July 1, 2019

Hello,

You essentially have a years' worth of excellent returns in just six months. We weathered the storm of the years' first "pullback" earlier in the spring. I would not be surprised if the market experiences another (most likely not as severe, although you never know) pullback this summer. Any pull back will be an opportunity to put the cash to work.

The trade tensions with China continue to be a grey cloud hanging over the market. The market has been remarkably resilient. The reason why the cloud has been grey instead of black is because the market has been looking past these trade tensions, knowing that eventually a deal will be made. Just a couple of days ago, the Treasury Secretary, Steve Mnuchin announced that a deal with China was 90% done. As I like to say, almost only counts in horse shoes and hand grenades. The problem is that the U.S and China have been this close to a deal for several months. Both sides were so close to a deal just two months ago that a ceremony was being planned to celebrate the signing. It most likely will be many months (if I knew how many, I would let you know) before the 10% necessary to close the gap will be accomplished.

I have heard and read much about the trade negotiations. While there are "only" a few sticking points, they are huge and that is the problem. The biggest are the tariffs. The President insists that Tariffs have to remain even once the deal is signed to ensure the deal is enforced and that China lives up to what they agreed to. China wants all tariffs removed as part of the deal. On the surface that is a reasonable request. In general, I detest tariffs. They are nothing but an additional tax on whether it be the consumer or the business that is paying it that cannot pass the cost along to their customers. I hate to say it but in this specific instance, the tariffs are a necessary evil to accomplish the task at hand. The reason being is that China simply can't be trusted to live up to their end of the agreement. China in the past has promised to do things in regards to trade but reneged. Politics are a toxic subject. I am aware of how you feel about President Trump. In this situation, I feel the President is handling the trade situation well.

One of the reasons the market has rallied recently is because of the continued dovishness of the Federal Reserve. The Fed is continuing the complete pivot from raising rates last year, to being on hold this year, to now apparently shifting to lowering short term rates. While the stock market is enthusiastic about lower short term rates, the market is being short sighted. When have I heard that before? While not certain, it is likely that the Federal Reserve will lower short term rates sometime this summer and then again in the fall. Then what? A trade deal will be signed and I expect the economy will strengthen. At that point there will be concerns that the Fed will again raise rates and they most likely will. I would prefer that the Fed leave well enough alone and simply do nothing. While the economy is softening and showing some signs of weakness, unless trade tensions escalate into a full blown trade war (I do not see that happening), I don't' see any possibility of a recession in the foreseeable future. As far as the stock market is concerned, raising rates next year (during an election year) will hurt the market more than lowering rates now will help it. The problem is that with the 10 year Treasury bond hovering just over a

2% yield and the stock market near record highs, both the stock and bond markets expect two ¼ point rate cuts this year. Translation; most of the good news is built into the markets at this point in time.

Please call or email me if you have any questions or anything that you would like to discuss.