



October 9, 2019

Dear Money Management Client:

Between Trump tweets, impeachment proceedings, recession fears and China's trade negotiations, there is always something moving the markets. We refer to most of it as "noise", but it certainly can rattle your cage. Billions of shares traded have resulted from all this noise, and yet the averages are trading exactly where they traded a year ago. Our portfolios are up nicely, but the stock market has just treaded water, and those who sold due to the noise are likely to be disappointed.

As we have often said, recessions are the biggest danger to your portfolio, and for that reason we pay special attention to any signs that one is lurking nearby. With the current U.S. economic expansion at a record length in time, we begin our watch. With more than 70% of the Treasury yield curve having inverted and with a perfect track record of predicting oncoming recessions, we begin to worry. With the disappointing ISM manufacturing report in August and the drop in last month's Michigan Consumer Sentiment index, our worry grows. It's become clear that the economy is slowing, so our final piece to the recession puzzle is employment. September payrolls grew by 136,000 and that doesn't happen in recessions. Jobs data will typically be the last to show a slowing, but payroll growth does not happen in recessions.

Economies naturally cycle up and down over time, so it's really just business as usual. Government policy mistakes like trade wars and tight monetary policy are not good for the economy, and both have had an impact this past year. But the NFIB small business survey shows credit conditions are about as supportive as they have ever been during the 46-year survey history. Corporate operating margins are healthy and well above levels seen before previous recessions.

We have raised some cash and are looking to get more defensive, but nothing is certain, and if there is a reasonable solution to the trade negotiations or the Federal Reserve continues its accommodative policies, we could easily move higher. Stocks are fairly valued here, with valuations just above their 25-year average according to J.P. Morgan.

As always, we remain committed to a conservative investment philosophy, which emphasizes the preservation of capital. If you have any questions or would like to discuss your portfolio, please do not hesitate to call.

Very truly yours,

Clay Campbell, CPA