

PETERSON FINANCIAL SERVICES

Limited Liability Company ♦ Registered Investment Advisory Firm



FINANCIAL
FOCUS

ECONOMIC

FREEDOM

RESULTS IN

THE MOST

PEOPLE DOING

THE BEST.

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- Quarterly Market Recap
- A level playing field of opportunity will ensure the economic growth necessary to lift lower-income wages.

Third Quarter 2019

October 1, 2019

QUARTERLY MARKET RECAP

The markets got stuck in range-bound trading in the third quarter, hewing to a tight variance. The summer quarter is historically the worst-performing, but we just see-sawed through it this year. During the quarter, the DJIA and the S&P 500 added an identical 1.19%, but the NASDAQ declined 0.01%, the Russell 2000 retreated 2.76%, and foreign equities lost 2.21%. After reversing interest rate direction, the Fed has reduced rates twice in 2019 and another move to further reduction may occur before year end. As a result, the Barclay's Aggregate Bond Index advanced 2.38%. But investors are still unsettled due to continued concerns over trade policies. As we have

mentioned in the past, there are both costs and uncertainty surrounding global supply chains making forward capital planning difficult. Economies worldwide are slowing, some more than others, and that has a contagion effect that is coming home to America. Our economy is somewhat strong, with GDP growth of about 2.2%, but that is well off its potential due to the tariff war. We expect more likely upside compared to downside, and are keeping our bias to remaining invested, but we're more cautious now.

The presidential election season is in full tilt, which means nothing legislatively damaging will happen for a year and a half.

OUR GOAL SHOULD BE AN EVEN DISTRIBUTION OF ECONOMIC OPPORTUNITY, NOT EVEN OUTCOMES

A popular refrain from the left side of the aisle is that the greatest threat to our way of life is that some people make more money than others, and that somehow, this is a policy failure that needs correcting. But this is the natural consequence of freedom. If left to our own devices and proclivities, some of us will work harder and longer, and prepare ourselves more diligently, take more risk, or voluntarily choose different career paths than others. Ergo, different compensations.

The question is, what role should any of our governments have in all this? The problem with trying to influence outcomes rather than just ensuring a level playing field, is that some collection of people must decide what is a desirable outcome. Who's to say you'd agree with their assessment?

Heading into the elections, critics of President Trump are having a difficult time making the case that his economic policies are damaging. Even if the average person doesn't understand intricate economic theory, he or she might have noticed they're enjoying a better standard of living, a higher net worth, and increased job security.

The slew of contenders for the top job can't use "it's the economy, stupid" as a rallying cry, so they need some other tactic. And that is income inequality.

The problem is, their assertions are factually off base. The reality is, our rising tide is lifting all boats and low-and middle-income earners are collecting a higher share of the recent economic benefits than they were during the Obama era. A few weeks ago, a new Census report indicated health coverage and Medicaid enrollment declined last year. But what's behind that? Worker earnings increased almost 3.5% and poverty declined 0.5% to a level not seen for almost 20 years. Government benefit outlays are shrinking because workers are earning more. It should be considered a positive that fewer people need to rely on the assistance of their tax-paying fellow citizens!

According to this report, our economy added 2.3 million year-around, full-time workers last year. And here's the kicker: these gains were largest among minority female-led households. That demographic increased 4.2% among blacks and 3.6% for Hispanics.

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Median earnings for single, female households rose 7.6%, and the poverty rate among black and Hispanic women declined 2.7% and 4.0% respectively, and 7.1% for their children. This is far in excess of the improvements made by wealthier citizens. The next time you hear that current economic policies are hurting women and minorities, remember this. Anyone can assert anything they want, but that doesn't make it true. We should care about what's true.

The unemployment rate for Hispanic women is 4.2% and for black women it's 4.4%. We were not even close to those levels under the policies of the previous administration. We've been preaching the benefits enjoyed by everyone from economic freedom, and this confirms it.

How often do we hear liberal politicians claim that the middle class is shrinking? Well, income gains are actually distributed more evenly in the last couple years. The share of lower-income households earning less than \$35,000 has fallen over 1% while those making between \$50,000 and \$150,000, as well as over \$200,000, have increased almost 1%. So, people are shifting to higher income brackets. That's a good thing.

This brings up another point that is lost in the reporting of these statistics, which is that people move through various income brackets during their lifetime. We tend to presume that those in lower income brackets are trapped there. But that's not the case. In reality, most of us start out in lower brackets and move into higher ones as our careers and work experience advance. Those in lower income brackets move up.

Due to the inevitable demographic condition of

the baby boomers beginning to retire, we should expect to see general income declines as that huge group stops earning paychecks. But real median incomes have increased substantially among the youngest workers. Households between the ages of 15 and 24 saw 9.1% income gains, while those aged from 25 to 34 gained a solid 5%. The fact is, these tender products of our education system that are increasingly enamored with socialism are benefiting the most from our current capitalistic policies! You can't escape that irony.

Income inequality will always exist and that's not bad. The only way to eradicate it is to control what people do, throw everyone's earnings into one pot, and divvy it up. We'd like to have a discussion with anyone who thinks that would be better. What really is most important for a healthy society is a system by which each of us has the right and ability to make the most of his or her efforts - in essence, guarantee opportunity, not results.

The best way to the highest degree of prosperity for the greatest number of citizens is to place a priority on economic policies that promote growth, and that is done through a light regulatory hand, and a minimally-confiscatory tax program which incentivizes people to be the best they can be. The best way to reduce income inequality is to devise an economy which forces employers to compete for employees. That will help lower and moderate-income workers more than any growth-killing forced redistribution schemes.

"Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way and to bring about both his industry and capital into competition with those of any other man."

- Adam Smith

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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.
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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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