
This Publication Brought To You Courtesy Of:

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CARTER FINANCIAL, LLC

# CLIENT BULLETIN

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## ➢ *Biggest Customer*

***80%*** of Mexico's exports are shipped to the United States (source: Financial Times).

## ➢ *Bad News is Good News*

When the May employment report came out in early June it was "soft", showing the U.S. economy added a lower-than-expected 75,000 jobs. This was bad news for stocks – right. Wrong. U.S. stocks rose soon after the report came out. How could this be? The answer is that soon after the jobs report was released, members of the Federal Reserve Bank (the Fed) said that lowering interest rates "may be warranted soon." This gave investors confidence that lower interest rates in the future would give the economy a boost which in turn lifted the markets.

## ➢ *Watching Closely*

There is a group of people called Fed Watchers who attempt to predict future stock market movements based on interest rate changes they **think** the Federal Reserve Bank will make. Back when Alan Greenspan was the Federal Reserve Chairman these folks went so far as to gauge the thickness of Greenspan's briefcase as he was walking to meetings in an attempt to guess the direction of interest rates.

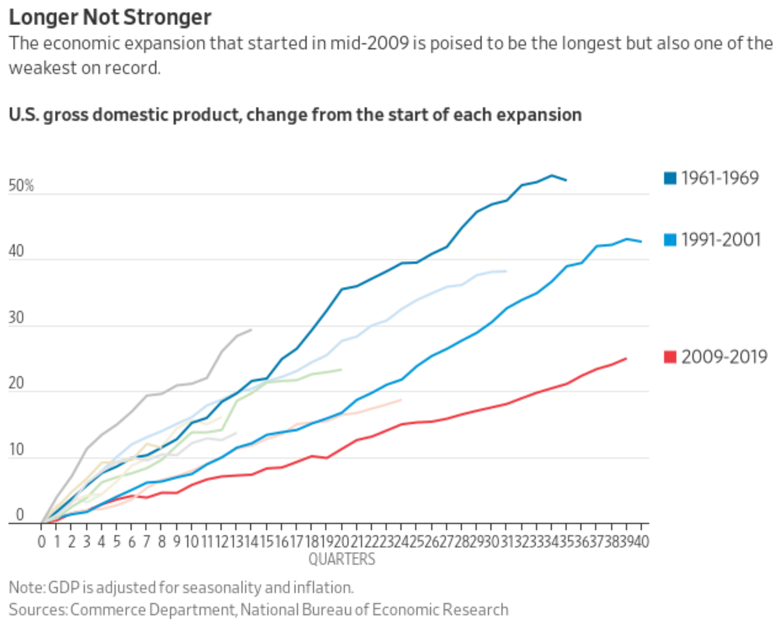
## ➢ *Cycles*

While trying to divine the direction of interest rates in hopes of timing market movements is a fool's errand, the Fed does play an important role in managing our economy so it's helpful to have a basic understanding of what they do. Our economy is cyclical, growing strongly at times and weakly at others, or even contracting. Economic upswings encourage employment but they can also cause inflation to accelerate. A stagnating economy discourages inflation but can cut into employment.

## ➢ *What Do They Do?*

The Fed's job is to mute these economic cycles by behaving counter-cyclically – slowing the economy in times of prosperity in order to keep inflation under control and stimulating the economy during slowdowns to support employment. The main strategies the Fed utilizes to manage this delicate balancing act are controlling the money supply and adjusting interest rates. Reducing the money supply and raising interest rates take some steam out of the economy and head off inflation, while doing the opposite gives the economy a lift. All of this sounds rather easy, but stimulating or restraining the economy is an inexact science. It is easy for the Fed to overshoot in both directions. All of this is important and interesting (to economic geeks at least) but it is also unknowable which means that Fed-watching is not a necessary ingredient for successful long-term investing.

## ➢ *Keep It Going*




June 2019 marked the 120th consecutive month of an economic expansion for the United States, tying the record set between March 1991 and March 2001. Although the expansion is one of the **longest**, it is also one of the **weakest** on record as the accompanying chart shows (source: National Bureau of Economic Research).

## ➢ *Rational Optimism*

While income inequality is the cause of the day, by virtually any definition of economic well-being, the average American is substantially better off today than a half-century ago:

- There are 6.2 million unemployed Americans and 7.5 million job openings.
- 50 years ago, over 25% of the average person's annual spending went for food and energy. Today, thanks to drilling advances, modern agriculture and greatly expanded global trade, that figure has come down to just over 10%.
- 9 states have jobless rates that are the lowest rate **ever reported**
- Cars last 81% longer and are 73% safer than 40 years ago
- The share of the population with a college degree is nearly three times as high as in 1972.
- Median life expectancy is almost 10 years older
- Since the mid-90s when China began exporting durable goods to the world in earnest, the price of durable goods in the US has **declined** by 38%. As a result, one hour's worth of labor today buys roughly 3 times more durable goods than it did in 1995. (source: Bureau of Labor Statistics).

Good news like this generally happens slowly, which is one more reason it doesn't show up in the "news."

## ➢ *Feeling Lucky?*

For calendar year 2017, the last year records are available, just .59% of individual tax returns were audited by the IRS, equal to 1 out of every 169 returns. This rate has fallen for 7 consecutive years as staffing at the agency has been continually cut (source: IRS Date Book).

## ➢ *Priorities*

A recent survey from Charles Schwab revealed that three in five Americans pay more attention to how their friends **spend** their money compared to how they **save** it. That number seems low to me. An equal number of respondents say they're at a loss to understand how their friends are able to afford expensive vacations and trendy restaurant meals. Why is this? Because you can see consumption in others - high-priced cars and vacations - but you can't see savings. Unless people start posting their account statements on social media for all their followers to see, the savings habits of others will remain in the dark. Saving and building wealth is the absence of stuff.