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DON'T WORRY ABOUT YOUR INVESTMENTS, WORRY ABOUT YOUR PERSONAL FINANCES

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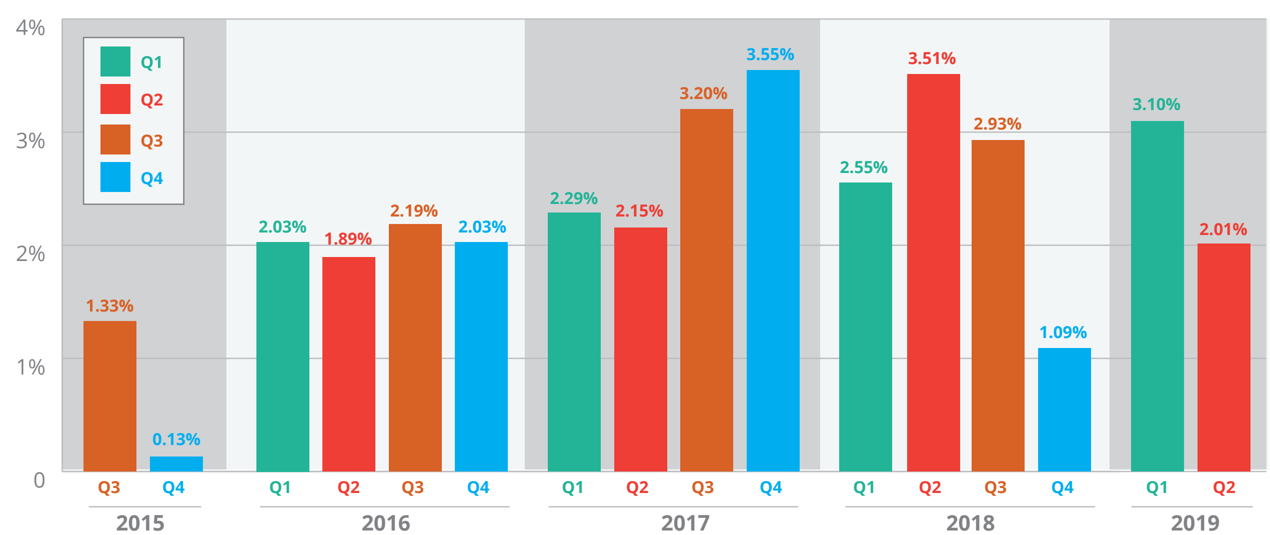
WEALTHMANAGEMENT
WHITE PAPER

August's market weakness on recession fears may have caused a minor panic attack in many investors. As we talk to our clients, nearly every investor remembers 2018 when the markets provided three quarters of exceptional returns... then gave it all back and more in the last quarter.

In the later part of August, long-term bond yields (10 year vs 2 year) dipped below the yield on short-term bonds. This "yield curve inversion" phenomenon has historically preceded every U.S. recession. However it is important to recognize that yield curve inversion is not the 100% indicator of recession that the press would lead you to believe. There have been yield curve inversions that did not precede a recession. See our April 2019 White Paper for more info.

Many economic data-points remain strong: Unemployment is low, job creation is high and consumer sentiment remains healthy. GDP has remained positive, albeit slowing (remember, a recession is defined as two successive quarters of negative GDP). With Q2 GDP at +2.01%, it would take considerable economic weakness for the U.S. to recede into negative GDP territory, namely, a sharp rise in unemployment and a retreat in consumer spending .[1]

Real GDP: Percent change from preceding quarter



U.S. Bureau of Economic Analysis

Seasonally adjusted at annual rates

Economic cycles come and go like the tide. We are clearly in the late stages of this economic expansion, which began in 2010. There's not a single economist that would argue with the "late stage" description of today's economy. The real discussion is whether we are in the 7th, 8th or 9th inning (keeping in mind that there's nothing to prevent a 10th, 11th or 12th inning either).

Markets are incredibly complex but have rewarded investors that ignore the noise and stay focused on the long-term results. As Warren Buffett famously said, "the stock market is a device for transferring money from the impatient to the patient."

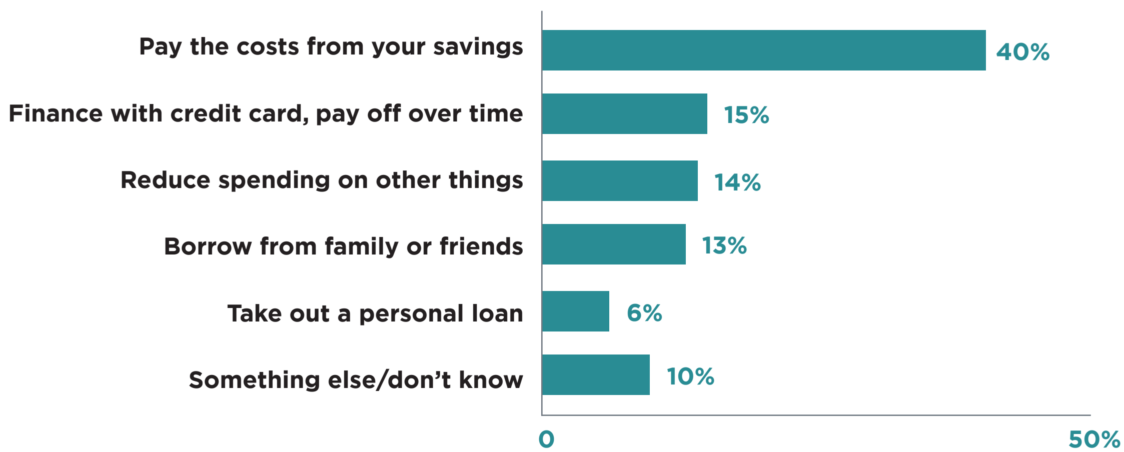
What investors can do is absorb the lessons learned from the last recession and prepare themselves for more difficult financial times. Sadly, the lessons of 2008-2009 generally fall on deaf ears.

Americans owe an astounding $1.03 trillion(2) in credit card debt, according to the Federal Reserve. That amount is virtually the same credit card debt levels we had in 2007 – pre-financial crisis. Housing prices seemingly are climbing nearly every quarter, which usually means larger mortgages. However, mortgage rates today are incredibly low compared to 2007 when a 30 year mortgage in March 2007 averaged 6.14%. A year earlier, in March of 2006, it was 6.37%. Underwriting and loan approval is substantially more difficult today compared to a decade ago and many feel today's homeowner is in a better financial place to actually afford that home.

However, Four in ten Americans can't come up with the immediate funds to cover an unexpected $1,000 expense, according to a new report from the Federal Reserve Board. Those who don't have the cash on hand say they'd have to cover it by borrowing or cutting back elsewhere.(3)

We asked: How would you deal with a major unexpected expense?

If you had a $1,000 bill for something such as an emergency room visit or car repari, would you...



Note: 3% of respondents refused to answer. Percentages might not total 100 due to rounding.
Source: Bankrate's Financial Security Index, Jan. 2-6, 2019

Bankrate

As we sit with prospective clients, we encourage each investor to save four to six months' worth of living expenses before putting capital at risk in the financial markets. We also encourage prospective clients to eliminate all revolving high interest debt before investing. Why pay a credit card company 15-22% interest when the long-term average of the equity markets is less than 10%?

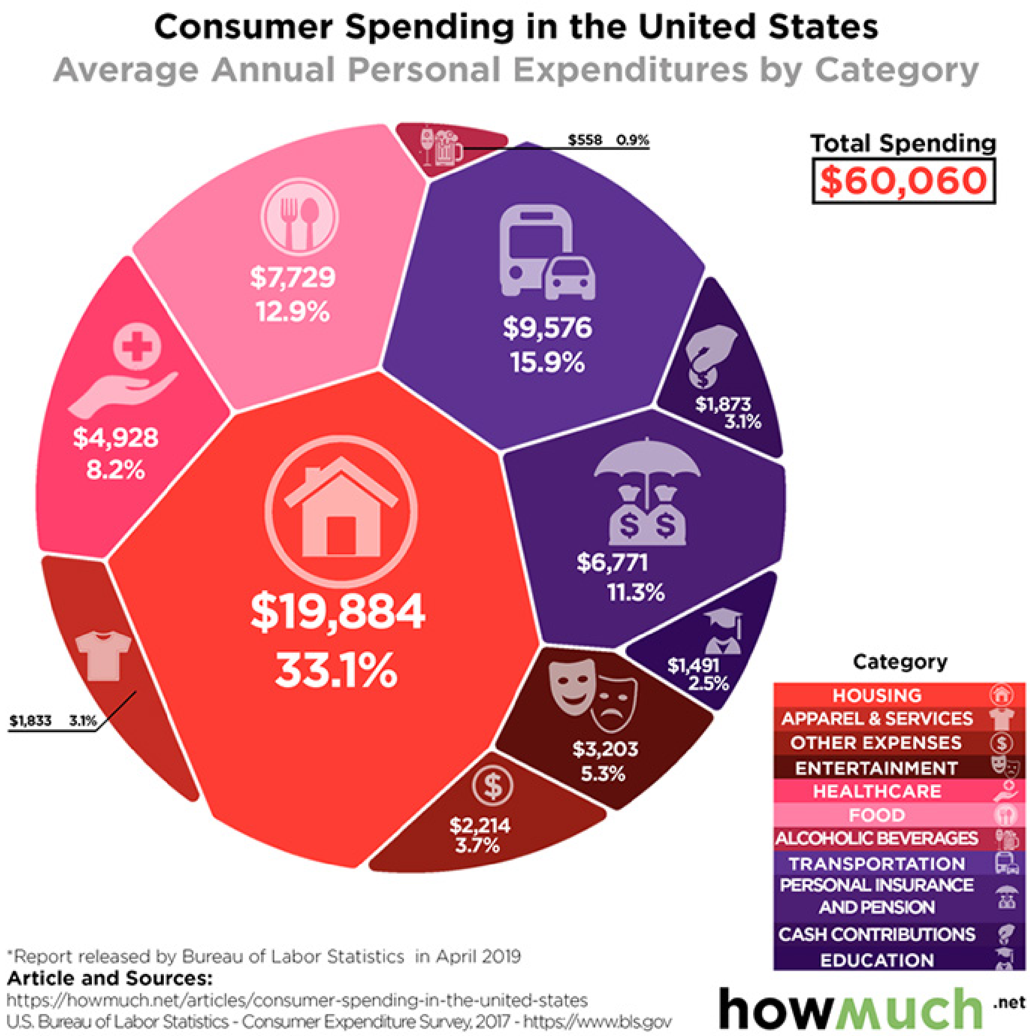
The "good times" are when households should prepare for the future — building emergency funds, paying off liabilities and creating disciplined, realistic budgets. The irony of good economic times is that they encourage consumers to spend more and save less — the opposite of sound financial behavior.

We encourage you to ask yourself some basic questions:

- Do you have enough money set aside to cover a $1,000 emergency expense?
- Have you set aside four to six months' worth of living expenses?
- Are you using excess income to pay off debts or to buy new things?
- Are you spending less than you earn?
- Where are the opportunities to cut expenses?
    - Do you belong to a gym you have not seen in three months?
    - How much does the family spend eating out each month?
    - What's your monthly Starbucks damage?
    - Do you shop for needless things at Amazon or eBay just because the app is on your phone?
    - Can you get a better, cheaper family mobile-phone plan just by shopping around?

Just like every successful business, each household should do a cash flow report twice per year to understand where their money is going. These all may seem like little things. But by being fiscally aware you may be able to increase your savings, fund a Roth IRA or even a 529 plan for your children or grandchildren.

In April 2019, the Bureau of Labor Statistics (BLS) released the latest Consumer Expenditure Survey report to analyze broader economic trends related to consumer spending. Data from this report paints a picture of how the average American household allocates its budget.(4)



Here are a few takeaways from the BLS report. Average household income, after taxes, was $63,606. So after all other expenditures were accounted for, that left just $3,546 to be allocated toward savings. However, these numbers represent the U.S. average and averages never tell the whole story. Consumer spending varies significantly from household to household, based on factors such as income, location, cost of living, household debt, and whether someone is a homeowner or a renter.

According to the BLS report data, the average consumer in the bottom 60% of earners spent more than they earned. Similarly, the average consumer under the age of 25 and the average consumer over the age of 65 had expenditures greater than their income.

CONCLUSION

At WT Wealth Management, we feel the current economic data is not telling us it's time to fret over a pending economic crisis. An easing Fed usually indicates it's a good time to own equities. While recent economic results show weakening in manufacturing, this is offset by a very strong and optimistic consumer sentiment, in part as a result of generational lows in unemployment. We feel once a resolution to the US/China Trade War is reached, we could see pressure removed from the global markets. This could lead the current expansion to continue for several more years.

However, now is still the time to cast a critical eye on your financial choices and understand their impact on your fiscal well-being. It may not be glamorous, but household planning, spending prudence and fiscal awareness will never go out of style.

SOURCES

(1) *https://www.bea.gov/data/gdp/gross-domestic-product*

(2) *https://www.magnifymoney.com/blog/news/u-s-credit-card-debt-by-the-numbers628618371/*

(3) *https://www.bankrate.com/banking/savings/financial-security-january-2019/*

(4) *https://howmuch.net/articles/consumer-spending-in-the-united-states*

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