Magellan
Planning Group, Inc.

# The Long, Slow March

*-J. Kevin Meaders, J.D.*, CFP®, ChFC, CLU*

**February, 2017**— In my last article, it was late October and I was comparing a potential Hillary economy to a potential Trump economy. If you recall, my very last line was: "Remember Brexit?" Of course, I was alluding to our suspicion that the TV pundits and the establishment pollsters were as incorrect about the US election as they were about Brexit. And indeed they were.

Initially, it was a shock. The global economy's reaction to Trump's election became clear around midnight, when stocks in Tokyo and Hong Kong plunged. Then, Trump gave his victory speech.

When Berlin opened, there was a clear sign of a sentiment reversal as the President-Elect's speech apparently calmed some international nerves. Tokyo and Hong Kong were recovering strongly, though when they closed at 1 am, they were still down sharply.

Then, at 3 am, London's markets opened and a pro-business sentiment seemed to be taking hold. By the time New York opened, we were already on the way to Dow 20,000. All this in just one night!

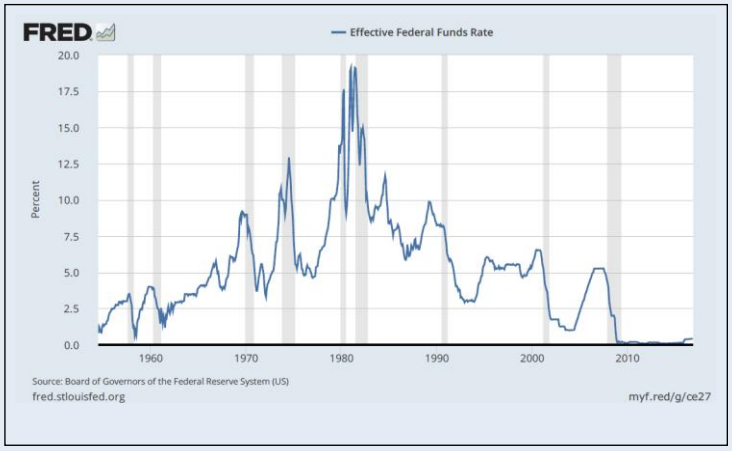
So what does the future hold?

Everyone wants to know how much higher the market can go and when we can expect a market crash. These are two great questions that no one can answer for sure, but we have a two-for-two record on foreseeing both the 2000 and the 2008 crashes. We were able to do this because we subscribe to an alternative economic theory than the one most popular with academia and government economists.

We follow the theories of the Austrian School of Economics which allows us to see the market in a different way. Looking at the economy through the eyes of Ludwig von Mises and Friedrich Hayek allows a much clearer view. We do not see the booms and busts as random market driven events—the so-called business cycle. Rather, we see the booms and busts as the clear result of monetary expansion and contraction, brought on by the unnatural quasi-governmental intervention of the central bank—the Federal Reserve System.

All one needs to do is study the following chart, which illustrates the Fed Funds Rate, that all powerful interest rate controlled exclusively by the Board of Governors of the Federal Reserve System.

Take note that the grey lines running vertically are technically defined as recessions, but to you and me they are market crashes.




Look at what happens just before a grey line. You can see that there is a run up in interest rates, often a peak or a small plateau, and then an immediate reversal (i.e a drop in interest rates).

What is going on here? Why would there be such sharp reversals? And what was the event that compelled the Fed to act in this way?

The event, my friend, was a market crash! That's how they knew they raised the interest rate too much. And here's the key: those peaks represent the interest rate that was needed to crash the market. The last time it was a little over 5%, the time before that about 7%, and the time before that it was 10%. Do you see that? What rate will be needed to trigger the next crash?

There are many things we can learn from this chart, but suffice it to say that major market crashes don't occur when rates are dropping; oh there might be slight 5% to 10% corrections year after year, but major 35% plus crashes occur when and only when interest rates are on the rise.

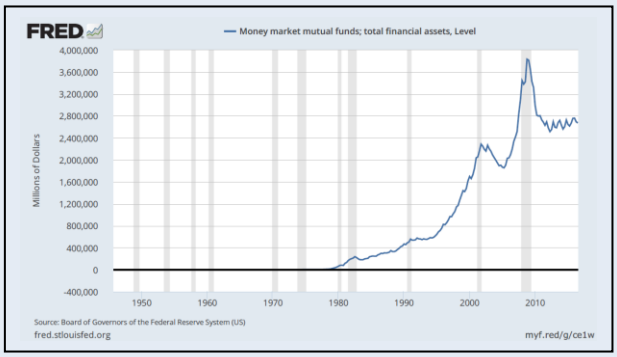
The Fed doesn't know, never knew, and never will know when to stop. And what are we heading into now? That's right, a period of rising rates.

They say the first step to surviving a mine field is recognizing that "Hey, I'm in a mine field." And this is what the Austrian School has gifted us: the knowledge of what actually causes a market crash, and how to spot it. Armed with this knowledge, is it time to flee into cash?

Not at all. I would say it's quite the opposite. Simply stated, the boom hasn't been big enough to warrant a bust. There is still so much money on the sidelines, and it has yet to be unleashed. Capital—as one client put it—has been on strike. Touché.

These charts represent how much cash is actually out there, and it's a ton. The chart to the right shows the amount of money that's in savings accounts.

Notice that it is approaching 9,000. But 9,000 what? That's nine thousand BILLION! A cool $9 Trillion in savings accounts.




These other two charts above represent checking and money market mutual funds, respectively. So, you can add another $2 Trillion in checking, and another $2.7 Trillion in money market mutual funds. Altogether that's almost FOURTEEN TRILLION DOLLARS in cash—earning next to nothing. After taxes and inflation, it's actually losing value.

This money is antsy. These people jumped out of the market in 2008 and have been frozen in cash ever since, paralyzed, ever convinced that another crash was right around the corner. Only now are they starting to seriously consider buying in. In addition, the Fed has at least a couple of years of interest rate hikes before crashing us again. This will lure more and more of these unfortunates as they chase these returns.

Where can this money go? It can go into stocks, bonds, real estate, commodities, and scams. The flow of money will raise all boats, and it is times like these when we see many, shall we say, "highly optimistic" ventures. Beware of these.

Our approach, as in 1998-2000 and 2006-2008, will be to capture as many gains as practicable as rates rise while monitoring monetary contraction through the Fed Funds Rate and other indicators (such as velocity) until we are in the "red zone", which we believe is surely less than 5%, possibly as low as 3%. Refer to the chart on page 3, supra.

Lastly, I mentioned before that much of Europe is experiencing negative interest rates. Japan, the world's third largest economy, has also been operating in a negative interest rate environment. This has had the effect of forcing international money into the United States, seeking returns above negative.

The result of this has been a rally in the value of the dollar vis-à-vis other currencies. If you've been waiting for the perfect time to go to Europe, or especially Great Britain, now is the time.

All this taken together would indicate that we are set for a continued stock run here at home, and with negative rates internationally one could imagine that bonds would also recover as more money floods into the U.S. in search of a yield above negative.

The huge undeniable elephant in the room is the cash: $14,000,000,000,000.00. Fourteen Trillion dollars! When this equalization occurs, watch out.

*The views and opinions are those of J. Kevin Meaders, J.D., CFP®, ChFC, CLU and should not be construed as individual investment advice, nor the opinions/views of Voya Financial Advisors. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. Additional risks are associated with international investing such as, currency fluctuation, political and economic stability, and differences in accounting standards. Investors cannot directly invest in indices. Past performance does not guarantee future results.*

**Does not provide legal services on behalf of Voya Financial Advisors, Inc. nor regarding securities or investment advisory related activities on behalf of Magellan Planning Group, Inc.* [30511902_IAR_0118]

## About J. Kevin Meaders

Kevin Meaders graduated from Oglethorpe University in Atlanta with a double B.A. in Philosophy and Political Science, and then obtained a law degree from Georgia State University College of Law, focusing on estate planning and trust law. He has earned the designations of Certified Financial Planner (CFP®), Chartered Financial Consultant (ChFC) and Chartered Life Underwriter (CLU). He holds a General Securities Principal and Registered Representative registration and Investment Advisor Representative registration through Voya Financial Advisors (member SIPC). **kevin@magellanplanning.com**

## About Magellan Planning Group

www.magellanplanning.com

Magellan Planning Group was established in 2000 to provide a service uniquely tailored to the needs of our affluent Atlanta community. We concentrate on *personalized* retirement planning through tri-disciplinary coordination:

- Financial planning with our Certified Financial Planner™ to prepare a retirement plan that takes into account your needs and expectations. We are a fee only asset management firm.

- Estate planning with our in-house Attorney-at-Law to determine and prepare the documents needed to minimize family liability and maximize privacy. (www.magellanlegal.com)

- Tax planning through a relationship with our in-house CPA to manage tax obligations throughout the year and prepare a tax return that takes into account current tax laws. (www.magellantax.com)

Our relationship doesn't begin and end with the preparation of a plan and the appropriate documents. We establish close personal relationships with our clients and their families and maintain those relationships through regular 'check-ups', market commentaries and educational Lunch & Learns.

4170 Ashford Dunwoody Rd. NE, Suite 480
Atlanta, GA 30319
404-257-8811

Legal services provided by Magellan Legal,LLC, and independent law firm, not affiliated with Voya Financial Advisors.
Tax services provided by Magellan Tax, LLC, an independent entity, not affiliated with Voya Financial Advisors.

Neither Voya Financial Advisors nor its representatives offer tax or legal advice.
Please consult with your tax and legal advisors regarding your individual situation.

Securities and advisory services offered through Voya Financial Advisors, Inc, member SIPC.Magellan Planning Group, Inc., Magellan Legal, LLC and Magellan Tax, LLC are not subsidiaries of nor controlled by Voya Financial Advisors.

[29122518_IAR_12/16]