FINANCIAL FOCUS

PETERSON FINANCIAL SERVICES

Limited Liability Company ◆ Registered Investment Advisory Firm

Second Quarter 2019

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ECONOMIC POLICIES MATTER AND AS PROVEN OVER AND OVER, THE WAY TO GO IS FREEDOM.

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- Quarterly Market Recap
- Pro-growth policies have improved the economy over the last couple years. Rejecting that formula will not extend economic and market gains.

QUARTERLY MARKET RECAP

The markets were decidedly unsettled in the second quarter after the phenomenal rebound from the declines of late last year in the first part of this year. But stabilization may be at hand. For the last quarter, the DJIA rose 2.59%, the S&P 500 gained 3.79%, the NASDAQ picked up 3.58%, and the Russell 2000 added 1.74%. Foreign equities added 1.73%. We last reported the Fed realized its mistaken rate-setting course for 2019 and rescinded all scheduled 2019 rate increases. Now the next moves may be to reduce rates. The Barclay's Aggregate Bond Index also advanced 3.23%. But what has recently unsettled markets is a collection of headwinds born of adverse policies being floated around. As we have mentioned in the past, there's no economic rule that says bull markets only last so long. They don't die of old age or exhaustion, rather, growth-inhibiting policies put the nail in the bull market coffin. And as we made the case for in our last commentary anyway, we think we've started a new bull run. Market volatility of the last quarter is a direct result of the investing class trying to discern what these potential policies mean for the health of the economy and by extension, the price of stocks' forward earnings. But the economy is fundamentally strong, with 1Q19 GDP growth of 3.1%, so we're still invested.

WE MUST CONTINUE ECONOMIC FREEDOM AND REJECT CALLS FOR GOVERNMENT MANAGEMENT

From the very moment President Trump's 2016 election victory was clear, the stock market started to rise, to the opposite of prognostications by several leftist "economists" and commentators. Their ideological revulsion to Trump trumped common sense and economic reality!

But the investing herd is agnostic about these things, more interested in how policies actually affect the economy and companies' growth and earnings prospects. What these folks saw in the Trump victory was a rolling back of the economically-destructive policies of the Obama era. The market looks forward about two to three quarters and the assessment was that pro-growth, limited government intrusion policies were on the way. It was a good bet and the economy and markets have been on a tear ever since.

But something may be changing now to give these bull market optimists cause for real concern. Trump's first two years focused on rescinding damaging regulations and lowering tax rates to make us more globally competitive and spur private sector risk taking. More people got back to work as demand increased, and corporate earnings rose leading to a recalibration upwards as to a given company's worth, hence the market bull run. Paul Krugman is having fits, which is always good for America.

That goldilocks scenario seemed to be interrupted late last year when both trade war concerns and Fed interest rate policy made investors cautious about the future of our economic growth; especially in the face of data indicating slowing growth world-wide. We won't rehash that ordeal, as we discussed it at length last time, but at least one of these concerns, trade policy, is still vexing the markets and has since seemed to deteriorate further. And now that Trump is working on his re-election, he's reverted to the worst of his earlier policies regarding drug price controls, and mandated paid family leave in addition to an economically-destructive trade war with everyone. On top of all this, the Democrats took control of the House and have offered up a wish list of high-tax, big-government, anti-free market socialist proposals that scares the life out of investors and businesspeople. Hence the volatility.

This is already damaging growth, because again, the market looks forward and tries to price in these impacts. The Institute for Supply Management's manufacturing index declined in May to 52.1% - its lowest level since 2016. Company CFOs are reporting in earnings calls that they're slowing capital investments. This kind of thing ripples through the economy. Bond yields have fallen, inverting the yield curve which often portends an economic slowdown. The Atlanta Fed and other outfits have adjusted downward their growth forecasts.

The Fed has recently telegraphed some chance of rate reductions, but they can only influence the economy positively so much. It seems the Fed is now in the unenviable position where its mistakes do severe damage, but it's good decisions only have limited impact.

These tariffs are not only costing American companies, and ultimately consumers, money, but it's also adversely affecting demand for our goods overseas. To be sure, China in particular abuses its market share with illegal and unfair trade practices, like forced technology transfers and joint ventures, hacking and cyber espionage and a host of other infractions, but we would suggest tariffs are a less-effective remedy and serve mainly to shoot ourselves in our own feet.

Politicians are not immune to the laws of economics. Just as Obama believed he could regulate the hell out of the economy to bend people to his policy desires without any sort of consequence, and that high tax rates didn't affect people's decisions, Trump seems to think slapping extra costs on consumers through tariffs will cause no harm. They're both wrong.

The silver lining to this growing cloud is that the policies of the last two years have strengthened the economy a great deal and afforded some cushion for missteps. But that will only go so far. The surge of growth we've been enjoying has offset Trump's personal unpopularity and given him some latitude that may well lead to him getting another four years, especially if the 24 Democrats fighting for their party's nomination tack even farther left of the country as a whole. But early on, those first-round tariffs were insignificant in the face of the strength of the economy due to lower taxes and regulations. That is not necessarily the case today.

The damage done by increasing tariffs levied against even more trading partners will have an adverse cumulative effect that will eventually really do economic damage. As we learned from the Obama years, sooner or later - usually sooner - the result of bad policies is lasting harm.

The May selloff was quick and severe – very similar to the late-2018 decline. By early June it looked to be oversold and earned virtually all of those losses back. But this can be reversed again.

The great thing about economic laws are how consistently they play out. You can look back for centuries, and look anywhere around the world you want to, but you'll always find that the evidence concludes that the freer an economy is and the less government policies intrude in those market decisions, the better that economy does and the more prosperous its people are. The trick is, you have to want to know that truth and learn from it. Many today prefer to ignore this reality.

"Only Capitalism creates wealth. Socialism merely spends what Capitalism creates."

- Dennis Prager

Pursuant to SEC Rule 204-3 (C) of the Investment Advisors Act of 1940, we hereby offer, without cost, a copy of our "Disclosure Statement", Form ADV Part II, which is the document attached to your copy of our Service Agreement. Please e-mail us, or mail us, a written request if you'd like another copy and we'll send it in February after we update our annual filing. Also, in conformance with Regulation S-P of the Gramm-Leach-Bliley Act, we are required to provide annual notice of our Privacy Policy. Our policy is posted to our website, and is mailed to each client.

ABOUT PETERSON FINANCIAL SERVICES, LLC

As an aside, we wish to remind our clients of our various services. While we've specialized in portfolio management over the last several years, we continue to provide financial planning and insurance services. Longtime clients may have forgotten this, and newer clients may not be aware of this. Additionally, we build our business through referrals, and much appreciate them. Please keep us in mind as you come across friends, family and colleagues who might benefit from our financial services. We appreciate your business.

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