



Vineyard Financial Group

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This fall, Denise and I had the privilege of taking a 2 week vacation to the New England states to tour their many sights. Although we were about one week ahead of prime autumn colors, as the weeks progressed and we moved further north, we saw tremendous color, scenery and historical sites. We were especially fascinated by the stone fence walls. They were everywhere, and you could tell some were ancient. States toured included Connecticut, Rhode Island, Massachusetts, Vermont, New Hampshire, Maine and New Brunswick, Canada. And, of course, we sampled the chowder and bisque everywhere we went! And the Moosehead beer in Canada! Sadly, we never saw a live moose.

Economic And Market Update

We will not know the GDP numbers for Q3 for a few weeks, yet, but we did learn during Q3 that the GDP growth numbers for Q2 came in at 4.2%. Those were later revised to 4.6%. This was unusual, since number revisions are usually downward, not upward. Needless to say, the economy is roaring, right now.

The story of the stock market is a counter-intuitive reflection of the economy. Fed Chairman Powell has continually made statements that due to a heating economy, interest rate increases will continue, in order to keep inflation under control. Although Wall Street sees the economic numbers as good news, it develops a bad case of indigestion at the suggestion of rising interest rates. It fears a rotation of investors' money from stocks to fixed income instruments, such as bonds, CDs and money markets. As a result, stock market volatility has remained stubbornly with us since the beginning of February.

Another factor contributing to market volatility is Wall Street's concern that trade agreement tensions, and long-term tariff wars, will hurt American business, and the economy. In my view, with the revamped NAFTA agreement just completed, along with promising ongoing negotiations with Europe and Japan, some of those fears should start to subside. However, China is the 800 lb. gorilla in the room, when it comes to US trade partners, and although there are ongoing talks with the Chinese government, these negotiations have experienced more resistance from the Chinese. They may take more time to resolve. If trade agreements are completed with Europe, that could help to put more pressure on China to negotiate. The new NAFTA agreement certainly has to provide some pressure on China, as well.

Despite the volatility, this calendar year to date, the S&P 500 has still advanced 8.99% as of 09/30/2018. The DJIA is up 7.04% over that same period. Small cap stocks have advanced well, too, with the Russell 2000 up 10.49%. Stocks have been led most of the year by the technology sector. Some analysts feel that leadership could rotate to the financial sector and consumer discretionary, as well as defensive stocks in utilities and energy.

As for the upcoming mid-term elections, I don't think Wall Street has historically favored government control of one political party over the other in most cases. It just likes the absence of uncertainty. Based on that, I believe there is some potential for a year-ending market rally, once the mid-terms are over – a little like 2016. I hate to bring up the holidays prematurely, but...Santa Claus rally, anyone??

Buffet Wisdom

It was 10 years ago (10/16/08) that Warren Buffet wrote his "Buy America, I Am" op-ed article in the New York Times. Buffett encouraged investors to "be fearful when others are greedy and be greedy when others are fearful." Buffett's letter was released less than 5 months before the stock market bottomed on 3/09/09, ending a 57% decline of the S&P 500. Source – By *The Numbers Research*. **In other words, successful investors act in contrary manner to their emotions!**

I hope you have a great and colorful fall! *RB*

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