WESTLAKE
PRIVATE WEALTH MANAGEMENT

The Grateful Dead's 1970 hit *Truckin'* has long been associated with many things, but the weariness of travel and the widespread use of drugs for which the band's generation was notorious certainly stand out. Perhaps aptly, the line "what a long, strange trip it's been" might also be associated with the weary travels of the stock market, whether one is associating the bust of the 2008 financial crisis followed by the boom of the years that followed, or the near-bust of this past December followed by the boom that has been ongoing ever since. Of course we can't deny our curiosity over the song's reference to sedatives as a humorous antidote to the travels of the financial markets as well.

Around here we often remind our clients that *it's not the wind, it's the set of the sails,* and that tuning out the noise and instead focusing on what matters is often the best play. During December, as the financial markets were in the throes of their pullback, the collective reasoning focused on slowing economic and corporate profits growth, and of course fear of imminent recession. Prognostications of doom were plentiful. The Dow Jones Industrial Average dropped 9% during the month and 13.5% overall in the fourth quarter. While we believed the correction would take some time to sort itself out, we suggested that our clients tune out the noise and instead pay attention to the reality of washed-out sentiment and favorable fundamentals – always the long-term underpinnings of the financial markets. We reminded our clients that the markets had dropped 25 such times since 2009 before regaining their footing and adjusting to the upside each and every time.

And then of course came the post-Christmas rally, which has seen the major averages recover an impressive 19% to-date[1] and experience their best two-month start to the year since 1987[2]

What we must point out is that the fundamentals never wavered. Yes, growth rates have slowed but there's a big difference between *decelerating growth* and *negative growth*. The latter defines recessions; the prior simply raises doubt. A year ago the economic consensus called for real GDP growth of 2.5% in 2018; that same consensus now calls for 2.3% real GDP growth in 2019[3] – a slight slowdown, yet hardly problematic. Another metric is corporate profits growth, where again pessimists are pointing to 2019 forecast growth of 5-8% as a disappointment when compared to last year's 20% growth. Yes the rate of growth has slowed, but *slower growth* is vastly different from altogether *negative earnings*. And looking beyond economic and corporate profits growth, other key indicators remain strongly supportive: the unemployment rate is at a 60 year low of 3.7%, inflation (as measured by the Consumer Price Index) is around 1.6% and the Fed has announced it will quietly sit on its hands for a while. As we've suggested regularly over the last several quarters, this is simply not the kind of environment from which recessions are borne.

But that's not to say we are without concerns. Regular readers know we pay particular attention to investor sentiment, and specifically to certain indicators which over the years have proven most useful at identifying inflection points in the market. In late December, as these indicators became washed out, we grew decidedly optimistic. But now as they appear lofty and begin reversing lower, we grow cautious. Not bearish….just cautious and believing the markets are due for a pause. We are, after all, 19% ahead of the Christmas Eve lows and extended relative to the market's moving averages. We're also mindful that much of the market's recent advance has resulted from whispers of a trade deal between the US and China and we wonder if the markets have gotten ahead of themselves with this one. Beyond that we're keeping a close eye on the continued weakening of the global economy. Although the U.S. economy remains healthy, we know how deteriorating international conditions run the risk of eventually spilling over to the U.S. And of course we cannot forget Brexit, the enormous government debt, current political flirtations with socialism, and the elephant in the room – the long-awaited Mueller report which may implicate the President and result in the possibility of impeachment proceedings as early as this summer.

But we need to remember the unique nature of these concerns – each one could very easily be resolved, turning headwinds into tailwinds.

Importantly, we aren't market timers. As long as the underlying fundamentals remain supportive of continued growth – as they are now – we will stick to our principles and remain invested, keeping mindful of our clients' portfolio allocations and risk sensitivities all the while. Falling victim to fear and timing the markets is a self-defeating proposition better attempted by speculators than by those building true wealth and financial freedom. The process we've developed and refined over the years allows us to remain focused on what matters to our clients and on those things we can control, rather than the noise that surrounds us. In our view the market continues its bull run, but not without some increasing risks, and certainly not without noise. Until we begin to see empirical evidence that this economic recovery and bull market – now entering their eleventh year – are on the fringes of structural change, we will ride along, setting our sails, tuning out the noise and staying solely focused on what matters.

As always we remain truly grateful for the continued trust and confidence you have placed in us.

1. Bloomberg
2. Wells Fargo Advisors
3. First Trust Advisors

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