Polaris Greystone FINANCIAL GROUP, LLC

The Polaris Perspective

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Giving Thanks

This is the time of the year that we take pause to give thanks for all that is good in our lives. Over the past few months, I have had the privilege of spending time with many of you at our client appreciation events in Michigan, San Francisco, San Jose, Long Beach, and Honolulu. At each of these events I gave a short talk to the group about the markets. I started each discussion the same way, thanking you, our clients, for your business. I'd like to reiterate that sentiment here in this email. While we have had hundreds of people at these events, we have clients in 31 states. Many of you were unable to make it to an event due to geographic constraints or conflicts in your schedule. I'd like to reiterate my opening remarks. Thank you for being a client! Without you, we wouldn't have a business.

The one overarching theme that consistently came up at all of our client appreciation events was a general concern about the markets. The clients who expressed concern called themselves "equal opportunity worriers." They'd ask, "how much further can the markets go up?" They expressed concern that the markets might correct. Hopefully, those that were able to attend the events left feeling far more comfortable after our market discussion. For this month's *Polaris Perspective*, I've decided to provide a written version of what was discussed at our client events.

Bull Markets Climb a Wall of Worry

I wrote about this subject in our August 2018 *Polaris Perspective*. But it's true. Think back to the last secular bull market we had, which was from 1982 through 1999. An eighteen-year time period in which the markets generally went up. $1 million dollars invested in the S&P 500 in 1982 would have grown to $21,759,188 at the end of 1999. When we put this time period have in history under a microscope, it's amazing that the markets provided any return to an investor. We were in a Cold War with the Soviet Union, there was threat of nuclear war, there was the Iran-Iraq War, the Soviet Union's occupation of Afghanistan, the Falklands War, the Gulf War, and the collapse of Yugoslavia (and subsequent genocide). We had multiple acts of terrorism occur throughout the world, including: the bombing of our military bunker in Beirut, the downing of Pan Am flight 103, the Achille Lauro hijacking, the garage bombing at the Twin Towers, and the Oklahoma City Bombing. We had the AIDS epidemic, a drug epidemic, and several famines in Africa. We had political controversy, like the Iran Contra hearings, White Water, and an impeachment trial. We had record deficits. We had the 1987 stock market crash, the Savings & Loan Banking Crisis, which saw over 1,000 banks fail, and two recessions during this time (1990 & 1994). If you didn't know that all of this happened during the 82 to 99 bull market run, you'd probably would have thought the markets had lost you money. Had you let the news scare you, you would have missed out on one of the greatest bull markets in history.

It's very easy to gloss over history and have heightened sensitivity to what is in the news today. It's human nature. It's imbedded in our genes, going back to our instincts of a "fight or flight response" to danger. In this case, our physiological reaction is to a perceived risk of losing money. This common response, investing when you feel comfortable and selling when you feel uncomfortable, makes for bad investing. This is why we must remain clinical and disciplined to how we manage money rather than reacting to headline news. No investment strategy will work at all times but over a business cycle, it gives us the best opportunity to provide strong investment results.

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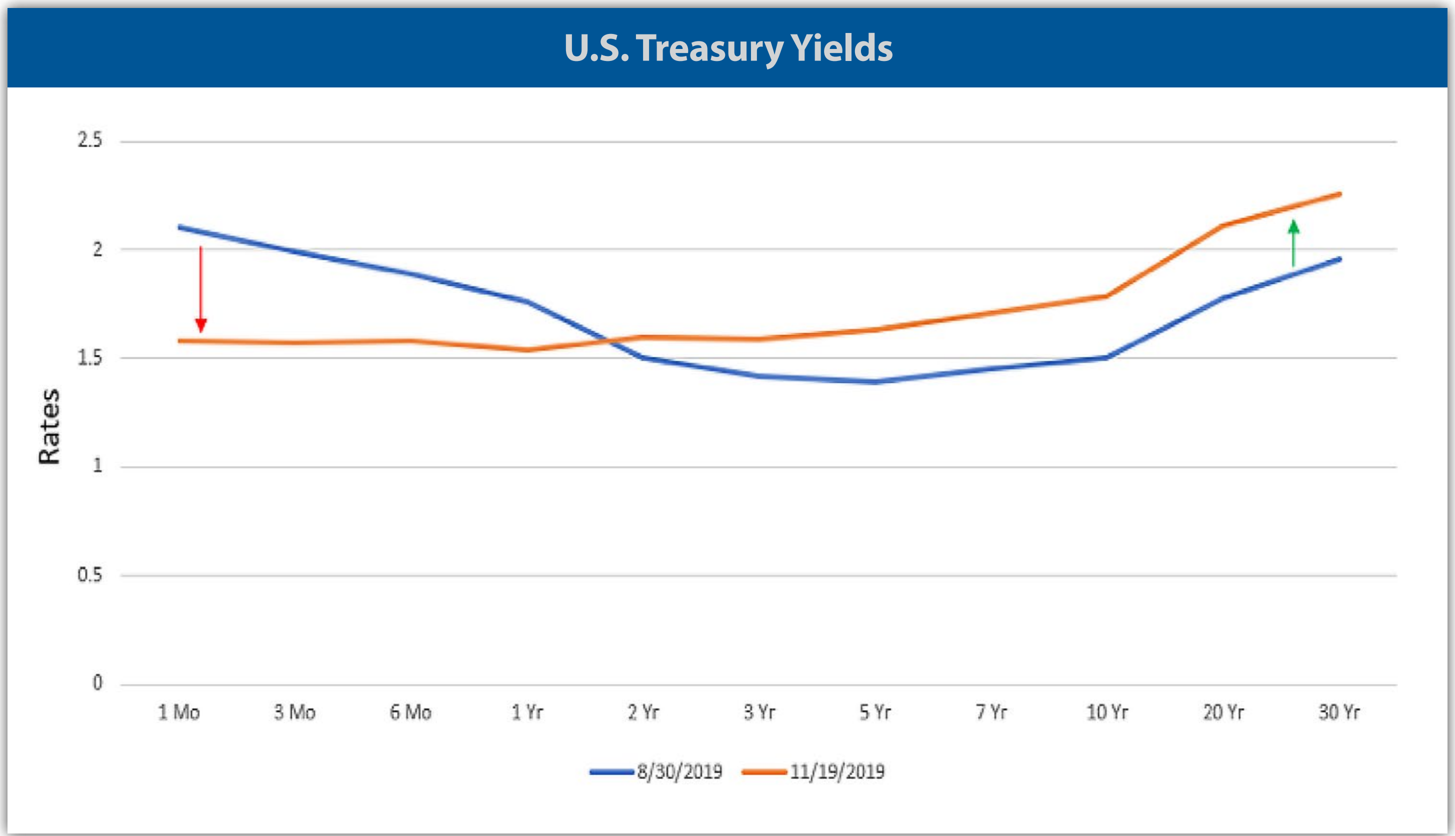
Yield Curve Steepens

In late 2018 and once again this summer, the U.S. Treasury yield curve inverted. An inverted yield curve is when bonds with shorter maturity dates (typically under 3 years) pays a higher yield than bonds with a longer maturity (typically 10+ years). An inverted yield curve can be the precursor to a recession. The August 2019 *Polaris Perspective* titled "Dark Clouds Looming?" goes into great detail about inverted yield curves, why they happen, and why investors shouldn't worry about this inverted yield curve. As you can see from the chart below, our bond market temporarily inverted in August (blue line). The Fed has cut rates three times since July. This has pushed short-term rates down, while investors have pushed long-term rates up by selling treasuries to find better yields in other investments. While the bond market hasn't normalized, the yield curve is looking healthier.



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The Economy is Fine

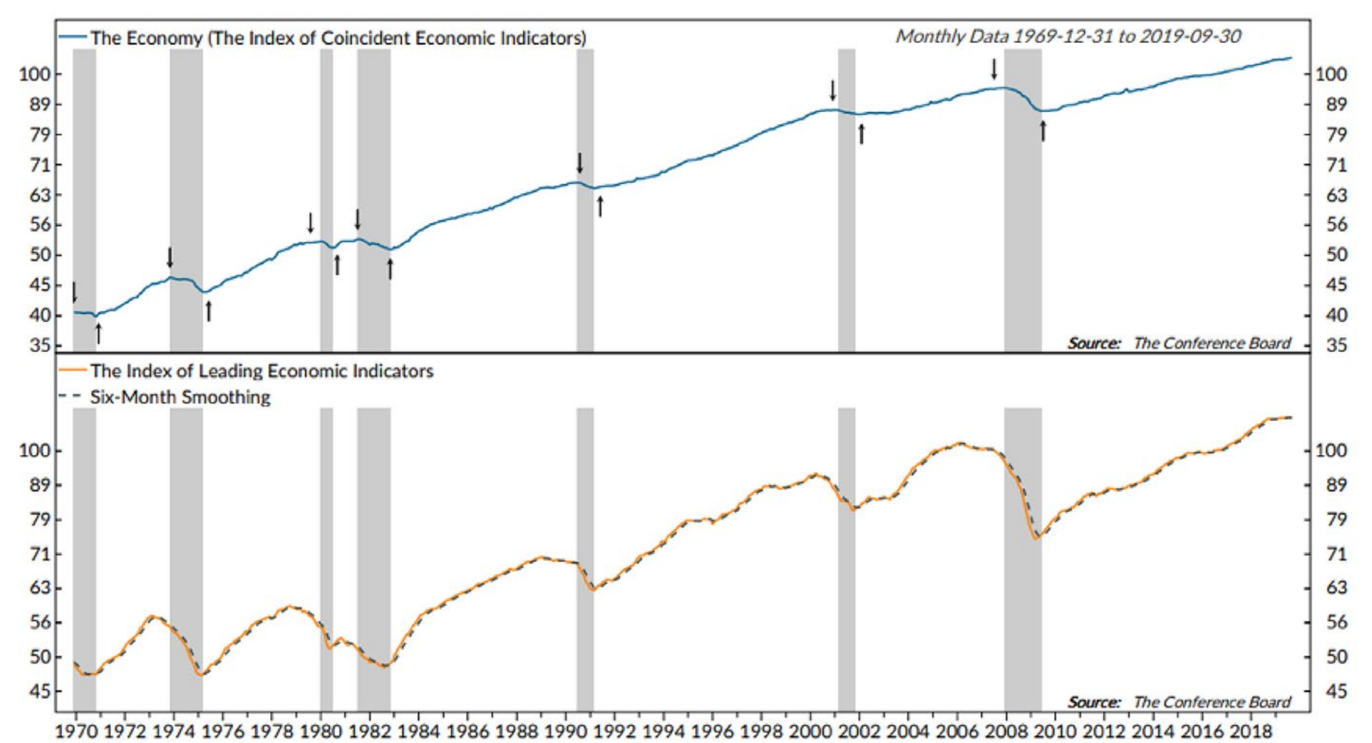
There is no doubt that the economy has slowed, compared to where it was at the first half of 2018. GDP growth for third quarter 2019 was up 2%. While that might sound a bit anemic compared to the 3%+ growth the year before, the economy has averaged a 2.3% growth pattern since the Great Recession. All that has happened is our economy has slipped from above average growth to the "ho hum" growth pattern we've experienced for over a decade.

Most of the economic indicators that we follow are not giving us any reason for concern. The ISM Manufacturing is the only major economic indicator that we track that is currently contracting. A reading above 50 indicates growth. October's figures came in at 48.3, improving from 47.8 in September. This is the third month manufacturing has contracted. This is not an alarming number. Were we to drop below 45, we'd need to revisit the risk of a recession. This is the sixth time that the ISM Manufacturing Index has contracted since the Great Recession. We didn't have a recession as a result of any of these previous contractions.

ISM Non-manufacturing provided a very healthy 54.7. While these numbers are down from their recent highs in the low 60s in 2018, they are right in line with the average experienced from 1997 to present.

The Index of Leading Economic Indicators (below), while slowing, shows no signs of a looming recession. As you can see from the chart below, it has accurately signaled a recession was coming for every recession we've had since the late sixties.

The Index of Leading Economic Indicators



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Here are a few more reasons to invest today, we have no inflation,CPI is at 1.8%, we have a historically low unemployment rate of 3.6%. Wages are increasing at 3.5%, the highest levels since the Great Recession. While the markets are slightly over valued, they haven't priced in the impact of a resolution to the trade war with China. If a trade deal does materialize, the markets will surge. Even without a trade resolution, the S&P 500 is projected to have record earnings over the next four quarters. The Fed has eased rates three times. Historically, when this happens, the markets have strong results over the following 12 months.

Conclusion

I've joked with many of you about not having a crystal ball (or tomorrow's newspaper). But I can tell you that worrying about the unknown or about things that will most likely have limited impact on the stock market is a great way to scare yourself out of investing properly. Here's a perfect example. Do you remember when everyone thought we were going to go to war with North Korea? They were testing missiles by shooting them over Japan into the Pacific Ocean. We dedicated our August 2017 *Polaris Perspective* educational series to help calm our investors nerves and keep them invested in the markets. Did you know that North Korea has shot off over forty missiles in 2019, including three in the past week? While it's still scary, it isn't headline news any more.

There is always a reason to fear what you don't know. Think about all of the scary and bad things that happened in the 80's and 90's (I didn't list them all), yet the market went up dramatically from 1982 to 1999. It didn't say that the markets went straight up. You had the 1987 stock market crash and you had the 1990 recession, followed by the 1994 recession. It simply means that the markets will trend upwards over an extended time period. Keep in mind, the average secular bull market lasted fourteen years. The shortest ever was nine years. The last one was eighteen years. We began our current secular bull market in 2013. Even if we matched the shortest secular bull market ever, we'd see the market climb for two more years. An average secular bull market would put us out to 2027 before we'd see its end. That means that we are only half way into our secular bull market. If you are looking for a good time to put money to work, you might be waiting a long time for a better opportunity.

As always, I welcome all questions and comments. Please feel to reach out to me.

Sincerely,

Jeffrey J. Powell
Managing Partner & Chief Investment Officer