Happy Holidays

NEWSLETTER
DECEMBER 2018

THE SUMMIT
Financial Strategies, Inc.

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COMPONENTS TO A RECESSION

by Brett Langer

Stocks have hit a rough patch since early October of this year. As I write this newsletter, I'm reading a CNBC article that states the longest bull market in history is ending in 2019. When you read such articles, it's good to try and examine the logic behind it. Time in itself is a poor predictor of a cycle. In my August newsletter I referred to, www.theguardian.com/money, which stated that economists have failed to predict the last 148 out of 150 recessions. Why have professionals struggled to predict recessions? I think there are three main reasons. 1) It's hard to understand the psychological factors that play a role in economic growth. For example, who would have predicted that corporate confidence would shoot up as high as it did in 2017 and that it would be sustained? Due to that high confidence, according to First Trust, manufacturing is now at its highest reading in the United States in over 35 years. 2) I think too much ideology has crept into the finance world. Personal beliefs and theologies can sometimes blind us from what is actually occurring. One example of this stems from government spending that has been surging since 2008. Due to the deficits created by this government spending, many financial professionals believed the dollar would be so devalued that they advised their clients into holding all gold in their portfolios in order to protect their wealth. According to Morningstar.com, in 2013 gold fell 28.33%, dropped 2.19% in 2014, and fell again in 2015 losing 10.67% in value. In theory these professionals might have been correct, however, the reality worked differently than their predictions. 3) Often times the data just isn't examined and tracked. Nowadays, I think we have a news overload that has drifted into more commentary in nature. As I read the CNBC article, mentioned above, it does cite some reasons why the bull market will end in 2019, but it doesn't back up these reasons with hard data or trends, instead it is stating opinions.

In our last newsletter, we defined Gross Domestic Product, which is how the growth rate is computed. Components of Gross Domestic Product are: 69% consumer spending, 17% business spending, 17% government spending, and trade normally subtracts 3% because the US imports more than they export.

In trying to forecast the economy for next year, I think it's best to focus on consumer and business spending. Like it or not, Government spending normally increases three to five percent each year, and this is likely to remain consistent. Exports will probably

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take away a few percentage points, but this is a relatively small amount. That leaves the two biggest movers in our economy as personal and business spending.

First of all, let's examine consumer spending. There are two negatives starting to be seen: new homes and car sales are beginning to trend downwards. It is easy to explain this occurrence with housing, as interest rates spiked up a couple of times this year. Whenever this happens, buyers can be expected to take a step back and reassess their choices. We don't see this as a fundamental issue, but rather a short term adjustment. Last week, the Federal Reserve said that rates are close to neutral, meaning don't expect many more rate increases. This should steady mortgage rates and we think buyers will become comfortable with the current rates fairly soon. Keep in mind, with higher interest rates, newly built homes will probably be needed to keep up with the demand for new buyers. Homeowners will be less likely to sell the homes they currently own in order to keep the lower interest rates they already have.

Next, let's examine the downtrend of car sales. Fifteen years ago, this would have been a leading indicator that consumers are shying away from large purchases. However, we think something is fundamentally changing in how consumers are using cars over how they were using cars 15 years ago. With the invention and popularity of ride sharing on the rise, it appears that households are going to own less cars, taking advantage of this service. In Scottsdale, Arizona, there are neighborhoods that are testing out driverless electric vans. Imagine if you want to go to the grocery store and a van shows up, taking you to the store of your choice. The younger generation is learning to use these services, thereby getting rid of car payments, maintenance, and insurance costs that have gone up significantly in recent years.

Looking deeper into consumerism, we see two positive traits that we believe will keep growth going. According to First Trust, incomes are rising between 3 and 4% year over year. This is the fastest pace of growth in several years. Data is also telling us that much of this money is being used for purchasing, which adds to the case of continued personal spending. Also according to First Trust, unemployment numbers are the lowest they have been dating back to over 40 years. Lastly, inflation has stayed very low. This has been helped by much lower energy prices, which helps lower all costs. In a nut shell, the job market is strong, wages are higher, and inflation is low which all normally point to a positive outlook for the economy in the coming months. It will be interesting to watch the Christmas sales numbers.

On the business side of the equation, many professionals are predicting that business's only grew due to tax decreases this year and that business profits have peaked and will trend lower next year. While I'm not here to argue the ideology over tax cuts, I am interested in the direction of the data. According to First Trust, if we strip out taxes all together, corporate profits are up 10.3% over this same time last year. If the 9% savings from tax cuts is added in, the percentage increases to 19.4% over last year. Examining this trend, business profits have had a healthy trend higher this year. That said, we are being told that will stop because tax cuts only work for one year. However, data on businesses such as spending, hiring, and research & development, point to the fact that companies have not stopped spending after just one year worth of tax cuts. Additionally, if this was the case, I think we would have seen different manufacturing numbers in November. According to government data, ISM manufacturing in November actually beat a level of 57.5 reading to 59.3. Another leading indicator is new orders, and in October this jumped to a level of 62.1 from a level of 57.4. Lastly, and according to governmental data again, construction has increased by 4.9% year over year.

Even if I left out data and its trend from my argument, I can still convince you, that this recovery is finally over. Looking at a chart in my office, I see a red line representing corporate profits that has been surging all year long and actually started in 2017. On this same chart, the stock market line shows it's falling rapidly downward. Keep in mind, that most often in the long term, these two lines intersect. In our office we try to avoid two things: our emotions and our personal bias or ideologies, as these will generally mislead us from what is happening in reality. Instead, we look at probabilities. Inflation is low, interest rates are still low, business investments are up, incomes are higher, we are not seeing wide spread layoffs, and generally people are current on car, home, and credit card debt. The probability for growth next year to be between 2.5% and 3.5% is very high. Lastly, the trend since 2010 has been that the economy cools off going into the 4th quarter followed by the 1st quarter being the slowest. I don't see any reason

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why this would be different this year, but it could remain true that someone will interpret it to being the peak this year without looking at the entire set of data. We sincerely hope you and your families enjoy the Holidays and a have a healthy 2019. We are very Thankful for our partnership with you and come to work each day excited to be working on your behalves.

Denise Bartz

WELCOME DENISE BARTZ

We would like to extend a warm welcome to our newest Administrative Assistant, Denise Bartz. She comes from sunny California and recently moved to Oregon from Hemet, CA with her husband Mike! Denise has been happily married for 37 years and has two beautiful and productive children that live locally as well.

The City of Hemet in the Engineering Department was her previous employment and we are so thankful to have her helping us serve our clients and financial advisors.

Her hobbies include reading, gardening and walking their Slovakian Shepherd. Being with her husband, family and friends makes her the happiest!

Denise's favorite thing about the Christmas season is knowing that God loves us all so much and that he sent Jesus to the Earth. She also loves the gathering of family during the holidays.

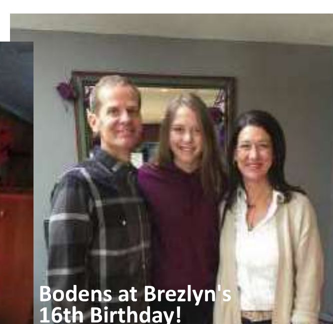
From Denise: “I enjoy working at The Summit Financial Strategies with such a great group of people. I am thankful to be in a work environment where the client comes first. I play guitar, sing and have been a worship leader for our church in CA for many years. I love public speaking and love to teach. I have taught at women's conferences and enjoy the interaction. I love to study the Bible and search out the deep things of God. “

Shelby and Sophie

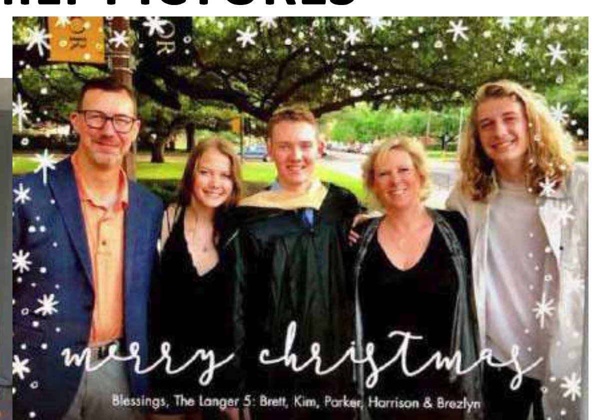
THE SUMMIT FAMILY PICTURES

Mesquits Thanksgiving

tz family



Bodens at Brezlyn's 16th Birthday!



Bandettini and Langer @SCF Conference

Mesquits post-Thanksgiving

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FAVORITE RECIPES

Green Tomato Cake
by Ron V. (client)

Ingredients

- 4 cups chopped green tomatoes
- 2 cups white sugar
- 2 cups all-purpose flour
- 2 large eggs
- 1/2 cup melted butter
- 1/2 tsp salt
- 1 tsp ground cinnamon
- 1 tsp ground nutmeg
- 1 tsp baking soda
- 1/2 cup raisins
- 1/2 cup chopped walnuts (original)

Instructions

Puree the chopped green tomatoes in blender. Then add eggs, butter, salt, cinnamon, nutmeg, and baking soda to blender and blend thoroughly.

With blender running, slowly add sugar and flour. Blend until mixture appears smooth.

Pour mixture into a greased 9x14 inch baking dish.

Scatter raisins and chopped walnuts on top of liquid. Most will float, so poke them down into batter with toothpick. Distribute them as evenly as possible.

Bake at 350 degrees for 40-45 minutes or until an inserted toothpick comes out clean. After baking, let cool and frost if desired. It's a spice cake that tastes good without frosting too!

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