“Today the conventional wisdom is that any informed person should feel the world is falling apart. If you don’t think everything is awful, you must not understand the situation!”
Gregg Easterbrook, Author It’s Better Than It Looks

- **Fasten your seat belts**... As we entered 2019, the road ahead had more than a few potholes. To date, two of those have been patched:
  - The Fed must hit the “pause” button ✔️
  - Keeping the U.S. government open ✔️ (Well… reopened)
  - Evidence of slowing global growth
  - A U.S./China trade deal
  - Brexit
  - The approaching Japan VAT tax increase
  - U.S. debt ceiling considerations
  - Potential sequester
  - Transition from consumer-led expansion to capex-led.
  - Geopolitical hot spots (too many to list)

- **Space Mountain**... The Federal Reserve’s decision shift to neutral from hawkish triggered what has been statistically the best start for the market in over a quarter century. That said, who can forget the 20% decline which preceded it? A graphic of the market from early October to today gives one a distinct roller-coaster feel, without the fun-driven impulse to put your hands over your head.

- **Despite the bounce**... the question heard most frequently is: "When we go into recession, won’t the market collapse?"

- **Clearly, the emotional imprint**... from the Great Recession remains very strong.

- **Let’s take “inventory”**:
  1. The U.S. economy has expanded for 117 consecutive months...two months away from becoming the longest expansion in American history.
  2. 103 consecutive months of job growth. Over 20 million new jobs have been added since late 2010.... 12 million more than were employed prior to the Great Recession.
  3. Unemployment is near a 49-year low, even as more people enter the workforce.
  4. Recently surpassing its 10th year, the current bull market is the longest in history.
  5. Wages are growing. Up 3.4% in the past year. Faster than inflation.
  6. Manufacturing employment has grown for eight years in a row.
  7. In inflation-adjusted terms, gasoline costs the same as it did in the 1970’s.
  8. Education levels and life-expectancy are near their highest in history.
  9. Two-thirds of the world’s reserve currency is held in US dollars.

(Our thanks to Reuters, WSJ, BLS, EIA, the Census Bureau and Bloomberg)
• **And yet…** Our political leadership tells us that the economy is “bad, bad, down, down” and that our bodies are being “poisoned” by pollutants caused by corporate greed. Did we say “leadership”?

• **A “must” read…** For those who are simply overwhelmed by all of the negativism, we would encourage you to read Gregg Easterbook’s, *It’s Better Than It Looks*. It will put an optimistic spring in your step.

• **And yet, while the anger and discord dismay us…** the pervasive element of caution may, in fact, be the source of the long, slow, steady recovery in our economy. Caution and skepticism have minimized greed and risk-taking...those things that typically lead to economic excess. As ever, we prefer the tortoise to the hare.

• **Could change be at work here as well?**

• **That’s right, Change.** Most people are frightened by change. To say our world is rapidly changing is an understatement. *Type the address below into your web browser and you’ll see what we mean…*

• **18 years of tech disruption in 60 seconds:**

   ![18 years of tech disruption in 60 seconds](https://www.youtube.com/watch?v=wDLVoCSK9Qo)

• **Make no mistake, global economic growth is slowing…** *Readings above 50 imply economic expansion; below 50 imply contraction:*

• **No, this does not imply that recession is imminent.** Interest rates have declined since last fall and there is evidence that lower mortgage rates are invigorating the housing market (WSJ). Not to mention that there are 2.64 million people working today who were not employed one year ago. That’s no small amount of economic additive. (BLS)

• **Further, this slowdown is not lost…** on the world’s central banks. China and Europe have already instituted measures to stimulate their economies, while our Central Bank has acknowledged it is not prudent to raise interest rates further at the present time.

• **Confidence does matter…** As good as things are, confidence in the future absolutely influences behavior. Businesses are challenged to make long-term investments in plants, equipment and people when they can’t know what influences the trade discussions will take...not only with China, but over NAFTA and Brexit as well.

• **Lest you think we’re in fairy land here…** there are excesses… The acceleration in our government’s debt being one. The government’s debt is growing even as the economy expands. Imagine what will happen when it contracts.
• **Even more worrisome...** Is the growing political embrace of so-called Modern Monetary Theory. “MMT”, as it is referenced by its proponents, would essentially take the control of our currency away from the Federal Reserve and give it to Congress....allowing the issuance of as much debt as they like....right up until inflation appears. And, when inflation shows its ugly head... **raise taxes of course!** What a country! If you would care for an illustration of the theory, visit the link below. It’s insightful. https://www.marketplace.org/2019/01/24/economy/modern-monetary-theory-explained

• **In stark (and welcome) contrast to such “progressive” ideas...** Is The Prosperity Paradox: “How Innovation Can Lift Nations Out of Poverty” by Harvard Business School’s Clayton Christensen and co-authors Efosa Ojomo and Karen Dillon. In it, the authors write, “...enduring prosperity for many countries will not come from fixing poverty. It will come from investing in innovations that create new markets within these countries.” They contend it is not government spending and subsidy which lift people from poverty, but entrepreneurialism and innovation.

• **Unintended consequences...** One of the now-apparent drawbacks with Quantitative Easing by the Federal Reserve is that it lifted “all ships”. Near-zero interest rates have allowed marginal companies to survive who otherwise might have failed. The illustration to the right depicts the percentage of small-cap companies who are currently making no profits. 

![Percent of Russell 2000 Non-Earners](image)

• **How do these companies survive?** By borrowing money of course. With interest rates low and investors hungry for yield, marginal companies have had little difficulty borrowing. When an economic bump in the road does occur, many of those bonds now rated Baa (lowest of the “investment grade” ratings), will be downgraded to levels where bond funds must sell them. The result could be ugly. Our long-time embrace of only high quality bonds and stocks rarely seems more important.

![Quality Breakdown of Bloomberg Barclays U.S. Credit Index](image)

• **Tax season...** What with the revamp in individual income tax rates, a doubling of the standard deduction and the reduction in itemized deductions, it’s early yet for most of us to know how the new law will specifically affect each of us. Everyone will gain clarity in the next several weeks. Oh Boy!

• **One has to have a sense of humor...** to call this simplification.
• For all the gnashing of teeth regarding taxes… planning for retirement is much more involved.

• Consider the uncertainties… over one’s retirement lifetime: (thanks to The Retirement Café)
  o **Longevity**: For an individual entering retirement, the length could range from less than one year to 40 or more. *Average* life-expectancy can disguise the huge range of potential outcomes.
  o **Sequential return risk**: Assuming the retiree is reliant on their investments, the sequence of portfolio returns is even less predictable than life expectancy. Negative returns, especially if occurring in sequential years, can undermine even the best retirement plan.
  o **Expenses**: While rules such as the 4-percent withdrawal rule are useful as a guide, here too we are talking about averages. One’s personal expense needs can encounter a wide range of specific outcomes…adding still more uncertainty.
  o **Portfolio variability**: The sustainability of one’s retirement assets is not only reliant on the three issues cited above but equally by the variability of one’s returns. Here, the allocation to stocks and bonds is critical as is the constant assessment of the mixture.

• **We’re here to help…** If you haven’t availed yourself of our retirement planning skills, please do.

• **On planning and on looking optimistically toward the future…** our company has been busy building for the future. In the eleven years since we opened our doors, we have added seven new professionals who have secured the next generation of Palladium’s services. They include:

  Jon Morris: Fixed-Income Portfolio Manager  Jonathan Taylor: Equity Portfolio Manager
  Mike Disharoon: Partner, Portfolio manager  Justin Topping: Portfolio Manager
  Walker Phillips: Portfolio Manager  William Horner: Chief Financial Officer
  Sarah Shaw: Analyst

• **Our future’s so bright we have to wear shades!** We send our heartfelt thanks for your trust and support.

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