Polaris Greystone FINANCIAL GROUP, LLC

Polaris Greystone Educational Series

For more information or to schedule an introductory consultation contact us at: info@polarisgreystone.com I (800) 268-9046 I www.polarisgreystone.com

When Is The Next Recession?

The Great Recession was ten years ago. With anniversaries like Lehman Brothers' collapse on September 15, 2008, the subject has been front and center with many of the major media outlets trying to draw parallels between then and now. I have received a few emails from clients expressing concern. I thought I'd address the major question on everyone's mind… When is the next recession? Or better yet, when are we going to see a 20% or greater pullback in the markets?

Understanding Market Contractions

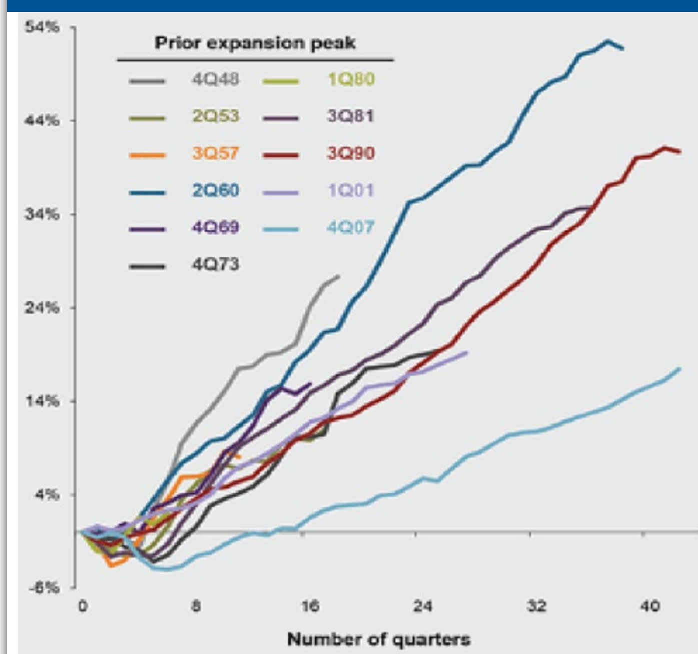
The first thing to understand is markets can correct without a recession. A significant correction can occur as a result of a recession, but they don't have to walk hand-in-hand or be directly correlated. For example, we weren't in a recession when Black Monday hit. Few long-term investors will forget that 23% single-day drop in October 1987. Another example was the tech bubble. The markets began dropping in March of 2000 and didn't bottom out until March of 2003. We were only in a recession for six months in 2001. Two of the last three 20% corrections occurred without a recession causing the pullback. The lesson here is that the markets can pullback without our economy experiencing a recession. In other words, a good economy does not assure you a strong market. These types of corrections typically occur because the markets are overvalued. It's a different story if the economy is contracting. There is a direct correlation between negative markets and negative economic activity.

Our Current Economic Expansion

Our current economic expansion has been long but anemic, as you can see from the chart adjacent. Economic cycles are calculated from the prior peak to trough, a return to prior peak, and then the expansion. Our economy peaked in the fourth quarter of 2007, even though the markets peaked a few months earlier. The economy contracted five of the next six quarters, bottoming in the second quarter of 2009 with an economic contraction of almost 4%. It took 14 quarters for our economy to recover its losses. We have completed 42 quarters since our economy peaked in 2007. Our economy has expanded almost 18 percent over this time. This is considered to be a shallow recovery, with significant government intervention to stabilize and grow it.

When will the economy go back into a recession? At present, there are no signs of an economic contraction. I would argue that this expansion is very different from previous expansions. First, it took twice as long as the prior ten expansions to recover its previous losses. It took government intervention like we have never seen before to stabilize our economy and then grow it. It's hard to believe that quantitative easing ended less than four years ago. Only 16 quarters of our economic expansion have occurred without direct government manipulation. I would argue that this fact alone could add additional time to our expansion.

Strength of Economic Expansions
Cumulative Real GDP Growth Since Prior Peak, Percent



Source: Bureau of Economic Analysis and National Bureau of Economic Research

Polaris Greystone FINANCIAL GROUP, LLC

Polaris Greystone Educational Series

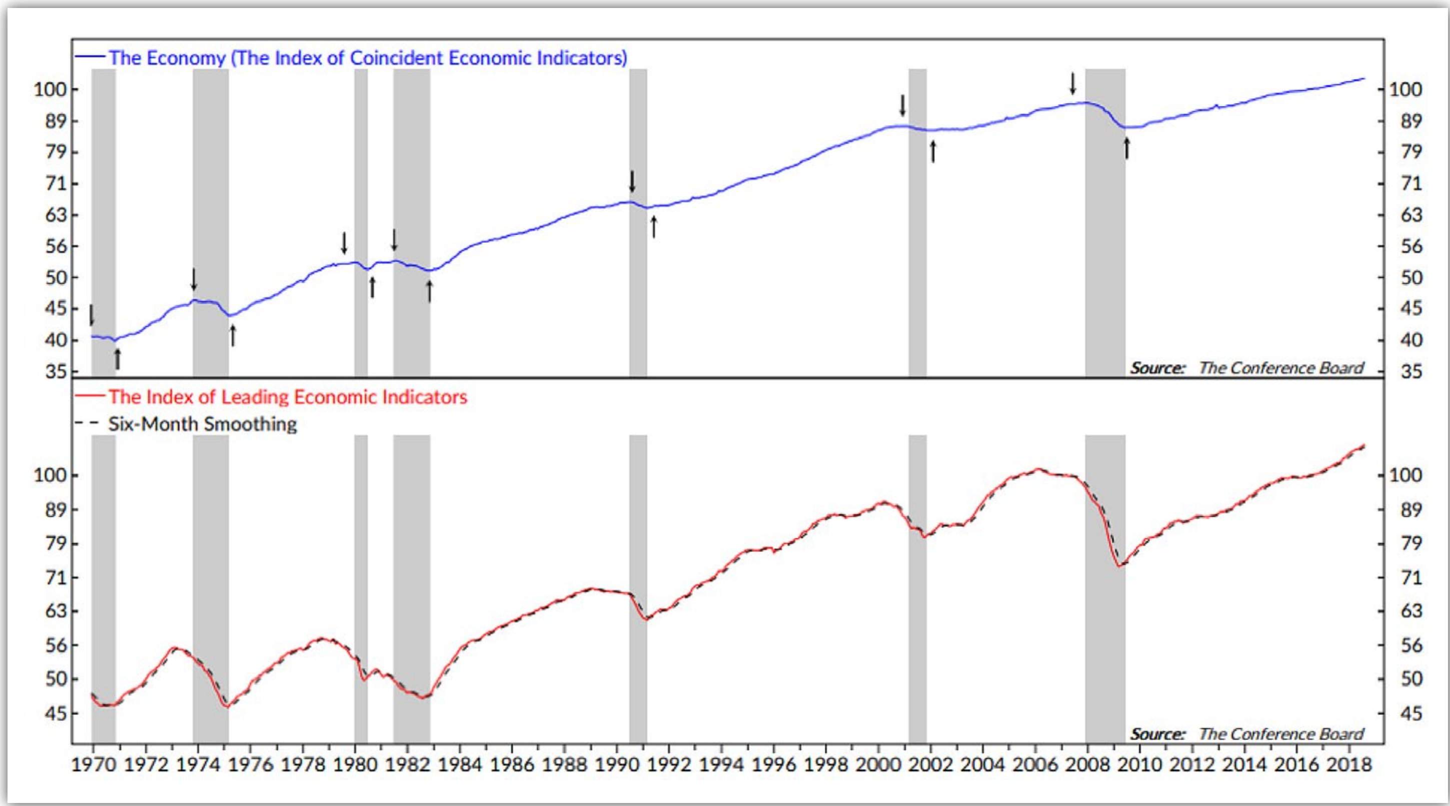
For more information or to schedule an introductory consultation contact us at: info@polarisgreystone.com I (800) 268-9046 I www.polarisgreystone.com

There are countries who have figured out how to grow their economy over extended time periods without a recession. Australia has not experienced a recession for 27 years. It was able to navigate the Dotcom Bubble and the Great Recession without much economic harm. The Netherlands went over 25 years without a recession. While it's unlikely the United States will experience similar success, there is no reason why our economy can't continue to grow for the foreseeable future.

Polaris Greystone's View of the Economy

Polaris Greystone uses many economic indicators to help us better understand the economic health of the United States. For example, the Index of Leading Economic Indicators has properly predicted every recession that this country has experienced over the past sixty years. The chart below indicates when the economy is growing, slowing or contracting.

Index of Leading Economic Indicators



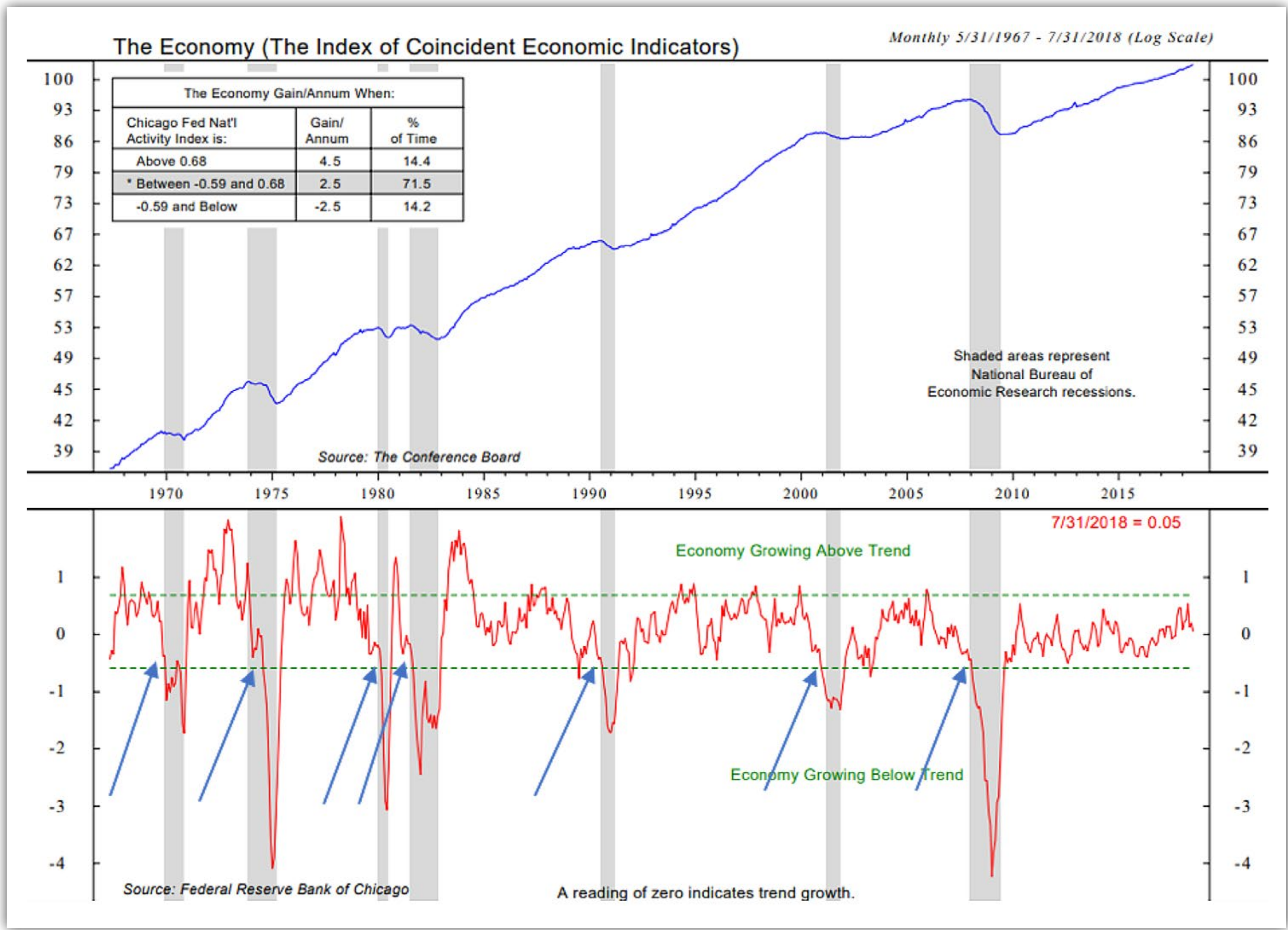
Source: The Conference Board

Polaris Greystone FINANCIAL GROUP, LLC

Polaris Greystone Educational Series

For more information or to schedule an introductory consultation contact us at: info@polarisgreystone.com I (800) 268-9046 I www.polarisgreystone.com

The Chicago Fed National Activity Index is another very reliable source. The blue arrows indicate when the CFNAI indicated a recession has begun. As you can see, it is very accurate.



Source: Federal Reserve Bank of Chicago

Both of these economic indicators help us understand the risk and probability of the United States entering a recession. As you can see, both show no signs of a pending recession.

The Markets are Properly Valued

As discussed earlier, the markets can be driven down due to fear of an overvalued market. While the markets are not cheap, they are not severely overvalued either. Our current valuations (as seen below) are well within 25 year historical norms.

S&P 500 Index: Forward P/E Ratio

Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	16.8x	16.1x	0.2
CAPE	Shiller's P/E	32.3	26.7	0.9
Div. Yield	Dividend yield	2.0%	2.0%	0.0
P/B	Price to book	3.2	2.9	0.4
P/CF	Price to cash flow	12.6	10.7	1.0
EY Spread	EY minus Baa yield	1.2%	-0.2%	-0.7

Source: Standard and Poors, Robert Shiller, FactSet, Thompson Reuters, Federal Reserve Bank, and JP Morgan

Polaris Greystone FINANCIAL GROUP, LLC

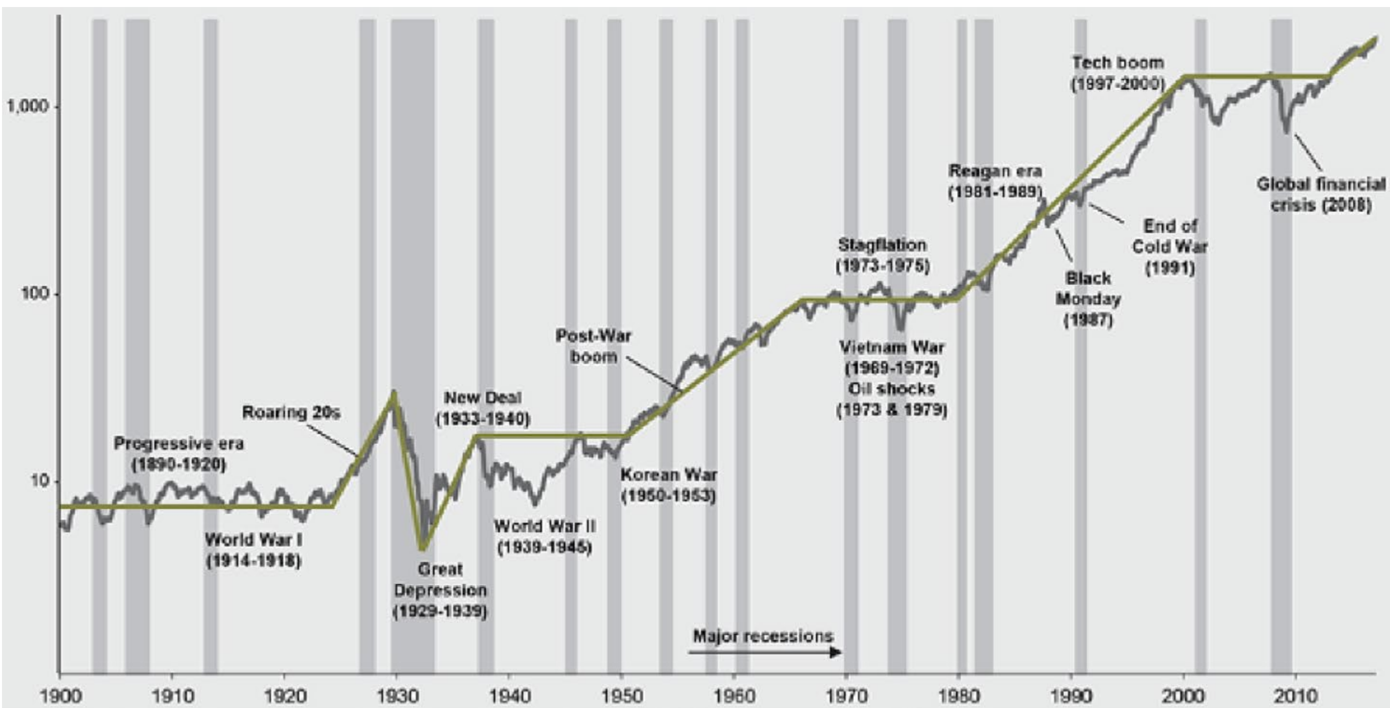
Polaris Greystone Educational Series

For more information or to schedule an introductory consultation contact us at: info@polarisgreystone.com I (800) 268-9046 I www.polarisgreystone.com

Concentrate on the Macro Trends

As we've discussed many times, we are in a Secular Bull Market (see the chart below). The average secular bull market has lasted 14 years. The last secular bull market lasted eighteen years. The shortest was nine years. This secular bull market began in 2013. Unless we break a new record for the shortest secular bull market, we should see this market trend up until 2022 at the very worst, with an average bull market trending until 2027. While there are corrections during all secular bull markets, they tend to be short lived. We strongly encourage our clients to take advantage of this strong time to be an investor.

S&P Composite Index: Log Scale, Annual



Source: FactSet, National Bureau of Economic Research, Robert Shiller, and JP Morgan

Polaris Greystone FINANCIAL GROUP, LLC

Polaris Greystone Educational Series

For more information or to schedule an introductory consultation contact us at: info@polarisgreystone.com I (800) 268-9046 I www.polarisgreystone.com

Answering the Question

"When is the next recession?" I find that people that try to guess at such matters are trying to make a name for themselves by being able to claim that they accurately called the "X" recession. If you predict a recession often enough you will eventually get it correct, just like a broken clock is correct twice a day. The simple answer is, "I don't know." There are no signs of a recession. The markets are not overvalued. If we were to see a 20% correction it would be due to sentiment and a technical breakdown in the markets. This is why Polaris Greystone has implemented four pillars to investing. Most of our fundamental research looks good. The macroeconomics trends look healthy in the United States. Our technical research points toward higher highs. Our sentiment readings are a little rich, but this is not uncommon in a climbing market. The beauty of managing money in a tactical way is you don't have to predict the future, you just need to stay disciplined and manage risk. We will continue to be fully invested until our indicators shift and show us the risk is not worth the reward.

As always, I welcome your questions and comments, and I encourage you to meet with your Polaris Greystone wealth advisor to keep up to date with our service offering.

Sincerely,

Jeffrey J. Powell
Managing Partner, Chief Investment Officer

Polaris Greystone FINANCIAL GROUP, LLC

Polaris Greystone Educational Series

For more information or to schedule an introductory consultation contact us at: info@polarisgreystone.com I (800) 268-9046 I www.polarisgreystone.com

Privacy Policy

Maintaining the confidentiality of client personal financial information is very important to us. To provide clients with superior service, we collect several types of nonpublic personal information about our clients, including:

- **Information from forms that clients fill out and send to us in connection with a new account application (such as name, address, and social security number).**
- **Information a client gives to us orally.**
- **Information about the amount clients have invested (such as initial investment and any additions to and withdrawals from a capital account).**
- **Information about any bank accounts clients use for transfers between accounts.**

Polaris Greystone does not sell or disclose client personal information to anyone except as permitted or required by law. We share this information with our legal counsel as we deem appropriate, with our custodians in the course of servicing a client's accounts, and with our regulators. Finally, we may disclose information about a client at the client's request or with the client's permission (for example, by sending duplicate account statements to someone designated by the client), or as otherwise permitted or required by law.

Access to information about clients is restricted to those employees who need to know the information to service client accounts. Our employees are trained to follow our procedures to protect client privacy and are instructed to access information about clients only when they have a business reason to obtain it. We maintain physical, electronic and procedural safeguards to guard your nonpublic personal information.

If you have any questions concerning our privacy policies and procedures, please feel free to contact James Mason, Chief Compliance Officer, at jmason@polarisgreystone.com or by calling Mr. Mason at (248) 267-1270.