7.9.18

TARIFF FEARS vs. NO TARIFF FEARS

With temperatures reaching the high 90s over the last few weeks, global markets were also feeling the heat. The tariff tantrum along with an excessively higher U.S. dollar began to take its toll both here and in overseas markets – especially China. During this period, we purchased a 10% position in the ProShares Short S&P 500 ETF (SH) as additional protection. This investment offered direct protection as our stock markets fell 3%. Foreign markets were hit much harder, as our primary trading partner's (China) stock market fell more than 14%! As stocks now move into a temporary buy position following a wave of selling, we sold all of our short position (SH) and added a strategic stock trade (SPDR Dow Jones Industrial Average ETF). Our overall equity exposure now stands at about 8%. At this juncture, our strategic and opportunistic trading arm represents approximately 20% of the portfolio. The other 80% has been performing well, acting as an all-weather core portfolio that operates quietly and solidly in the background. Our mortgage fund (SEMMX), our loan fund (SPFYX) and our short-term bond fund (MINT) (along with municipal bond funds in the taxable accounts) have stayed well afield of the extremely difficult terrain in higher quality bonds, many of which (although none that we own) have lost between 1% to 4% in 2018! Keep in mind that even our longer-term holds of these funds are monitored daily. With the deep analysis we do on our core selections, we never take a "set it and forget it" stance. With conditions changing rapidly both here and abroad, we take the painstaking efforts to make sure that what we own today is still the right fund for the future.

All heatwaves eventually ease. On Thursday the U.S. offered to suspend tariff threats on EU-made cars ***IF*** the bloc agreed to lift all of ***ITS*** duties on U.S. cars in exchange. The European auto sector enjoyed its best day in two years and those world stock markets that have a large stake in the U.S. auto market also popped higher. Our tariffs on Chinese goods went into effect at midnight on July 6^{th} and the response from China is muted so far, possibly pointing to the realization that China is not yet prepared to lose their #1 client – the American consumer. The level of tariffs at $34 billion is miniscule when compared to the overall size of both nations' economies. The bottom line concern is how the situation will escalate if what is – so far – simply a trade argument turns into an all-out trade war with the possibility of more tariffs reaching into the hundreds of billions of dollars. We still foresee an extremely volatile summer, although we may see some light at the end of the tunnel in the fall if mid-term election races and polls point towards the Republicans consolidating power in Congress. Also potentially taking some temporary uncertainty off the table are the still-to-be-released details of the most recent agreements concerning Great Britain's exit from the European Union.

In this year's topsy-turvy headline-driven environment, it's easy to be a hero in the morning and a goat in the afternoon. Netflix (even with its junk rated bonds!) is up 112%, but there has been scant coverage of companies like Dollar Tree (-21%), General Electric (-19%), Kraft-Heinz (-15%), or Walmart (-13%). All it takes to swing the pendulum is just one tweet, a Federal Reserve speech that intimates toward more interest rate hikes than expected, one fall out amongst trading partners, one new geo-political hot spot to erupt, or one extreme move in bond markets, oil markets or currencies. That's why we believe it's so crucial to maintain our vigilance over your portfolio and your life savings. Sometimes our conservatism has been a liability, but it's all been in the name of capital preservation. Many advisors do take a "laissez-faire" attitude when it comes to investing their clients' assets. After all, most investors – along with their money managers – have been programmed to never look for what could shake up the still extreme complacency. That isn't us and it never will be. That being said, the increased volatility has offered many more opportunities this year than it did last year. We have never been opposed to buying equities. We just prefer to buy them when they are temporarily on sale and hold them during brief rallies, selling before they go back down.

The S&P 500 hasn't experienced any gains going all the way back to January 12th! And corporate bonds certainly weren't the savior, because if you'd been invested solely in them, you would be down over 3% during that same time frame!

Currently market conditions may experience a temporary upswing. Earnings season is starting afresh for and the all-important big U.S. banks (Citigroup, Wells Fargo, JP Morgan) are set to release their second quarter results on Friday morning. Earnings for the first quarter were schizophrenic at best and any company that didn't show positive forward guidance for the remainder of the year was punished mightily. Year after year, we see most of the financial media point to a better second half – especially after a difficult first half! Yet without higher wages, an increase in home and car buying, ***AND*** an overall surge in consumption, it will be difficult to move the all-important economic gauge into the green. The U.S. government and the Federal Reserve both have a plan for the American consumer to continue buying the things we want – and that is to create more credit rather than higher wages. This almost always creates a lively short-term "feel good" effect but the question is will there be any follow through? As we've said in the past, mid-term elections will prove pivotal but it won't be until after summer that any glimpses from the polls (and who can trust them anyway?) start to come in.

News from the economic front this week will prove to be pivotal. We have the Consumer Credit Report on Monday but the report is always delayed, with results being reported as of the end of May. The bigger focus will be on inflation. America's companies have been experiencing higher costs when it comes to buying products and the American consumer is experiencing higher energy costs, higher healthcare costs, and higher home prices than they have seen in quite some time. If these mid-week numbers come out higher than expected, the worry is that the Federal Reserve may have to raise interest rates higher while at the same time creating higher borrowing costs. This that can create an economic slowdown all on its own.

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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11. The Dow Jones Industrial Average is comprised of thirty stocks that are major factors in their industries and widely held by individuals and institutional investors.
12. 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.
13. 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.
14. 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.
15. 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).
16. All indices are unmanaged and cannot be invested in directly