6.14.17

A SHOT ACROSS THE BOW!

It looked like the market would melt ***up*** again this week as investors ignored a host of economic warning signs, including the failure of Spain's sixth largest bank (more to follow), British elections (where Theresa May lost her majority), another Mideast conflict (Arab Gulf states severed diplomatic ties with Qatar), oil prices dropping 6% in a day (as production and inventories increase), more White House distractions (former FBI Director Comey's testimony), and a less-than-inspiring unveiling of the infrastructure package.

As the NASDAQ stock index crested to new heights early on the morning of Friday June 9th, investors were once again ditching common sense and buying overvalued stocks with seeming abandon. It always unravels this way. Markets rarely wobble, that is until the last holdout decides to get in because they can't the stand the thought of being left behind. This is all predicated on overpriced stocks going higher forever without any meaningful pullback.

How quickly investors forget the past –
especially when greed looks like it has outwitted common sense.

By 10:15AM that same morning – just 45 minutes after the market opened – a strange happening began to unfold. The five stocks – Facebook, Amazon, Apple, Netflix, and Google – that had been holding up every major index with an awe-inspiring, circus-like act of virtual levitation, all began to wither. Imagine the reaction of investors who had thrown in the towel and rushed in as last minute buyers of the aforementioned stocks who at 2:30PM on Friday afternoon when they saw these formerly impenetrable stocks down an eye opening 3% to 5.5%! Following the NASDAQ's lead, other indexes began meaningful moves to the downside as well and what started as a small snowball was gaining size and momentum as rolled downhill. Markets rebounded in the last moments of the trading day, but the selling resumed at the beginning of trade on Monday the 12th with the same group of stocks down between 2% and 4%. Similar to when a fire alarm that goes off in a stadium but the exit doors can't handle the size of the stampede – the same happens in the stock market. JPMorgan called the recent action "lazy money chasing momentum," the New York Times called it a "gold-rush mentality," Goldman Sachs called it a "valuation air pocket," and the Wall Street Journal said "the last time this happened was 1999."

Just in time for risk returning to investor psyches and pocket books is the next meeting of our Federal Reserve. The official rate decision is due on Wednesday, June 14th at 2PM. The financial media loves the buildup of "will they or won't they raise interest rates." In our estimation the Fed will likely raise rates. If they don't, they risk losing what is left of their credibility. We know they aren't raising rates because economic times are good – in fact, they are more challenging than ever. They aren't raising them to snuff out the irrational exuberance of the aforementioned stocks in bubble territory. We believe that they are raising rates to have some ammunition for the next recession/financial crisis.

Our own Federal Reserve – and the global central banking community – has been way too timid in implementing a "tightening cycle" by raising interest rates, despite bubbling asset markets.

At our current rate of tightening we should get back to the Fed Funds rate of 6.5% (from April of 2000) in seven years! It was much easier to fight the fallout when technology stocks burst from 2000-2003 with rates that could be – and were – lowered substantially by our Federal Reserve.

In a world grown fully dependent on financial policies of accommodation by unelected officials, global central banking authorities are talking tougher about raising rates. However, evidence points to talk as being cheap, as they have already bought a record $1.5 trillion of financial assets in just the first five months of this year. Since the last financial crisis, world central banks have printed more than $20 trillion to prop up stock markets and keep the borrowing binge going. World central banks not only prop up bond markets – they own 1/3 of the entire $54 trillion global bond market – but in places like Japan they actually intervene in stock markets! Enabling and accommodation is the name of their game.

Where these financial engineers have thoroughly failed is in improving economies of its citizenry. Savers were punished while stock markets, corporations, and governments grew addicted to their debt injections but never transformed that "easy" money into actual, solid and fundamental growth, which is never exciting enough. Instead, growth rates have stalled to 2% or less for much of the developed world. On January 1, 2000, interest rates on a 10-year treasury were 6.44%. Today, we sit at 2.21% here in the U.S., while some nations are flirting with their treasury rates near zero! Based on this fall in interest rates, corporations and governments have created the highest levels of debt in history. Over this timeframe, it is actually long-dated treasuries that have fully outperformed the S&P 500, not the other way around.

In our new Central Bank-driven markets, we go from "bubble to eventual bust" in less than decade at a time. Their debt creation acts like a highly addictive financial drug that, when taken in copious amounts, can temporarily erase the harsh memory of recessions and their ensuing stock market debacles, giving one an unhealthy sense of overconfidence. In the short-term thinking of today's investors, the savviest and most experienced of financial advisors – those who actually lived through the financial terror of a bust cycle – have been made to look like novices, as fully artificial underpinnings and training wheeled stock markets have given the appearance of stability, when in fact they are anything but.

Other news this week will be focused on Inflation, Retail Sales, Manufacturing and Housing.

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.

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5. 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.
6. 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.
7. 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.
8. 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.
9. 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).
10. The Dow Jones Industrial Average, the S&P 500, the Russell 2000 and the CBOE Volatility Index are unmanaged indexes which cannot be invested into directly.