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MADNESS OF CROWDS

After weighing the possibility of a pullback in major stock indexes, last week we sold our 5% position in the Dow Jones Industrial Average ETF (DIA) with a gain. With that sale, our overall net stock exposure moved to neutral. We are currently maintaining our 7% position in the ProShares Short Dow30 (DOG), which has offered great protection during this week's choppy and difficult market actions. Probabilities remain high for a more developed pullback unless a surprise presidential tweet, resolution to the tariff questions, emerging markets, Brexit, or the splintered Italian government hit the newswires. As we continue to utilize a small percentage of the portfolio for these strategic trades, the much larger core portfolio is running like clockwork in the background. In a year in which conservative portfolios that rely on investment grade bonds and longer-dated treasury bonds (down more than 3% and 6%, respectively) are dramatically down, our core portfolio has avoided that debacle with careful investment selection, low volatility, and solid interest and dividend yield. At the end of each month, your portfolio sees an influx of interest and dividend payments from each of your fixed income-related funds.

***At this juncture, the overall yield on our portfolios is 3%,
which equates to 0.25% a monthly yield alone!***

As we move through the late stages of a massive credit cycle across the global financial stage, stock markets will look at though it is Teflon-coat while, at the same time, showing fatigue and overt sensitivity to any revelations of instability within the system. These opposing forces collided when our Federal Reserve released its verdict on interest rates on Wednesday at 2:00PM. Initially, the outwardly bulletproof stock markets spiked upward on the disconcerting news of higher interest rates. By 4:00PM, though, markets crumbled under the weight of the abject fear of what toll higher interest rates would take on every aspect of our financialized corporations, on debt markets, and ultimately stock markets. To say that markets have been spoiled by artificially low interest rates which directly fed into ridiculously high stock prices is the under statement of the century. When a system is orchestrated through monetary policy, rather than industry or based on organic economic tenets, it begs the question…

***"How does the system – or can the system ever – operate without the enabling
provided by central banks throughout the world?"***

Even though our Federal Reserve is raising interest rates microscopically – primarily, with the goal of having enough ammunition to fight the next recession – eventually organic economic fundamentals should win out. This allows real investors to locate proper valuations, realistic growth rates, and a return to the somewhat boring gyrations of the business cycle rather than having the appearance of permanent training wheels and the madness of chasing after excessively priced investments (stocks, bonds, commodities and real estate). In order to hurtle forward, in these modern times stock markets require some type of new stimulus – continually. Artificially low interest rates, subprime mortgages, changes to banking accounting, Quantitative Easing, stock buybacks, massive deficits, and now fiscal policy in the way of tax cuts (which are losing some of their gusto) are just a few of the tactics employed to keep investors in the proverbial casino. Without a clear new stimulator, the direction of stocks is down. The inner circles of government are already bandying about – yet again – the idea of a massive infrastructure plan along with making the tax cuts permanent. From our perch, the only bipartisan agreement we expect will be both parties agreeing to spend more money – money we already can't afford! – in order to get any passage of stimulus through both congressional parties.

So, what is the real economy telling us?

From the standpoint of 2nd Quarter Gross Domestic Product, we have a quite solid read of 4.2%. Consumer Confidence reached its highest level in eighteen years and is now within earshot of the all-time record of 144.7. This is often a contrary indicator, as it hit the high right before the dotcom fallout in 2000. This report isn't a gauge of future self-esteem, but instead it is one that attempts to gauge the hopes for the confidence to open one's wallet or securing credit/loans to buy or finance something pricey! Strangely enough, the less spectacular result comes from the consumer's assessment of the labor market where those who say that "jobs are hard to get" increased by a sizable 1.1%! Turning to the assessment of future conditions, those who see their income improving over the next six months declined by 2.8 points! Anchoring the survey, though, was the fact that buying plans for autos and houses are very positive. Housing possibly becomes one of the truest economic gauges at this time. Representing up to 30% of the overall economy, housing is mired in excessively-priced houses that have moved far beyond average incomes. We are already seeing a softening of lending standards and a willingness by underwriters to accept lower credit scores. It's probably a matter of time before a 50-year mortgage is introduced so the that even the under-waged can afford the payment. Until this disconnect in the actual economy is rectified – either with housing prices falling to meet what average wages are or by wages suddenly skyrocketing – it will very difficult to gauge the truth of where the economy actually resides.

The outlook for the remainder of the year will begin to be seen more clearly as the mid-term elections hit main stage in November. If the Republicans prevail, markets could jump while a nod toward the Democrats could lead to painful gridlock and a stock market downturn. Some weeks – like last week – made one nearly believe that geo-political risk, tariff threats, the emerging markets liquidity crisis, Italian debt issues, higher interest rates, and extremely overvalued stocks were not an issue. Unfortunately, none of these issues were resolved and we expect that they will resurface very soon.

Economic news next week will be centered on the ISM Manufacturing and Services Surveys, Auto/Truck Sales and the all-important National Jobs Report on Friday.

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. 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. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.
8. Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.
9. 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.
10. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
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.