that destroys our home or most of our entire city, but some will suffer the same fate or one similar to these every week, every month, every year. It is too relatively easy to find a trustworthy insurance professional not to be protected as we should be. We are able and responsible to be prepared.

# Giving Thanks

Article first published November 21, 2018

Wow, what a year this has been! I traditionally fill this space at Thanksgiving time with the same sort of thoughts you will see today.

We seem to be experiencing a tearing of the national fabric if you get all of your news on screen. Yet I truly believe most of us in the middle—the middle class, middle of the country, or middle of the political spectrum—are still thankful to God for the intangibles we have, not just our stuff. It is not too trite to remind ourselves that the most important things are not things.

Thousands of our fellow citizens are experiencing the loss of almost everything tangible they had before the fire, the hurricane, the tornado. Karen and I spent a couple of nights in Paradise, California two weeks ago. Three mornings after we left on our journey north into Oregon, the bed and bedroom we slept in were gone in a matter of minutes.

Thankfully, my cousins got the word that Thursday morning. They left quickly before the roads were jammed with vehicles. They now bring shudders to us as we see their metal skeletons in various shades of gray and white and imagine the terror of their owners.

The genealogies, sentimental keepsakes, plus the more easily replaceable furnishings evaporated into the smoke that still fills the California breadbasket farmland.

Our hearts hurt for that, but how much more for the families of those who remained trapped in houses or autos, unable to even attempt an escape. However, most of us are in reasonably good health, have too much to eat, have a car for every adult in our household, but we still lack a peace and contentment for which we yearn. Some of us have not yet learned that thing about the things.

But I am also convinced that we in the United States share a common characteristic. Even if I have everything going for me with nothing of any great importance about which to complain, I often ache with compassion for those who are hurting around me. And in this age of worldwide media, everyone on the planet looks to be around me.

This week I have seen some in Portland, apparently so moved by some emotion, they think tearing up the town is necessary to cause change. I am thankful I know so many of you who instead share generously of your effort in time and your resources in money in strategic ways to alleviate hunger, disease, social ills from our families' disintegration, or positively by promoting the arts and public beauty, things that restore our souls and inspire us.

This is not now and never will be a perfect world in its present state. In the meantime, our work is to freely, enthusiastically, and effectively help each other grow and develop to personal maturity, peace, and contentment. We engage in that process regardless of our age and regardless of whether there is any compensation. That is my wish and hope for myself as well as for all of you. I will be most happy if I never lose the bent to be sad with others and compelled to try to help them. For these intangible gifts, I am truly thankful. Have a blessed Thanksgiving.

# What Will Be Our Legacy?

Article first published November 15, 2017

Yesterday morning at the Kingdom Advisors monthly meeting, Bill High, leader of the National Christian Foundation—Heartland organization, spoke on the subject of Legacy Planning.

KA, a national organization, consists of attorneys, accountants, insurance and financial advisors across the country who are dedicated to helping members of the Church at large to wisely manage all the resources we have. Of course, this is not just our money and stuff, but our time and attention, our very selves.

Hopefully at this time of Thanksgiving, we think a little longer and more deeply about our priorities in this life—our relationships with God, our spouses, children and grandchildren. Our financial resources are meant to be just a means to an end, a tool we use for our needs and to bless others as well as we can.

The brevity of this physical life becomes clearer with every passing year. What am I preparing to leave behind for my children, grandchildren, and perhaps future generations I will not get to see and know?

As advisors, we often chuckle with clients who stress that their primary goal is to make it through to their lives' end with a dollar left. It is not their intent to leave a bundle to the next generations, but if something is left, that is fine too.

I submit that our non-financial legacy is far more important than any monetary inheritance we could ever leave to them.

Why is this such an unusual topic for discussion and planning today? Even those leaving hundreds of thousands or millions of dollars spend almost all their time and attention upon their financial assets, not the lasting values for which they stand. We know we have to engage good lawyers and others now to make all the pieces come together after our deaths so our desires are implemented as easily and inexpensively as possible. That is necessary.

Have we fallen into the pit of current culture, thinking that it is none of our business how our descendants turn out? Every person must go his or her own way, make his own mistakes, and learn the hard way because there is no objective truth, right?

The process of educating the young is difficult enough even when we are willing to claim we have a body of knowledge *and wisdom* accumulated from prior generations. Today we are reluctant to declare this. We think teaching youngsters that principles of morality and values can help them live better lives is somehow the height of conceit.

On the contrary, most people learn from their own mistakes, but wise people learn from others' errors. Stupid people do not learn from either. Should not we love our own family members enough to try to help them navigate this complicated, often difficult life? Even if they are not wise enough to learn what they could, we will have done the right and loving thing.

# How to Leave Our Legacy

Article first published November 22, 2017

Last week I discussed the opportunity to pass on to our families our bedrock principles. Some refer to this as our social capital. Our inheritance may be large or small, but the beliefs and wisdom we have gained over decades should be far more valuable than cash one hundred years from now, assuming the globe is still spinning then.

Consider what you know about your great grandparents or their parents. According to a survey by Ancestry.com in February, 2007, half of Americans know either none or only one of their eight great grandparents' names. Even though I know their names, I have no clear grasp of their values. They might have been wonderful or as easily been horrible people! So, how might I try to overcome that lack of knowledge for my great grandchildren?

We must be intentional and make concerted efforts to communicate. Does anything special happen in this life without intentionality? Since I am not a great planner/plodder, I admire those who are. I can provide a dozen great ideas, but following all the way through to implementation is difficult. Let me share some strategies and I will appreciate hearing from you about your own experiences and ideas.

For matters of the heart, the simplest solution may be for us to write letters to our future descendants explaining life's lessons we have learned.



We can update them as we age further and make more mistakes along the way, thereby gaining more wisdom. With self-publishing now being possible at moderate cost, we can write lengthier accounts in book form of the lives of our grandparents, our parents, and ourselves. What were our motivations in life? How did we fail and succeed in our various efforts?

Wealthy people are paying thousands of dollars to produce professional videos of themselves explaining these matters for posterity. I have a friend in a nearby state who performs this function in connection with family intergenerational meetings.

With as quickly as technology has been changing, I have no idea how such communications will be produced and saved over the next few decades, much less for a hundred years or more. (What if your grandparents did this for you in Betamax and are long since passed? Hopefully their old equipment will still play the videocassettes.) Will today's formatted materials still be retrievable from the Cloud? I'm not going to worry too much about it. Whatever happens, our writings should be easier to understand decades from now than Egyptian hieroglyphics were in the 19<sup>th</sup> Century.

What else can be passed down? Experiences together. Almost any experience can be an opportunity for learning. Recently at U-W, Madison, it became clear that many young people do not know details of our national history, since they labeled Abraham Lincoln a slave owner whose statue must come down.

Since I believe our American History is incredibly important, as our children were in the 5<sup>th</sup> grade studying it for the first time, I arranged for a special separate trip for each of them. We visited places like Plymouth Rock, the Mayflower II,\* the Revolutionary War sites in Boston, Concord and Lexington, Mystic Seaport, and other eventful sites in New England.

Tomorrow as we give thanks to God for our incredible blessings, let's talk with our families about those things that matter most to us. That will be a good start. And we will still be stuffed with good food and get enough football watched.

\*The Mayflower II is currently being restored at Mystic Seaport in CT in preparation for the 400<sup>th</sup> anniversary of its arrival in Massachusetts in 2020.

# Reflections Upon 65 Years

Article first published November 1, 2017

Being in the middle part of the Baby Boomers generation, I attained age 65 late last evening. In days of old when the Halloween Parade was always held at night on the 31<sup>st</sup>, bad weather notwithstanding, my Mother and family had to break through the parade to reach the Independence Sanitarium and Hospital for my delivery. Or so I was told.

Our two bedroom home off US 24 Highway apparently had an outhouse until about then and the family of five shared two bedrooms. But my life's path has certainly led to a place of incredible opportunities and benefits. I feel a little like King David who wrote in a Psalm, Who am I that I should have been so blessed in this life, God? I could have just as easily been born the third live born child of poverty stricken dirt farmers in the Sudan.

It is a little early for a Thanksgiving themed column so please forgive me. But in recent years I have come to a place of conscious and consistent amazement at the almost infinite blessings most of us can count and enjoy, day after day after day. Sure some Americans have much more than we do, but we all have it so good compared to the billions of people on the other six continents.

It may be easy to complain when we don't have a particular possession, or cannot afford a particular hobby. But where else in the world do so many have more than they need whether it is cars, cellphones, televisions, food—

literally choices of hundreds of items to buy and the ability to choose on which to spend the basic level of money that everyone has?

I have not always had this viewpoint. Raised by perfectionists of the German heritage and having raised my own children the same way, I have often not been satisfied with my progress or even myself. The decades have made me realize our imperfections are absolute in their prevalence, that we are gifted in different ways by our Creator, but we need a tremendous amount of help from all those around us, none of whom will be perfect on this Earth either.

We strive to make this a better environment for ourselves, our families, and others. In our country, we have succeeded magnificently. But there will always be more to do, more to help, improvements to discover. Perhaps that is why my heart is always broken for those in places like the Sudan who would be more than willing to work if there was just something—anything—to do.

Therefore, I have no desire to quit my work through Stewardship Capital or any of the charitable activities in which I currently give time or money. I am so richly blessed in all ways I cannot but help to continue and try to improve day by day, as long as I have the ability. As I joke with my retired friends and acquaintances, I am going to try to pay as much Social Security tax as I can to support you!

Thank you for about 19 years of reading my information and thoughts in these pages and more recently, in cyberspace. I still enjoy it and I hope you have as well.

# The Great Divide

Article first published September 13, 2017

Prior to the civil war, Abraham Lincoln said “a house divided against itself cannot stand” and I believe those words are no less true today. Although the division we see in our nation has existed beneath the surface for many years, recent events have shown a spotlight on the cultural, ideological and economic divide that has engulfed our nation.

Several recent studies highlight the media as one of the most concerning elements of this national divide. The media, which has long been viewed as a natural protector of our democracy, is now seen by many as untrustworthy and corrupt.

According to a recent NPR/PBS poll only 30% of Americans consider the information they are given by the media to be trustworthy. This divide becomes even more pronounced when broken down by party affiliation. According to this same poll, only 9% of Republicans view the media as trustworthy. Not since the era of “yellow journalism” over 100 years ago has the reputation of the media been so low.<sup>1</sup>

What concerns me most about these numbers is the impact it has on the perception of truth. Whether it be politics, the stock market, or any other topic, once journalists are perceived as dishonest, it becomes reasonable to disregard any information presented you don't like or agree with as simply “fake news”. What results is a form of intellectual relativism, where absolute truth is something unattainable.

Recent psychological studies have shown that when doubt exists as to the authenticity of facts, we will naturally fall back on our feelings as the determining factor of what is true. The trouble with feelings is, due to their relative nature, they are often not shared by everyone else.

Harvard Neuroscientist Joshua Greene hypothesizes that when others disagree with what we hold to be absolute, our sense of self becomes threatened. And much like when we feel physically threatened, this perceived attack on our sense of self will often cause us to counter attack. <sup>2</sup>

I believe this is why we see an ever-growing hostility in the political arena. Rather than agreeing to disagree, or finding common ground, we label people with different points of view as either morally or intellectually deficient. We begin to be so convinced that our opinions are facts, that anyone who dares to question them becomes the enemy and must be stopped by any means necessary. Recent violence in places like Charlottesville and Berkeley is evidence, to me, that this is precisely what is happening in our nation. It must stop. As Lincoln said “a house divided will not stand.”

The question then becomes “how do we heal this great divide”? It may seem counterintuitive, but I have learned a great way to reduce my inclination to vilify those I disagree with is to regularly, and respectfully, discuss controversial topics with those very people in an appropriate setting.

By doing this, particularly with people I care about, their humanity is able to cut through the talking points. It helps remind me that my opinions are simply that, opinions. And reasonable people can, and will sometimes disagree.

After all, there is more we share that can bring us together than tear us apart. We just have to have the desire to focus on those things, and the courage to admit we might be wrong about some of the others.

1 [http://maristpoll.marist.edu/wp-content/misc/usapolls/us170621\\_PBS\\_NPR/NPR\\_PBS%20NewsHour\\_Marist%20Poll\\_National%20Nature%20of%20the%20Sample%20and%20Tables\\_Democracy\\_Trust\\_July%202017.pdf#page=3](http://maristpoll.marist.edu/wp-content/misc/usapolls/us170621_PBS_NPR/NPR_PBS%20NewsHour_Marist%20Poll_National%20Nature%20of%20the%20Sample%20and%20Tables_Democracy_Trust_July%202017.pdf#page=3)

2 <http://www.joshua-greene.net/research/infrastructure-of-complex-thought/>

# A Good Return of Life

Article first published June 28, 2017

Each February I participate in the Kingdom Advisors annual conference. Larry Burkett founded the predecessor, Christian Financial Planning Institute, in 1996 to have trained financial advisors ready to offer wise, Biblical advice for Christians everywhere. Ron Blue took the helm in 2003 when Larry died. Other organizations joined the effort and now Kingdom Advisors is comprised of over 2,200 attorneys, accountants, financial and investment advisors around the US.

The importance of this development to benefit the Church relates to Jesus' parable in Matthew 25 of the Master entrusting varying sums of money to three servants according to their abilities. We are responsible to our gracious Master to be working according to His agenda to accomplish His mission here and now, with a view toward a fantastic eternity with Him. We are responsible for using every resource He has given us, including our finances.

Isn't it a privilege for us to be able to accomplish His mission by investing our honest labor and resources in areas that interest us? The Christian tradesman practices his craft to God's glory. The Christian physician practices the healing arts to God's glory. In such diverse ways, we become the hands, feet, voice, mind, and heart of Jesus serving others AND fulfilling His mission on earth as found in Isaiah 61. In the process, He blesses us with everything we need according to Matthew 6:25-34.



Though our pastors do not often teach about wise financial decision-making, we can acknowledge that our temptations fall into several categories. First, our desires for current things and comfort are never-ending. Therefore, we do not save enough for ourselves, much less have a greater amount to share with others.

Second, we can focus on savings and investment returns so much that we are frantic if our accounts do not soar with the highest results. Proverbs 13:11 advises that gaining money little by little leads to better wealth. We should do our best to make the most we can SAFELY.

Third, when we have larger amounts, we may trust in our retirement account balance rather than in the God Who gave us the ability to earn it and Who owns it all. When each one percent of \$250,000 is \$2,500 and we know what it takes to earn that, we can forget that our security is in God Himself and our lasting riches are in the life to come.

Our financial resources are merely tools enabling us to travel through this life while producing a great return on His investment in us. We certainly want to hear, Well done, good and faithful servant! A Kingdom Advisor should help you clarify these critical issues of life so you will make truly wise decisions. It is not about the money; it is about our return on life.

# Chapter 3: Personal Finance and Improvement



# The Truth About Taxable Gains

Article first published February 24, 2021

A few weeks ago, I wrote about principles and rules for selling investments. Today I deal with the issue of income tax on investments.

Perhaps the most common reason offered by investors and promoted by the experts is the drag of income taxes paid upon ones investment gains. I am a person who likes to look at all sides of an issue. Perhaps this is a leftover from law school, but I believe I had the habit earlier. First, remember that this is only an issue upon accounts that are not tax sheltered, ones we call taxable. Most investment assets of the middle class are instead held in IRAs or other retirement accounts which will be taxed only when funds are withdrawn (if even then).

If the account is taxable, the principal has already been taxed, but the fruit whether interest, dividends or capital gains is often taxed. But if you sell a position after holding it at least one year and a day, your rate of federal tax may be zero, 15 or 20 percent, depending on your total taxable income.

Many studies show holding investments that steadily increase over long periods of time can definitely add a percent or more to performance. There is a concise explanation of this available at [www.investopedia.com/terms/t/tax-drag/asp](http://www.investopedia.com/terms/t/tax-drag/asp).

What I have witnessed over the past 50 years usually leads me to a different conclusion. Too many times, positions were not sold until most prior gains were lost.

GE provides us with a terribly useful example. Suppose you purchased 100 shares 25 years ago on February 23, 1996, at \$12.50. It was a stalwart of the economy, paid a dividend each quarter, and usually rose in value with the stock market.

During 2000, when the dot com companies were falling like rain, GE kept rising. You were pleased that by September that year, it reached \$58 a share, a gain of 364 percent. It still paid its quarterly dividend, it would probably continue to rise in value, and you did not want to pay tax on \$4,550 gain in 2000. You did not sell it.

Unfortunately, that was its peak value. Since 2000 it fell and rose and fell some more. Adjusted for a recent split, it hit a new low in March, 2020 of \$5.48 per share. But as of Monday, February 22, it had rebounded 128 percent to \$12.50. You just got your 20 year old principal back.

If sold at \$50, even down 13 percent, in October or November of 2000, you would have had about \$2,800 more principal left after a 25 percent tax. In November, 2000, Apple (adjusted for splits) was selling at a high of 41 cents per share. The \$2,800 would buy 6,829 shares of AAPL.

Currently about 12 percent below its January high, the \$2,800 invested in it then would now be worth \$860,487 at Mondays close.

This seems a farfetched example, but there are a quite a few companies higher in value by between 500 and a few thousand percent higher in two decades. Time is even more precious than money. Investing is best judged by the time value of money. It is a terrible thing to waste.

# Optimism Lies at the Core of Success

Article first published December 30, 2020

Most people would seem to be eagerly anticipating the end of 2020. Many of us have lost beloved family members or friends to the Virus. Perhaps a billion or more have had their financial health severely damaged or ruined. Experts called for the initial economic shutdown in late winter in order to flatten the curve. But as with many issues, even if an idea is ineffective, the recourse becomes one of doubling down on the idea for lack of one better.

As with many current issues, I seriously doubt if we will be able to reach agreement about best health practices even after this viral pandemic has passed. Division is the catch phrase today regardless of one's sentiments or worldview. Even with vaccines created in miraculously short times, some promise that this will continue for years to come.

None of this is really new. Pandemics through the millennia have killed millions as have wars, famines, earthquakes, volcanic eruptions—stuff happens!

Is all lost therefore? Are we incapable of planning a way forward or moving toward a better situation for ourselves and our families?

My answer is still No. There are always reasons for hope. The important questions concerning the future are not what occurs, but how one thinks and what one does in response.

Here are a few quotations of wisdom which we may apply. In the 16th Century, William Shakespeare declares from the mouth of Cassius, The fault, dear Brutus, is not in our stars, but in ourselves, that we are underlings.

A century ago, Henry Ford opined, “Whether you think that you can, or that you can’t, you are usually right.”

There are hundreds of quotes like these you may find in sources such as [www.brainyquotes.com](http://www.brainyquotes.com) that refer to our individual ability and responsibility for our own fates. This is not to deny that everything we ever have or will have including our own personality, will, and experience has been provided for us and to us.

As we look forward to 2021 whether it is in regard to our finances, our health, our relationships with family and others—we make the most difference in our lives by the desires we hold and the decisions we make day by day. My favorite question will always be, what is the next right thing to do?

May God bless you as you progress!

# Steer Clear of Clever Scammers

Article first published August 5, 2020

This is unlike any other year in our lives. Even our local weather is now unusual, even though in a nice way—a truly cooler August. One thing has not changed though. Many people are trying to steal from you. Modern thieves are using a combination of mail, electronics, telephone, and other media.

It has been some time since we wrote a column about this subject. But recently I received my own example of it. Earlier this spring, I signed up for a Social Security benefit available to couples born before January 1, 1954. I received a favorable determination in June and all seemed to be well. However, a few days ago, I received another letter supposedly from the downtown Kansas City SSA office on 12th Street, the Federal building. That address is correct and it certainly appeared to be legitimate. However, it requests that I send a photo of my driver's license, another state issued identification card, or a copy of my official passport. There is no reason given for this request except this: The sooner we receive the item(s), the sooner we can decide if you are eligible. Eligible for what? It does not indicate. Since I have already been approved and am receiving a small monthly benefit on my wife's account, this certainly seems strange.

The letter itself uses the same format and type font the Administration uses. It even tells me to visit the official social security website or to call the phone number of the Inspector General to report suspected fraud!



It obviously must be a really good fake in order to be an effective counterfeit communication.

What else could be the tip off? First, several years ago when I became 65, I established a secure web account to communicate to and from the Administration. You should have one if you do not. It has a dual security component and requires a code to be sent to my phone before even I can enter the site. Its Message Center details official communications I have received since turning age 65. There is no mention of any further requirements such as providing proof of my identity in my Social Security inbox.

Furthermore, the letter tells me that I can contact Social Security by visiting [www.socialsecurity.gov](http://www.socialsecurity.gov). That is not the Administration's official website. The correct one is [www.ssa.gov](http://www.ssa.gov).

Obviously, these differences are small and could be easily overlooked. The world should not work this way, but it does. You must be vigilant and skeptical of almost everything. If you are elderly and the most at risk, ask your children, financial advisor, or a trusted friend to review any requests for information like this one I received. You cannot be too careful!

# Know Your Medicare Options

Article first published October 9, 2019

I love October in the Midwest. In my opinion, it has the best weather of the entire year. The air is drier and the evenings are great for sweaters or sweatshirts. After some hard frosts, our allergies may be less intense. We experienced Americans, 65 and older, also have another round of healthcare choices—Medicare enrollment between October 15 and December 7.

Since I signed up for my own coverage a couple years ago, I had not examined the Medicare.gov website. I set that up yesterday and learned quite a bit. (We all remember the fiasco of the Affordable Care Act (Obamacare) website, don't we? I set my expectations accordingly.) Assume you are hitting age 65 this November. Your initial decision is vital to your healthcare future because you can choose any coverage available—the best, most expensive and comprehensive—even if you are mostly dead (in the words of Miracle Max in *THE PRINCESS BRIDE* movie!). If you are older, are pretty healthy and just want to compare alternatives to your current plan, you should be able to switch plans.

How much choice do you want with regard to your doctors, hospitals, and special care? Mainly you choose between a Health Maintenance Organization service that takes responsibility for almost everything about your healthcare versus a more open-ended insurance solution providing you broad choice of doctors, specialists, and hospitals as you go along during the rest of your life.

The first is called Medicare Advantage (Medicare Part C). There are 28 plans listed for Jackson County, Missouri. The immediate attraction to these is the monthly premium, often \$0 in addition to your regular \$135.50 Standard Part B premium. (The \$135.50 is being deducted from your Social Security payment. If you don't receive a payment, you are paying this monthly out of pocket.

The most important factors for these are whether your doctors and preferred hospitals are in the network and the amount of total Out Of Pocket Maximum (OOPM) expense per year for which you are responsible. Instead of a premium per month, you pay a co-payment for each doctor visit and usually a larger amount such as \$340 per day for inpatient hospital deductible for up to the first five days. Some Advantage HMO plans have an OOPM of \$3,200 per year. So your exposure can be as little as \$266.67 on a monthly basis. The co-payments for drugs can be additional to this so make sure you know about both.

I have personally always wanted to have the freedom to go to Mayo or Cleveland Clinic or elsewhere if I need a world-renowned specialist for my condition. (It's not that I am important—I just love choices.) But the Advantage PPO plans give me that opportunity too. For example, several alternatives have a higher in-network OOPM plus a \$10,000 a year OOPM even if you use completely out of network physicians and hospitals.

Next week I will cover the other side of the equation, the Medigap policies and Part D Drug Plans. In the meantime, if you have insomnia, read this column five or ten times!

# On Medicare Plans, Do Your Homework

Article first published October 16, 2019

Last Wednesday I discussed the Medicare Advantage programs and today we finish with the Part B Supplemental (or Medigap) coverage. By the way, Open Enrollment began yesterday and you have until December 7 to apply for a change of plan.

If you have not, I suggest you set up your online account at [Medicare.gov](https://www.medicare.gov). On it, you will see your current coverage and be able to find and compare 2020 plans. The website is somewhat cumbersome to navigate. It will not easily return you to earlier pages, but at least it is easy to log back into it. Note you can choose your health status between excellent, good and poor.

Choose the Medigap Policy Only button to investigate these plans. The one titled Drug Plan + Medigap Policy does not get you to the Part B coverages, only the Part D Drug Plans for some reason.

For my zip code in Independence, there are 11 options listed for those over age 65. These are listed in order of lowest potential premium per month.

Therefore, the Plan F High Deductible is first. It lists a premium range with the insurance companies available in your area. In my case, it is \$30-\$93. This is in addition to the \$135.50 Part B cost deducted from your Social Security (SS)

payment (or your bank account if you are not drawing your SS yet). There are 17 different companies offering this plan in this area.

Plan F High Deductible shows that you are responsible for the first \$185 of the year's doctors' and ancillary expenses but then have another \$2,300 of deductible before the insurance company pays everything else. There is no additional deductible for hospitalization.

The total estimated Out of Pocket Costs (OOPC) shown will be a shock. Even though you are only trying to compare hospital, physician and related medical coverage and expense, it lists \$1,626 for the required Part B premium (as though you have a choice), \$4,054 for Drugs, \$504 for Dental, and another \$768 for all other services per year or \$6,932 additional.

For those in excellent health, the total OOPC is estimated at \$4,630, with \$7,520 estimated for those in good health, and that for each person in poor health is \$14,990 per year. For some reason, the worse your health status, the less you are expected to spend on dental care! My advice is to examine just the amounts for Monthly Plan Premium, Inpatient Care, and All Other Services when trying to make this decision. By that measure, a person in good health is expected to pay only \$1,458 per year for his OOPC (except drugs). Out of that horrendous \$14,990 estimate for a person in poor health, the same cost is only \$2,430 per year.

Other plans provide better coverage but the premiums are higher each month. For example, Plan G is offered by 34 companies for my home area and premiums range from \$123 to \$248 per month. You pay the first \$185 for Part B

expenses per year, but thereafter the insurance company pays the annual hospital (Part A) deductible and every other Part B cost for the 20 percent not paid by Medicare itself.

The software system apparently chooses a mid-point monthly premium of \$165.78 instead of the lowest possible, but the estimated OOPC as I suggested above is only \$2,265 per year for someone in good health. The estimate for one in excellent health is only \$2,181 and for poor health is \$2,781 per year.

Part D for prescription drugs is truly an ugly camel. You know, it was to be a magnificent horse but it was designed by Congress. If you choose a Part C Advantage Plan, drug coverage is generally included, but is absolutely not included in Part B insurance. For my neighborhood, there are 28 different plans available. The website again does a pretty good job of showing you a range of benefits from less than \$20 per month to a high of \$89 per month for me.

# Why Make a Financial Plan?

Article first published September 5, 2019

Yesterday it appeared that Hurricane Dorian was weakening somewhat and its probable path this week would spare our Atlantic coast from the worst possible destruction. As it slides slowly northward, the damage may come from storm surges and torrential rain.

I have watched some coverage of the preparations. Even Floridians seem to be amazed when a Dorian-magnitude storm comes along. We humans seem to quickly forget threats to our well-being within months of the last episode. Perhaps we count on the law of large numbers to save us, knowing that even in dire straits, a percentage of residents will be spared,

FEMA, the federal agency we think should be the guarantor of all safety, has helpful words for us. Whether we live in the Midwest, earthquake prone California, or along the southeastern coast. A recent bulletin titled “Financial preparedness pays off in emergencies” contains great wisdom. It is well-written, short and sweet.

First recommendation? Create an emergency fund. In January of this year, Bankrate.com found that only 40 percent of Americans can pay an unexpected \$1,000 expense from savings. Over a third would borrow the money from someone or a credit card, about 14 percent would cut back on spending and 10 percent admit to having no idea.

In the land of plenty we have today, this should not be! I know there are tragedies every day and my wallet is open to help them. But we have to do a better job of raising those living like there is no tomorrow who are still surprised when tomorrow actually arrives. And it is not as we expected.

I cannot throw rocks too far in any direction. As a proud member of the Baby Boomer gen, we grew up in great times and expected them to last forever. One could earn a decent living, spend lots, give generously, and borrow lots of money for all the things you wanted in the future. And I did. But not everyone needs to make that mistake and learn the lesson himself.

Beside the human nature problem of immediate gratification, we have a widespread failure in personal preparedness. When a new client hires us to manage money, we emphasize that creating our best value for them will involve planning together for their future.

Even though this costs nothing extra but time, life pushes other matters to the forefront. Charles Hummel called this The Tyranny of the Urgent in his 1967 booklet. It afflicts us all.

The saying, Too Soon Old, Too Late Smart, is now fully evident with Boomers. According to Mary Childs in Barron's from April, 2019<sup>1</sup>, 47 percent of us regret not starting to save sooner and fully 35 percent wish they had saved more already. This and more enlightenment comes from a recent Natixis survey of 1,000 employees having access to a company sponsored retirement plan.



Where should I start? Plan out your financial future. On paper. With your spouse. Get help. You can do this! It is never too late to make a difference for yourself. In the timeless words of that great American philosopher, Yogi Berra, If you don't know where you are going, you'll end up someplace else. Many are arriving at their non-paying life in a state they now do not like.

# Who Needs a Financial Advisor?

Article first published August 21, 2019

At no time in history have we had so much ability to learn whatever we want to know about almost anything. It can cost little cost but the time it takes to acquire it in usable form, assuming you have a computer and internet.

In personal finance, this is perhaps especially true. Since there are trillions of dollars involved, many avenues of information exist for us from articles and books to software programs from many sources. Why would anyone need to hire an advisor?

We attempt to do for our clients what they would do if they had the experience, interest, knowledge, technology, and time to do it all themselves. If any one of those five resources is missing, they will probably be better off to hire someone to help them.

Considering this topic in general, think how much money is spent in sports on coaches. Andy Reid and 25 other coaches are listed on the Chiefs' roster. There is even one strength and conditioning coach plus two assistants. The players make a lot of money. Don't they know how to play football by now? Coaches help them be better.

As to interest, many folks admit they should be more interested in their financial well- being. They just are not. We are often not that much into medicine, but we know we need to pay attention to our health so we use physicians. About 2017, I got extremely weary of trying to force myself

to physically work out regularly. It just wasn't going to happen. So now, I pay a nice young man to tell me what to do and watch me do it. I needed appointments and financial commitment to get into a healthy condition.

We have clients like that—CPA's, attorneys, doctors—very smart and capable of learning financial principles or investing. They are too busy working on what pays them and their hobbies so they find it worth paying others for help and accountability. You know the proverb, the cobbler's children are barefoot!

Is making the most return on investments at all times is the highest determinant of financial success? I don't think so. Folks often have no idea how much risk they are taking to gain the most return in a rising market. We forget the inevitable next big drop is coming. It is what you keep through the drops that is more important. The diligent tortoise usually wins the life marathon of investing over the hare.

The daily news is not much help. The market is at an all-time high! The Dow had its second largest point drop in history! That is nice information. Where does it fit? Is it important that the S&P 500 index is just a little lower than its high on September 21 last year? Who provides context, perspective and wisdom for you?

Planning is also vital. Should we use 529 Plans or Educational Savings? Or both? If I become disabled, am I sunk? When should we begin Social Security payments? Should we buy Long Term Care insurance or do we have enough reserves to pay it out? Who nicely forces you to take time, think through these issues, and complete your decisions?

This afternoon, we will visit a couple in their home. He has perhaps a couple of months left before his death. He wants to make sure everything possible is arranged well for his wife. We will ask many questions and counsel them so their precise life wishes and goals will more likely be met.

Some people undoubtedly can do it all for themselves, but many more can't or won't. After all, money is just a tool to help us in life. But it is a high privilege to serve people trying to make the most of their own life stewardship.

# Investing Lessons from Tough Times

Article first published April 17, 2019

A few weeks ago, we noted the 10-year anniversary of the stock market low of March 9, 2009. As one might expect, others have considered this too from various perspectives. The most insightful I have seen yet is *How the Financial Crisis Has Affected Individual Investors 10 Years Later* by Charles Rotblut in the April issue of the *AAll Journal*.

I do not recall when I first joined the American Association of Individual Investors, but it probably was in the early 2000s when the annual national conference was held in Kansas City. It has been well worth the price of the lifetime membership I purchased. (By the way, it was much more than is now offered at \$390. A single-year membership is \$29 and it carries a 365-day, money back guarantee! If you are a do-it-yourselfer or just want to be more educated without advertising distraction, it is a good value.)

Members were surveyed in recent months about changes in attitudes and actions they experienced since 2009. Even though these are folks who obviously pay some attention or at least spend money to do so, 88 percent admitted to changing their approach, strategy or viewpoint about investing. The majority, 53 percent, said they did not pull out any or all of their money in stocks or stock funds during the entire bearish period.

A minority of 12 percent said they had never fully re-engaged into stocks. A few more, 17 percent, said they remember being quite emotionally upset by the crisis. Only 7 percent reported having invested more during the slump. Forty percent described themselves as more conservative because of their age, not because of the crisis. Interestingly, 13 percent became less tolerant of downside risk, but 18 percent said they were now more tolerant and patient with market drops.

As we now near the all-time stock market index highs of September 2018, we may gain some wisdom from their observations and conclusions. One gentleman, who had invested his inheritance just before the October 2008 crash, had finally changed his portfolio by selling the worst performers and immediately buying the strongest, safest stocks he found. In retrospect, he found more good than bad in his selling and redeployment.

Of those who did sell some or all of their stocks, 60 percent said they reinvested later in 2009. Another 18 percent returned in 2010. A few percent waited until 2011, 2012, 2013 or later, 9 percent in total. Almost half of respondents claimed no regrets in their decisions of that period. Of the 44 percent admitting regret about their decisions, almost half (21 percent of all respondents) regretted not investing more during the slump between late 2007 and early 2009. Some wished they had more cash at the time with which to invest in stocks.

One man had put a third of his portfolio into fixed income (bonds) and directed half of his new investments to fixed income to achieve a popular 60/40 split between equities and bonds. He now describes those as serious mistakes. In 2011, he returned to a 100 percent equity allocation. He says, I learned the hard way that recoveries happen reliably and sooner than people expect. I'm now a hardened buy-on-the-dip advocate.

At some point, the next major bear market will begin. When and why is always open for debate. What I know from 37 years of financial management is that one can usually take advantage of these slumps by a combination of patience, flexibility, contrariness, and faith in both human nature and capitalism. Investing over the intermediate and long term often pays great dividends. Not investing—not so much!

# Financial Rules Affect Real People

Article first published March 13, 2019

Ten seemingly short years ago, the low-water point for the U.S. stock market occurred on March 9 at 666.79. There are numbers of theories about why the decline stopped on a dime and reversed. The best and most logical one is also the simplest explanation. Alas, the following was never going to be made into a Hollywood movie.

First, a little background. The Financial Accounting Standards Board (FASB) released Standard 157 (FAS) in September, 2006. But the effective date for implementing it was November 15, 2007. The S&P 500 topped out a month earlier on October 11 at 1,576. For the next sixteen months, we all lost trillions of dollars in values of financial assets. This included both bonds, stocks, and all the mutual funds and exchange traded funds containing them.

When did the bleeding stop? On March 10, it became apparent that Congress would force a change of this accounting rule. On that one day, the S&P 500 jumped 6.37 percent. By year end, it was another 39 percent higher at 1,115. How could one change make that much difference? Let's examine the mark-to-market accounting standard very simply. Suppose that you own a home.



Further suppose you must report the value of your home to the world once every quarter and that this value is very important for you to be able to continue doing business as a private citizen. Right now, you would probably feel alright about that. Let's say it is back up to \$200,000.

Now suppose that for some reason, the interest rate for new home loans jumped to 10 percent. You are minding your own business, but you want to sell your home and move to Florida. Due to this interest rate shock, you learn that no one—absolutely no one—is willing to even look at your home. Everyone is waiting until this new infernal interest rate drops back to a more reasonable number.

The powers that be now tell you that you cannot continue in business because your home is worthless. No interest, no bids equals no value, zero, nada. That does not make much sense to you, does it? Neither did it as it was applied to all of the various assets owned by Lehman Brothers, Bear Stearns, and other big financial institutions.

But the rules said, no bids today equals zero value. How many of us could be solvent under those circumstances? If you had any debt, you would be sunk and bankrupt. Thank God for some level headed contrarian people who kept yelling louder until they were heard, people like Brian Wesbury, my favorite economist, and Steve Forbes.

There are still some rumblings even such a short time later that we should be using a similar rule involving so-called fair value. My cynical side says that this would undoubtedly be a huge boon to accountants' billable hours. Just as war is too terrible and important to leave to the generals, my opinion is that standards like these are too critical to be left to the FASB.

All statistics from Worden Brothers, Inc., TC2000, 2019.

# The Key to Couples' Finances

Article first published February 27, 2019

Last week, Luke Davis and I attended the Kingdom Advisors Conference for attorneys, accountants and financial professionals. Each year great speakers share insights about dealing with our finances in ways to keep money in its proper place. It is a tool to serve much more important aspects of our lives.

Money does not come with instructions. There are seldom courses in school that everyone takes. Therefore, most of us begin our journey with only observations of our parents and their habits. When we get married, we can bring different worlds colliding together. This is another place where opposites often attract.

A Harvard graduate school trained researcher, Shaunti Feldhahn, spoke on "Men, Women & Money: A Couples Guide to Navigating Money Better, Together." She and her husband had spent years studying gender differences and how couples can more successfully be united in marriage. But only recently did they realize there were no studies of men and women related to their financial lives.

When asked about the topic by Thrivent, a major financial company, they were reluctant to even start because their own money relationship was pretty weak. But they dove in because they realized its importance in the marital relationship. As usual, they began by designing and taking surveys of couples' financial attitudes and habits.

The findings were surprising to them. I think they are like many life truths—we learn more by experience (making mistakes) than through intentionality.

First, the little things cause our long term financial troubles, not the big decisions. We hopefully do not buy houses, cars and boats that often. But everyday decisions will build up friction and resentment over time. According to their research, half of all couples never fight over money. But fully 90 percent have money tensions about this subject. Whether they fight or not, 87 percent of married people admit to resentment over it.

Second, because men and women usually think about money in very different ways, clear healthy communication between spouses can reduce or even eliminate miscommunications that lead to this resentment and helps the couple to be on the same page.

Third, what we will often find during our conversations is that our conflicts are actually not about the money. Money as a tool is important but it means different things to different people. How the money or lack thereof makes us feel is crucial. In general, it's accepted that women value financial security more highly than men. But the studies show women actually care more about how money affects their concerns about emotional stability and welfare for themselves and their family, not the money itself.

Generally speaking, men worry about whether they will be good providers for the family in the long term. It is more of a self-esteem issue. This applies even in those situations in which the wife is the primary earner.

Women worry about being able to use money to help those they love. It is about the relationships.

Even being debt free does not solve all issues. Having a money surplus but not communicating well is even more problematic to a couple than not having enough money but communicating well as a team.

As a part of behavioral finance, I predict that further research will occur and be available to help us to thrive, not just survive. Stay tuned!

# Life and Money Management

Article first published September 19, 2018

What does it mean to you if someone suggests you keep it simple? I have learned and am still learning the importance of this principle for both life itself and for our finances. Just yesterday, we were discussing financial alternatives with a client. It became quickly obvious that if we did not keep our focus on the client's primary goals and the primary advantages and disadvantages of each option, we would have only confused the person. They would still not be able to make an informed decision on the thing most important to them.

But with the rise of Have It Your Way! choices in every area of life, it has become more difficult to keep anything simple. I can now become confused just choosing between various kinds of ice cream. (Don't worry though. I am more than willing to risk a mistake in that case! I don't leave empty handed.)

The great football coach, Vince Lombardi, is still known for his approach with his teams, sometimes starting a practice with the words, This is a football. We often do not have anyone coaching us about our money management however, whether we are in our 20's or in our 80's. The following points should be good to practice for all of us.

If you are (or should be) on your own financially, you need to produce something of value to the world. If you provide your own physical labor and skill over time, we call this Labor. You are selling or renting your services.

If you have money or other assets such as equipment or land that others will pay to use, we call this Capital. Most of us begin our adult lives with little or no Capital. We must start by supplying Labor to others who know how to use it for good purpose.

Education is the process of developing knowledge, skills and hopefully wisdom in order for us to create more value for society. If we can determine the ways in which we will be most personally satisfied by our contribution to society, and gain the necessary education beforehand or during our work years, we can be effective to the point we never feel like we are working. We just provide the benefits to others for which it seems we were destined.

That is a wonderful state of mind. But unfortunately, too many of us never get to find it. If you are lazy or too stubborn to make the effort to determine what you were made to do, you will have a hard life. If you are not satisfied with your present income and lifestyle, it is your job to determine how to create more value for others.

In a generally free, capitalist society like ours, no one gets to force you into a certain job or pathway. This is why you can read of so many in the US who have begun with little or no Capital but who have become rich by satisfying the needs and wants of others. I would never personally pay much to a star football player, but obviously, many thousands will and do.

Therefore a gifted athlete who works hard at developing his skills can make a fortune at it.

In a socialist country, supposedly smart government people will plan out how many people should be athletes and whether that should include you. In Europe for example, you cannot just decide you will take the ACT and go to college. If your IQ and your prior performance as a student are not up to some bureaucrat's standard, you will be relegated to a trade or a life of manual labor. Most of us really do not desire this kind of economy.

At this unusual point in US history, there are more jobs advertised than there are qualified people to fill all of them. Wages will rise in response to this. If you are not reasonably happy in a position now, please take inventory to see how you can create the kind and amount of value needed to improve your situation. That might not be easy, but the principle is simple. More simple principles in following weeks.



# Think Carefully About the Uses of Money

Article first published June 20, 2018

Money management will always produce better results if you have a wise plan for it. Today we are going to focus on uses of money. Where do we have opportunities to be wise about those uses?

A few weeks ago, I suggested you think about your basic beliefs and attitudes about money, why it is or is not important to you, and what it represents to you. These involve thinking but even more, the beliefs come from the heart. Personally, I believe that God always provides for us, even if by giving us the health and will to work. When we produce value, money will come in exchange for the value we create.

Everything in the world including money belongs to God. We are responsible to Him for how we handle it. If you do not believe in God, you should be interested to know that these principles have still worked really well for others in spite of their unbelief.

Stewardship is the principle that we are responsible to others and ultimately God for our behaviors regarding money and our lives. A steward is a manager with responsibilities and rights. In our business, for example, we are responsible to each Client for growing and protecting his or her investments to the best of our abilities.

The Client is responsible for using the money to advance his own purposes in life.

If we use money well and wisely, we can experience great peace and contentment in our present lives. The world's chaos and confusion often causes us to be fearful about what will happen to our resources and ultimately to us. Realizing God owns it all and promises to care for us helps to conquer such fear.

The first realization involves our decisions regarding using money. This is simple. There are only five things you can do with money. The first is to Live. Most of us have no problem spending money on ourselves and our families. This is what living requires.

Second we spend by paying taxes to various governments for the services we collectively receive from them. Third we pay rent on the money we borrow in the form of interest. There are some good uses for debt, but the important decision is to control it and eliminate it over time. Fourth, we save and invest money for several reasons. The most important is for the guaranteed emergencies which happen. According to Dave Ramsey, the radio host, Murphy (of Murphy's Law) moves in with you if you have no emergency fund. After having one, you can invest excess amounts for future spending, whether for next year's vacation or for the vacation we call old age.

Fifth, we invest by giving to the needs of others. God needs nothing, but he uses our stewardship to supply the needs of the many everywhere who cannot completely meet their own needs.

I believe Giving is actually the bedrock component of wisely using money. It was definitely a step of faith in God's providence when Karen and I began giving a tenth while we were living on \$500 per month in 1974. But He has always been faithful to provide.

In conclusion, a major problem for all of us is that money carries no instructions with it. What you believe about yourself and money will guide your decisions and behavior.

# The Basics of Success Have Not Changed

Article first published May 23, 2018

Yesterday I was privileged to hear Lamar Hunt Jr. speak at the Independence Rotary Club meeting. I expected to hear some promotion of the Missouri Mavericks hockey team and there was some of that. But he focused his remarks upon truth about success in life anywhere on this planet.

In my last column, I discussed the role of money in our lives. Today I am certainly not suggesting money is the common denominator of a successful life—lots of it will not even make one happy. But having some does seem to contribute to other more important aspects of a fulfilling life. Unfortunately, it is not politically correct to suggest these, but something tells me Mr. Hunt is not too concerned with form over substance.

He referred us to the work of sociologist Wendy R. Wang, Ph.D., the Director of Research for the Institute for Family Studies. She and W. Bradford Wilcox, Ph.D., co-authored a paper well worth your time, THE MILLENNIAL SUCCESS SEQUENCE. You may find it at <http://www.aei.org/wp-content/uploads/2017/06/IFS-MillennialSuccessSequence-Final.pdf> Her article, “THE SEQUENCE” IS THE SECRET TO SUCCESS, was published in the Wall Street JOURNAL in late March of this year.

She writes of the family demographics of her native China. Everyone grows up with an emphasis on working hard to

obtain a good education before even thinking of starting a family. In fact, she cites that in China, India, Japan, and South Korea, less than four percent of births are outside of wedlock.

The description of the success sequence she attributes to Ron Haskins and Isabel Sawhill of the Brookings Institute, not known as a bastion of conservative principles. The sequence is simple: get an education of at least a high school diploma, work for some period of time, then get married, and later have children.

Our Millennials are trying something different. In the National Longitudinal Survey of Youth 1997, the statistics show that 55 percent of those recently between 28 and 34 years of age had at least one baby outside of the marriage relationship. Some 25 percent then married, but the other 30 percent were still unwed. In comparison, even the youngest Baby Boomers (born between 1957 and 1964) had married 75 percent of the time before bearing children at the same ages. Does this make a difference? The Millennials who married first before having children were far more likely to have family incomes in the middle or highest third, by 86 percent to 14 percent. Only 53 percent of those having children before marriage were in the middle or upper third of family income.

This also applies to African American (76 percent) and Hispanic (81 percent) Millennials in comparison to 87 percent of whites. Even 71 percent of those who grew up in families with the lowest third of income had already moved up into the middle and upper third of family income by ages 28 to 34 if they had followed the sequence of success. Overall, 97 percent of those Millennials who followed the

sequence were not in poverty. This study obviously relies upon tremendous amounts of data, but it is not rocket science. It is common sense, or should I say that it used to be? Even a couple decades ago when I was still on the Independence Board of Education, some said it was absolutely unreasonable to think our youth could control themselves sexually enough to meet this test. Are we drinking different water than the Asian folks on the other side of the planet? We need to tell our children the truth about life and how they are making it extremely hard on themselves. We owe it to them.

# Does Money Really Make Anyone Happy?

Article first published May 9, 2018

Spoiler Alert! The following contains a discussion of existential matters and the tangible and intangible means humans use in exchange for the things we want and need. Warning! Biblical references and world view may be cited.

What is money anyway and how should we view it, use it, store it, and leave it? You can be thankful we will not be covering all of these in detail in this space. But even scratching the surface should be worthwhile.

First and perhaps in simplest form, money is a medium of exchange we use in social commerce to get what we want or need and to allow others the same ability. The relative freedom in our economy—compared to most others—to make these decisions ourselves about our own priorities is the heart of capitalism. You can use your money in ways I think are foolish while I place a high priority on eating high quality ice cream!

Imagine how much time it would take for you to barter whatever good or service you could provide for everything you want and need. We too would be living in huts. You might have a horse or some animals, but no sophisticated system of specialization would be possible.

When boomers were youngsters decades ago, we still had few means for any quick transfers or payments of financial value. You could buy something if you sent a check or money order by snail mail and hope that it would arrive at its destination within a week, sometimes less.

You could have a checking account, a savings account, have a few government savings bonds in paper form, some stock certificates, cash, and coins made out of mostly silver if they were worth much. The dollar's value was set at 1/35th troy ounce of gold by the Gold Reserve Act of 1934 and that lasted until August, 1971. Life was pretty simple.

From that definition, we go on to more philosophical issues. Does money have more influence within our lives than it should? Do you know someone (or are you someone) who thinks that he who has the most money when he dies wins life's special prize? Do you suffer from anxiety about whether you will finish this life with at least a dollar left on your last day?

If we had a national vote today, I wonder if our future paper money would still be engraved with *In God We Trust* or instead might it say *In Gold We Trust*? Either way, it still spends regardless of your belief.

That leads to my introduction of the Apostle Paul's advice to his spiritual son, Timothy, in his first letter about money or financial wealth. (In today's parlance, Timothy was a local church pastor.)



*Instruct those who are rich in this present world not to be conceited or to fix their hope on the uncertainty of riches, but on God, who richly supplies us with all things to enjoy. Instruct them to do good, to be rich in good works, to be generous and ready to share, storing up for themselves a treasure of a good foundation for the future, so they may take hold of that which is life indeed.*

Those few words carry at least a thousand pages of possible thoughts and comments. I would only suggest you think about the place that money in its various forms has in your life and heart. Is it taking up a bigger place than it should for you to be happy and fulfilled? When we go to poor countries to help with building or other service projects, isn't it amazing that people without much of anything seem to be much happier than the average US citizen today?

# Least Common Denominator

Article first published February 28, 0218

In the fourth chapter of Saint Peter's first letter, he urges believers to concentrate on loving each other properly because love covers a multitude of sins. God is still working on me in that regard and I am thankful about that. But in the financial world, there is a principle I would suggest covers a multitude of financial sins.

It is saving and investing something week in, week out, year after year. Sounds too simple. That may be why so many in our society do not practice it. I have seen it in action in so many examples that to me, it is the least common denominator of financial success.

I have known professionals making far more income than most that are living paycheck to paycheck. But I never cease to be amazed at those who make far less, but who have far more money to show for it than most after decades of a career. I have mentioned before that my own parents were great examples of this.

You, gentle readers of this Column, are probably not in the group of non-savers, but I would guess you certainly know some children or grandchildren modeling the just-getting-by crowd. It is just a crime that so many in our country who have tens of thousands of dollars of annual income, either solely or together with a spouse, do not take advantage of what has been called the 8<sup>th</sup> wonder of the world!

This inability is a big part of what has turned the owners of QT and other gas and convenience stores into billionaires. I have heard stories of homeless people interviewing with Hillcrest Transitional Housing who have decided they would rather remain homeless than to give up their cigarettes and soft drinks on the way to work!

Ben Franklin began his teenage years as an indentured servant. He learned firsthand his observation that a penny saved is a penny earned. Even though no one but older people will actually still pick up a penny on the ground, apply the same attitude towards a five dollar bill. Every one of them makes a difference.

If you save a fiver every day, especially until you have at least \$1,000 in an emergency fund, you will be well on your way. In a year, you have saved at least \$1,800, \$150 per month. If you do and invest it from year 2 through 20, earning only 8 percent, you will have \$79,857 plus your emergency fund of \$1,800.

Moreover, while you are beginning this practice, it will grow on you. If I were a betting person I would wager that no one would do this without increasing his or her amount of savings. The easiest way to do this is to take advantage of your employer's 401k or other matching provision in a retirement plan. We are about to enroll an employee group in a plan like this in which the employer matches dollar for dollar up to 3 percent of income. There are only a half dozen, about half of them, even contributing anything from their payroll deductions.

What I tell folks in this situation is this: We think we do a very good job of investing for our clients, but we have no investments that will produce a 100 percent gain as soon as you make it! A person earning only \$30,000 per year can invest \$17.44 a week, get the match of \$17.44 from the company, and have \$1,800 at the end of a year.

This is not rocket science. It is simply a law of nature and mathematics. Do not be Too Soon Old and Too Late Smart. Help yourself. You will be old before you know what hit you. Do yourself and your family a big favor. Change your future for the better!

# Know the Ups and Downs of Bonds

Article first published January 31, 2018

Last week's column was a primer on Bonds. Now let's take a closer look at how one can lose money owning bonds when interest rates rise. Aren't bonds supposed to be safer than stocks?

First, what does the term "SAFE" mean? Most people equate financial risk or safety with stability of fair market value within short periods of time.

For example, Microsoft stock has risen from a split-adjusted price of about 9 cents a share in 1986 to a new temporary high of \$95 on Monday, January 29. But the risk is that its price may fall by 14 percent or more in a short time. It did exactly that twice in the first six months of 2016. So people could consider it an unsafe investment.

Second, there is no absolutely safe investment existing in the entire world today. A certificate of deposit, or CD, of \$250,000 has its principal guaranteed by the FDIC, an agency of the US government. But someday, our government will undoubtedly fail just like every other one in history. Money buried in the ground can be dug up by thieves.

But buying bonds—lending money to an organization—has usually experienced less price instability than owning stocks. Since October 1981, when the 30-year U.S. bond interest

was 14.8 percent, bond yields have dropped in fits and starts to the current rate of about 2.94. ([www.macrotrends.net](http://www.macrotrends.net))

Thus one could have lent the federal government \$100,000 and collected \$14,800 per year until October, 2011, a total of \$444,000. Then you received your 100 grand back. It turned out that would have been a fantastic deal! During those 30 years, as interest rates on newly issued 30-year bonds dropped, the holder could have sold his for a premium. Why? Because the new purchaser could not find the same 14.8 percent yield on any similar bond.

The same principle works in the opposite situation. Suppose you had bought that 30 year bond last Monday with the 2.94 yield. Now suppose inflation keeps rising and the Federal Reserve continues to raise its interest rates. That is its plan. There is a confusing term for the price of a bond relative to the change of interest rates, duration. It is the estimated price change percentage that will be caused by a 1 percent change in interest rates. That number is about 20 for our 30-year bonds.

So if in 2019, a new 30-year U.S. bond is issued with a 3.94 yield, your existing bond will be worth only \$80,000 if you want to sell it for any reason. This \$20,000 loss of value might have occurred slowly, but it's still real money on your personal balance sheet. It is even a greater loss than the temporary 14-15 percent fall in the price of Microsoft cited above. The other fact you should know? The longer the bond maturity, the greater this effect. So in this current climate, the shortest term bonds will suffer the least as interest rates rise.

Why does this matter? Often investors make investments at exactly the wrong time. The Investment Company Institute reports weekly flows of money in and out of all mutual funds. Investors are still adding millions of dollars each week to both taxable and muni bond funds. As interest rates rise, we shall see if they remain happy with their falling account values.

Microsoft statistics from Worden Brothers, Inc., TC2000, 2018.

# Where Best to Invest in the Year Ahead?

Article first published January 10, 2018

Let's take quick inventory of 2017 investing, then discuss what makes sense in this stage of the current strong bull market. Here are some calendar year results by major indexes and sectors:

- NASDAQ 100 9%
- Dow Jones Ind. 1%
- S&P 500 8%
- US Treas. Intermed. 1%
- US Agg. Bonds 5%
- US High Yield 5%
- Tech. 38.8%
- Materials 8%
- Energy -1.0%
- Telecom Svs. -1.2%



You can see that the major stock indexes rose well, actually exceeding expectations by all but a few of the most optimistic predictions. Also you should note there is quite a bit of difference between highest and lowest performing of 11 business sectors. If your allocation was 100% stock in major energy and telecom, a traditionally conservative portfolio, you probably had a lousy year except for dividends received. If it was 100% in major Information Technology, you had a fantastic year.

And so it will be in 2018. Some sectors of business will far outperform others. It is a market of individual stocks and bonds even though there are always elephants and mice.

By the way, small companies in general underperformed. So did those on the Value side, those cheaper by fundamental measures like earnings per share (PE).

We still believe most stocks are not priced too high at the moment, considering the ramping up of business attitudes and activities. Trying not to be too politically incorrect, the Obama years made many business owners and managers feel that they had a big circular target on their backs, rightly or wrongly. They now are more willing to stick out their necks and spend money to expand and grow their businesses.

But trees do not grow into the sky and this bullish stock market trend will also end and correct at some point. In 2017, a record was set—at no time did the S&P 500 drop back by at least 5 percent. That actually has not happened since June, 2016. It is easy to predict that low volatility will not continue.

Since world economic engines are almost all increasing in speed, perfection seems to be baked into the cake. When people who have been out of stocks since the last decade finally get tempted back in and some are quitting their day jobs to trade stocks for a living, some bits of bad or disappointing news will change the trend. We are extremely wary and ready to change our allocation to defensive.

If you are a long term buy and hold stock investor, stay asleep and awaken about 2028. All should be well. If you are a long term buy and hold bond investor, you had better wake up now and prepare to find other sources of income unless you do not care about your principal loss. The last bond bear market lasted from 1946 to 1981.

Hopefully, Mr. Market will sell off by 5 to 10 percent in the middle of the year and finish up again with a strong fourth quarter. Statistically, that is the pattern for the second Presidential year. We make it a point to be ready for anything as it develops. We wish you all a successful 2018 financially.

Performance numbers for 2017 from Bloomberg cited by First Trust *Market Watch*, First Trust Advisors, L.P., 1/2/18.

# Are You Doing the Right Thing?

Article first published September 26, 2017

Recently my mother and father-in-law purchased a lake house in which they took out a mortgage. Since she knows what I do for a living, she sought my counsel about the best methodology for paying off the mortgage as quickly as possible. She asked my opinion about pulling funds out of her Roth IRA and applying that money to the principle. I thought about it for a second and then gave her what was, admittedly, no answer at all. I told her it depends on a ton of factors. Among other things, your tolerance for risk, your liquidity needs, your interest rate, and your tax bracket would all have to be considered before providing an accurate answer.

However, the question did get me thinking about the relationship between getting rid of debt and saving for the future. I began questioning whether the average American is placing a priority on the option that will provide the biggest long-term advantage. I brought the subject up with a colleague over lunch that day. My question was a simple one: If most people who carry debt carry it at a fixed rate and, at the same time, their investments grow at a fluctuating rate, how much more must the anticipated gains be in their investments to justifying not using those funds to pay off debt?

My lunch mate appeared puzzled so I explained further. If a fair expectation for your investments is 7% annualized and you have a fixed rate mortgage at 5.5%, does it make sense to accept market risk on your money for a possible 1.5% in additional growth? I could see the wheels turning in his head and it didn't take him long to reply. Most people, he explained, receive a significant tax deduction on the interest they pay on the mortgage, and a significantly more than 7% growth on their retirement savings because of the employer match that often exists within an individual 401(k). That answer made sense. But then I asked a follow up question: In that same scenario, what if we replace "mortgage interest" with "credit card interest" and replace "retirement savings" with "college savings"? At that point he said, "Do you really think people with credit card debt are saving for their kid's college?" Not knowing the answer, I acquiesced. But the question continued to gnaw at me. The more I thought about it, the more I decided that people are probably doing things they think are responsible but, in reality, are actually financially unwise. So, I decided I needed to look at the data.

What I found was very interesting. According to a recent study, roughly 40% of Americans carry credit card debt at an average total of approximately \$16,000. At the same time, approximately 72% of Americans are saving for a child's or grandchild's college. By simple logic, these two stats tell me that at least 8% of Americans have credit card debt and, at the same time, are also saving for nonretirement-related expenses, though the number is probably higher than that.

If you consider that a reasonable long-term expectation on your investments should be roughly 7% annually and the average credit card interest rate is 15% annually, then we have a problem. There are people in this country literally borrowing money from a bank at 15% interest and then investing that money in the market hoping for a 7% return. I'm no math whiz, but even I know that's a bad deal.

If you're reading this and wondering if you're doing the right thing when it comes to your financial future, I would encourage you to give us a call. A small amount of analysis could save you thousands of dollars over your lifetime.

# Two Thirds of 2017

Article first published September 8, 2017

At the end of the coolest KC area August of those I remember, it is difficult to believe that two-thirds of 2017 is now history. We have witnessed a veritable plethora of events and conditions about which most of us could worry. Meanwhile, Mr. Stock Market has plunged confidently onward and upward. As people of central Kentucky would say, there has been nary a drop of more than 5 percent in any primary stock index in the past eight months.

Top five winning sectors thus far include Technology, Healthcare, Utilities, Basic Materials and Communication Services, each higher by at least 11 percent. The only losing stock sector has been Energy, down over ten percent.

Within those sectors, the range of price changes has proved just as dramatic as usual. Aluminum heads the winners, higher by 71 percent through August. The next four include Electronic Gaming at 67, Education & Training Services at 44, Semiconductor Equipment & Materials at 39 and Solar at 39 percent.

Contrast those with the five worst. Oil & Gas Drilling dropped 46, Oil & Gas Equipment & Services, 24, Oil & Gas Exploration & Production, 22, Grocery Stores, 18, and Long-Term Care Facilities, 18 percent lower. That last one is a real head scratcher to me. Since a recent high point in 2015, stocks of LTC Facilities are currently lower by almost 50 percent. Are we that overbuilt for the elderly already?

One contrarian strategy using trend analysis is to buy the laggards of the market after a period of a year or longer. Concerning the Dow Jones 30 Industrial stocks, you can find examples by searching for Dogs of the Dow. It appears likely that the Energy Sector will provide plenty of opportunities to test this strategy in the next months and years. Since August, 2014, Energy stocks are still lower by about 36 percent but that is up from a deficit of about 58 percent in late 2016.

I prefer to use shorter trends to gauge relative performance among the almost 200 different industries. This helps protect against weakness and future losses and to emphasize those gaining in new strength. Since the last minor low point of the S&P 500 on August 7<sup>th</sup>, the best performers have been stocks of the Aluminum (16 percent), Semiconductor Memory (12), Gold (10), Silver (10), and Trucking (8) industries.

Identifying trends that can help you to avoid loss and make better gains is always interesting since the landscape is constantly changing, which underlies the strategy of Trend Following. As a person with classic ADD, I like to roll with the changes.

All statistics obtained from Worden Brothers, Inc., TC 2000 services, 2017.

# Do I Need Long-Term Care Insurance?

Article first published September 21, 2017

There are two sides of the coin of living longer. We often want to live longer to have great relationships with our grandchildren and great-grandchildren. You know, those youngsters with whom we can conspire against our children?

But then we don't want to outlive our enjoyment either. When I can no longer taste the tracks in the Moose Tracks, Bunny Tracks or other tracked ice creams I crave, I'll be ready to go!

Until that day, we live as stewards of our resources, the assets we accumulate and the incomes we receive from pensions, social security payments, and similar sources. Since we don't want to waste them, we should examine the question of whether and how to prepare for the possibility that we will need more care than our spouse or family members can provide.

There are many other issues concerning long term care, but today I focus on whether to insure against the costs of needing residential nursing home care. I found a well written article by Dan Kadlec in the May 4, 2015, issue of *Money* dealing with this question.<sup>1</sup> But first, what is the cost if I do need facility care, the most expensive part of the topic?



In greater Kansas City, I think you can still find nursing facilities providing good care for \$5,500, but you can certainly spend more. To compare, in Massachusetts, Genworth reported in its Cost of Care Survey 2015<sup>2</sup> that the average median cost of a semi-private room ran \$353 per day or \$128,845 per year.

Just to be clear, half of the nursing homes cost more than that. The cheapest was \$81,000. My advice? Don't look for a Golden Pond in the Commonwealth to sit beside during your last days. Genworth's Survey listed the national average cost as \$80,300.

Kadlec begins with a rule of thumb that you are a candidate for buying coverage to protect against this cost if you have assets between \$200,000 and \$2 Million. If you have less to protect than that, you may not have enough assets or income to pay the premiums. Plus the federal and state governments have the Medicaid safety net most of us help finance. At this point, you might have to hunt further to find a good quality facility that accepts Medicaid payments, but they are still available.

For over 30 years, I have favored an approach of determining the general gap you would have to cover that monthly cost after considering your pension and social security income and the income your invested assets will likely produce. In many cases, I find that gap to be only \$2,500 to \$3,000 per month, sometimes less. That amount of coverage for 3 to 5 years is much more affordable than insuring the entire 5 or 6 thousand per month.

Think about a wise philosophy about insurance in general. Today you can insure against almost every hangnail that occurs. But in my mind, insurance should cover risks you truly cannot afford to take. A long term care insurance salesperson may say you need to even over-insure the monthly cost because the risk is so great. My suggested three pronged approach will work well if properly planned in advance, and hopefully not leave you insurance poor!

# Strange Dog Days

Article first published August 30, 2017

In case you haven't noticed, this will be one of the coolest Augusts in my lifetime for Greater Kansas City. It is supposed to be Dog Days of August, which for some reason means unbearably hot. The stock market should be falling more, but it seemingly will not for now.

I want to return to discuss the automotive industry as a part of your personal financial life. Or perhaps more for your children and grandchildren since youngsters are not as likely to be dying to read my column.

A couple of weeks ago, I suggested that manufacturers were probably pulling future sales of new vehicles into the present as much as possible by continuing to offer sales rebates and especially very low lease rates to move them. And by the looks of inventories, car dealers expect perfect selling conditions will continue for a long time. Jim Grant of *Grant's Interest Rate Observer*, ever the realist at the table, foresees lower demand for new autos and a significant drop in used vehicle prices as zillions of leases reach their end points.

In as few words as possible (for me), I will try to demonstrate why a good used vehicle may be the best bet for you (or your descendants) who have too little money left at the end of most months. Let's suppose that you want a Honda Civic.

From the internet search, it appears that right now, you have to settle for a new 2017 and the quoted prices are clustered around \$27, 475 for the Touring (non-Sport) Model. We will compare that with 2014 examples of the same Model if I can figure it out. I am not a Honda person myself.

I have always heard Civic owners brag about their reliability so I would think that 2014's would have lost about \$3,000 per year of value. I am surprised to find a Certified Pre-owned 2016 Honda Civic LX Sedan in white with less than 10,000 miles offered for \$17,875 near the KC airport. The same dealership has a 2014 in red with almost 30,000 miles at exactly the same price, also Certified to be Used. What am I to think about relative Honda values from this? By the way, there are apparently no Touring models in the earlier years, but the LX seems to be a decent bet.

Most of the 2014 LX Sedans in the area are priced between \$12,000 and \$15,000 and have fewer than 40,000 miles. So let's compare the one at Hendrick Cadillac with 28,465 miles for \$13,671. This is \$13,804 less than that new one. So, our gross savings starts there and to that we add half of the sales tax saved and, in Missouri at least, we also pay less in December of 2018 when the first personal property tax payment on it is due.

I assume you have more credit than you deserve and you can finance the entire 2017 price at .9 percent over ten years. Just kidding! I am sure you can get 72 months though. Your payment is only \$392.14 per month.

If you buy the 2014 and you can only finance for 48 months and have to pay 1.9 percent interest, your payment is \$296.00 or \$96.14 per month of savings. You will save \$4,615 over the 48 months which should be enough for any major repairs that you would have. (You do have your emergency fund of at least \$1,000, don't you?) That means, for years five and six, you have no car payment.

But what about the trade-in value difference? After 72 months, the two autos currently offered at only \$9,997 tops even by the dealers, so your value would be at least a thousand less. If you save a hundred a month into your automotive savings fund for 48 months, you will progressively be able to finance even less when you need the next vehicle. This is a secure path to being able to invest more at a younger age and grow rich the old fashioned way.

# Automotive Love Affair Over?

Article first published August 17, 2017

Many of us boomers grew up with muscle car fever in the 1950's and 1960's. Was there anything cooler than a '64 GTO, a '67 Shelby Cobra, a '68 Road Runner, or any number of years of Chevelle SS? I think not! Many of us have also spent too much of our adult budgets on cars at times too.

So, it is difficult for me to understand the new age of youngsters, some of whom do not even bother to get their driver's licenses within a few months of their 16<sup>th</sup> birthdays. Add to that the fact that we're facing self-driving automobiles and stir in the possibility that the auto taking us could belong to someone else through services like Uber or Lyft. Talk about being out of control!

Is this why GM stock is selling at only 5.6 times its annual profit of \$5.38 a share or less than 40% of its annual revenue? Ford's stock is selling for twice that price to earnings ratio of GM, but it is still only 11.48. According to The Wall

Street *Journal* ([online.wsj.com/mdc/public/page/2\\_3021-peyield.html](http://online.wsj.com/mdc/public/page/2_3021-peyield.html)), the price/earnings ratio of the S&P 500 is just over 23.5. By the way, that is down a hair from the 24.9 of a year ago.

If we are tempted to think it is just a US phenomenon, Toyota sells at 9.9 its earnings, Honda at 8.4, and Fiat Chrysler at 5.8. The only pricey car makers are Tata Motors of India (21), Ferrari (36.5).

Then there is Tesla, still losing over \$750 Million a year, even as taxpayers like you and I are subsidizing its sales. It has no price to earnings ratio since there are no earnings!

The price of a stock is simply based upon supply and demand for those shares. That is hopefully easy to understand. But it also represents a rough approximation of the optimism (or lack thereof) of the total investing public in the future of the business. At this time, investors are wildly enthusiastic about Tesla's future and pretty sour on that for GM or Fiat Chrysler.

This is the case even though GM is paying its shareholders a dividend of \$1.52 per year, or 4.36 percent on its stock value. Its return on equity (the net investment value of each share) is positive 19. Tesla of course pays no dividend, and its return on its equity is negative 20. However its revenue is growing at a 5 year rate of 94 percent per year versus 1.59 percent per year sales growth for GM. Someday Tesla will probably sell enough cars to make a profit and that is what rabid investors are counting on quite seriously. Even though US consumers bought a record 17.55 million autos in 2016 (*Los Angeles Times*, 1/4/2017), prices are softening. Car makers may have shot themselves in the foot again by leasing so many in the last several years, making recent model used cars all the cheaper as those leases expire. I will not be betting on a happy trend as I look at huge inventories on the lots.

What I do know is that 225 thousand GM employees are still counting on Mary Barra to be worth her \$22M in 2016 (\$28M in 2015 and highest in the world for auto manufacturers) and figure out how to increase sales and reduce expenses so that we do not pay more taxes for so-called Government Motors in addition to the billions we are footing for the US Postal Service. In my opinion, the best companies fill needs and wants so well they do not require public subsidies.

Stock values from Worden Brothers, Inc., TC2000, 2017.



# Bullseye

Article first published July 19, 2017

I enjoyed playing darts when I was in college. The dartboard consists of areas with varying levels of points. Within each of those areas are even smaller targets that represent several multiples of the points listed. I realized one day if I actually aimed directly for the smaller area that I could often hit it. Before that, I just looked in the overall area and was pleased if I hit the smaller areas by chance. I started asking people what they aim for, and surprisingly, most people were not aiming for the smaller areas for higher points either. Whenever I suggested people start aiming for these higher valued areas, they inevitably started hitting it too. It was an exciting transformation of our game that seemed so obvious once we started to employ that focus.

We are just past the half-way mark for the year, and now is a good time to revisit goals we set at the beginning. I was recently reminded of a Zig Zigler quote after reaching an important milestone in my life, “You can’t hit a target you cannot see, and you cannot see a target you do not have.” It made me think back to how crystal clear I had drawn my life goal target. That refined and determined vision was likely the main reason for my success.

There are innumerable amounts of data and literature extolling the virtues of goal-setting. I am hoping this will serve as a reminder, to you and me, that most of the things that happen to us are the direct result of our focus or lack thereof.

So, if you find yourself currently in a rut, now may be a great time to refocus on the things you'd like to see happen. Then, you can figure out how to hit your target.

As we all know, creating a goal can be challenging. You have to want it badly enough to work hard at it. Having a passion for the goal and a meaning to the journey is vitally important. But don't get distracted by every detail of how it will be accomplished. Your passion will find solutions to overcoming the hurdles that are surely to come along the way.

I'll end with a couple of my favorite quotes from Paulo Coelho's, *The Alchemist*, "And, when you want something, all the universe conspires in helping you to achieve it." "...It's the possibility of having a dream come true that makes life interesting."

# Are Younger Investors Learning?

Article first published June 7, 2017

Yesterday I saw a note come through our research headlines about millennial investors finally beginning to move into stock investing. The Legg Mason annual Global Investment Survey was the source of the information. Thanks to Legg Mason, you may access it at <https://ww2.leggmason.com/gis/>.

To save you some time, here is the gist of the findings. Not surprisingly, the millennials—defined as between 18 and 35 or so now—have been scarred by the Global Financial Crisis of 2008-09 and its aftermath of painfully slow recovery.

Perhaps because the Federal Reserve and many others still refer to our economy as so fragile, US survey participants were far more likely to say they are still strongly influenced by it. Of millennials, that strong influence was admitted by almost 60 percent. With that bogeyman still in the house, it is no wonder that they have been afraid to invest in stocks. An incredible 85 percent of them self-describe as strongly or somewhat conservative in their investing.

Therefore, at a time when they have the longest time horizon for investing before retirement and arguably can bear the greatest short term risk, millennials report to holding only 15 percent of their investment portfolios in equities (owning companies through stock). This matches up with their great grandparents' experience from the Depression era. It took until December, 1954, for the stock market to recover its 1929 peak of 386 points on the Dow

Jones Industrials average since many would never, ever invest in equities again.

Today's younger adults are doing their best to use all forms of technology for their financial information and management. Even so, 53 percent of them agree that personal customer service is important to them and technology will never replace it. They appreciate technology but want to know that there is an expert, a person, behind it to help advise them.

Baby Boomers are even more likely to seek advice from a person or persons. They have returned in greater numbers to former investing strategies favoring stocks. They have seen the booms and busts before. They—we—should tell our children and grandchildren that all life involves risk, but there are wise principles to help you manage it and even to benefit from that fact. I would stress that it is when the future looks dimmest (when most others have sold) that investing becomes much safer. Do not invest with your emotions.

More good news about millennials is that I observe that they are less inclined to borrow their way into prosperity as many of us oldsters did or tried to do. The exception unfortunately is the massive student debt encouraged by our government and some leaders telling them they must get a college degree, whether it is in engineering or anthropology or archaeology. (The latter two are economically the worst according to **www.forbes.com**.)

Market statistics are from TC2000, Worden Brothers, Inc., 2017.

# Trouble Ahead for Automobiles?

Article first published April 26, 2017

Thinking of buying a car or truck in the next 2-3 years? Lower prices could be ahead for new and used automobiles with all the ingredients for softer prices. Automakers reported car and light truck sales dropped at a 17.2% annual rate in Q1, the steepest decline since late 2009, right after cash for clunkers. GM and Ford are both warning of a decline in sales. Morgan Stanley issued a recent report detailing why they believe auto prices should depreciate by 20 to 50% over the next four years.

The single biggest factor probably playing into these warnings is the sheer number of cars that are coming off of a lease. Zero-percent financing on vehicles over the past several years made leasing cars more attractive. These cars are starting to flood the market in numbers we haven't seen since the early 2000's. Morgan Stanley predicts around 4 million vehicles will be reaching the end of their lease term by 2018. That number was only around 1.5 million in 2012.

Other factors that favor lower prices are the record high units of new car inventory, high growth of deep subprime auto loans, and a weaker rental car market from ride-sharing. Another interesting but difficult-to-comprehend factor is a concept called peak auto theory. This is a hypothesis gaining steam that the electrification and self-driving automobiles of the near future will lead to less cars per capita.

The cheap cost of grabbing a self-driving, fully automated, electric Uber vehicle may deter many from purchasing a car. Futurist Salim Ismail predicts your newborn child will never drive a car.

If you are thinking of trading in or selling your car, you might want to do it sooner rather than later. If you are looking to buy a new vehicle, waiting until December 2017 or 2018 may well bring some steep discounts. A car is usually the worst investment most of us have to make but it might pay to keep these trends in mind when making your next automotive sale or purchase. There are ways to maximize this process and get the most for your money. Feel free to reach out and I'll be happy to share how I've saved thousands on the sale and purchase of my own automobiles.

# Bursting Your Bubble

Article first published March 29, 2017

As a former history teacher, I am all too aware that history has a tendency to repeat itself. In fact, it was one of the things that fascinated me most about the subject. Amazingly, some of those same characteristics apply to the world of personal finance and the economy as well.

As a millennial who was impacted by the 2008 real estate meltdown, I am always on the watch for the next potential bubble to burst. As I view the current landscape of student loan debt in America what I see is a cost bubble, (the price of tuition has gone up over 600% in the past 30 years)<sup>1</sup>, profit based institutions spending millions on marketing their products to financially unsophisticated borrowers unaware of the debt risk they are taking, government leaders promoting the idea that a 4-year degree is something all Americans should have, and a culture of entitlement that says you shouldn't have to save money or make sacrifices for the things you want. Any of this sound familiar? If you ask me, those ingredients are the very same ones that proved to be a recipe for disaster less than ten years ago.

A recent survey measuring college students understanding and feelings about their student loans has strengthened my fear that another debt crises may soon be looming. According to the survey a staggering 80% of college students did not know the current interest rate of their student loans. And 79% of them could not identify the current repayment term of that loan. The danger of this level of financial

ignorance is obvious. We saw it painfully play itself out in 2008 when people took on debt they couldn't afford, under terms they didn't understand, with people who couldn't be trusted. The financial devastation that resulted threatened the bedrock foundations of our economy. Sadly, it would appear millennials failed to learn the lessons that the 2008 crisis should have taught them about the danger of certain types of debt. Instead federal intervention in the crisis had the unintended consequence of teaching young people that if you mess up bad enough Washington will come to your rescue with a bailout. As a result, nearly half of all students now believe their student loans will be forgiven after graduation.<sup>2</sup>

Knowing that I am the eternal pessimist, I fully acknowledge the situation may not be as dire as I fear it is. The economy and the stock market may continue its upward trend and as a result unemployment may stay low, and wages for graduates might increase in a way that allows repayment of these loans without default. But this much I do know, saddling young people with mountains of debt prior to even beginning their careers will delay their ability to do things like buy a house or have children, and as a result the entire economy will be impacted. Fortunately for us, our great nation also has a history of overcoming huge obstacles. In that at least, let's hope history does continue to repeat itself.

<sup>1</sup>: <https://lendedu.com/blog/financial-aid-awareness-month-survey/>

<sup>2</sup>: <https://nces.ed.gov/fastfacts/display.asp?id=76>



# Where There's a Will, There's a Way

Article first published April 5, 2017

After my column last week discussing the danger of student loan debt, I received a lot of feedback. The reactions ran the gambit from some who were in full agreement to others who felt I was causing unnecessary levels of fear and apprehension. However, the nearly universal sentiment from readers was that although student loan debt is a bad thing, it's also unavoidable.

My wife and I both have degrees, one of which is a masters, and we would beg to differ with that opinion. We are walking proof that you can graduate debt free without the help of wealthy parents. Don't misunderstand me, I'm not saying it's easy, or that it will work in every situation, but what I am saying is this: it is not impossible.

After receiving several questions basically asking "If you're so against student loans what's your solution smart guy?" I thought it might be beneficial to share a few of the alternatives to taking on student debt. Again, not all of these will apply to you, but if I can at least change the perception that student loans are inescapable, then I will consider my mission accomplished.

Probably the most obvious alternative to loans is scholarship based financial aid. Although most full-ride scholarships are determined by academic or athletic performance, many smaller, lesser known scholarships are not.

These are often based on things such as ethnic background, area of study, income level, age or the region in which you live. You can find information regarding these scholarships online through a variety of searchable databases. Probably the most well-known and available of these scholarships in the state of Missouri is the A+ program which provides high school students 2 years of full tuition to a community college if certain eligibility requirements are met. The key in this is researching the requirements early in the students' academic career so that you make sure all eligibility requirements are met by the time of graduation from high school.

Another great way to decrease the overall cost of your education is to be a smart shopper. Not all places of higher learning provide the same bang for your buck. In general, public universities, are significantly less expensive than private ones, especially if you choose one that is in-state. Community Colleges are an excellent value as you weigh your options. They offer greatly reduced rates for their credits, and for the most part are transferable to most four-year universities.

By going this route, students are often able to save even more money by living at home for a few more years. That's why when comparing the cost of various schools you should look at more than just tuition cost. Make sure you factor in all aspects of the overall cost, including such things as, ease of transportation, cost of living in the area, and the overall job market.

This leads me right into another tactic to graduating without student debt: work part time while earning the degree. Not only does this provide necessary income to help pay your tuition bills, but it can also be an avenue to having your employer subsidize your education. Many employers offer tuition reimbursement programs even to part-time employees. Often, these reimbursements come with a requirement that you will continue to work for the company for a certain amount of time after you graduate.

Private companies are not the only ones willing to pay for your education in return for a term of service. The military offers an excellent set of benefits through the G.I. Bill, and some schools like the College of the Ozarks provide tuition free of charge in exchange for working on campus for the school. At many universities it doesn't have to be you working for the school. Students who have family members employed by the college can qualify for deep discounts in the overall tuition rate.

As I said at the beginning of this article, I don't pretend to say the process of graduating debt free is easy. But with an intentional plan, some creative thinking and a lot of sacrifice it is possible..... and certainly beneficial.

# The Future if Your 401(K)

Article first published March 9, 2017

Recently a friend mentioned he was considering cashing out his 401(k). On the outside I remained calm and quietly listened to his plans for the money, on the inside I was screaming NO! He explained that he was leaving his current job and because he didn't have a large amount of money in the account, why bother moving it elsewhere?

Sadly, this is how many employees view their 401(k) savings when they change jobs and employers often do a poor job educating employees about their retirement plan options when employment is severed. Couple this thought with the findings from a recent Careerbuilder\* survey which shows 45% of employees plan to stay with their employer for less than two years and you potentially have a situation where the lives of millions of Americans could be impacted negatively.

You may be asking yourself "is it really that big of a deal"? The short answer is, depending on the balance and the age of the individuals involved, yes it can be. Consider this, the government allows you to contribute a certain amount into your company's 401(k) tax free. That means when you receive your W-2 at the end of the year, funds that you contributed to your 401(k) will not appear as taxable wages.

However, if you choose to cash out the 401(k) prior to retirement, the entire balance is now seen as taxable income for that year. As a result, before the funds even hit your bank your employer is required to hold 20% to help pay the income taxes you will owe to the IRS and a 10% penalty will be levied for prematurely liquidating your 401(k).

This means that you lose 30% of the balance, and maybe more depending on your tax bracket, before you see one penny. As much as these short term losses hurt, the long term effects of losing the tax free growth of the account can be even more damaging. Consider this, a \$50,000 401(k), if cashed out by a 30 year old, results in a net value of approximately \$35,000 to the individual. However, that same \$50,000, if kept in a non-taxable account until age 59 ½, would grow to over \$500,000 (based on 8% annualized growth). Even more pronounced, if that money was kept in the account until age 70, the end result would be a balance of over a million dollars!

Once you consider all your options, the best one, and often the simplest option is to rollover the 401(k) into an Individual Retirement Account (IRA). By doing so, you simply transfer the money from one non-taxable account to another. Much like you would if you changed banks. Often there's no cost to processing this transfer. Once the funds have been transferred your investment options actually grow. Rather than being limited by the investment choices provided by your employer's 401(k) plan, you can choose your own investments from a wide variety of securities including mutual funds, stocks, and bonds among others. With effective investment management, your balance should grow even faster than they would have in the 401(k).

My hope is that you now have a new perspective on how important it is that once you contribute to a retirement account, you exercise fiscal discipline and keep it there.

\*<http://www.careerbuilder.com/share/aboutus/pressreleasesdetail.aspx?sd=5%2F15%2F2014&id=pr824&ed=12%2F31%2F2014>

# Money Saving Ideas

Article first published February 15, 2017

None of us need to be reminded that a penny saved is a penny earned. My goal isn't to tell you what you already know to be true in some elegant way that triggers you to change old habits. I'm no Tony Robbins, so I won't pretend to be the motivational writer that will forever change your life. What I will attempt to do is give you an idea or two that can save you some money towards something you would rather be buying or doing.

Food is often our second largest budget item after paying for the roof over our heads. I admit that this is an area I struggle with the most. I know this to be true for many others from countless conversations around budgeting. Even fast food can be pricey these days, but I still struggle with costs when cooking a meal at home. I have found that using the website **[www.budgetbytes.com](http://www.budgetbytes.com)** is very helpful in cooking great meals at affordable prices. Their focus is on simple, quick, and satisfying meals with an emphasis on low cost. They break the cost of all their recipes down to the per serving level. They even show you the perfect pantry list to make many different recipes with the same staple items.

Another simple way that I save money, is with my home and auto insurance. As an independent advisory company, we are free to choose the investments we feel are most valuable to our clients. In that same spirit, there are independent insurance agencies that can shop your insurance policy among multiple insurance carriers. I personally saved several hundred dollars on both my home

and auto insurance by working with an independent agent. You can contact us if you would like information on independent insurance agents we trust.

There are a number of smartphone applications coming out now which are aimed at helping us save money. In a recent column, we talked about the needs and benefits of an emergency fund. There is a smartphone application called Digit that will analyze your income and spending while trying to find money it can safely set aside into your savings or emergency fund. Their slogan is 'Save money, without thinking about it.' They even have a no-overdraft guarantee. Nothing beats forming a habit without any effort!

You may have heard of the website Mint. This is a site where you can bring all your different financial information into one convenient place making it a very easy way to get a full view of your financial picture. You can track all of your retirement accounts, bank accounts, credit cards, etc. and even breakdown your spending habits into different categories. You can also set different goals for yourself and the site will monitor your progress and give updates.

There are very few of us that couldn't benefit from incorporating different money-saving ideas. What are some ways that you save money? I would love to hear from you if you have any ideas that can be shared with others. Just contact us through our website [www.stewcap.com](http://www.stewcap.com). Until then, I will keep looking for wise financial solutions to share with you in the future.



# What's the Emergency?

Article first published February 1, 2017

Henry Buckley once said “SAVE A PART OF YOUR INCOME AND BEGIN NOW, FOR THE MAN WITH A SURPLUS CONTROLS HIS CIRCUMSTANCES AND THE MAN WITHOUT A SURPLUS IS CONTROLLED BY HIS CIRCUMSTANCES.”

We all know we should save for a rainy day. We heard it repeated often by our grandparents as children. However, somewhere along the way, we as Americans have lost our way and forgotten this very simple principle. According to a recent study by the Federal Reserve, far too many Americans are not financially prepared to handle even the smallest of unexpected expenses. The study found 62% of American households have less than \$1,000 in savings – nearly half couldn't cover a \$400 emergency expense without borrowing the money or selling something. And perhaps most distressing – almost 30% report having no savings at all.<sup>[i]</sup> You may think this is only a problem that affects lower-income individuals but the numbers do not bear that out. A recent survey found that some 29% of adults earning more than \$150,000 a year, and 44% making between \$100,000 and \$149,999, also had less than \$1,000 in savings. According to the data, middle and upper class individuals are not immune.<sup>[ii]</sup>

There are a multitude of economic and cultural factors that might be causing Americans to save at less than half the rate previous generations did 50 years ago. It's true for many that wages have remained stagnant while the costs of goods and services have increased. It's also true that the

availability of credit has helped to produce a culture of consumption. But no matter the reason, Americans spend far too much and save far too little.

Financial expert Dave Ramsey recommends a minimum of a \$1,000 emergency fund exist in every household, and I agree. No matter your income, or your budget, not having at least \$1,000 in your bank right now is a recipe for disaster. Murphy's Law, which states, "Anything that can go wrong will, often at the worst possible time" is as true now as ever. If you don't have a strategy to account for it, a minor inconvenience will quickly become a devastating crisis. That's the bad news. The good news is you don't have to be a helpless victim, you can do something about it. By establishing an emergency fund and living by a realistic budget you can stop Murphy from getting his foot in the door when he does come for a visit. We live in the wealthiest nation in the world. There is no reason every single person reading this should not have at least \$1,000 sitting in their bank. However, if you're like the majority of Americans who don't, I implore you to make that your goal for 2017. In doing so you can take a huge step forward in taking control of your circumstances rather than letting your circumstances control you.

**[i] Report** on the Economic Well-Being of U.S. Households in 2014 (May 2015) <https://www.federalreserve.gov/econresdata/2014-report-economic-well-being-us-households-201505.pdf>

**[ii]** GoBankingRates Survey American Savings September 19, 2016 <https://www.gobankingrates.com/personal-finance/data-americans-savings/>

# Chapter 4: Government and the Economy



# Was GameStop a Game Changer for the Market?

Article first published February 3, 2021

Unless you have been in a jungle somewhere, without a smart phone, for the past week, you have heard of the youthful group of stock trading investors acting like a flash mob. I cannot pretend to understand all of the communication technology that enables the group to coordinate. But I can shed light on the issue of whether their trading was stopped to aid the poor hedge fund operators who were losing their fortunes.

The bare bones of background are these. As you know, the Federal Reserve and the US Treasury think that zero interest rates (or as close to zero as they can enforce) are necessary and healthy for the United States economic welfare. They both want to incentivize people to take risk, to start new businesses, and to invest in companies through buying stock. Many young people are laid off, underemployed, working from home, or just waking up to the gambling aspects of stock trading.

The hedge funds have made it a habit in the past several years at least to announce their intentions of driving down the price of a target company, recently Gamestop Corporation (GME) and AMC Entertainment Holdings, Inc. (AMC Theaters) among several others.

Why this is legal, I have no idea. They decide upon a victim company, borrow shares of its stock from a brokerage company, sell the stock and then later buy stock shares (hopefully at a much lower price) to replace the ones that they borrowed and sold. This is known as shorting a stock.

The profit they make is the difference between the price at which sold initially and the price they pay for the stock to replace those shares sold. Let me give you an example of some from the late 2000 decade that were golden for this practice.

In late August, 2007, Bank of America (BAC) was selling at \$52 plus. It began to descend soon after. If shorting, you would have borrowed shares, assume 100 shares, sold them at \$52. Then you would have waited and watched in glee as the price dropped down to a low of \$2.53 per share. In a perfect world, you would have bought your 100 shares back for \$253 to replace those you sold at \$5,200. Your cost would have been interest on the borrowed \$5,200, perhaps about \$650 for a year and a half at 8 percent.

When the hedge fund raiders announced their victims and began to bad-mouth them to destroy the stock value, some heroes recently appeared on the scene under the banner of WallstreetBets. On the Reddit chat website, they decided to take on the raiders by buying Gamestop and AMC in sufficient numbers as to make the stock prices rise instead of fall. So successfully, that from October 30 to its peak last week, GME went from \$10 plus to a top of \$483.

If you had shorted the stock at \$10, you were now losing over 4,000 percent on your bet! Hedge fund guys are not supposed to let that happen to themselves, only to the sheep they are trying to shear. But at that point on Thursday, Robinhood, the primary trading brokerage for the youthful traders, halted their ability to buy and only allowed orders to sell Gamestop shares. Critics said it was in order to protect the hedge funds. Although it may have stopped the bleeding, this was not the reason.

Brokerage firms are required by law and regulation to have enough of their own money in reserve to make sure all transactions are funded and able to be cashed out, so to speak. Many traders had bought their shares on margin, borrowing as much as perhaps 80 percent of their purchases. When the price continues to rise, all is well. But when GME was rising and falling by a couple hundred dollars a day, it was apparent that some traders would lose money and go broke, not be able to pay back the 80 percent they had borrowed. Robinhood was unable to guarantee all the cash to settle up the trades. In fact, on Thursday night, it raised a Billion dollars of new capital so it could continue in business.

The story is still continuing. As of yesterday morning, GME is back down to \$87 a share. There have been thousands of winners and losers. The fundamental value of GME is said to be still around \$10 or so. But with apologies to the late, great Paul Harvey, now you know a little more of the story.

# Markets Always have the Last Word

Article first published December 9, 2020

If you needed any further proof about the difficulty in predicting stock market results, you should have it now. Before election day in 2016, you were told that electing Donald Trump would kill the stock market. This year, you were told that just the threat of a Democratic \$4Trillion tax increase would kill the stock market.

Mr. Market says, Watch what I do, not what anyone says! This is one of the reasons why using technical analysis along with fundamental analysis can be so profitable. The month of November witnessed percentage increases in the Dow Jones Industrial Index of 11.84, the NASDAQ 100 of 11, and of the S&P 500 10.75.

Do these investors not know we are in a recession, people are still dying of the virus, and the healthy workers are losing their jobs again? Present conditions are never as important as perspective about the future 9 months or more out in front. Will things get better?

Let's look at the November difference among winning sectors. Top of the heap were the beaten down Energy stocks, up 28.81 percent. In second place came Financial Services at 17.36 followed closely by Industrials at 17.31 percentages.

Still positive, the worst performers were Utilities, Communication Services and Consumer Defensive stocks. Technology, far and away the best sector year to date, came in fifth place with a 14 percent gain.

I think the primary economic lesson is found in the genius of the Invisible Hand phenomenon. A few Billion people are making their individual decisions about buying and selling stuff (including investments) every business day of every year. If there are more buyers than sellers, prices of anything will rise in the short term. If demand for a product falls, the price will fall.

Consider the current price of gasoline. I wish I had a dollar for every time I have heard it said or read on social media that Big Oil just sets the price of a gallon at whatever it wants. I can tell you that Saudi Arabia right now certainly wishes that were true. (By the way, if gas were free, you would still pay almost 36 cents a gallon in Missouri for federal and state tax.)

The all-time high for the Amex Oil Index occurred in the second quarter of 2014 at a level of 1,730. The March low during the panic was 443. Since then it has exploded up 115 percent and plummeted 36 percent, currently up another 36 percent to 818. With that in mind, does it appear that some giants somewhere are in control? Will it rise as even more people feel safe to travel? Probably a safe bet.

I for one am glad that demand and supply principles of economics work reasonably well when allowed. We all get to vote with our money. This is capitalism. Have you taught yourself and your family how and why it is the best system?



# Sooner or Later, We Face a Fiscal Reckoning

Article first published October 14, 2020

Three weeks before the election, I am in a state of inner turmoil and foreboding. Me, the optimist for whom the glass is always mostly full. (But I have heard that an optimist is a person who just does not understand the situation!) If ever I have bobbed in a sea of greater uncertainty and potential future upheaval, it was the late 1960s and early 70s when I was too young to know any better.

What is the situation? First, our economic situation. Even before our lockdown and regardless of November 3 winners, we have run up a national debt of \$27 Trillion, an amount higher than the value of all goods and services we produce each year. Before the past decade, this had only happened to finance the Civil War and World War II expenses.

A strong consensus of economists hold that our level of debt is not a major problem. They compare it to a family buying a home for three times its annual income. As long as cash flow continues, the mortgage payments can be made and the family enjoys the home.

My issue? We are not financing a home or anything like it. As a government, we are financing dinners out every night and services with no lasting substance. We have no emergency fund for unexpected events such as the Virus. Our cash flow is merely the ability of the Federal Reserve Bank and Treasury to push a digital button and print more \$Trillions.

When I was younger and accumulated too much debt levels personally, my banker cut me off. I had to cut back on discretionary spending and pay down the debt. We have had no national appetite for controlling our expenses for at least 50 years or more. A cut is now defined as next year' spending being not quite so much of an increase.

Our primary debt culprit was the reactionary solution to the so-called Great Recession. We went from 62 percent of income in 2007 to 99 percent in 2012. In my opinion, the Zero Interest Rate and related programs were wrong headed from the beginning. They produced the slowest recovery of all time.

My criticism is of the Fed and the army of computer-headed economics Ph.D's now in charge. During these years, the level of inequality now supposedly causing riots ramped up. The rich did not need loans, but could borrow at ridiculously low rates and grow richer. Small businesses and middle class folks needed the money, but could not borrow. And for over a decade, you savers have now been penalized by interest rates even less than inflation after tax.

President Obama just went with the flow of contemporary dogma. When Obama left office, the debt equaled 104 percent of GDP. The genius Ph.D's can only say, Think how bad it would have been if we had not saved the world? Then enters President Trump, lately a Republican. He was a great friend of Democrats until 2016 and the fateful escalator ride. The Trump tax cuts of 2017 put nearly everyone back to work who is willing and able, but caused only an incremental rise of 2 percent higher debt.

He is a real estate developer who loves low interest rates and borrowed money. He is a Democrat (or Republican in name only) when it comes to spending. If we can get back to work as a nation, we can figure out how to stop the bleeding. A few trillion of taxes raised will kill the golden goose.

No matter who is elected President, we have and will continue to have a spending problem. The words of President Kennedy that we should consider what we can do for the country sound quite quaint now. Every one of us have our hands out for higher spending for healthcare, education, Social Security payments.

It might seem as If (but I would say When) interest rates rise, government spending on national debt interest will be crowding out spending on our dinners out every night. Spoiled Americans will not like that. If inflation kicks in with stagnant economic growth, social unrest could become our dominant fact of life. Desperate people demand radical promises. Read some history of the 1930s in the US and Germany. The best thing I know is that most things we worry about do not come to pass. May this fear die on the vine as well. Next week I will address what you might choose to do concerning your investments with regard to the election results.

# Shelter from the Storm

Article first published October 20, 2020

On November 4, I predict many will be surprised and distraught, whoever wins. Many will not like the outcomes. I will be surprised if we do not know the winner on that day, but investors of either stripe may sell. If there are legal challenges, confusion will reign and investors will sell. Should you try to protect your investments? If so, what can you do?

If you are already an ultraconservative investor, you should probably make no changes. In times of great stress, quality fixed income positions usually win the day. More aggressive investors may plan ahead to purchase the kinds of funds that actually rise when others fall. My purpose today is to provide you either with confidence in your current portfolio or with information about alternatives to consider.

In the most recent panic, earlier this year, the big winners were the leveraged inverse mutual funds and Exchange Traded Funds (ETF's). For example, the ProFunds UltraShort Mid-Cap Investor Fund gained 133 percent from the stock market top on February 19 through March 23. Then as the indexes began to rebound, it dropped like a rock. By April 9, about 47 percent of that gain had disappeared.

Obviously, these tools are scalpels and will cut both ways. But they are methods that the wealthy often use to protect what they have. Other inverse positions exist which have no leverage, no multipliers.

For example, the Rydex Inverse S&P 500 Strategy Fund rose by over 41 percent during that downdraft. It had also lost about 41 percent of that value by April 9.

What if you have a diversified portfolio of mutual funds within a particular fund family? Many of them will have a government bond fund or high quality bond fund. For American Century funds, the best haven was its Zero coupon 2025 Fund which gained almost 4 percent. For American Funds, the US Government Securities Fund gained just over 5 percent. The Vanguard Long-Term Treasury Fund rose by almost 12 percent before resuming a sideways pattern (and is now about 4 percent lower than its top).

Remember that no sustained bull or bear moves occur in one day. If you choose to make no adjustments, within a few days or weeks after the election, we will either see a resumption in the bullish market since late March or alternatively a bearish trend developing. However you choose, take time now to discuss strategies with your financial advisor, well before election day. Do her or him a big favor—do not wait until November 2nd!

# Thanks to the Fed, Savers are Taking it on the Chin

Article first published September 24, 2020

As a financial advisor, you can count on human nature to indicate where you are in the investing cycle. As the summer progressed and the stock indexes marched steadily higher, people began asking why we had not revved up the engines to full speed. We read about new young investors opening accounts and wondering why they need a day job. Never a good sign. But everyone knows you should not fight the Fed the Federal Reserve Board Open Market Committee, that is. Long ago, it had one task, that of keeping the dollar stable. Now it has a dual mandate: first, to give lip service to a stable dollar, and second, to print lots of money or do whatever else it takes to help the US achieve full employment.

Its current strategy is to make borrowed money so cheap that you are a buffoon to keep it in the bank at nearly zero interest. What should you do with it? Why, invest it in the latest and greatest new companies stocks promising to solve all of our problems. Fed to public: We no longer need your trillions of dollars saved and kept in safe places. What does this strategy produce? Tesla comes to mind immediately. What could be more popular than the darling green car company producing great style? It has taken its investors on a great ride (pun intended). Since September 20, 2019, its stock price has risen 833 % through Monday.

Meanwhile, Dish Network (DISH) sits in the median spot of 4,652 stocks in that period. It lost 13%. The worst performer was Top Ships, Inc. (TOPS), down over 98 percent in value. The losers have a lot of friends because 64 percent of this list have lost value from one year ago. Only roughly a third are higher. Back to our star though. Best things going for Tesla are that it is now profitable, earning 10 cents per share last quarter, and in the past five years, sales are growing at an average of 49% per year. After those two, you need to look under the hood, or wherever the engine is. For housing values, you look at comps in the area. Here let's look at GM and Ford. If you were Midas, you could buy all shares of Tesla for \$409B, down recently from about \$450B. Or you could buy GM at \$45B and Ford for \$28B both. You would have 82 per cent of your money left for other things. While true that Ford is highly leveraged and losing money this year, it has \$130B in annual revenue compared to Teslas \$25B. GM has over \$115 revenue.

The PE ratio is also interesting. That is the amount of stock price one has to pay for \$1 worth of company profit. That of Tesla is 521 times the dollar, while GM is only 23 and currently Ford is -11. At least Ford stock price is cheaper than its book value per share. With Mr. Market at least temporarily valuing Tesla and others at such sky high measures, we are not surprised that the stock market indexes are falling, no matter how much free money there is in circulation. When one throws in potential regime change that may punish capitalism, certainty is in very short supply. For now, we are cautious and favor holding some cash for future purchases that might get a lot cheaper.

# The Importance of Underlying Optimism

Article first published June 10, 2020

The two conditions are usually unrelated. Mr. Market is concerned most with the question of whether, in 6 to 12 months in the future, economic conditions will be better or worse. More specifically, an investor continuously makes a judgment about the probable progress of individual companies, industries, and the economy, or the lack thereof.

If most investors really believed that riots will increase and unemployment in the US will continue or rise through year end, the market would be plunging rather than rebounding. But that means absolutely nothing about the person's heart and soul.

Consider the history leading up to World War II and its beginning. In spite of the War in Europe beginning in September, 1939, our US Dow Jones Industrials Index lost only about 2.9 percent that year. In 1940, as we began to arm our Allies to fight the Germans, uncertainty weighed heavily and the market fell further. Most of the investment losses had already occurred by the time Congress declared war on Japan on December 8, 1941 and then Germany.

The first months of our engagement in 1942 were disastrous. Germany and Italy continued to conquer Europe and North Africa while Japan was repelling US and British forces in the Pacific.



Nevertheless, the Dow Index began its upward trend in May, 1942 and rose 25 percent by year end. Market movement is first and foremost about the direction things are pointed, always looking ahead by a number of months.

I think that is what is happening now. We had an instant recession. Only time will tell whether we have made wise pandemic policy decisions or not. But reasonable people are optimistic about having a positive direction by the fourth quarter and into 2021. And this should be rewarded no matter who becomes President next January. Caveat: this in no way means that we will not experience another significant drop or two, especially as the actual revenue and profit reports come in later July and August. I will be surprised if there is not more turbulence ahead. One must have a basic attitude of optimism about one's world environment in order to invest either through lending money, debt or fixed income, or owning a piece of a company, stock equity. Warren Buffett, the Oracle of Omaha, will be 90 years old in August, but he is investing in the people and ideas he believes will make a positive difference during the next several decades. That is what allows him to give billions to charities. Socialism never produces any extra resources with which to solve major problems of humanity.

# Is it Different this Time?

Article first published April 29, 2020

The primary rule of financial markets behavior is that Mr. Market will do whatever it takes to confound the greatest number of investors, market experts, et al. No one else could possibly be so fickle and unpredictable. I can safely say that almost no one expected the current bullish run in the S&P 500 to begin on March 24 five weeks ago and to continue over half way back to its high point of February 19 by now. On the contrary, I wish I had a dollar for everyone on financial cable channels still expecting a drastic correction taking said 500 Index back down by 5 or 10 or 15 percent. That would be typical.

But when you and I least expect it, Mr. Market will return to his customary habits. This is often after the majority decides this time it truly will be different. As I finish this, the S&P 500 has reversed from a 1.4 percent gain in the opening minutes yesterday and fallen almost 2 percent backward by the close. Even this could be the day that marks the highwater level since March 6. Whatever the case may become, one can already tell probable winners and losers. Which investments are most likely to succeed in these new recessionary circumstances? For example, by approximation, the NASDAQ 100 Index is actually positive by over 1 percent year to date through Monday's close. On February 19, its high point, it was up by 11 percent.

On the other hand, Monday afternoon, the S&P 500 was still down by 10 percent and the Dow Jones Industrials Index was lower by over 15 percent year to date. The latter is especially weighed down by Boeing (BA), now on sale at 60 percent off!

Why would the NASDAQ 100 be so far ahead? Its relative strength comes mainly from the technology and biotech/medical companies it contains. Consider that Tesla (TSLA) was 90 percent higher so far, followed by DexCom (DXCM) at 53 and Regeneron Pharm (REGN) at 45 percentages respectively. However there are some dogs inside too. United Airlines (UAL) was 71 percent cheaper. Jeff Bezos, largest owner of Amazon, could buy both Boeing and United!

Investing folks are trying to predict what services and companies will be essential in this brave new world of deadly viruses and lots of homework. Think Software. Speaking of unlikely rebounders, Simon Property Group (SPG), owner of many huge shopping malls, is making a valiant attempt to come back from a near death state. It has finally gained over 20 percent in the past two days. I just wonder if anyone but pre-teens will be hanging out or spending some money at major malls ever again. Other winners this year thus far are gold/silver mining stocks, gold itself, electronic gaming, groceries (of course), health information services, and the Amazon/Wal-Mart's of the nation. Losers include the restaurant industry at 23 percent and US bank groups between 24 and 40 percent lower. I suppose no one will eat out or borrow money in the future, at least not for a while.

Almost everyone also thinks Mr. Market will regain the mountain tops within a couple of years from now, perhaps sooner. We are among those. As we will repeat, do not give up and lend your money to the federal government at the new five year rate of less than a 0.4% per year.

# Over Time the Tide Does Shift

Article first published September 25, 2019

One of the most interesting aspects of investing comes from the continuously changing tides between types of investments over time. For years now, the largest growth companies like FAANG (FaceBook, Apple, Amazon, Netflix, and Google) have been dragging along the rest of the companies among the largest 500 in the United States. Meanwhile, the smaller sized US company and international stocks have lagged by a wide margin. Diversification has cost you money if you are more safely invested.

Also, fixed income investments (bonds and other debt instruments) are incredibly overvalued at this time. Why? Primarily because, due to the Fed's insistence that borrowers be benefited and savers/lenders be cursed, the more conservative crowd has chased a combination of perceived safety and the highest possible yields for income. Huge demand for anything raises the price for anything. Be on the watch for falling bond prices if we live long enough.

A battle usually rages behind the scenes between the two major styles of stocks too. These are growth and value. Those FAANG stocks are in the growth camp. Investors focus on high growth rates of sales and sometimes earnings. Value stocks generally trade at lower prices relative to their dividends, earnings or revenues. In the Russell 1000 Value index, Berkshire Hathaway, JPMorgan Chase, and Exxon Mobil are the three largest members.

On September 9, 2019, a day during which not too much noteworthy happened, the prevailing wind changed between growth and value stock performance. The iShares Russell 1000 Growth index fund (IWF) dropped by .78 percent while the iShares Russell 1000 Value fund (IWD) rose by .86 percent. That is a shift of 1.64 percent in one trading day!

Even after yesterday's downdraft in stocks, the value components are pulling ahead of growth as judged by the rebounds to date from the two low points of August, both August 5 for growth and August 14 for value. IWD is now 2.9 percent ahead of IWF in less than 6 weeks.

What does this mean to you? If you are a buy and hold type of investor, it could mean better days ahead. If you are holding the big banks, telephones like ATT and Verizon, consumer stocks like P&G or Johnson & Johnson, you may see your prices finally edging upward faster than the high flyers.

Since we observe and evaluate these kinds of differential advantages, it means we will be looking for better results and relative strength in industries and places it has not been seen for years. And since every family has several lawyers in it nowadays, try to steer your children and grandchildren toward finance if they are not planning to be doctors or healthcare professional, a group that may always be in short supply.

# The Fed Still Doesn't Get It

Article first published July 17, 2019

Here at last, the dog days of summer. Under normal circumstances, the stock market would usually be swooning by now from lack of attention while Big Money folks hang out in the Hamptons, hike in Maine, chic stuff like that. But as the late, great Erma Bombeck said, Normal is just a setting on your dryer!

Instead, the Dow Jones 30 Industrials Index has played catch-up since its low on the first of June and moved on to record highs. Ditto for the S&P 500, a much more broad measure of US stocks, the Nasdaq 100 and its Composite Index of titanic-sized tech companies as well as the newer, younger ones. (Small- and mid-caps still lag their high points however.) By Monday, the 15th, the S&P 500 had registered about 20 percent gain in 2019.

Why almost half of that gain since Memorial Day? Aaron Pickert, my associate, suggested perhaps because now technology allows anyone and everyone with a cellphone/computer and the inclination to trade while lying on the ocean beach, the lake beach, and anywhere else. Probably right.

What is even more certain is that Federal Reserve Chair Powell poured gasoline on the market fires with his seeming change of heart and mind. As Brian Wesbury points out, the Fed Chair had been consistent in pounding the *data dependent* drum until now.

Chair Janet Yellen had already placed those two words into the hall of fame of fedspeak. But on June 4 in Chicago, Powell said *We will act as appropriate to sustain the expansion, with a strong labor market and inflation near our symmetric 2 percent objective.* Reading to the end, it becomes clearer to me that means Whatever it takes!

Jim Cramer, the enthusiastic host of Mad Money, was correct in August, 2007, when he said, *They know nothing!* about the Fed. You can enjoy it again on YouTube if you missed it. In 2009 to 2010, the Fed missed the curve when it refused to raise interest rates during that period when no one could even get a loan anyway. But the computers in the backrooms of all the Economics Ph.D's could not possibly be wrong. Free money would save the day. And the next, and the next. And here we are. . . still, quaking in our boots for fear of what normal interest rates would mean.

The only winners of the past 11 years have been our federal government printing money and borrowing trillions, the billionaires who did not need more borrowed money anyway, and now, most public corporations that have borrowed to the hilt yet again since money is still so cheap. This is the big reason why the rich have had a field day in the past ten years while regular folks have waited patiently for the tide to rise.

What about the millions of retired people of our country who have eked out \$50 or \$100 Thousand dollars in savings in the banks?



About the time they thought they might get some bread crumbs, maybe a 3 percent or higher CD, these Fed academic wizards decide that even their target 2 percent core inflation trend and 2.3 percent core producer price inflation may not be enough. But the piper will be paid again someday.

Whether it from Chairman Powell, President Trump, the friend of realtors everywhere, or the majority of those on the Board of Governors, the policy of deliberately forcing the devaluation of our money—even 2 percent per year—is an offense against all of us.

Merle Haggard sang it best: (Someday soon) *We'll all be drinking that free Bubble Up and eating that rainbow stew!*

# Relative Strength Basics

Article first published May 29, 2019

Today's column is designed to give you a little better understanding of what is going on inside the black box of your investments. Hopefully it will be enlightening. If you are a DIY investor, this principle is quite important for you to know or study.

On television Mr. Market seems to be a monolithic organism. You are told that the Dow 30 Industrials Index did such and such or the S&P 500 index gained or lost so many points. However as I emphasize, there is always a dramatic difference between individual parts of the whole.

For example, since the closing April 30 high point of 2,945.83, the S&P 500 has dropped to about 2,826 through Friday, the 24<sup>th</sup>. This is a loss of about 4.1 percent. However, the best performer of the 500 through last Friday is Coty, the cosmetic company, with a gain of 20 percent. It has gone through a reorganization recently and insiders are apparently buying more shares of it.

On the other end of the spectrum, Kohl's (KSS) lost 28 percent of its value in the same time period. It appears that roughly 259 company stocks have outperformed the index. This comparison is only taking into account the change in share price.

Since most companies' stock price movement most closely matches up with that of its industry group, you can take advantage of the strength of an industry or stock relative to the movement of the broader market indices. REIT's (Real Estate Investment Trust's) in the form of Healthcare Facilities rose by 6.8 percent during this new downtrend since April 30 to May 24. That is the best performing group of companies.

Healthcare companies have been beaten up fairly badly in past months while REIT's have been rising even in the past three weeks, clearly bucking the general market trend. Perhaps a countertrend in Healthcare companies is teaming up with the real estate uptrend. This kind of difference in a few weeks' time—positive 6.8 percent compared to negative 4.07 percent for the S&P 500—is worth some attention for the intermediate to shorter term trend follower.

Cash can also provide a positive relative strength factor in a portfolio at times. Most of the folks I know hate to have cash or money market funds in their portfolios, even for a short period. But our recent client results have been generally better than the S&P 500 because we have sold some positions in the past few weeks and we are waiting to replace them until better investing “weather.” Short term bonds or even the Aggregate Bond Index (AGG) can play the same role. The latter is higher by .76 percent in our measured period.

Our best indicators show clear weakness in stocks right now. The culprit is fairly obviously the potential that the trade fight with China may boil over into a larger scale tit for tat kind of downward spiral. We hope we are wrong but we are taking some protective measures and will be prepared to adjust either way.

# Taking the Long View Pays off

Article first published May 15, 2019

For investors, proper perspective is about the most important quality one can possess. I am referring to the practice of viewing where we are in terms of historical benchmarks and the statistical probabilities from long history

Our shared human condition is that we are creatures of the here and now. We focus on *What have you done for me lately, Mr. Market?* And by lately, we are tempted to consider the past few weeks or months, certainly not years. Industry professionals think in terms of trends and percentages up and down, but you the investor think in terms of dollars and cents. The dollars were hard to earn in the first place. They are extremely painful to lose, if even for a short period.

So where is the stock market now? Using the S&P 500 Index, the stocks of the 500 largest US companies, for reference, last week the index lost 2.10 percent in value. That doesn't sound like much. But if you have \$500,000 invested the Friday before, it is \$10,500. This is more than most of us ever earn in a month.

Would it help to know that less than 30 months ago last Friday, the half million would have been worth about \$377,643. The growth since January 1, 2017 has been 32.4 percent including dividends.

This is a fairly narrow example, but you could choose to focus on still having gained approximately \$112,000 during that time rather than losing \$10,500 last week. But also, if you are spending from the account, the gains are being used and no one I know puts all his money into the S&P 500 during retirement. It's not a perfect world.

Of course, none of us can continuously remember what happened last week, much less last year or before. Because of these factors, we have every right to forget how much we have gained and spent and to focus on the latest threat to our financial well-being.

What are the worries du jour? On Friday President Trump re-instituted \$200M in import tariffs on Chinese products and they promptly replied in kind. This same spat probably caused the awfully bad fourth quarter of 2018. (This was accompanied by the suspicion that the almost perfect conditions existing then would probably become less than perfect in the future.)

The fear that a trade war could cause another Great Depression is no small matter. Everyone now professes to be a free trader which translated, means, *No Tariffs, Nowhere, No How!* Our favorite economist, Brian Wesbury, reminded us on Monday of the analogy President Reagan used. My paraphrase: Since we (countries) are in the same boat, if one partner shoots a hole in the boat, it makes no sense for us to shoot another hole in the boat (by raising tariffs).

Wesbury's analogy: "But China hasn't just shot a hole in the boat, they've become pirates. If Tony Soprano and his cronies robbed your house, would free market principles require you to trade with them to buy those items back? Of course not!"

He asserts that China needs us and Western nation consumers more than we need Chinese products. With a little time, we can get the same things from Singapore, Vietnam, Mexico, or even from ourselves, perhaps even cheaper. Our exports to China are less than 1 percent of our GDP, but China's exports to us are 4.6 percent of its GDP.

I am not predicting the May stock market slide will be finished right away, but I would suggest that you will not likely be able to remember much about it a year or two from now. It will take a loss of another 15 plus percent from Monday's low to revisit the December 2018 low. Please don't jump out of the boat!

# Health-Care Demand Will Grow and Grow

Article first published August 8, 2018

Trying to stay fit might be hazardous to one's health! In late March, trying to perform exercises directed by my trainer, I suffered a complete thickness tear of my left supraspinatus tendon. That is the shoulder muscle that allows us to raise our arms out to the side. The experts don't like my terminology, but in short, that muscle/tendon combination broke in two. (By the way, it was not my beloved trainer's fault.)

But not wanting to burden the rest of you Medicare taxpayers unnecessarily, I delayed having an MRI, waiting three months to see if it would heal on its own. It could not and did not. Therefore, three weeks ago I joined the ranks of those with tiny anchors holding shoulder tendons in place long enough for healing to occur. At least, that's the story and I have a long way to go until I am almost as good as I could have been.

My blessed health history was re-emphasized to me as I completed numerous forms noting that my one hospital stay was in about 1957 at age 4 or 5 for the then obligatory tonsillectomy. I did wear a cast at about 13 for a cracked wrist/arm bones from a softball injury. I remember fondly swimming in the muddy little creek in Blalock Hollow at H. Roe Bartle Scout Reservation (otherwise known as Osceola Scout Camp). Other than wisdom teeth and one other extraction, I have been healthier than one has a right to be!



In spite of that fact, as a whole, our Boomer generation is now in the process of falling apart, facing the inevitable physical deterioration known to every person since Adam's Fall. Good news, right? I am sure you have heard the admonition that if life gives you lemons, make lemonade. The rest of this essay concerns this prospect.

Although shoulder surgeries are exploding in number, they are clearly still not as popular as new knees and hips. This is probably due to most normal people not even thinking in their wildest imaginings about staying in good physical condition or trying to be a volunteer junior landscaper/forester/you-name-it after age 65. But few have ever accused me of being normal and I wouldn't own up to it either.

Since there are more Boomers still alive than any prior generation before the Millennials, and due to that ugly truth two paragraphs above, healthcare is now and probably will continue to be a fantastic growth area for investing. In the past, companies in this sector have been considered to be defensive in nature.

That means that when the economy enters recession and people cut their spending on second homes, cars, and other discretionary items, the great masses of folks will continue to take medicines for headaches and arthritis pain and will finally schedule their replacement part surgeries. This holds true especially for the insureds under age 65 and those like your humble writer who have the "gavamint" through Medicare to help pay thousands to feel better and live longer.

I quickly got off of my narcotic pain medicine after surgery, but I am going to blame those pills and the lingering effects of anesthesia on my writing style today. It is far more wandering than usual, but then, I also have been reading James Fennimore Cooper's novel, *The Prairies* while I recover. How in the world did we ever get through the thickets of 19<sup>th</sup> Century communications in school?

At any rate, next week I plan to continue in a vein more likely to help you make money with your investments. Or perhaps to provide some entertainment to those like me, dull enough to be interested in finance and business.

# Health-Care Demand Will Grow and Grow Part II

Article first published August 16, 2019

Last week I discussed the demographics driving American use of healthcare and its new technology. On average, we are living longer while generally enjoying better health. Many of us will eventually feel somewhat bionic through our high tech ceramic or metal spare part implants.

In 1960 when current statistics began, healthcare was 5 percent of total US gross domestic product (GDP) and we spent \$146 per person. In 2016, we spent \$3.3 Trillion or over \$10,300 per US person, 17.9 percent of GDP. (National Health Expenditure Data, [www.CMS.gov](http://www.CMS.gov).) Hard to believe that geometric progression!

It is safe to predict demand for healthcare will be growing for another few decades. How can you make money on this monstrous trend? First, if you own an S&P 500 Index mutual fund or exchange traded fund (ETF), healthcare company stocks represent 14.39% of that total value. This proportion is third compared to Technology at 22 percent, and Financials at 16 percent.

But if you desire to have a greater percentage of your money invested in this sector, you have plenty of choices: mutual funds, ETF's and of course, individual stocks. If you still have company retirement plan money, there is a chance you have a healthcare fund in your mix. In some investing platforms, the Custodian also provides options to invest in

subcategories of Healthcare. Fidelity has several in its Select funds with Health Care as a general one, but also Biotech, Medical Tech and Devices, Medical Services, and Pharma. Each of the latter contain fewer stocks and will have different performance.

Year to date through Friday, August 10, the broader Health Care fund has gained 24 percent, while the others have risen by 15, 23, 17 and 11 percentages respectively. While the S&P 500 is higher by over 6 percent, the health care funds are winning the race so far. It is definitely not always that case.

If you prefer ETF's with their lower internal costs that trade like stocks, you have many choices also. This year, the top performer thus far is SPDR S&P Health Care Equipment (symbol XHE). Through last week, it has returned over 26 percent. It recently contained 71 stocks and is definitely oriented to growth (rather than value).

Next highest is Invesco Dynamic Healthcare Sector Portfolio (PTH) at 24 percent gain. It always contains at least 30 stocks, currently has 50, and out of all healthcare companies, it has a selection of those with the highest trend of price momentum. This kind of ETF is known as Smart Beta or as having Active management rather than being a Passive set-it-and-forget-it group of stocks.

By the way, since so many of us are needing physical therapy—I started yesterday—take a gander at U.S. Physical Therapy, Inc. (USPH). It is valued at \$1.4 Billion, it makes a profit, and its stock has risen 55 percent in 2018 through last Friday.

Let me remind you that all of these could crash and burn by this Friday so I am not recommending you buy them without research or consultation with a professional. My point is that, as a greater percentage of Americans spend more money on fixing our bodies and minds, this sector will likely perform relatively well. We all might have an opportunity to get some of our healthcare dollars back in the form of good investment returns.

# Economic Indicators Keep Looking Good

Article first published April 18, 2018

Back in olden days, DJ's might say, the super hits just keep coming! In these good new days, the good economic news just keeps coming. So I am going to provide some perspective that might help you fit this into an atmosphere of our dangerous world and media folks who are trying to sell blood in the streets or gloom and doom.

Let's start with the foundation of an economy that has finally gotten stronger and shows all signs of growing faster than it has for about 11 years now. Last year, there was already a new, strange feeling that one might no longer be thought of as a crook just because he or she owns or manages a business.

Then add to that the stimulus of personal marginal income tax rates dropping by about 3 percent for most workers. That has apparently begun to have a positive effect on consumers. Monday we learned that March Retail Sales grew by .6 percent instead of the expected .4. Yesterday March Housing Starts were reported to be up 1.9 percent across the country and total Building Permits up 2.5 percent.

Here in the Midwest, the increase in starts was over 22 percent in March, and 29.5 percent higher than a year ago. We may never lead national trends—it's just not our nature. But when the weather breaks and housing inventory for sale

is low, Midwesterners will build their own. (That view may be completely wrong, but I hold it for now.)

The last piece of excellent news released yesterday? Industrial Production rose by .5 percent (.7 including revisions of recent months' data). Brightest spots include vehicles, mining, utilities, and high tech equipment. The 6 month average growth rose to 7.9 percent per year and Year over Year to 4.4 percent. These are numbers we have not been seeing for a long time. You can find more details and good news from our favorite source, **[www.ftportfolios.com](http://www.ftportfolios.com)**.

But what about our strike on Syria plus the Russian, Chinese, North Korean, Isis, et al. threats to our very existence? When a war breaks out, Mr. Market usually takes notice with selling of stocks, some buying of bonds and perhaps gold. Otherwise, he keeps his eyes on the likelihood that people will continue to strive, to work, to invest, and whether revenues and profits will be better or worse 6 to 9 months from now.

It's about that simple. From looking at the history of the stock markets of various countries—ours, Britain's, Israel's—during times of political upheaval, future expectations sometimes fall. But as long as people have relative freedom to decide where to work, how to work, how to be creative, and that they still want a better life next year, they slog forward as well as they can.

Right now, in the US and many other places, it is easier to make progress. Stocks will continue to reflect that hope and optimism until the climate changes.

By the way, according to my closing chart yesterday of the S&P 500 from TC2000 software by Worden Brothers, Inc., it is valued only about 5.7 percent below its all-time high of January 26<sup>th</sup>. It really is not down that much. Feel better, have some ice cream!



# Is This Bull Market About Finished?

Article first published April 4, 2018

Fears of a major trade war are causing another selloff in global markets this week. China, late on Sunday, said it would increase tariffs on 128 U.S. products in response to U.S. duties on imports of aluminum and steel. President Donald Trump is separately preparing to impose tariffs of more than \$50 billion, especially targeting Chinese technology products in recognition of its piracy of technological intellectual property for years.

Since Global GDP is about \$75 trillion, a \$50 billion increase in tariffs is a gnat on the global elephant's rump. A full-blown trade war is highly unlikely—we think this is all part of getting everyone to negotiate. However, we do not trust political leaders, ours or any others, to be wise just because they should be. These developments threaten to end the bull market we've been experiencing for the past 9 years.

We believe indexes are very close to a pivot point, and the coming days will tell us a lot about the near future of the markets. In our opinion, the situation looks good for this to be a firm triple bottom pattern that leads to the next bullish move upward. But if those indexes violate key indicator levels we use, we will be selling positions to protect our clients' balances from more potential losses.

We believe that as a whole the fundamentals that have driven this bull market are still very strong. Revenues and

profits are up, employment is up, taxes are down—the consumer and business outlook is positive. But investor emotions can change quickly. Because of that we are always ready to deal with irrational fears as well as irrational optimism.

We will provide updates of our market opinions in future columns as conditions change. But if you have comments or questions about details concerning the financial markets or strategies to protect investments in times of uncertainty like this, email us at [\*\*info@stewcap.com\*\*](mailto:info@stewcap.com).

# Is This a Bubble? A Closer Look.

Article first published December 13, 2017

Through last Friday's markets close, the stock indexes have already had a great year. Dow, up 26; S&P 500, up 20; NASDAQ 100, up 31 percentages. Yes, we may still be only a Tweet away from disaster, but Mr. Market obviously has liked the change in business climate. Other than affecting the investing mood (sometimes known as *animal spirits*), let me again opine that US Presidents are not primary determinants of economic failure or success. They claim credit for and are blamed for things they should not.

Also remember that even the big indexes do not represent of all parts of our economy. Mid-sized and small corporations have increased in value by only 12 to 14 percent, but still nice gains. At the bottom of 2017's heap are energy stocks. One energy index is barely positive this year and the S&P 500 Energy sector is still in the hole by 5 percent.

This is always the way it is. *The Market* is a collection of individual stocks and different kinds of businesses. The ones you own (whether in stocks, Exchange Traded Funds (ETF's) or regular mutual funds) may or may not be in synch with broader indexes.

I don't always agree with Jim Cramer of CNBC, but one thing he says is spot on: There is always a bull market somewhere! It has never before been so incredibly cheap and easy to invest in so many different places and ways. This is truly a golden age for investing.

But the question remains. Are we in another giant financial bubble looking for a time and place to pop? You can search and find almost any opinion you prefer for the answer. Let's examine a few factors.

First, some would say we are obviously in a bubble just because these indexes are at all time high points. This quick assessment does not take into consideration the effects of long term inflation. When a dollar is worth less every year, over time the price of company stocks must inflate also since they represent tangibles and intangibles measured in cheaper bucks.

Second, let's look at the Price/Earnings ratio or PE. How much does it cost to obtain \$1 worth of company earnings from a given stock? This ranges from extremely high numbers to very low during cycles. Currently S&P 500 companies have an average PE ratio of 25.64. But the long term average is just under \$16 of stock price per \$1 of annual corporate profit. So this is obviously a higher point than usual.

Third, Professor Robert Schiller of Yale devised a measure called the Cyclically Adjusted PE Ratio. It is designed to smooth out the effects of inflation upon PE ratios.

I could put you into an even deeper sleep, but suffice it to say that by his method, the current reading of 32 is the second highest of any in the past 120 or so years.

My personal addition to this valuation soup is to compare the PE ratio to the rate of growth of company earnings. For example, if Apple has a PE of 18.75, higher than the typical market average, but its earnings grew by almost 11 percent, I would say the higher PE number is probably warranted.

On the other hand, Caterpillar is ridiculously expensive with a PE of 99 (with falling earnings in the past year) unless you expect the earth moving business to explode and Cat's sales and earnings with it. Overall, our view is that company sales and earnings will continue to grow well in the near future. Therefore, we are not in a stock market bubble yet. But as you well know, past performance is no guarantee of future results!

Statistics are derived from Worden Brothers, Inc., TC2000, 2017.

# Sustainable Bull Market?

Article first published May 3, 2017

Sustainability is a new buzzword in our world. From my life experience, nothing is truly sustainable without change—sometimes massive—required to cope with external causes or even the forward march of human drive for improvements. We are experiencing a bull market for stocks that is approaching 98 months since March 9, 2009, when the MARK-TO-MARKET ACCOUNTING rule was tossed out.

This current 8 year trend is still more than a year shorter than that of late 1990 to early 2000, but it will end sometime. (If the SEC was to allow a guarantee in investing, it might be one that all uptrends are guaranteed to end. But we will have to check with the Commission for approval before I say that.) When they do end, the next phase is usually not pretty. From First Trust of Wheaton, Illinois, ([www.ftportfolios.com](http://www.ftportfolios.com)), we find that from 1926 through the most recent, the average bear market lasted 1.4 years and the S&P 500 lost a cumulative 41 percent. By the way, the positive news is that average bull markets for the same period provided a gain of 468 percent during a period lasting 8.9 years.

Why do bullish trends come to an end? Occasionally a horrendous external shock such as breakout of war can halt the advance, but far more often it is an interest rate increase leading to fear of recession. In my opinion, the present Federal Reserve Board Open Market Committee would all fall on their swords before they risked raising rates in a manner that would produce a true recession.

Are we in the next bubble already? Is this truly a Trump Bump which will become a Trump Dump if certain laws are not passed right now? My favorite economists, Brian Wesbury and Robert Stein, of First Trust Advisors, L.P., opine that the weak first quarter growth in real GDP (.7 percent) had several causes including the weather, both good and bad. However, Core GDP grew at a 2.2 annual percent rate and is 2.8 percent, right in the middle of the too-slow trend brought to us by the Zero Interest Rate Program of the Fed.

Under the big picture lie some hopeful developments. Business fixed investment rose to an annual rate of 9.4 percent, the fastest rate in four years. Home building grew by a 13.7 percent annual rate. Based upon demographics and the backlog caused by the Great Recession, they foresee a couple more years of housing recovery probable.

The real kicker to me is the growth in corporate profits. This is the best propeller of stock prices over any longer period of time. With about 300 of the S&P 500 having reported first quarter results, profits are higher than last year by about 15.6 percent. With consumer confidence back to new high levels, I believe that sales will also be growing at faster rates soon. We could be in a virtuous cycle for at least another year.

But as some of us joke, we could be only a tweet away from the start of the next bear market. But for now, the fundamentals don't look too bad and are still improving.

# Trouble in ZIRP Land?

Article first published April 13, 2017

Even at this point in the economic cycle after eight years of horribly slow growth and stock market recovery from 2008-09, my associate, Aaron Pickert, and I are still bullish. To commit a spoiler however, there are some conditions over which you readers who like to worry may safely do so.

First, the positive. Every time the US stock market tries to drop down in value recently, the buyers jump in and push prices back upward. The pull back in March managed to reach slightly more than 3 percent even though the indexes have had quite a run since the end of Election week in November. At this point (yesterday afternoon), the S&P 500 is only off the March 1 high by about 2 percent. This is a sign that a lot of investors, some of whom have not been invested in stocks or funds for years, are still trying to find good entry points.

Second, the negative. Zero Interest Rate Policy as practiced by the Federal Reserve and the Treasury Department for almost nine years, has bubbled up some asset values that may turn into just a delayed problem.

In the March 24<sup>th</sup> issue of Grant's INTEREST RATE OBSERVER, Chuck Royce of Royce Mutual Funds discusses the ill effects of cheap money keeping in business many smaller companies that should have failed, been taken over by better operators, and the like. At the end of 2016, 33.9 percent of the Russell 2000 index companies had losses even before they paid interest or taxes. Some of these



stocks have done better than those companies that were profitable. See [www.grantspub.com](http://www.grantspub.com).

The worst source of financial excess right now may be in the auto industry. In order to crank out sales at the current annual rate of 16-17 million vehicles, free or under market interest loans is the enticement. At the end of 2016, loans totaled a record \$1.11 Trillion dollars, according to the St. Louis Federal Reserve Board.

According to Quartz.com, February 21, 2017, (<https://qz.com/913093/car-loans-in-the-us-have-hit-record-levels-and-delinquencies-are-rising-fast-too/>) the average auto loan has risen back to over \$28,000. While the number of mortgage loans is back down to about 80 million, auto loans have risen to a record number, almost 110 million accounts. Nearly a quarter of those are subprime loans, almost \$300B worth. Over 6 million consumers are at least 90 days late on their car loan payments according to the New York Federal Reserve.

Since only about \$97B of the \$1.1T has been packaged into market traded securities, read junk bonds, this is not supposed to be another lurking giant systemic risk. But then, Fed Chairman Ben Bernanke said in the early summer of 2008 that they did not see any major risk of recession, only a few months before the wheels fell off completely.

At some point, even the best bull market runs reach their end. We are watching out for that time.

# Capitalism at its Finest

Article first published January 19, 2017

Our present culture, especially media, generally views business through a dirty lens. I watch too many who-dunit television programs and if there is a corporate exec, business owner, or even professional person in the cast, two-thirds of the time there is your evildoer. The only thing to flesh out is his or her motive, most often blatant greed.

Today's column is the opposite story, but perhaps one you might expect from a Rotarian, Independence Chamber of Commerce board member, financial practitioner and owner of my small corporation. To tell it properly though, I put on my consumer hat.

When I bought my last pre-owned truck a year and a half ago, it had two good tires and two mismatched tires in fair condition. Wanting two new tires to replace the fair and match the good pair, I decided I would do my best to buy local. If I do that, I get to help keep neighbors and friends employed, have more choice as a consumer, and help pay for governmental services I appreciate from my city, county, and state.

I formerly had gotten great service and value from Shamrock Tires, now long gone. In October, I decided to try Greg's Tire & Auto Service at 1837 S. Noland Road. At the counter, I specified which tires I wanted to keep and asked to keep the better tire of the same brand as a spare.

While there, I had a great time catching up with Jerry Mackey, former owner of Hi-Boy Restaurants, and great supporter of all things Independence including youth baseball. I think, I am in the right place!

I go home after getting the two new tires installed without even looking at them. I guess I am just not *into* tires appropriately. But imagine my surprise when a few weeks ago, I discover different tires on the front end than I requested. I call, leave a message, receive a voicemail, go by the shop a couple of times, and begin to wonder if I am just out of luck.

Then I met with Glenn Weightman, the current co-owner of Greg's Tire. I was somewhat defensive. I was requesting him to fix (what is in my mind) a couple months old installation mistake without much proof other than my receipt and the fact that a pair of new tires are on my truck. He discussed the situation with me more patiently than I might have if roles were reversed. He promised to look into it.

Last week ended with me as a Greg's Tire customer for life. He found a solution better than I had expected. He confirmed what I had thought. This is an organization you can trust. Now you know about my experience.

Later I found out Mr. Weightman formerly worked at Shamrock Tire. Good people last.

Although there are business and professional people that fit the negative stereotype, most I have known and traded with are doing their best to find legitimate needs and wants and to fill them as well as they can for a fair profit.

One cannot profit for long without doing a good job at a fair price. Profit is not a dirty word. From profit comes expansions and acquisitions.

For example, Tom and Susan Waters of Corporate Copy Print recently were able to buy a print store in Lee's Summit, extending their circle of great service. In capitalism, we vote with our money. If we do not support a business with our purchases, it should not last. Oh by the way, Greg's Tire is also a member of the Independence Chamber of Commerce.

# Plenty of Good News

Article first published August 29, 2018

In present times, one must know where to seek out good news. Based upon the old saying, if it bleeds, it leads, we have more than a bumper crop of awful things to contemplate. So, being an incorrigible optimist, let me share some items of which I learned recently.

We in the US still creating gross domestic product (GDP) are still in first place in the world economy by a long shot. In 2016, the World Bank and FT Advisors report that we produced 24.6 percent of total world output, followed by 14.8 percent by China. Is that not amazing? Less than 5 percent of world population achieves that in comparison with China at about 16 percent.

If you, your children or grandchildren want a job, this is their time. There are approximately 6 Million jobs advertised at the moment. This is more than the number of people who report they are seeking a job. Please don't tell me they are all in the wrong places or not suitable. Take a job like all of us had to do 40 or 50 years ago. Then figure out the rest while you are already working.

On a relative basis, our energy is cheap. The Permian oil field of our Southwestern states produced more oil in 2017 than did our entire country in 2008. We produce more oil per day than Saudi Arabia and we are approaching the level of Russia. The wells we are drilling now produce 10 times as much per well as a few years ago.

Is all that *carbon-killing* us? In 1990, we produced about 2,900 billion kilowatt-hours of electricity. The CO<sup>2</sup> emissions at that time was over 1,800 million metric tons per year. Now electric production has risen to over 3,800 billion kilowatt-hours, but carbon emissions have fallen to 1982 levels, just over 1,700 million metric tons per year. This is a reduction of about 27 percent since 2007.

US carbon emissions have reduced by 650M tons from 2000 through 2017. The next largest reduction is the United Kingdom with about 190 tons. Other top 20 contributors to cleaner air are all European countries plus Japan. Meanwhile, China during the same time period increased its carbon emissions by about 5,800M tons. I am sure glad China signed the Paris Climate Agreement.

How about the manufacturing we do not perform anymore? By value-added measure, in 2017, about 12.5 million of us turned out a record \$2.18T worth of products. This compares to about \$500B worth in 1978. In 2016, our one nation's manufacturing output was higher than the total GDP of all other countries except China, Japan, Germany, UK, and France, in that order.

The bad news? The output per employee has risen from about \$30,000 in 1978 to about \$180,000 in 2017. Do we want to go back to wheel barrows instead of forklifts to have more jobs?

What about medical science? When I was a young pup returning to Independence after law school, Lloyd Uptegrove plugged me into the American Cancer Society as a volunteer in 1977. The statistics were awful. Over 100 per 100,000 Americans per year died of the various kinds of cancer.

After peaking in the early 1990's, the mortality rate has continued to fall. In 2015, it was something above 80 per 100,000. Why then do we know so many afflicted? We—you and I—know more seniors and there are many more 100,000's of people around us now.

I feel better just recounting these. I hope you do too. I have First Trust Advisors L.P. of Wheaton, Illinois, and Jim Bowen in particular to thank for compiling positive information and trends for us. The best is yet to come!

# Economy is OK, but Nerves are Rattled

Article first published July 5, 2018

I saw recently the PRINCESS BRIDE movie will be presented this next weekend on Xfinity, Netflix, or some outlet. One of my lifetime favorite movies, it includes a scene in which the hero must transport his love through the Slough of Despond. It is a treacherous place with fire swamps, ROUS<sup>1</sup> and quicksand ready to take one down.

This is a bit like the current stock market feels. After such a strong second half of 2017 and into January, the S&P 500 finished with only a first half gain of 2.65 percent including dividends. The Dow Jones 30 lost .73 percent while the US Aggregate Bond Index lost 1.62 percent. So much for supposed safety.

Official unemployment is down to 3.8 percent and company revenues and profits are still rising. That trend is expected to continue for months. So what is the problem? Have we entered a much more dangerous place than most think?

The MSCI World Index (excluding the US) dropped by 3.77 percent. Most countries are running at good speed. But all are fearful of the disastrous effects of a tariffs-induced trade war. President Trump is making good on his promise to even the playing field when it comes to other countries' taxes placed upon our exported products.



If one compares just the applied weighted mean (an adjusted average), the US looks pretty low, down in the neighborhood of 1.7 percent, according to the World Bank<sup>2</sup>. This compares to 1.6 percent for Canada and 3.5 percent for China.

But you know that quip about figures not lying, but liars can figure? We might apply that here. The comparison is complicated by not just the amount of tax (or duty), but other costs (or duties). These can include bureaucratic requirements, fees, licenses, and such.

This is one argument leveled at the US. It is hard to imagine that we are more difficult to engage in business than other countries, but I am sure it is possible. I wonder if critics include our trade sanctions and technology restrictions upon exports to China, Russia, or Iran.

On the one hand, we don't want to be patsies allowing others to compete unfairly with our industries. But one principle of which I am certain is this. More trade is better than less. Countries should specialize in providing those products and services that for which they are best suited, whether by climate, skill, education, soil conditions, etc.

Students of history will remember that new high tariffs in 1930 shut down world trade and every country suffered for it. It is this fear I believe is weighing on Mr. Market's mind, holding stock prices from the next uptrend. Other than this, full speed ahead.

On a personal note, if not for our protection of dairy and peanut farmers, I might eat even more peanut butter and chocolate ice cream sundaes and concretes. Wait, that might not be such a good thing after all.

General market performance numbers from Market Watch, First Trust Advisors L.P., July 2, 2018.

<sup>1</sup>Rodents Of Unusual Size.

<sup>2</sup>

See <https://data.worldbank.org/indicator/TM.TAX.MRCH.WM.AR.ZS>.

# Is All Well?

Article first published July 26, 2017

Human nature is a strange and wonderful thing, don't you think? When times are tough, we cannot wait until they become easier. When they become easier, we worry about the next tough time or experience. Lots of investors are feeling that latter one today.

As I write this on Tuesday, July 25, the S&P 500 index is at a record high (2,479.45) while the Dow 30 index is just a quarter percent below its record. (TC2000 software, Worden Brothers, Inc., 2017) Meanwhile, the US Navy warns Iran by a shot across the bow, Chinese jets buzz a US reconnaissance plane, and Kim Jong Un's aerospace slaves are working feverishly to produce a missile able to cause us mass destruction. Throw these things in a bag and have a nice day!

While not original from me, I am constantly reminded that our world of finance—life itself—is never quite as good as it seems in best times or as bad as it seems in toughest times. Where are we today as it concerns the US financial world?

Our stock market has run generally upward since the low of March 9, 2009, 8 years and four months ago. That is not a record, but it is a long time with only one decline of 20 percent or more, in mid-2011.

Many have predicted an impending recession along the way, but no period of two consecutive shrinking quarters has appeared. Instead the economy has limped along at a rate

of barely 2 percent growth per year. Since the election, stock indexes have risen from productivity and profit growth. It appears second quarter profits will be higher by at least 8 percent over last year.

Sometime, maybe even in the next few months, stock prices are likely to fall back and take a breather. Fundamentally there is not much reason for a major drop now. But based on historical data, a sizeable correction could come during the summer or fall of 2018. Whenever something like that occurs, active managers and investors take advantage of them to protect and grow assets on a relative basis.

For its part, the Federal Reserve, as physician, is still regularly bleeding the patient with its zero-interest rate policy (ZIRP). Its proof of effectiveness? The patient is still alive. Its spokesperson, Janet Yellen, has assured us for years it will return interest rates to normal, if the patient will just get up and run like a healthy person. It will know the right conditions when it sees the perfect data. A growing number of observers seriously doubt that.

My plea is that the Fed stop bleeding the savers to favor the billionaire borrowers!

If you're a borrower, there is good news and bad news. Only 550 pound Uncle Sam continues to skyrocket the national debt. Thankfully, most of our citizenry is too smart to try this at home. Our debt ratio to disposable income has fallen back to 10.04 percent, 4.42 for mortgages and 5.63 for consumer debt. This is on the low side since 1980.

See [www.federalreserve.gov/releases/housedebt/](http://www.federalreserve.gov/releases/housedebt/). As for the bad news, borrowers, pull up [www.usdebtclock.org/](http://www.usdebtclock.org/) and watch the numbers roll. The

clock is running so fast, I think it may show \$19.967 Trillion by Wednesday when this is published.

What is the bottom line? Life is uncertain. You have only a few choices regarding money. You can keep it, spend it on stuff, give it to charities, pay taxes, lend it, or own companies and employ people with it. My best advice is that we keep rising, work at helping others, and do the best we can to improve the lot of ourselves, our families, communities and our world.

# The Market Provides

Article first published June 21, 2017

Often, people will ask me what I do for a living. Rather than give some longwinded answer that includes some impressive sounding title, I usually say I help my company solve problems. I truly believe God put me on this planet to do that very thing. I get a rush out of hearing about a particular challenge my company is facing and then working to help develop a lasting solution.

This desire to problem-solve isn't limited to my firm either. In recent columns, I've discussed many problems we are facing as a nation, including student loan debt, healthcare, and the environment. What's amazing, is the solution to these and many other problems is always the same, in my opinion. We must allow the free market and the innovation it brings with it to do its job. You see, when people become incentivized through the possibility of financial gain to find solutions to problems we face, everyone benefits. American economist Milton Friedman put it best when he said, "*there is no alternative way, so far discovered, of improving the lot of the ordinary people that can hold a candle to the productive activities that are unleashed by a free enterprise system.*"

Since the market crash in 2008, we've seen a growing disillusionment in the capitalist system. For many, it even borders on antagonism.

Too many people have bought into the lie that corporations are the enemy and, if you are a successful business owner, you must be greedy and taking advantage of others. That's why I thought it would be good to remind people of the benefits we all receive because of our free market as well as the amazing advancements it is helping us make to solve many of the problems we face today.

For example, I don't know of anyone who is not concerned about the enormous amounts of student loan debt our college graduates are bringing with them into the workforce. As I have detailed before, this debt threatens the foundation of our economy. And while many are looking for a government solution that involves massive new entitlement programs and a larger bureaucracy, companies like Coursera are quietly innovating new ways of providing quality education that can reduce or even eliminate the expense of getting a degree. Through partnerships with major universities across the world, they are able to provide high quality instruction from the comfort of your laptop or tablet, often at no cost to the student. These "massive open online courses" (MOOC)'s have the potential to revolutionize the way one obtains a degree.

Another serious crisis we face today concerns the environment. It's common to hear from activists that capitalism will destroy the planet. In actuality, I believe capitalism is the planet's greatest hope. Several years ago, American businessman T. Boone Pickens led a one-man crusade for American energy independence. Many at the time laughed at him and said it could not be done. His opponents argued that we would forever be a slave to Middle Eastern oil producers.

Since that time, we have seen a surge in American energy production powered by technological advancements in techniques such as fracking. As a result, areas like the Dakotas have experienced a boon to their economies as domestic production has skyrocketed. What makes this even better is much of this new energy is in the form of clean natural gas which emits 50 to 60 percent less CO<sup>2</sup> than oil or coal. At the same time, non-capitalist solutions like government loans and grants to green energy companies has resulted in a loss of over 1 billion taxpayer dollars as of 2015, with anticipated future losses of up to 4 billion.

My point in all of this is not to bash Washington, or to argue that some oversight of the free market is not necessary. Instead, I'd like to challenge you to consider that, if you're hoping things will improve for us as a nation, you'll have far better odds if you bet on a businessman rather than on a bureaucrat.



# Keep Eyes on George

Article first published March 15, 2019

In my older age, I have mellowed some in my perspective and expressed opinions about most areas of politics. If you think I exaggerate, you should have heard me in my younger years.

The verbal rockets still being fired following the (legal or illegal) election of President Trump really are amazing. This scenario is not necessarily new. We have perhaps had more calm in the past couple of decades, especially following the late 1960's and early 1970's. Young people became so disillusioned that they firebombed and otherwise damaged major university campus buildings in protest of the Viet Nam war.

I just read a character sketch of President Thomas Jefferson, his life and Presidency, while on vacation. It was written by various authors during the late 1800's. Jefferson is still regarded as being the Father of the Democratic Party. (Humorously to me, during the earliest years of the 19<sup>th</sup> Century, it was called the Republican Party.

Jefferson received vicious verbal abuse from Federalists when he finally won the presidential election by vote of the House of Representatives. After all, he defeated President John Adams before he could serve a second term. The party lines were still being formed and hardened.

But Jefferson refused to engage in any of his follower's or enemies' rancor. Later, he and Adams even became quite

close again. They died on the same day, July 4, 1826, 50 years to the day after the official Declaration of Independence was substantially approved.

Facebook provides posts of people almost out of their minds regarding the new administration. They can apparently see nothing brighter than the soon-to-be end of the civilized world. Hank Blaustein, illustrator for Grant's INTEREST RATE OBSERVER, recently published a cartoon in which a New York wife asks her husband at the dinner table, How can you eat when that man is President? ([www.grantspub.com](http://www.grantspub.com))

I have expressed before in this space that whether you like the current President or not, life in these United States goes on. All of us get up day after day and help each other obtain our needs and wants. Sometimes it is easier and sometimes harder to do that. This is a great and strong economic system.

With respect to financial markets, many have been shocked by the continuation of the bullish trend that began last February after its 6 months drop. Justin Wolfers of Brookings Institution and Jonathan Golub of RBC Capital Markets both expected at least a 10% decline for stocks. ([www.businessinsider.com/donald-trump-election-victory-defying-doomsday-predictions-2016-11](http://www.businessinsider.com/donald-trump-election-victory-defying-doomsday-predictions-2016-11))

The main reason investors are more willing to put their money where their optimism is? Business might not be so readily beaten about the head and shoulders for unashamedly seeking to make a profit by serving those needs and wants. Also, interest rates are rising and Mr. Average Citizen knew quite well that zero interest rates as a program was illogical and has not trusted it.

Having said all that, there will be hiccups and seismic events still occurring. Those are guaranteed. If George Soros is still funding protestors, the malaise could last a long time. George made his \$25 Billion from political instability. He loves to bet that markets somewhere will drop like a rock so he can profit. My advice? Keep your eyes on George.

(Past performance is no guarantee of future results. Advice is intended to be general in nature.)