THE WEALTH STRATEGIES GROUP
Independent Unbiased Financial Advice

The Seven Signs of a Changing Economy™

"What to look for, where to find it and what to do when you see trends changing!"
As of June 2017

Summary

Unless you have been off the planet for the last eight years you are likely aware of the strong recovery in the U.S. economy since the end of the Great Recession back in March 2009.

The quantifiable facts are that we left 2009 with all the goods and services sold in the U.S., i.e. our Gross Domestic Product (GDP) at $14.2 trillion. As bad as that period was for sectors like real estate and over-leveraged banks, it was not hugely destructive to our productivity as measured by GDP.

Today our GDP has crossed over $19.2 trillion. This is a rather huge +35.21% gain to the highest productivity levels ever on earth. I would argue the U.S. Economy is back and hitting on all cylinders as The Seven Signs of a Changing Economy™ have suggested would be the case since 2010, and about +14,000 DJIA points ago.

Above I noted the beating which the real estate and the housing industry took during the Great Recession. The space was highly leveraged, so anyone who understands debt understands when the value of your collateral drops, significantly below the debt level owed, your goose is cooked. Looking back, we all know at least one family who lost their home, job, etc., including entire home building companies.

Naturally, the home builders who survived have been "very" slow to ramp up operations, which require more debt to start the process again, especially in light of the pinball headlines of what scary story will cause people to delay any type of purchase, let alone one as big as a home.

In fact, per the March S&P Corelogic Case-Shiller Home Index, new housing starts in 2006 were 2,250,000. By March 2009 they had dropped to 450,000. Now eight years later, they have recovered to about half of where they were at the peak at 1,172,000 new homes.

Meanwhile, back at mama's house those 92,000,000 millennials are waking up and deciding that living in the folks' basement sort of stinks. They vary in age from approximately 22 to 37. We know from demographic data the first-time home buyer on average is 31. So the older cohort has already started buying homes and it would be fair to suggest that over the next 10 years about 60,000,000 "youngsters" will be making their first home purchase.

This is human nature. It is in each of our DNA's in one form or another. At age 18-19 you enter the work force or go to college. On average, at age 27.5 you get married and buy a new car. At age 31 you buy your first home so you have a yard for your first child and second dog.

The problem is the home builders got scared and either stopped building, or greatly reduced, building new homes. At the same time mom and pop are living longer and want to stay in their home until they can't, so they are not sellers! Conclusion: Inventories are exhausted and prices

are soaring as econ 101 kicks in, i.e. demand exceeds supply, forcing prices higher to the point of exhaustion.

You see, the purchase of anything "new" versus "existing" greatly adds to the growth of the economy. Think "new" home and it includes the purchase of everything down to the sprinkler heads. Think "existing" and not much happens in the economy, it is just a transfer of money.

So, the new game has already started. The future leaders 50-70 years from now (2067-2087), have already been born. They are just busy at this moment falling in love, getting married, having children and buying a home.

Yes, the headlines can be scary, just like the 1980's, but the headlines cannot stop human nature and those 92,000,000 people are doing very predictable things, at very predictable ages, and we must do our very best to invest ahead of this. As Wayne Gretsky, the hockey hero, said "I don't skate to where the puck is, I skate to where the puck is going." Jim Lunney's version would be don't invest where the hot dot performer is today, instead invest ahead of where the money will most likely be flowing!

Yet, as you will read in Sign #2 below, 76.15% of the investors surveyed by the American Association of Individual Investors (AAII) are neutral or negative on the stock market six months in the future. Only 23.85% are positive (bullish). Be sure to check out the chart in Sign #2 below and answer my question posed.

All seven of these historically accurate data points continue to point positive, as they have now for many years. Yes, that is rare indeed, but fact based, quantifiable and real. At The Wealth Strategies Group our view, based on real factual data, is to suggest clients need to stand back from the noise at least far enough to see the real driver of this economic recovery. The key driver of all businesses, all demand, all production, all growth.

That driver of the largest economy ever on earth is crystal clear and it is people. People doing very predictable activities that can be measured by their age cohort.

Yes, have a plan that takes into account your constraints for time, risk and volatility, but have a plan, perspective and patience too. With this package, I would suggest you will be well rewarded 3, 5 and 10 years from now.

This month's Seven Signs are updated below. As always, I have added some unique insight with my comments. Just scroll down to view these now.

Your thoughts, comments and discussion are welcome. Please call me at 303-933-2107 or e-mail me at Jlunney@wealthstratgroup.com.

Respectfully,

James O. Lunney, CFP®
CERTIFIED FINANCIAL PLANNER™ Professional

The Wealth Strategies Group was founded by James O. Lunney under the guiding principle that comprehensive wealth counseling combined with independent investment advice will provide high net worth clients with complete trust in our competence, execution and integrity.

P.S. Please join me for our monthly conference call on The Seven Signs of a Changing Economy. You have the option of calling in or listening live for free from your computer. To call in, simply dial **347-826-7481**. There is no access code needed. To listen live from your computer, go to our website, www.wealthstratgroup.com, and click on the **"LISTEN LIVE"** button on the home page. You will be sent directly to our page on the Blog Talk Radio website and you can click on the link there. Instead of having a live Q & A session at the end of the call, you can

now e-mail your question to me prior to the call at JLunney@wealthstratgroup.com and I will address them after my commentary on The Seven Signs of Economic Change.

The call is always on the first Thursday of each month at 1:00 p.m. MST/3:00 p.m. EST, unless otherwise noted. Please mark your calendar to join me for the next call on Thursday, July 13, 2017.

We encourage you to invite people from your family, work and social circle to join in the call. Just forward my e-mail notification to your e-mail list. It is very timely information and in the volatile investment environment a second opinion may be greatly appreciated in these uncertain times.

1)	**Indicator:**	*Personal Consumption Expenditure (PCE)*
	Where to find it:	*www.bea.gov*
	What to look for:	*Consumer spending increases or decreases for three consecutive months*

(Positive)
As I sit down to write this update it is Sunday, June 4, 2017. In preparation, I have gathered my research as I always do. I have once again added my personal notes and observations as the last month of economic backdrop data unfolded. In the process, I was struck by some of the trends in the data flow. Long time readers and clients of The Wealth Strategies Group know of our belief that "trends" supersede "trades".

This month, as usual, there were many cross-currents in the data flow, yet the "trend" in the data flow remains positive. One cross-current in the data flow was sluggish "retail" sales. This begs the question: What are retail sales in 2017?

Yes, "retail" sales were sluggish, yet the devil is in the detail of how retail sales are measured. Sluggish is being confused with "changing" consumer habits. It is no longer a world of sales in brick and mortar stores. Today, consumers spend more online and as the boomers age their spending is on experiences, i.e. a cruise over goods! Consumers comparison shop via mobile phones. So yes, retail sales, as measured in the department store model are weak and likely to fade out in the years to come, but Personal Consumption Expenditures (PCE) are once again up. This month +.02%. Year-to-date PCE is +.4 for the first four months. The same four months for prior years are:

2013 + .7
2014 + .5
2015 + .6
2016 +1.0
2017 + .4

You are welcome to twist the data any way you choose, but growth is growth. The current PCE for this month is an annualized $13.191 trillion, the highest since, well, the beginning of earth.

People are earning more, proven via the personal current taxes paid of $2 trillion as of April 2017, and then saving and spending more.

The spiral up I have been writing about for years and years is here, real and growing. It is also the support for all the other Signs of a Changing Economy below. So, this could not be more positive!

2)	**Indicator:**	*Institutional Money Flow*
	Where to find it:	*www.wordenbrothers.com or www.barrons.com/convictionoftraders*
	What to look for:	*Increasing or decreasing prices on high volume of large block trades*

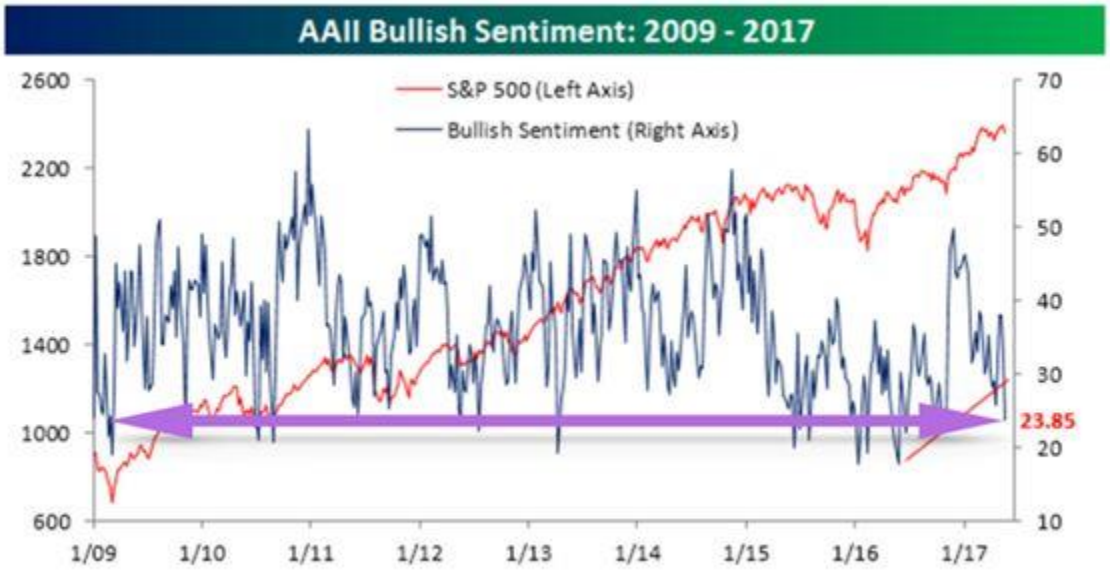
(Positive)
If you are not already going to the WSG website to read “The Weekly Update” I write and post every Friday, you really should. Not only is it a great way to understand how the investment services firm you have entrusted the oversight of your assets to is thinking, but there is also some really great detail updated between the monthly reports.

For example, contrary to what you have read for about the last eight years in major news sources, the valuations of Corporate America are not at extreme levels. Perhaps more important, the level of optimism and investor participation are quantifiably at some of the lowest levels measured in the last 10 years.

I remain puzzled at how much Mr. and Mrs. 401(k) focus on valuations, which are actually reasonable, and how little focus they put on where money is flowing. By the way, money “always”, a word I rarely use, “always” flows to where it is perceived to be rewarded with the highest yield going forward. Hmmm, as I write this on Sunday, June 4, 2017, all major U.S. indices closed at all-time highs, yet for the month of May 2017, Mr. and Mrs. 401(k) sold out of $17.1 billion of U.S. equity fund investments. In fact, there have only been two months in 2017 (2/1/17 – 3/22/17) that U.S. equity funds have had a positive inflow!

And check out this detail from the The Weekly Update, posted on the WSG website on June 2, 2017:

What's Wrong With This Picture?



Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Once again I am sharing the most current weekly release of "positive", or bullish, investors from the American Association of Individual Investors (AAII).

With last week's posting I suggested how odd it was that so many investors were negative and neutral, yet the valuations of Corporate America, that red line on the left axis going up, was right at the all-time high.

As the old saying goes, ask a better question and you will get a better answer. This week I invite you to ask yourself a question:

Can you please show me a time on this chart where the bullish reading was low and it was a bad time to invest?

Yes, as noted above here for the last few years, Corporate America continues to buy back their own shares, even if Mr. and Mrs. 401(k) are afraid to, short covering (detailed ad nauseam, in prior issues) continues and the carry trade, (also detailed in prior issues), remains game on, especially with the Japanese Yen versus the U.S. dollar.

Sign #2 could not get any stronger, i.e. money flow is at all-time highs!

3)	**Indicator:**	*Leading Economic Indicators (LEI)*
	Where to find it:	*www.businesscycle.com or www.newyorkfed.org/research/global-economy/globalindicators.html*
	What to look for:	*Trends up or down for three to four months*

(Positive)
Sign #3 is your quantifiable "peek around the corner"! For decades, The Conference Board has gathered and reported the detail on these ten components that make up the Leading Economic Index (LEI). The fact-based reality is that the LEI has accurately predicted the expansion, or contraction, of the U.S. economy six to nine months in the future. So, this month's peek around the corner would be out to December 2017 (yes, full year 2017) to March 2018.

For April 2017, the LEI is +.3%, so growth remains the theme. That said, here is a "trend" comparison to add some perspective for the first four months of each year since 2013:

2013 = + .9%
2014 = +2.0%
2015 = +1.3%
2016 = +1.1%
2017= +1.9%

For the last few months I have also been highlighting here the Chemical Activity Barometer (CAB), since all things chemical tend to happen before many other activities in our economy. It is also one of the first to show a weakening economy. Since 1919, it has shown to provide a lead time to two to fourteen months, with an average lead time of eight months, before a recession starts. This month the CAB reported in at 119. This is higher than before the "Great Recession", highest level ever recorded and is +6% year over year.

It is realistic to expect a little slow down from these two great future planning tools going forward. One would have to think the inputs can only remain "white hot" for so long!

Sign #3 remains white hot positive.

4)	**Indicator:**	*Employment rate and after-tax personal income*
	Where to find it:	*www.bls.gov*
	What to look for:	*A flattening, then downward trend in non-farm employment with a flattening to decreasing after-tax income would be a negative indicator. The appropriate trend would, of course, be a positive*

trend indication

(Positive)
The mismatch between jobs available, i.e. openings, and unfilled jobs continue to suggest the continuing skills mismatch not only remains, but could be widening.

The ADP Corp. jobs creation report was very positive and dovetails in with the most recent Small Business Optimum Index (SBOI). The SBOI now sits near the all-time highs of 2004 – 2006, at 104.5. Remember, small businesses create nearly 80% of all new jobs in our economy.

This month:

- 14% reported increasing employment
- 55% reported hiring or trying to hire
- 48% reported few, or not qualified, applicants

My observation:

> More jobs would have been created but too many kids dropped out of high school, let alone made it to college and graduated.

That said, the fact-based data is "okay", in my opinion.

New jobs created this month were 138,000, per the Bureau of Labor Statistics (BLS).

As I complain in these updates regularly, that pesky telephone survey of jobs created, referred to as the birth/death model, added 255,000 jobs this month. Personally, I consider these jobs added and/or deleted as fictitious. If I am correct, this means 255,000 jobs were fiction of the 138,000 reported, resulting in a more unfortunate reality of 117,000 jobs lost, (138,000 – 255,000 = -117,000 jobs).

A cross current that does not support my observation: The initial jobless claims 2005 – 2017 (non-seasonally adjusted) are now 209,800, and the lowest since 2005, i.e. lowest in twelve years!

In addition, the 4-week moving average of the initial claims came in at 238,000 as of 5/27/2017, per the St. Louis Federal Reserve. Remember, any 4 week initial claims under 300,000 is considered positive.

It is reasonable to conclude that jobs creation is not great, yet better than my backing out of the B/D model addition, and that qualified applicants are happily employed, i.e. the pressure on this new jobs creation sign going forward is more likely to be a reflection of the talent pool available. For now Sign #4 is positive.

5)	**Indicator:**	*Durable goods spending*
	Where to find it:	*www.census.gov/indicator/www/m3*
	What to look for:	*An increasing or decreasing trend, especially a trend of four to five months out of six would be a positive or negative sign*

(Positive)
These long shelf-life items like non-perishable, non-fashion items are usually the first to show signs of a slowing economy. Remember, these are items we can do without, if need be. New orders were down -.70% this month, shipments decreased -.30% and inventories increased +.2%.

The new orders were down for the first time this year and have slowly eroded all year long. However, January and February were very strong this year as the shelves were wiped clean after

the strongest holiday shopping season ever, at least until the holiday season of 2017 arrives, then it will ink as the largest ever!

As I observe the trend below, which represents the first four months of each year since 2012, I see stabilization in the data flow:

2012 = -2.2%
2013 = - .5%
2014 = +6.6%
2015 = +1.3%
2016 = +6.3%
2017 = +3.2%

The durables report is known to be volatile and subject to sharp revisions, so I tend to watch the long-term trends. Four months of a volatile data point is not enough to extrapolate out to what a reasonable full-year percentage gain would be. However, if we did, it would be an annualized +9.6%, the highest since I started tracking it here in 2010. So, positive.

Sign #5 remains positive!

6)	**Indicator:**	*S&P 500 Earnings per Share growth*
	Where to find it:	*www.standardandpoors.com*
	What to look for:	*Two quarters of S&P 500 earnings per-share growth, up being a positive trend and down being a negative trend*

(Positive)
Sign #1, Personal Consumption Expenditures (PCE), continued growing this month, as detailed above. This is important because an old business school rule of thumb to remember is increasing consumer income leads to increasing consumer spending, which leads to increased business income. The point to remember is that personal income, to personal spending, to corporate profit lags by about one year.

That consumer has been spiraling up year after year. Now this year we can add the rebound in the energy sector to that for some extraordinary increases in the revenue and earnings growth of Corporate America.

Per FactSet for the first quarter 2017, companies are reporting earnings growth of +13.90% and revenue growth of +7.7%! For all of 2017, FactSet in predicting earnings growth of +10% and revenue growth of +5.4%. This growth continues to suggest that the valuations of Corporate America remain fairly-priced. Just like Goldilocks, not too hot, not too cold, just right!

As we will detail below, the risk measurement tool, the Price to Earnings (P/E) ratio suggests Corporate America is less risky than bond valuations.

As of 6/4/2017 the Price to Earnings of a 10-year U.S. Treasury bond is 45.25 times versus the price to 2017 earnings for Corporate America, as measured by the S&P 500 of 18.11 times. Yes, a higher P/E ratio implies more risk in the transaction.

Let's plug full year 2017 earnings into our "Rule of 20" Fair Market Value (FMV) estimate model.

To use the "Rule of 20" you should subtract the inflation rate from 20. I will use the same inflation rate the BEA used in calculating the final U.S. Gross Domestic Product for 2016, released May 25, 2017, of +2.21%.

20 – 2.21 = 17.79

This becomes your multiplier and is multiplied by the respective year's earnings per share to calculate the Fair Market Value (FMV).

- 2017 S&P 500 earnings estimate = 134.50
- 134.50 x 17.79 = 2,392.76

As of 6/5/2017 the S&P 500 trades at 2,436.10 (close to FMV)

A research piece I recently read was titled "Daily Wealth" by Dr. Steve Sjuggerud. In this issue, Dr. Sjuggerud presented research that added the price/earnings (P/E) ratio to the 90-day T-bill. This is a tool that accounts for the cost associated with borrowing money, i.e. it accounts for the impact of low interest rates on a company's ability to earn profits. The research quantifiably showed that when the total of the two was under 20, the markets were trending up. Then the total is above 22, we are in the danger zone. Based on this, I did some quick math to see the forward price earnings ratio calculated above is 17.79. The 90-day T-bill as of 6/5/2017 is .96%.

17.79 +.96 = 18.75, which is well below the average of 20 and very much below DR. Sjuggerud's 22 level danger zone. This is interesting detail, so I thought I would share it again this month.

Sign #6 remains positive!

7)	**Indicator:**	*Inflation/deflation numbers*
	Where to find it:	*www.bls.gov/ppi/ or www.bls.gov/cpi/*
	What to look for:	*An interruption to the consistent but modest increase in the cost we all pay for goods and services*

(Positive)
As a backdrop and lead into this month's data on inflation rates and growth rates for all the goods and services sold by the companies of Corporate America, i.e. our Gross Domestic Product (GDP) let's look back.

As we left 2009 the GDP of the U.S. was $14.2 trillion. As we push through to today we are right at $19.2 trillion. This is a rather huge +35.21% gain to the highest since, well the stone age.

Yet the news stories of our economy being ready to collapse just won't go away. I guess that old news cover story of "If it bleeds, it leads" works, even if it isn't true.

On May 25, 2017, the Bureau of Economic Analysis (BEA) released their "second estimate" of 1Q2017 GDP growth at a "real" +1.16%. They estimated that inflation reduced the growth rate down by 2.21% to the "real" +1.16%. If you read the news, you would have thought our economy was in total collapse versus blowing past $19 trillion to the largest economy ever on planet earth!

Also, had the BEA used their sister agency, Bureau of Labor Statistics (BLS) inflation rate of +1.54%, their "real" inflation adjusted GDP would have been reported as +1.85%.

In addition, the GDPNow report, which is an estimate created by the Federal Reserve Bank of Atlanta, estimates 1Q2017 GDP at +3.8%. So, is our GDP +1.16%, +1.85% or +3.80?

Well, I am a believer of trends, so I will average the high and the low to land on +2.48% 1Q2017 GDP. Likely too high, but here is the key…our economy is huge and growing.

The Consumer Price Index (CPI), a measure of cost increases at the household level remains in check at +1.1%. Yes, it is easier to move the economic needle of growth with a $10 or $15 trillion economy versus $19 trillion pushing toward $20 trillion, "soon"!

Growth is growth, and Sign #7 is growing, and therefore remains positive.

*The Rule of 20 is in this calculation implying, and using, a price/earnings ratio, which is the valuation ratio of a company's current share price compared to its per-share earnings. Thus, 18x the expected Earnings per Share. Both EPS and the multiple of 18 could drop. The earnings

could be reduced due to the consumers spending less. The multiplier of 18 could drop to, say 8 for example, if investors were to get scared and become risk adverse. All of a sudden, 8 x $134.50 turns the 2,436.10 2017 FMV into 1,076 and even worse if earnings were to drop below the example of $134.50/share! This is the multiplier risk and earnings risk I personally worry about. It may never occur, but what an unfortunate event it would be if it did and we had not prepared for it as a possibility. Thus, I am glad we have!

The opinions voiced in this material are for general information only and are not intended to provide specific advice for every client.

All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

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•Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.
•The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.
•The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.