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 2015

Summary

I believe The Seven Signs of a Changing Economy™ have treated us well since I started making them available to clients of The Wealth Strategies Group each month, starting in October 2008. As you know, the purpose of each update is to get real clear about what is happening in the overall economy, assuming that there is a high correlation between the economy and the performance of investments in Corporate America.

At this time all seven of the economic indicators that I call the Signs of Change are positive, both recent data as well as the more important longer term trend. The really special part about these signs is they are third party data sources. The data is for the most part raw data, so it is possible to interpret what the data is suggesting in more than one way. As for me, I just keep track of the trend and, with thirty four years of experience, on top of a great business education I add in my comments. I conclude it has worked and still does.

The data doesn't give you baloney, it gives you facts that are straightforward and pretty easy to squeeze the truth out of. I mention this because I saw a research piece this month that explained their investment methodology like this:

"This method is based on the science of casual inference and inverse probability. No one fact is dispositive, but relevant facts are accumulated within a hypotheses using applied mathematical formulas to offer validation – or not – of the hypothesis."

I have a dollar that says The Seven Signs provide more clarity, direction and confidence than whatever that is!

In Sign #6, S&P 500 Earnings per Share, you will notice the earnings are at an all-time high, yet the Fair Market Value (FMV) is slightly below, i.e. 11.47% below.

It is possible this discount to Fair Market Value is related to uncertainties we are exposed to each day in our news sources. Like the recent U.S. Economic growth

(or not) as released in the 1Q2015 second estimate of Gross Domestic Product (GDP) and detailed in Sign #7 below. The report was -.7% GDP, i.e. a contracting U.S. economy.

As noted below, one quarter is not a trend and means pretty much nothing. In my opinion, the possible contraction in 1Q2015 is related to less than real-time data collection and seasonal adjustments. But here is the crux of all the crazy news and how it is reported. The U.S. economy is nearly $18 trillion. That's huge!

How did you feel about the economy in 1998 during the technology led bull market? Pretty good I bet. GDP then was about $13 trillion, 38% less production than today!

Did you enjoy the booming economy of 2000 before it went splat? That was a $14 trillion GDP year!

In fact, I started as an investment advisor in 1982. Since 1982 there have been only two years where the U.S. GDP was lower than the year before, i.e. 2008 and 2009!

So, on $18 trillion U.S. GDP growing at 2.7%, the Federal Reserve estimate for all of 2015, is still a very large dollar increase in all the goods and services sold by the USA. Indeed, a very nice economic backdrop that will allow Corporate America to potentially grow their earnings, as measured by the S&P 500 estimates at +6.40%. (Source: FactSet)

It seems to me that all of the positive components of the upward economic and market trend remain in place.

Yes, there will be points where market values can and do separate from the upward trending U.S. economy. These are inevitable and that is exactly why we plan for them via our conservative investment mix inside those allocations.

Our Wealth Planning Strategy™ is an alternative to traditional financial planning. It is a customized thinking process that will organize your financial life to create confidence for each member of your family. The Wealth Planning Strategy creates direction, capability and confidence.

Visit our updated website, www.wealthstratgroup.com, to learn more.

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®, CEP
CERTIFIED FINANCIAL PLANNER Professional
Certified Estate Planner

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 9, 2015.

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)
Last month I concluded my comments on Personal Consumption Expenditures (PCE) with these comments:

"Next month I expect this report to be flat and possibly down. This is a normal seasonal impact on spending and we tend to see it each year."

And just like that, this month's PCE was reported as zero. The most recent report on Consumer Spending is for April 2015. In April 2014 the PCE was reported as -.1%. Also a seasonal impact on the number. Perhaps most important is that the first four months of 2014 resulted in a collective PCE of +.5%.

The glass is “half empty” group will suggest the data supports a flattening economy, as Consumer Spending represents 68.2% of the U.S. Gross Domestic Product. (Source: BEA, FactSet, J.P. Morgan Asset Management)

The glass is “half full” group will suggest this is a normal report and that most Consumer Spending happens to start in May of each year. In fact, the data set I track this data from is sourced by the Bureau of Economic Analysis (BEA). I have looked back at 2012, 2013 and 2014 for a reference. Sure enough in each of the prior three years every month after April, until December, is positive. December can tend to be down, depending on when the final online holiday sales are reported.

That said, I expect next month to be a positive +.1% or more. As you will read in Sign #4 below (Jobs Creation) “new” home sales and “new” car sales are at multi-year highs. Both of those up trending sales patterns tend to result in after market consumer spending. Consumer Spending is the most impactful and important of The Seven Signs of a Changing Economy™ and it remains in the multi-year positive upward trend.

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)
As I write this issue on June 8, 2015 the market values are down and the news headlines are shouting about all that is bad with the world, the U.S. economy and of course, the “overvalued” stock market.

Seeing so much negative in all these news sources makes it seem like those new all-time high valuations in the Dow Jones Industrial Average and the S&P 500 on May 21, 2015 seem so much more ancient than just ten business days ago!

So, the beat goes on, but our focus must remains on the trends we see in the money flow. Remember, money flow data cannot lie, twist or manipulate what is really happening. Instead it is a window to what really big money is “doing”, not thinking about doing, but actually doing, like right now in real time.

Let’s dial down the microscope to see where the trillions are flowing. These are the large institutional investors. Those with floors of really smart analysts who crunch valuation numbers all day, every day!

1) They are flowing out (selling) bond-like investments. How do we know? There are several measuring sticks, but the one I like is price. Price reflects buyers and sellers and who is winning the price tug-of-war.

Since 2/2/2015 through 6/3/2015 the 10-year U.S. Treasury Bond yield has gone from 1.68% up to 2.38%. That's a cool 41.67% increase in the yield. For the yield to go up the price must go down. The only way for the price to go down in a market the size of the U.S. Treasury market is to have a massive amount of sellers, i.e. money flowing out.

2) Per Craig Johnson, senior analyst at Piper Jaffrey and Co. there are 25% fewer stocks today then there were in 2000 because of buybacks and mergers. This represents trillions of dollars flowing into, i.e. buying the common stock of Corporate America.

Note to self: Per this money flow, it appears to me that the floors of really smart people at really smart management companies are starting to do what we have been doing and advising our readers to do for several years, i.e. selling fixed income investments to buy ownership in Corporate America.

Meanwhile the average investor, per the American Associates of Individual Investors (AAII) is at the lowest level of bullishness since 2009. That means the average 401(k) type investor is about as interested in buying ownership in Corporate America as they were at one of the most negative points in our country's financial history, March 2009.

We will continue to follow the really big, really smart big money to see how their money is flowing, but right now money flow is strong toward Corporate America.

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)
It worked so well to note a quote from last month's letter in Sign #1 above that I will do it again here. I concluded last month's sign #3 with:

"From what I have observed as a social scientist as I go about my day-to-day life, the new orders are about to go positive, as all the stuff people are buying today will need to be re-stocked tomorrow."

The Conference Board released this month's Leading Economic Index report on May 21, 2015 as +.7%. That is more than the first three months of the year combined. In addition to being a really good indication of what to expect six to nine months down the road it is also a really good quantification to support my not so quantifiable social scientist observation as noted above.

The ten components that make up the LEI were also key indicators of what could be ahead for the economy. Specifically, of the ten components only one was

down. In my opinion, the two most impactful components are manufacturers' new orders for non-defense capital goods, excluding aircraft and manufacturers' new orders for consumer goods and materials were up and neutral, respectively.

The last time this key leading indicator was down was March of 2013. The contraction was a nominal -.3% and, in retrospect, a non-event. The trend here remains up and 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*

In the Weekly Update for 6/3/2015 I mentioned that new job creation can be sifted down to two key components:

1) New home starts
2) New auto sales

Why those two data points?

Well, anything purchased by a consumer as "NEW" required many people adding their value before it made it to your ownership. In this detail "NEW" homes create about 1/3 of all new jobs. I don't have a number as to what percentage of new jobs are related to "NEW" auto sales, so I will stick with my old standby and say a lot!

So, how is the home building business doing? Per the Commerce Department, housing starts jumped 20.2%, a seven year high, annualizing at 1.14 million new homes in May.

How about new auto sales? Per Reuters, new auto sales are on track to sell the most in a decade! That suggests a lot of new jobs were created to make all those new cars.

In fact, 280,000 new jobs were created in May. This is also a really good number. Unlike components that make up the LEI above in Sign #3 the contributing data to Sign #4, jobs creation is bothersome.

Of the 280,000 new jobs created 213,000 were a guesstimate made via the "Birth/Death" model adjustment. The guesstimate is by the Bureau of Labor Statistics (BLS)and is based on a telephone survey of businesses. They are asked if new hires were made and how many, etc. The rub is that if a business does not answer the phone, as in they are out of business, the survey assumes all employees have new jobs and are employed elsewhere.

The good news is the 4-week moving average of initial claims for unemployment is hitting the low point of seventeen years ago at 274,750. In my opinion this is closer to live feed data and supersedes the affect of the birth/death model.

Sign #4 remains 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 decreased -.5%. New shipments decreased -.1% and have been down three of the last four months. One of my personal favorite data points is unfilled orders. It is a favorite because it suggests some level of work that remains in the pipeline. It is this work that tends to smooth out the actual new orders and shipments.

That said, the unfilled orders are a touch over $1.2 trillion! Because of this large back log, it is reasonable to suggest that new orders might go up or down a small percentage each month and it has less meaning to the bigger picture. If new orders are down -.5%, and they were, that is a reduction of $1.2 billion. It is a lot of money, but I am having a more difficult time these days thinking it matters when unfilled orders are $1.2 trillion.

Some anecdotal evidence that things in this space remain solid to up is the valuations of companies that move the products. Companies like J.B. Hunt Transportation and Federal Express share valuations remain near all-time highs.

The Baltic Dry Index (BDIY) is within 10% of its high for the year and is a good representation of solid demand.

It would have been ideal to see new orders and new shipments up for the month, but it is perhaps more important that new orders remain up 1.2% YTD and up +3.6% annualized. This data suggests the 2Q2015 GDP will be reported higher than 1Q2015 GDP.

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)

During the years of 1992-1994 I completed my two-year Certified Investment Management Advisor program at the Wharton School of the University of Pennsylvania. My favorite professor of finance was Dr. Jeremy Siegel. Dr. Siegel's research was well thought out and well documented. That detail caused him to be correct in his analysis and observations much of the time.

It is for that reason that I like to follow things Dr. Siegel says in the press. On June 1, 2015 in an interview with Bloomberg Press, Dr. Siegel made the statement that the current valuations of Corporate America are only slightly above historic valuations and "completely justified". In a response to a question about current valuation being in a bubble he replied "In no way do current levels, that are nowhere near those highs (of March 2000), qualify as a bubble."

With Corporate America, as measured by the S&P 500, on track to earn $126.00 per share for 2015 I believe Dr. Siegel is correct again!

My observation is that 2Q2015 S&P 500 earnings will surprise to the upside for two reasons.

1) The now weakening dollar will reverse the earnings headwinds the S&P 500 companies faced in 1Q2015.

2) The drag caused by the energy sector has been digested and will add to overall earnings in 2Q2015.

As you will see in Sign #7 below, the U.S. Gross Domestic Product (GDP) was contracting in the first quarter, per the BLS second estimate of GDP. However, the earnings of the S&P 500 are on track to grow +6.33% for full year 2015.

For the valuation quantification, I turn to the "Rule of 20"! Per FactSet Research, the S&P 500 earned $118.50 in 2014 and is expected to earn $126.00 in 2015.

To use the "Rule of 20" you subtract the inflation rate from 20. I will use 1.40% as the inflation rate. This becomes your multiplier and is multiplied by the respective year's earnings per share to calculate your estimate of Fair Market Value.

- S&P 500 2015 earnings estimate = $126.00
  $126.00 x 18.60 = 2,343.60

As of 6/8/2015 the S&P 500 closed at 2,079.28 (an 11.27% discount to FMV).

As stated, these are "Rule of 20" estimates of Fair Market Value. No one knows the future and that is why prudent investors build a plan around this type of outlook. A plan that takes into account each person's constraints for time, risk and volatility.

Creating and implementing these plans happens to be our specialty. If you would like to have a discussion on how we could create a customized plan for you, just call me at 1-800-800-6364.

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*

As noted above, Sign #7 is used to track the effect inflation or deflation has on the economy. Inflation is also a key component used to determine Fair Market Value (FMV) via the Rule of 20 calculated above in Sign #6.

Inflation and deflation also matter when the Bureau of Economic Analysis (BEA) calculates the U.S. Gross Domestic Product (GDP). Since GPD is "real" growth it is adjusted for the effects of inflation. On May 29, 2015 the BEA released their "second estimate" of 1Q2015 GDP as -.70%.

Clearly a contracting economy is not a good thing and the definition of a recession is three or more consecutive down quarters in GDP. So, weak quarters do happen! One down quarter does not indicate anything. There is no pattern that suggests one or two down quarters lead to the next recession, but you would never know that to be the case if you just watched or listened to your news source!

On page one of the BEA's "second estimate", (the actual GDP number for 1Q2015 will be released 6/24/2015), there is a footnote where they reference a "seasonal adjustment". Now I am not a statistician, but I know math better than the average bear! My suggestion on seasonal adjustments is to just compare 1Q2014 to 1Q2015. They both have seasons and are automatically adjusted. Why not just look back, and compare year over year see if GDP is up or down?!

So I did that:

1Q2014 GDP was -2.94%
1Q2015 GDP is -.70%

Thus, year over year (YOY) the U.S. economy, as measured by GDP, is +2.24% better than a year ago. This really isn't funny math and if my observation is correct, I think we will see the final 1Q2015 GDP come in flat to slightly positive. When 2Q2015 is reported, I think it will be closer to +2.70% annualized GDP, just like the U.S. Federal Reserve is predicting.

The Federal Reserve Board still expects the U.S. GDP to grow between 2.60% - 3% in 2015. They expect inflation to be between 1% - 1.60% and the unemployment rate to be between 5.2% - 5.3%.

If the Fed is correct in their estimates, then we have a stable and slowly growing economy. That is a great backdrop for the valuations of Corporate America to increase toward Fair Market Value based on 2015 earnings and to then to start looking at the earnings potential for 2016.

In my opinion the outlook remains better than the recent GDP growth rate of -.7%, a number which is likely to adjust up and be closer to 2.70% as we celebrate New Year's Day 2016.

Sign #7 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 $126 turns the 2343 2015 FMV into 1008 and even worse if earnings were to drop below the example of $126.00/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.

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•The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
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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.
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