

THE FOUNTAINHEAD(?)

HELPING BUSY PEOPLE MAKE SMART FINANCIAL DECISIONS

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Third Quarter Summary

Fall 2019

W # The S&P 500 notched its third straight quarter of gains, albeit small, for a total return of 20% year-to-date. That's a very good year packed into 9 months, but a closer look reveals a market struggling with uncertainty. Going back a little further, the S&P 500 is up less than 5% over the past 12 months amid heightened volatility. The other major equity indices are negative over the same period. I expect that bouts of trade optimism and central bank accommodation may continue to support the market going forward, but eventually earnings growth will need to improve. For the quarter, the usual script for the past few years remained the same. By a significant margin, US equities outperformed foreign and large companies outperformed small. Fixed income returns, based on expectations for a continuation of global easy monetary policies, were positive across the spectrum of maturity and credit quality. Fun fact about the bond market: on September 30, 1981, the 10-year Treasury yield reached 15.84%, an all-time high. The Federal Funds Rate, set by the Federal Reserve, was 15.87%, annual inflation was around 11% and a 6-Month CD was yielding 14.34%. Now, both the 10-year yield and inflation are significantly below 2%. Our world has really changed in less than 40 years!

Trade issues, particularly with China, continued to dominate the market narrative with prices in both stocks and bonds reacting to every rumor and tweet. The market's obsession with tariffs, on or off, is a bit mystifying. There's no question that these issues are painful to industries directly affected by the trade wars and the consequent global manufacturing slowdown. However, those sectors, while admittedly more significant in the blue chip indices, are a relatively small part of our economy. Yet, surprisingly given all the "sturm and drang", the data paint a much more positive picture. Our total trade in goods and services (exports plus imports) was \$4.9 trillion in 2016. Over the past twelve months, it's been \$5.7

trillion, an increase of 16%. In other words, trade has grown faster than the overall economy even in the face of disruptions, tariffs and big-talking tweeters. Undeniably, trade tensions with China are real and are especially important for industries like the NBA or pig farmers. There's no doubt that it would be generally beneficial for us to reach an agreement with China. But the Middle Kingdom, while it seems to dominate the market narrative, is not everything when it comes to world trade. Trade is dynamic and supply chains are moving. That's why the costs to the US economy have been far less than the dramatists predicted. So far this year, US imports from China are down 12% from the same period in 2018. Offsetting that, imports from places like Vietnam, Taiwan, South Korea, India and Mexico are up significantly. Clearly, there's more to our trade picture than just China. The reality is that trade is moving forward and not dying.

Shifting the focus to fundamentals, 2018 was a gangbuster year for earnings growth, up over 20% from the previous year. Expectations for 2019 aren't nearly as rosy, with the consensus earnings growth expectations for the S&P 500 hovering flat to slightly positive. An earnings recession is possible. However, it's a difficult comparison because of the one-time tax bump last year. The consensus is for a 10-15% improvement in 2020, which if realized, certainly justifies current valuations.



3rd Quarter Summary

Total Return %

	<u>3 month</u>	<u>12 month</u>
S&P 500	+1.7%	+4.2%
Nasdaq Composite	-0.1%	-0.6%
Russell 2000	-2.4%	-8.9%
MSCI EAFE	-1.1%	-1.3%
MSCI Emerging Markets	-4.2%	-2.0%
Barclays U.S. Aggregate	+2.3%	+10.3%
Barclays High Yield	+1.3%	+6.4%

<u>Treasury Bond Rates</u>	<u>9/30/19</u>	<u>9/28/18</u>
2 year	1.63%	2.81%
10 year	1.68%	3.05%



California Ethnic Studies Proposal

According to the LA Times, there is a bill in the state legislature that would require all California high school students to take an ethnic studies course. The draft of the model curriculum says that ethnic studies classes teach students how to think critically about the world around them, “tell their own stories”, develop “a deep appreciation for cultural diversity and inclusion” and engage “socially and politically” to eradicate bigotry, hate and racism. Who could argue with that? Evidently a few people because the bill is on hold this year after the draft curriculum prompted weeks of escalating controversy from groups whose members felt left out or misrepresented. Organizations representing Armenians, Greeks, Hindus and Koreans feel that the focus is too narrow and that lessons about their people should also be taught. The Jewish Caucus in the legislature felt that the description of the Israeli-Palestinian conflict was one-sided and questioned why Islamophobia is part of the curriculum but there is no mention of anti-Semitism. I do think it’s important that the history taught in schools be inclusive. However, judging by the glossary of terms in the proposed curriculum, this sounds more like a polemic than education. What do you think?

CISHETEROPATRIARCHY: A system of power based on the supremacy and dominance of cisheterosexual men through the exploitation and oppression of women and the LGBTQIA.

ANDROCENTRIC: The privileging and emphasis of male or masculine interests, narratives, traits, or points of view, often in spaces where power is wielded.

CAPITALISM: Within ethnic studies, scholars are often very critical of the system of capitalism as research has shown that native people and people of color are disproportionately exploited within the system. In a capitalist economy, surplus value (profit) is generated from human labor and everything is commodified. (This is me. Given the author’s bias, it’s not surprising that the labor theory of value is straight out of Karl Marx. Most modern economists accept that value is created by the interaction of supply and demand and not by any one factor like labor or capital.)

HERSTORY: A term used to describe history written from a feminist or women's perspective. The prefix "her" instead of "his" is used to disrupt the often androcentric nature of history.

HETEROPATRIARCHY: A system of society in which men and heterosexuals, especially heterosexual men, are privileged, dominant and hold power.

HXRSTORY: Pronounced the same as "herstory," hxrstory is used to describe history written from a more gender-inclusive perspective.

WHITENESS: A social construct that has served as the foundation for racialization in the United States. Whiteness is much more than a racial identity marker; it separates those who are privileged from those who are not.

XDISCIPLINARY: The term signifying that ethnic studies variously takes the forms of being interdisciplinary, multidisciplinary, transdisciplinary, undisciplinary, and intradisciplinary, in diverse , academic and everyday contexts.

MASTER NARRATIVE: Generally described as the colonially derived story of events emphasizing monolithic, Eurocentric and androcentric perspectives.

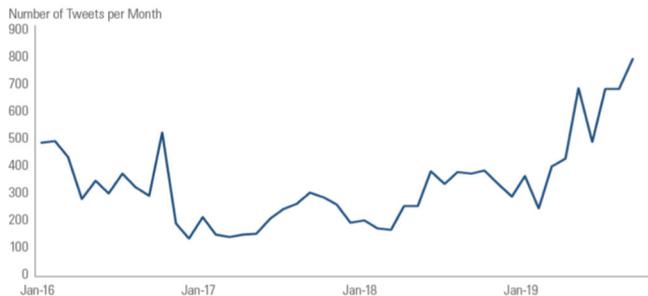
"Instead of an objective account of the history of ethnic groups and their current situation, this is a biased portrait emphasizing suffering and victimization, serving as a kind of road map to create ideological activists based on racial identity,"

Williamson M. Evers, Hoover Institute,



I Actually Read it Somewhere

Number of Presidential Tweets by Month



NY Times –10/14/19

How is impeachment selling? A search on **Etsy**, the online gift marketplace, turns up more than 4,000 impeachment-themed goods, including candles, pins, hats and mugs.

Bill Maher

“Your paper (NY Times) and The Atlantic had articles in the last year saying that 80 percent of Americans think this politically correct BS has gone too far. But the people on Twitter are the people who control the media a lot. They’re the millennials who probably grew up with helicopter parents who afforded them a sense of entitlement. They are certainly more fragile than previous generations. Trigger warnings. Safe spaces. Crying rooms. Microaggressions. That crowd feels like anything that upsets their tender sensibilities is completely out of line.”

Christopher Buckley on Jamie Dimon

“Every January, he flies across the ocean—I’m guessing not on American Airlines or Delta—to a town in Switzerland called Davos, where, as he’s said with beguiling self-awareness, ‘Billionaires tell millionaires what the middle class feels.’”

Trey Parker and Matt Stone (creators of Southpark)

“Like the N.B.A., we welcome the Chinese censors into our homes and into our hearts. We too love money more than freedom and democracy. Xi doesn’t look just like Winnie the Pooh at all. Long live the Great Communist Party of China! May this autumn’s sorghum harvest be bountiful! We good now China?”

PGA Tour

During the 2018-2019 season, 13 touring pros made 100% of their putts from inside 3 feet. Brandt Snedeker led in sheer numbers, making 834 straight from that distance without a miss. Charlie Hoffman, ranked last at 188, made 98.35%. He missed 9 times in 544 attempts. (Sometimes it feels like I miss more than that in one round!)

Things That Probably Only Brad Cares About

I’m a creature of habit, comfortable in my routines. My typical Sunday is to surf, followed by a big lunch and then relaxing on the couch reading in the afternoon sunbeam. Probably includes a nap, too. For me, that’s a perfect day. However, life isn’t always perfect. During a flat spell a few months ago, I wandered into the orbit of the Little Princess and spent a Sunday in her world. Maureen is a supporter of a program called “Last Remaining Seats” that shows old movies in even older theaters. For some reason, this is special. On this particular Sunday, Spartacus was showing at the old UA theater, deep in downtown LA. I’ve always had a weak spot for that movie, maybe even more so now because I closely associate it with two ladies in Seattle that I like very much. And that’s despite the fact that the film is missing two of the primary elements of a great movie, gratuitous female nudity and sophomoric humor. (I think the director and screenwriter missed an excellent opportunity to enhance the artistic nature of the film by not showing more of the photogenic Jean Simmons during the bathing scene.) So, we would see a classic movie in a classic theater and then go for a nice dinner. Maureen was in heaven, rapturously taking pictures before the show because the theater is old and no longer looks it. The movie was great, Spartacus and the slaves lose because Romans are perfidious and evil and I teared up at the end as always. Then it was time for dinner. We had reservations at Redbird, where “you flit through the epochs, alighting here or there but always feeling grounded in the present”. The restaurant is in yet another old building, the restored rectory of the Saint Vibiana cathedral. It truly is a beautiful space and they pour the best Manhattan. The food, on the other hand, was challenging in a jaded epicurean sort of way. I ordered Rack of Red Wattle Pork (With spaetzle, hazelnuts, collards, fig mostarda and calvados blood sauce for \$50!) I will eat almost anything. But this was on the edge of edible for me. The meat, served atop a pile of unrecognizable goo, was almost raw and surrounded by a rime of fat and skin several inches thick. Since I used to work in restaurants, I never send food back for fear of what the cook might do to it. But, this was close. I admit that the deciding factor to tough it out and eat that mess was because I didn’t want the hipster waiter with his scruffy facial hair and man-bun to think I wasn’t man enough to eat pork sushi. All things considered, it wasn’t a horrible day unless compared to my usual Sunday.

Business Roundtable Hypocrisy

The most worrisome news of the past quarter wasn't trade issues or the debate about monetary policy, both of which seem to be a preoccupation bordering on obsession with financial journalists. Most concerning to me was the Business Roundtable announcing that almost all of its CEOs signed a statement saying they were no longer going to run their companies with the primary goal of serving shareholders. Instead, CEOs would lead their companies to benefit all "stakeholders" including "customers, employees, suppliers, communities and shareholders." Aside from the pandering and the hypocrisy, it's flat-out wrong to say that there's anything inconsistent with treating employees and customers right and maximizing shareholder value. In fact, I would assert that abusing employees and customers destroys shareholder value.

This grandstand play is nothing but fatuous CEOs seeking attention and pandering to the lowest common denominator. I'm in Milton Friedman's camp, believing that a firm's only objective should be to act on behalf of its shareholders and maximize profits. When those profits are returned to shareholders in the form of dividends and increased share prices, they are then free to use their wealth to pursue personal and social causes that they find worthy. Frankly, I don't need some Davos-traveling self-important CEO to decide which social causes are worthy. For a corporation to act in such a fashion is nothing other than spending our money on projects and causes that we may not support. Part of this is political correctness, but it's also about elite business managers looking for an excuse to exploit their managerial positions to further their own personal goals. This is just age-old rent-seeking under the corporate umbrella. This shift in thinking is not good for the long-term value of corporate equities.

Business Philosophy

Our objective is to make working with us a pleasant as well as rewarding experience

- ..# We take our responsibilities seriously
- ..# We return calls promptly
- ..# We're nice when someone does call
- ..# We don't lie or mislead
- ..# We do what we say we're going to do.
- ..# We're knowledgeable and current in our discipline
- ..# We admit (infrequent) mistakes and do our best to right the wrong
- ..# We listen to suggestions and take them seriously
- ..# We work in your best interest in the most straightforward and transparent way possible

Please notify me in writing if you would like a hard copy of our full ADV part 2A brochure or if there are any changes to your financial situation or investment objectives

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