Secure Retirement
Peace of Mind is Real Wealth

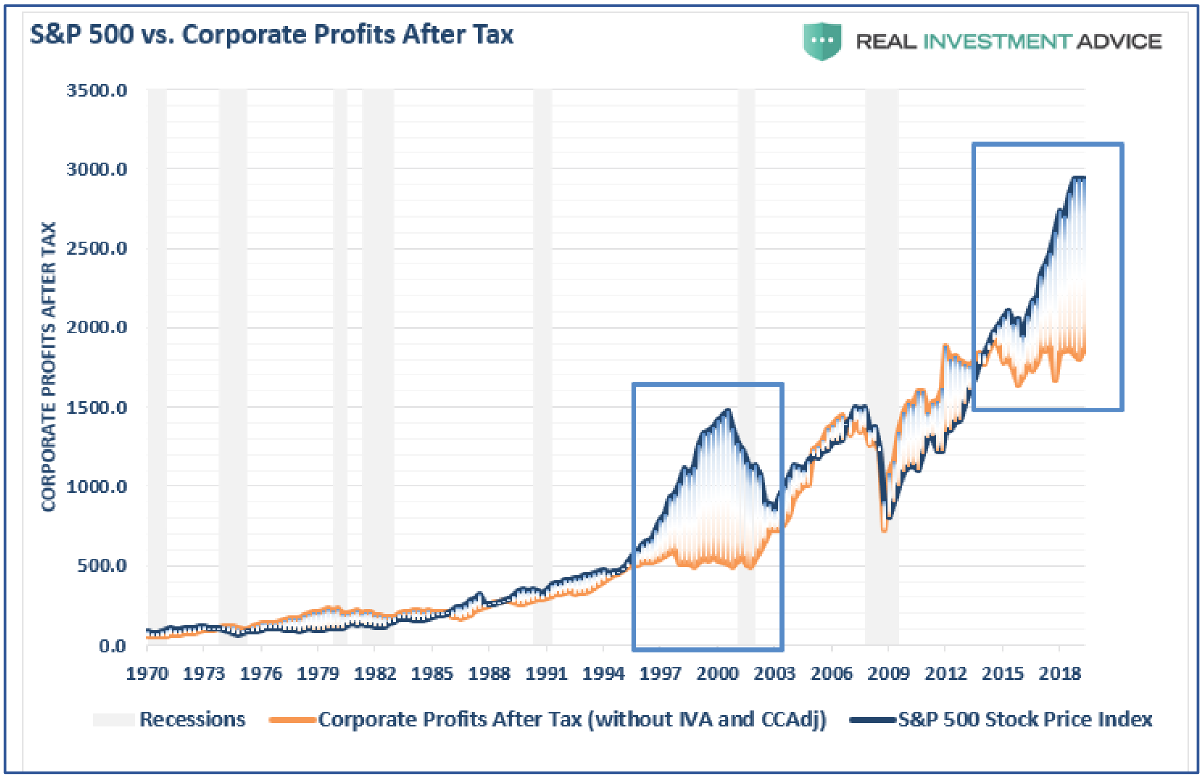
November 2019

Economic & Market Update, Nov. 2019

Six Simple Facts

by Richard Morey

1. **Corporate profits haven't risen in 8 years, yet stock prices have soared.**



2. **Corporate earnings have now declined for three quarters in a row.** The estimated year-over-year earnings decline for Q3 2019 is a negative 3.8%. (Source: FactSet)

   So corporate profits haven't risen in years. In addition, the companies in our economy have now seen their earnings decline for three straight quarters. Yet stocks have now hit an all-time high.

3. **Economic growth in the economy came in at 1.9% annualized last quarter.** All of the growth was due to consumer spending plus increased government spending. ***Again, our nation's businesses contracted last quarter.***

   What is keeping our economic growth going? Does increased consumer spending lead to business growth, or does a reduction in the business sector drag consumer spending down?

The answer is obvious to anyone who considers where consumers get their money to spend. Ultimately, and in total for any economy, you have to earn before you can spend - unless you borrow. And consumer debt now stands at a record $19 trillion – the highest level in U.S. history.

4. **In addition, the Federal Reserve Board began to "print" money again last month,** to the tune of $60 billion a month, to replace bonds Wall Street firms have been holding. (This is more than the Fed has printed at any time since quantitative easing began in 2010.)

   The stock market has developed a knee-jerk, "herd mentality" response to the Fed printing money, and that is to go up. Bond prices go down. Investors naturally assume much of that $60 billion a month will end up speculating on stocks, junk bonds, etc., etc. It turns out this is a remarkably reliable way to create asset bubbles wherever you look in corporate America.

5. **Then one day, mysteriously, the Wall Street banks stop speculating with any of the money.** Instead, they look at the $60 billion a month and decide it would be prudent to keep it with the Fed, safely earning .25%. That is the day the Fed's grand experiment comes to an end.

6. **When will that day be?**

The answer to that question remains unknown. On balance (and in the real economy), the deteriorating economic data from the business sector far outweighs the Fed's current policies. But short-term, I would bet on the Fed, at least if I was a stock speculator. The markets will follow the Fed's lead, usually vigorously, until the day they stop. I doubt we'll see that day coming before it occurs. That is why we have defensively positioned Secure Retirement portfolios to accurately reflect the financial realities we are currently faced with, taking prudent, safe profits where we can - but keeping a very close eye on the ball.