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 January 2020

Summary

There is a new monster in town!

I am pretty sure your favorite news source is doing everything they can to keep your eyeballs glued to their "terrible" breaking news, in their endless effort to have those same eyeballs see their advertisers' stuff and then buy it.

Just curious if any of our readers have seen any follow up on past monsters. Monsters like:

Swine Flu
North Korean Summit
Hurricane Harvey
Mueller Investigation
Me Too Movement
Immigration
Stormy Daniels
Brett Kavanaugh
China Trade War
Impeachment Process (in progress)

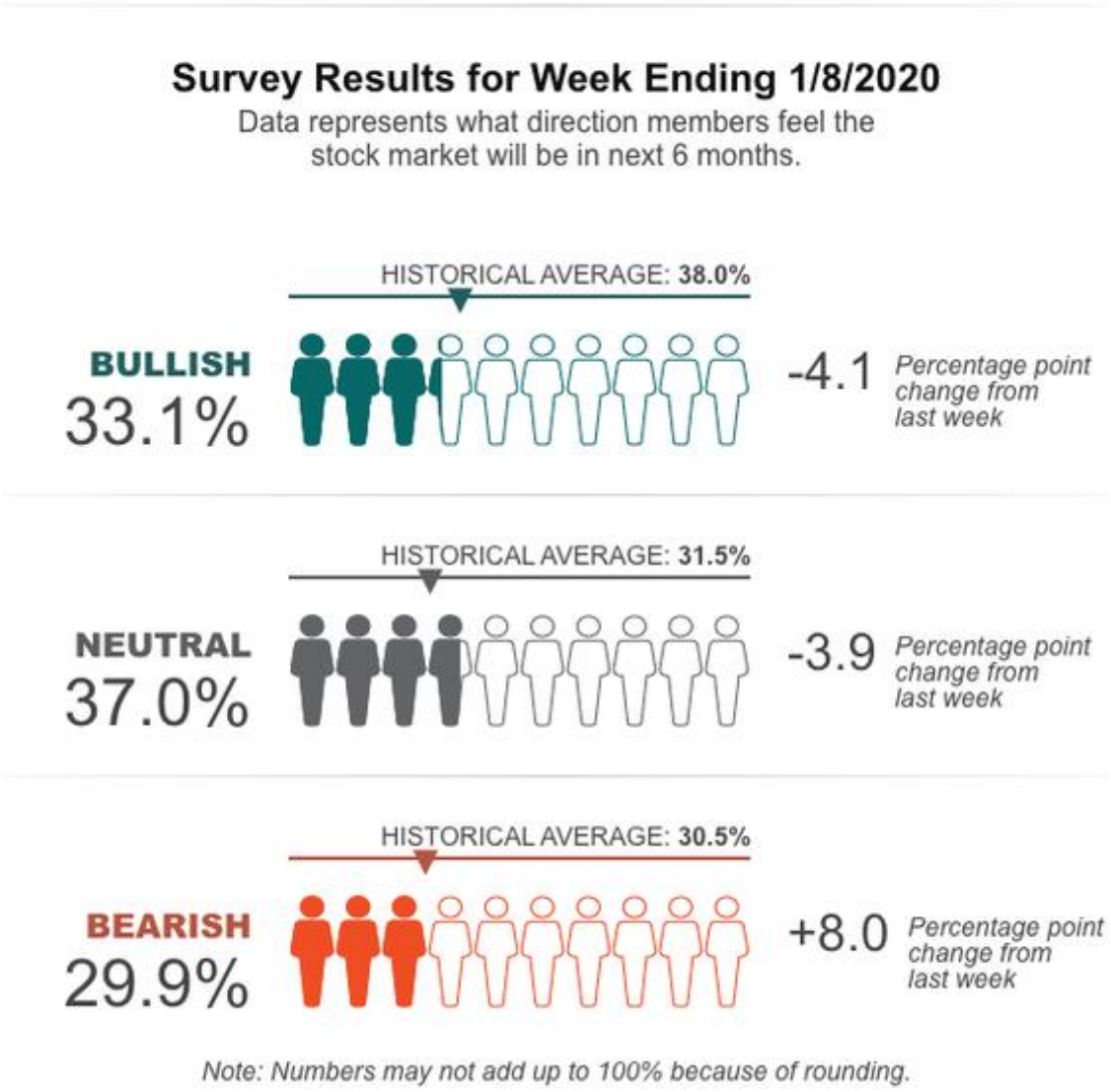
Since those headlines were just not scary enough, let's move on to the new monster in town, Iran!

Yet, behind the monster stories the U.S. economy and the companies that must operate inside of it continue to do well, very well. A year or so ago, I kept writing here how "prices that trade in a sideways price pattern tend to break to the upside. It is rare, as in I have never seen a trading range where prices break and go down! Instead, they just go down!"

Well, break out to the upside is an understatement as we continue to hit record new highs in company valuations. But, even at all-time high values the American

Association of Individual Investors (AAII) tells us 66.90% of the Mr. & Mrs. 401(k) crowd remain less than bullish!

Since 1987, AAII members have been answering the same simple question each week. The results are compiled into the AAII Investor Sentiment Survey, which offers insight into the mood of individual investors.



After a 21-month trading range that ended in late October 2019 with the break out to new highs, you would expect the folks to be dancing in the street with lampshades on their heads. But they remain full of fear.

These Seven Signs of a Changing Economy™ have been yelling at us for ten years and 20,000 points up on The Dow Jones Industrial Average (DJIA) that all is well with our economy. It is a good time to invest! Corporate America is doing

great and that is a result of more people working, earning, paying taxes, saving and spending.

Our economy is doing great! Don't believe me? Think about your holiday experience. Did you wait in line at a movie, restaurant or to park your car? Was your airliner packed full? Okay, here's a new one, try getting married at the cool spot in town or to host your reception at an upscale venue. The waiting list is not two months, it is two years! That is horseradish strong!

So, you have likely heard of The Stock Traders Almanac, written by Yale Hirsch. The Almanac studied the "first five days" of trading going back to 1950. When stocks are higher in the first five days, "the S&P 500 has been positive 82% of the time, at year-end, with an average gain of +13.60%."

Do you know what this means?

Nothing!

Just like the start of 2016 where we had "the worst start to any year in stock market history" means nothing as we look down at it from all-time high valuations.

What does mean something is learning to be patient and thoughtful in your wealth building approach. At The Wealth Strategies Group we have calmly, logically and patiently helped our clients work towards their bigger financial future goals over time, with detailed plans built on current asset structure, asset allocation, lower risk and volatility investment positions keeping a sharp eye out for reducing taxes in all areas.

This month's Seven Signs detail remains positive. The two areas that appeared to be going toward the negative trend line, The Conference Board's Leading Economic Index (LEI), Sign #3, and the Durable Goods sales, Sign #5, have stabilized. They did not turn negative, have yet to be white hot, but are stable. Combined with the other five signs, the economic backdrop Corporate America will operate in is positive.

As you read this month's update, keep in mind your favorite news source will do anything to grab your eyeballs and shake you off your plan for a bigger financial future. Don't allow them to manipulate you. Follow the source-cited facts, like these Seven Signs. They will very calmly tell us when it is thoughtful and prudent to make a change in our investment structure, strategy and positions.

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, February 13,2020.

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)
In a MarketWatch article published on November 19, 2019 written by Tonya Garcia, Margaret Reid, Vice President and Senior Portfolio manager with The Private Bank at Union Bank was quoted "a shortened holiday shopping season means less opportunity for consumers to buy non-essential gifts."

It is hard for me to believe that Ms. Reid could possibly believe this, let alone have it published. In my world, and I believe for most of our population, if there were zero shopping days between Thanksgiving and Christmas there would still be gifts under the tree. You just plan differently!

Ms. Reid went on to say, “We can expect to see lower than average consumer impulse buying, with mall retailers likely suffering the most in this situation.” I was not put on earth to pick on Vice Presidents at Union Bank, so I will let you form your own opinion of her forecast based on these “FACTS” versus the “NOISE” we read, hear and see in the news.

- Consumers spent $31.2 billion on Black Friday (new record)
- Consumers spent $19.1 billion on Cyber Monday (new record)
- Consumers spent $34.4 billion on “Super Saturday”, 12/21/2019, the largest shopping day “ever” in America (new record)
  (Source: MasterCard Pulse Spending Report, 12/26/2019)

Per Statista, total 2019 holiday sales rang the cash registers across our country to the tune of $729.3 billion, a +4.01% increase over 2018’s $687 billion. As predicted here one year ago, we came in with the largest holiday shopping season ever on planet earth, at least until next year when we hit over $760 billion for the season.

The most recent Personal Consumption Expenditures (PCE) are annualizing at +3.16%, which is a touch over a +33% increase versus last year.

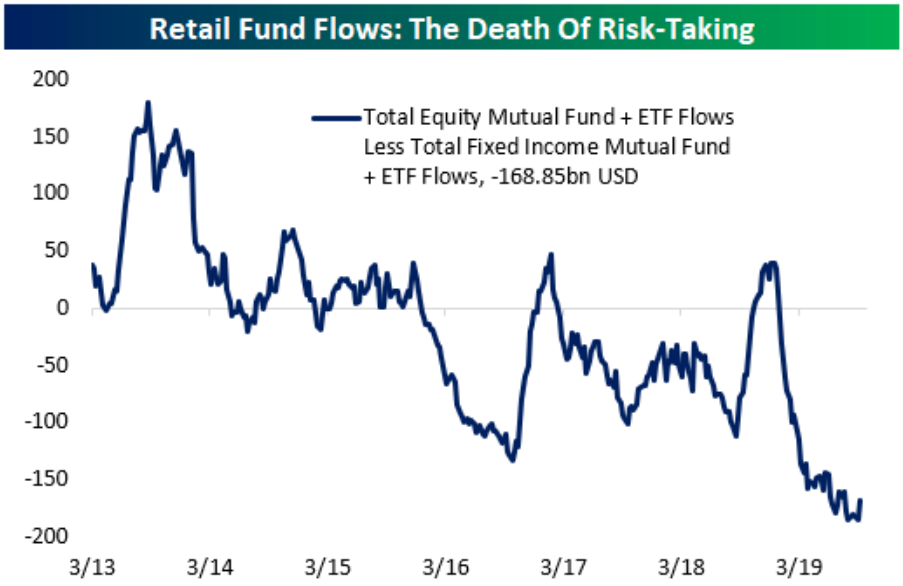
Sign #1 is not just positive, it’s “white hot”!

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)
Many lessons in life can be learned from history. For those of us who read, a lost art, there is so much you can both learn about, and perhaps more important, learn what NOT to do!

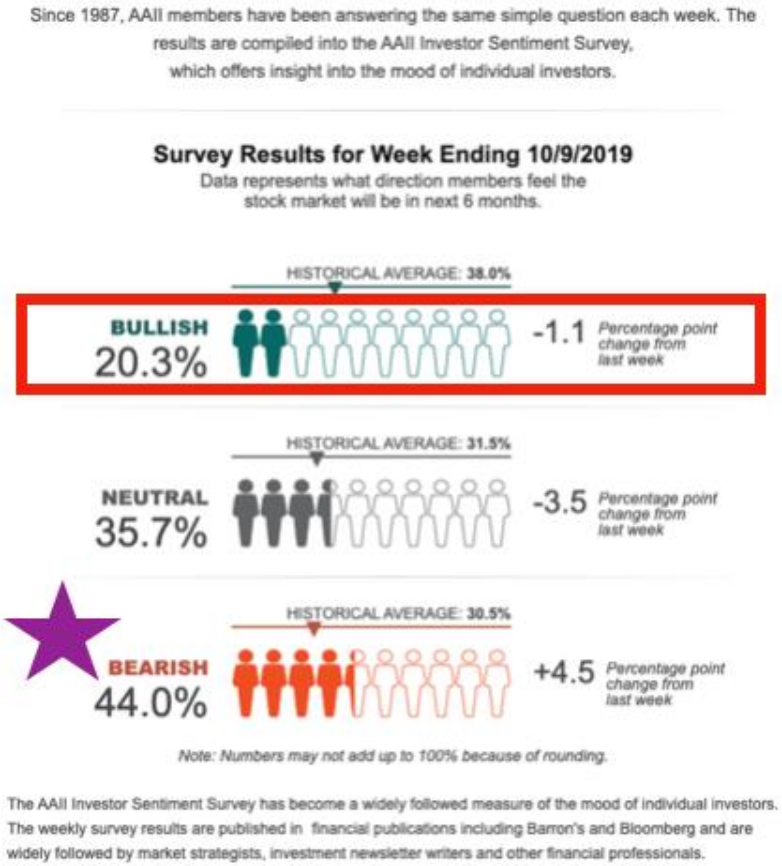
Ninety days ago, ancient history for today’s “I want it now” crowd, I printed the following in this monthly update. (Remember this is from last October)

This data set, aka the facts, would suggest most of the “traders” (renters) of ownership in Corporate America and many of the “investors” (owners) who want out of their investment positions are already out.



A nice chart above from Bespoke. Here is what it tells us:

In the chart above, the S&P 500 was at 1,481.79 on 3/15/2013. On 3/15/2019 the S&P 500 closed at 2,362.42. A gain of +59.43% and +11.89% annualized gain. A very nice run that most chose to miss.



The second chart you have seen before. I use it often as a gauge for where investors' heads, and wallets, are. As of 10/9/2019, per the American Association of Individual Investors (AAII), only 1 in 5 like ownership in Corporate America as a vehicle for gains in the next 6 months. That is within 1% of the report on March 9, 2009 which represented the bottom of The Great Recession panic lows! The folks are so scared they can't spit!

That reading of 20 is great news! Look at where the Dow Jones Industrial Average was at each of the prior readings of 20 per the AAII report!

Do you see it?

The fear levels were the same – deeply against the markets at each dot – yet the averages were far higher – every – step – of – the – way.

Now back to today! The AAII chart above is dated 10/9/2019. On that day Corporate America, as valued by the S&P 500, traded at 2,911. As I write this update on 1/9/2020, just three months later, the S&P 500 trades at 3,273, +12.40% higher and an annualized +49.74%. The Dow rests at 28,974, +10.13%, or +40.54% annualized.

Unbelievable that Mr. and Mrs. 401(k) are still, as of today (1/9/2020), net sellers of Corporate America while large institutional investors and the companies themselves continue to buy.

Like Sign #1 above, Money Flow is not just positive, it is all-time high "white hot" positive.

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)
This month The Conference Board's Leading Economic Index (LEI) reported a big fat goose egg! 0%. Thus, there is no trend change here. As detailed in the box above, I need to see "three to four months" of negative data flow to change this key indicator. Very important, as LEI is our peek around the corner to see what economic backdrop our investments in Corporate America will be working in six to nine months from now, i.e. July – October 2020.

The last five months' data:

2019	
July	+0.5
August	0
September	-0.1
October	-0.1
November	0

It would be normal to wonder why the LEI has weakened, but, so far, has not signaled a recession ahead. My observation of the data flow suggests our economy is in a huge "tug-of-war". Manufacturing and business investments are clearly weak (See Sign #5 below), yet jobs, the housing market (we are at all-time low levels of supply) and consumer spending, Sign #1 above, are very strong.

History has proven over time that when the consumer, which is nearly 70% of our entire economy, is as positive as noted in Sign #1, recessions just don't happen.

As a side note, the Chemical Activity Barometer (CAB) has turned positive with the three-month moving average (3MMA) +.4% year over year, after two negative months.

So, clearly Sign #3 is not white hot, but it does remain 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*

Posted by Brittany Jarocki

(Positive)
For the month of December, the hiring momentum of U.S. companies began to slow.

Non-farm payrolls rose by 145,000, which was below the consensus estimates of 160,000.

Manufacturing payrolls slid by 12,000 – surely an effect of trade war tensions.

The average hourly earnings rose by 2.90% and according to LPL's Daily Market Update, this is the slowest pace year-over-year in 17 months.

All of that combined doesn't sound too good, but I think the core is better than our first glance.

To me, this doesn't scream "danger!". Why? Because the last two months of every year are always a bit disjointed – Thanksgiving, Christmas, Near Year's, time off work, schedules all out of whack.

So, of course hiring momentum slowed – most companies aren't hiring for new positions between Thanksgiving and Christmas. If you were looking for a new job and could file for unemployment for a month and spend the holidays with friends and family and then begin seriously job-hunting after the new year, wouldn't you?

I predict hiring momentum will largely make up for this slide during Q12020.

Manufacturing payrolls are a direct result of trade war tensions. I personally know people in the industry who have been affected and lost revenue because of it. The good news is it is short-term statistic that will rebound when there is a resolution. And it will likely rebound in a large way.

The 2.90% hourly earnings increase is most likely due to shift workers at minimum wage jobs such as McDonald's and construction sites. These types of employers can't keep enough people on the job to get the job done! There is just a shortage of qualified people to hire. Pace may be slower, but if they paid these workers even more, they would go out of business!

For all of these reasons, 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 -2.0%, down two of the last three months, followed by a +.2% October increase. Shipments increased +.10%, up following four consecutive monthly decreases. Inventories increased +.40%.

This data is the most recent, but it lags the calendar by a month. December 2019 detail will be released the third week of January 2020. Clearly it is not great to see a -2.0% reduction in new orders, yet this is November data, meaning all the holiday orders have been filled, shipped and are in the warehouses and stores ready for the holiday shopping season. We do know the holiday shopping season was the largest ever, so it would be reasonable to think new orders will increase over the next few months as the collective shelves are re-stocked.

No question, this detail for new orders is disappointing and is confirmed as same from the American Trucking Association (ATA)Truck Tonnage Index, which decreased -3.5% in November. I will mention the ATA's Index is dominated by contract freight, AKA "For Hire" trucking. Important to note because for the first time ever, I noticed a very big jump in my personal observation of both semi-trucks and delivery trucks branded Amazon making deliveries this season.

One could wonder if Amazon is eating off the "For Hire" trucking plate, thus leaving their index negatively affected. I am thinking yes. As of January 2, 2020, the Drewry World Container Index that measures container freight on 8 major routes to/from U.S., Europe and Asia is up +52.67% since October 2019, so we know a ton of stuff moved around and that some other influence like Amazon trucking, is likely impacting the ATA Index.

For now, 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)
In last month's update I explained how Corporate America needed to lap the giant increase in earnings that resulted from the "Trump Bump" of reduced corporate taxation.

Economists had forecast a -4.50% in 4Q2019 earnings and now FactSet is reporting the decline was only -1.50%. In other words, after a 20% jump in earnings for the prior year the earnings reduction was a fraction. But here is the real story. FactSet now estimates 2020 full-year earnings for Corporate America, as measured by the S&P 500, to increase +9.60%. Yardini Research is estimating $177.26 per share.

Let's now quantify, measure and use the earnings of Corporate America to get a Fair Market Value (FMV) of same using estimated 2020 earnings per share.

Using Yardini Research's 2020 earnings of $177.26 per S&P 500 share for our 2020 (as of 1/7/2020) Fair Market Value (FMV) estimate, using "The Rule of 20".

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) “final estimate” for 4Q2019 released December 19, 2019 of 1.72%.

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

- 20 – 1.72 = 18.28
- 2020 S&P 500 earnings estimate = $177.26
- 2020 S&P 500 earnings estimate = $177.26 x 18.28 = 3,240.31 S&P 500 Fair Market Value (FMV)

As of 1/9/2020, the S&P 500 trades at 3,273.25, or right at 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 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 forward price/earnings (P/E) ratio is 18.47 +1.54 = 20.01, at the “value” range of 20 but also below Dr. Sjuggerud’s 22 level “danger” zone.

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 December 2019 Producer Price Index (PPI) and the Consumer Price Index (CPI), both indicators of inflation entering our economy, don’t release until January 15, 2020, after this issue is completed.

For that reason, we will focus on the Gross Domestic Product (GDP), which is adjusted for inflation to make a “real” estimation for the current growth of the U.S. economy.

The final estimate of the U.S. GDP for the third quarter of 2019, as reported by the Bureau of Economic Analysis (BEA) was reported as growing at +2.09%, well above 2018’s full-year GDP of 1.09% reported 1Q2018.

To adjust this GDP report to “real” growth the BEA used on inflation rate of 1.72%, thus before the adjustment for inflation all the goods and services in our economy grew at +3.81%. This is incredible for an economy of our size, now just over $21 trillion.

As an interesting side note, had the BEA used their sister agency’s (Bureau of Labor Statistics) inflation rate, our $21 trillion plus economy would have grown at +2.18%.

Two important takeaways here:

1) Inflation remains in check at just a whisker above the Federal Reserve target rate of 2%. (Note: The U.S. Federal Reserve uses PCE, our WSG Sign #1, as their official measurement of inflation.)

2) Our $21 trillion economy, the largest ever on earth, is growing at +2%, making it the envy of the world!

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 $177.26 turns the 3,240.20 2020 FMV into 1,418.08 and even worse if earnings were to drop below the example of $177.26/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 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.