THE WEALTH STRATEGIES GROUP
Independent Objective 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 November 2020

Summary

This month's update of The Seven Signs of a Changing Economy™ reads positive all the way through. These seven data points are all source-cited, fact-based and independent of opinion. Just the facts, and the facts are doing great. I would suggest unbelievable, based on our country and most of the world being closed for business between two months and a lot of months for Canada, Italy and others!

Let's start with a bigger development. I wrote here back in March that you would remember where you were when you heard the words "Successful Vaccine" for Covid. I was making a cup of coffee at 5:55 AM on November 9, 2020 when I saw it on my phone. World markets opened up between 3% - 5% on the news.

It was odd to me that our U.S. media reported this incredibly positive event like it was a turned over apple truck on a busy side street. I wanted to know more, so I went to my favorite epidemiologist, Dr. Wikipedia for details.

Per Wiki, this is no regular vaccine. This is messenger RNA vaccine or mRNA. This is their definition of how mRNA works:

Almost all cells make and use their own mRNA. They use it to make proteins. Each mRNA is like a blueprint or recipe for one kind of protein.

Most vaccines work by taking something from a harmful germ and putting it inside the patient's body without any parts of the germ that cause harm. Then the patient's own cells learn to identify the germ using its other parts. Then, if a living germ ever attacks the body, the patient's cells fight it off without having to learn what it is first. Some vaccines do this by putting a dead, weak germ inside the person's body. Other vaccines do this by putting lots of proteins that the germ makes inside the body but not any germs themselves. mRNA vaccines work by putting mRNA inside the body instead of protein. Then the body uses the mRNA to make protein itself.

This is a very big event going forward as mRNA can be developed into other vaccines. Out on the edge there is talk this could cure the common cold, which has had no cure since forever! It is possible that with this vaccine we will not have all the “split off” reoccurring illnesses from Covid the media,i.e. journalist students, have attempted to scare people out of their socks with.

No, this will open up the world! Which brings us to the profits taking place in Corporate America, during a pandemic?? Not possible! It turns out it is, and here is what was happening while we were eating our Covid snacks.

Corporate America saved a ton of money on business travel. They “released” less productive workers, which happens all the time. This time was different as with Covid being the reason, little to no severance pay, no HR disputes, just gone. At the same time the workers who remained were being super productive. In some cases, it is reported productivity is up 10% - 20% as people worked from home.

“From home” also means that as corporate office space leases came up for renewal, many companies will be renewing much less space. We have a client who will go from ten floors in downtown Denver to one configured of conference rooms only. Down to one or two onsite team meetings per month and all employees working from home going forward.

These two positives combined lead into this month’s Sign #6 below, corporate earnings. As usual, the economists and analysts were too negative and lowered the bar so low Corporate America could walk over it. Instead, you will see they collectively stepped up to the point where revenue growth will be down a nominal -1.70%, and earnings will be down -7.50% for 2020. Based on our entire economy contracting by trillions of dollars, this suggests 2021 will be a barn burner good year!

And more good news behind the media curtain is “liquidity”:

Here is what liquidity looks like via a chart from The St. Louis Federal Reserve. This represents trillions of new dollars in our household and business pocketbooks and represents an increase in cash of over 20%. This is a huge positive, as in it has never happened before.

In addition to a 90% effective mRNA vaccine for Covid, knock-the-lights-out performance inside of Corporate America, liquidity everywhere, the election season will soon be coming to a conclusion. As I write this summary on the morning of Tuesday, November 10, 2020 we don't have a clear "winner" for President, nor do we know which party will control our Senate. What we do know is it will become a known soon. No matter the outcome, we will all adjust and move on. That, too, is a positive.

If you read nothing else this month, read Sign #6 below on the earnings for Corporate America and then prepare to see a positive year end rally in the valuations that could very likely carry deep into 2021!

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 **516-387-1595**. 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, 12/10/2020.

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 under Sign #1 I detailed the following data flow posted for Personal Consumption Expenditures (PCE) as released by the Bureau of Economic Analysis (BEA).

2020	
April	-12.30%
May	+ 8.50%
June	+ 5.90%
July	+ 1.10%
August	+ .70%

In the chart verbiage I suggested our economic stimulus package was running its course and that I would keep a close eye on this most impactful of The Seven Signs.

Well, "Good News"! This most recent month PCE came in at an impressive +1.20%. This is welcome news as it boosts PCE up from a -2.40% annualized contraction rate to only -.67%. For a country and world closed down for a few months, this is, in my opinion, unbelievably good news!

A few points of anecdotal evidence of what has been mostly unreported in the media. Noteworthy items like the sales during Amazon "Prime Day" on October 19, 2020 sales were $10.4 billion versus last year's $6.93 billion. An unbelievable +50% increase YOY.

Retail sales were +1.90% month over month (MOM) versus Bloomberg economists' expectations of +.80%! Again, how do economists who collectively

miss by 137% keep their jobs – yes, a rhetorical question! But, still a good observation.

Also, TSA checkpoint travel for the day of 10/30/2020 is up to 892,712 versus the Covid affected day of 4/14/2020 of 87,534, more than a 10x increase. For a benchmark, pre-Covid TSA normal per day is about 2.3 million. (Source: www.tsa.gov/coronavirus/passenger-throughput)

Sign #1 is positive and heavily supported with various pieces of anecdotal evidence.

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)
Remember the old Wall Street saying, "Sell in May and Go Away"? The history behind this is from Yale Hirsch, who wrote the Stock Trader's Almanac. The data Yale pulled suggested that almost all of the returns gained in the equity markets since 1900 occurred in the months between November 1st and the end of April. Hence, sell in May and go away.

On average, this data is correct, yet over the last several years it has not worked.

For those who still use it, they have left some good returns on the table. The point here is that for all those big money desks that do sell in May, well, they also invest all the capital back into ownership of corporations on November 1st of each year. October of 2020 was a drawdown month, but we are off to one of the strongest November starts ever.

And the "setup", which I have written about here in the monthly update, in the WSG Weekly Update posted to our website every Friday and on the monthly WSG update conference call, has been ideal!

- Mr. and Mrs. 401k have been selling mutual funds en masse to the tune of hundreds of billions of dollars in outflows through 10/28/2020
- The Fear vs. Greed Index closed 10/30/2020 in the Fear Zone at 27 out of 100.
- American Association of Individual Investors (AAII) Bull (positive) versus Bear (negative) outlook for the next six months was only 35.30% positive, i.e. super low
- On 10/30/2020 the Volatility Index, also a fear gauge spiked up to 38.02. Anything above 25 is considered investor fear level high.

During all of this, Corporate America is recording record sales, reduced cost inputs and record profits.

In the first four days of November 2020 those investors who chose fear over a great investment plan and strategy left +14.20% return on the floor.

The most positive thing the markets can do is go up, and we rest here on 11/5/2020 near all-time highs with Covid spreading, the name of our next President unknown and no majority known in the Senate.

Like I always say, "The markets do whatever they have to to make the most investors wrong!"

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)
There are ten economic inputs that make up the Conference Board Leading Economic Index (LEI). These are "weighted" so that those with more economic impact represent more heavily on the index itself.

This month five of the ten were positive, three were neutral and only two contracted. One input I feel has a bigger impact on the economy is manufacturers' new orders for capital goods, i.e. businesses buying stuff to make their business grow, came in negative. So, during this odd Covid year it is not really a surprise to see this data point pull back.

On the very positive side, building permits were off the chart good, think builders can't build houses for millennials fast enough, new orders for manufacturers' new orders for consumer goods were positive as were new jobs created.

Combined the LEI for this month came in at +.7. For the prior six months the LEI increased +3.60% or about an annualized +7.30%! This is our peek around the corner to see what economic backdrop Corporate America will need to operate in six to nine months down the road, i.e. March through June 2021. The LEI data strongly suggests that backdrop is good and that 2021 should be good economically. Sign #3 is 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)

Economists continue to underestimate the strength of this economic recovery by more than a fraction. They projected 530,000 new jobs would be created versus actual of 638,000, a miss of 20.38%.

Long time readers know I also track the Bureau of Labor Statistics (BLS) algorithm that calculates how many businesses were birthed versus those businesses that died, via the net birth/death model. If there is going to be any liberty taken in the jobs report it would be in this report. This month it added 344,000 of those 638,000 new jobs. That is the highest this year. This can get adjusted as we move forward, but that is a ton of jobs being created out of a telephone survey!

That said, the unemployment rate did drop an entire 1%, from 7.90% to 6.90%. The households surveyed reported 1.5 million more people had jobs than last month, which is how the unemployment rate can drop so much. My guess is this is closely related to those pandemic unemployment assistance checks running out. All of a sudden, those people making more money sitting on their couch than working weren't, and had to go back to work!

Equally important is that the 4-week moving average of initial claims for unemployment dropped another 13.40% and is now down 47.87% from the June 30, 2020 pandemic peak. The pandemic caused unemployment to increase from 3.5% to 17%! To now be 7.9% is not only great but also suggests the economic recovery is gaining momentum with 92% of the workforce back on the job!

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, which have increased for five months in a row, were up again with a very solid +1.90%. The subset of this report for non-defense orders increased 1%. That put this key input above where it was before the Covid meltdown. Very impressive!

Shipments, up four of the last five months, increased +.30% and inventories increased a slight +.40%, which is low for the months just before the largest holiday season on earth starts in late November.

If you would like to see what a “V” shaped economic recovery looks like, just Google The Dow Jones Transportation Average. It has come up from the Covid induced meltdown like a rocket ship! Just in case you choose not to Google that, I will tell you it just went up to an all-time high. Again, impressive.

In the most basic sense, this measures people moving around, airline traffic and goods moving around. The only way this average can be up is if both are happening en masse, and they are. People and stuff moving represent future economic expansion, so a great future indicator.

In addition, the America Trucking Association Tonnage Shipped Index jumped +6.70% this month, and rests just a few percent below its all-time high.

Last, but not least, those boring shipping containers you see on large ships have increased in cost by +141.40% versus last year. The only way to get an increase of this magnitude is unrelenting demand. Demand comes from people buying “stuff”, that needs to be shipped here, (as measured in Sign #1 via PCE) like there is no tomorrow.

Sign #5 is very 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)
Up above in Sign #2, Money Flow, I detailed a few items that have historically been data points and observations that are the “set up” for a positive experience in ownership of Corporate America. These are just a few and I could rattle off several more, but you get the idea. The idea is the economic backdrop now and as we peek around the corner six to nine months into the future (see Sign #3 LEI above), is very, as in “V”, positive. But where are the valuations of Corporate America versus Fair Market Value (FMV)?

Well, October of each year is where we “look forward” to next year’s earnings. 2021 earnings for Corporate America, as measured by the S&P 500 Index and reported by Yardini Research, Inc. are estimated to be $166.48 per share.

Let’s plug into our Fair Market Value (FMV) calculator using “The Rule of 20” to get both FMV and the P/E ratio.

To use “The Rule of 20” you just subtract the inflation rate from 20. I will use the same inflation rate the BEA used in calculating the Gross Domestic Product (GDP) for 3Q2020 released October 28, 2020 of -2.08%. (Remember from Algebra 101 subtracting a minus becomes a positive)

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

- 20 + 2.08 = 22.08
- 2021 S&P 500 earnings estimate - $166.48
- 2021 S&P 500 Fair Market Value estimate = $166.48 x 22.08 = 3,675.87

As of 11/6/2020, the S&P 500 trades at 3,512.37, or a -4.65% discount to 2021 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. accounts for the impact of low interest rates on a company's ability to earn profits. The research quantifiably showed that when the total is above 22, we are in the danger zone. Below 20 represents quantifiable value.

Based on this, I did some quick math to see the 2021 projected price/earnings (P/E) ratio is 21.10 + .10 (the yield on the 90-day T-Bill) = 21.20

So, right in the middle of "Suggs" not cheap vs. overvalued calculation.

Sign #6 is positive again this month.

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)
The Producer Price Index (PPI), which measures the inflation rate at the manufacturing level, reported in at +.7% annualized for this month vs. last month. This month reported up from last month's +.3%. If not for a drop in energy, in my opinion short-lived, it would have been up more.

The Consumer Price Index (CPI), which measures the inflation rate at the household level, reported in at +1.4% annualized this month vs. last month's +1.3%. CPI increased to +1.4% from .3% in April 2020. That is a large percentage increase, and the first shot over the bow of inflation entering the households of America. I don't think it will cause late 1970's or early 1980's inflation, which was the second highest inflation rate since the Civil War, but more like 3% - 5%, inflation starting, well, about now.

The "preliminary estimate" of our Gross Domestic Product (GDP) for 3Q2020 was reported as -1.78% annual growth rate of all the goods and services we produce as a country. (Source: Bureau of Economic Analysis (BEA))

A -1.78% growth rate for all of the goods and services we produce as a country would normally be quite alarming. However, this actually represents a huge economic recovery, as just last quarter the annualized GDP was -8.48%

That is a huge snap back and suggests we are now very close to the “other side” of our Covid induced economic donut hole. It is pretty easy to see how GDP would become positive, on an annual basis, as we close out 2020.

There are many moving parts happening right now economically, socially and politically. But somehow, we Americans find a way to pick ourselves up, dust off and continue getting better and better. So, I will invest in that.

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 $166.48 turns the 3,675.87 2020 FMV into 1,331.84 and even worse if earnings were to drop below the example of $166.48/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!

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through changes in the aggregate market value of 500 stocks representing all major industries.