1.12.18

The Big Melt-Up!

As we move into the new year, portfolios are at higher equity levels than they've been in quite some time. Our current exposure to equities stands at about 24%. Part of this recent increase is that foreseeable capital inflows from around the world are set to continue coming into stocks even though investors are buying at a historical premium rather than a discount. Our newest equity additions feature a more global-centric view, as we see lower valuations with better opportunities in certain stock markets overseas, especially Asia and the Pacific Basin. We also added capital to what we see as companies that can and will be innovators on the global stage for quite some time. As our incremental increases in risk allow us to achieve more upside participation, we also remain highly aware in our focus to minimize downsize risk. We are also optimizing the bond side of our portfolio by selling laggards and unearthing top risk-adjusted funds that feature improved yields and reduced interest rate risk.

World debt markets often act as the seedy and frequently ignored underbelly of global finance. It's not surprising that on Thursday Bloomberg news reported that "Global debt hit an all-time high of $233 trillion in the third quarter of 2017, according to the Institute of International Finance (IIF). That's a $16 trillion increase on debt levels from 2016 and more than three times the size of the global economy." One can see how the over-elevated stock prices have been driven by greater and greater debts rather than a fully functional economy.

Initially the bulk of this debt increase was corporate and sovereign debt (borrowing by governments). Now, we are seeing a new and unsustainable rise in consumer debt and lowered savings rates. On Monday, it was revealed that consumer credit (credit cards, student loans, car loans) in November saw the largest monthly expansion since November of 2001! At the same time the personal savings rate, which was 5.5% in May, has now fallen precipitously to cycle lows of 2.9%. Retailers who had been fending off bankruptcy, with much of that struggle due to market saturation (too many stores with too little demand), began a heady and death-defying rocket ship upward in their stock prices on the backs of credit expansion from consumers. Macy's stock rose nearly 50% in this timeframe but still is down a whopping 56% over the last three years. Does Macy's management see a follow through? Apparently not, as they quickly announced in January that more store closures were forthcoming and laid off 5,000 workers. Walmart's headline grab of increasing their hourly wages along and paying employee bonuses was followed just one day later by the closing 63 of their Sam's Club stores, which directly affects more than 10,000 of their soon-to-be former workers. The question no one is willing to pose is… "If the economy is so strong, why are consumers relying so heavily on credit?" The answer is in our previous research – which is wage growth is strongly lacking.

Other advisors will point to global growth but without mentioning continuing Central Bank intervention from Europe to Japan. While our Federal Reserve is making microscopic interest rate increases, other central banks have not done the same. No one is getting a glimpse of what these global stock and bond markets would look like if left unmanipulated. Global central bank liquidity injections continue largely unabated, resulting in even more monies eventually finding its way into world stock and bond markets – with no meaningful increase to Main St. economies. This untenable scenario can go on for while longer in what we describe as a "melt-up." These melt-ups gain in momentum mixed with emotionalism as investors chase the highest valuations in history right into nosebleed territory.

Amidst all of this feel-good borrowing and continual stock market records, one should wonder why the Trump tax cuts would even be needed if things are so great. So, as the stimulus from the Federal Reserve makes a slow motion baton pass to the stimulus of tax cuts, one can only assume that our Federal Reserve will be raising rates not three times this year, but eight times! Of course, we don't believe this but it's obvious that the stock market needs to be constantly stimulated or enabled by outside forces rather than relying on actual grass roots economic growth.

Earnings releases started in earnest with the big investment banking firms and those continue on into next week.

As always, we will continue posting articles that we believe to be of great informational value on our website, under the "Great Articles" tab, which is linked here:

http://summitplan.com/cgi-bin/htmlos.cgi/great_articles.html.

Additionally, the "Summit Planning Financial Hour" will be live this week on Radio 570-WSYR at 10AM on Saturday. Don't forget to tune in for a recap of the week's events. If you cannot tune in, check out our radio show archive on our website at http://summitplan.com/cgi-bin/htmlos.cgi/radio_shows.html.

---

1. Securities and advisory services offered through LPL Financial, a registered investment advisor. Member FINRA/SIPC. Financial planning offered through Summit Planning Group, a registered investment advisor and separate entity from LPL Financial.
2. Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.
3. 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.
4. All performance referenced is historical and is no guarantee of future results. Index performance is not indicative of the performance of any investment.
5. Investors FastTrack is the source for all quoted performance data.
6. The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings. Commodities include increased risks, such as political, economic, and currency instability, and may not be suitable for all investors.
7. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

8. 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.
9. 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.
10. The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.
11. The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.
12. CBOE Volatility Index is a measure of the implied volatility of S&P 500 index options, calculated and published by the Chicago Board Options Exchange (CBOE).
13. All indices are unmanaged and cannot be invested into directly.