Geoffrey Lenk 508-428-1645

John Ladner 508-420-1684

LENK LADNER Investment Solutions

MARKET COMMENTARY September 10, 2019

Dow Jones Industrial Avg.	26,599.96	Standard and Poor's 500	2941.76
2019(YTD) +14.0%	2nd Qtr. +2.6%	2019(YTD) +17.3%	2nd Qtr. +3.8%

Politics and Economics – Oil and Water - History shows rulers and politicians are driven by the quest for power. Once they have attained power, they are prepared to go to great lengths to ensure they are able to retain it. While many rulers have used their power to subjugate their people, politicians today resort to more indirect practices to achieve similar ends. Few politicians even attempt to determine how their decisions affect the economy. A prime example is entitlements. Arguably, politicians began to realize the value of this approach after a wave of such programs were introduced by President Franklin D. Roosevelt as a means of lifting the country out of the Great Depression in the 1930s. Social Security was his signature program. More recent Presidents followed his example with Medicare and Medicaid, Medicare Part D, and the Affordable Care Act.

These programs now account for 50 percent of the federal budget and they are largely responsible for the current one trillion dollar ANNUAL deficit. A majority of the Democrat presidential candidates have their own grandiose plans, which would further exacerbate the budget problem. Their plans are so extravagant it is difficult to imagine they will ever be enacted unless the Democrats win the Presidency and both houses of Congress in 2020. If that occurs both the stock and bond markets would be highly vulnerable.

Global Recession Next Year- Before examining the range of challenges for the financial markets, it is worth acknowledging how well the markets have done this year. Recently investor confidence has begun to waiver as trading volume has deceased and price volatility has increased. Uncertainty has begun to be evident in the actions of investors. Equity markets throughout the world have shown this increased instability. The main reason for this widespread nervousness is the concern a worldwide recession may be in the offing in 2020. Europe and Japan are coping with stagnant economies and the albatross of negative interest rates. Moreover, this latter phenomenon may soon beset this country's economy. Furthermore, Europe and Great Britain are attempting to reach an accommodation over Brexit, Britain's decision to separate from the European Union. Iran continues to foment unrest throughout the Middle-East. Although there are a number of other troublesome hot spots, the media focus is on the confrontation over trade and tariff issues between the United States and China. This simmering dispute between the two superpowers has the potential to lead to a major trade war. If that were to occur a worldwide recession would be the certain result. Has President Trump, the self-proclaimed deal maker, misjudged the situation potentially jeopardizing his possible re-election or will he ultimately find a way to seal the deal? The jury is out.

This country's economy is slowing and the nation's annual deficit and accumulated debt are mounting rapidly again. Ideally, deficits should be declining during periods of expansion instead this fiscal year will see the deficit top the trillion dollar mark with no relief in sight. Neither the Administration nor the Congress has indicated any willingness to address the serious underlying structural spending problems. In fact, all initiatives offered by both sides are intended solely to energize their respective bases in preparation for the 2020 elections rather than attempt to restore the integrity of the federal budgetary process.

Historical Precedents - History provides innumerable examples of leaders of nations resorting to financial chicanery. An early example occurred in France in 1715 when the profligate spending King Louis XV sought the counsel and advice of the English economist John Law, who is regarded as one of the father's of modern economics. Law had quite a colorful background, but King Louis was desperate as France teetered on the brink of bankruptcy. Law had previously attempted to convince Queen Anne of England to adopt his plan, but his adversaries persuaded her to decline. As a result of Law's proposal France turned away from "hard" currency, which backed by gold and silver, and switched to fiat currency or paper currency with no backing. Initially, the change was very successful and France's economy boomed. In addition, the change sparked a rapid rise in inflation, which allowed France to easily address its outstanding debt. Excesses built up rapidly in the economy and within a year the new approach had to be reversed and the traditional hard currency system reinstated. A similar approach was employed by President Lincoln and his administration to pay for the Civil War here in America. Fiat currency took the place of hard currency and so was born the "greenback". These are two examples where rulers/politicians manipulated monetary policies to achieve a desired end. President Franklin D Roosevelt, reputed to be the greatest President of the twentieth century, took a different tact, by popularizing fiscal stimulus, also known as Keynsian economics, based on the writings of Lord John Maynad Keynes of Great Britain.

Trumpian Economics - This county's recovery from the Great Recession of 2008-2009 has surpassed the ten year mark. It is the longest bull market ever. Therefore, market participants have come to view it as "long in the tooth" and more care is required. However, that attitude fails to take into account two simple facts. The first is incumbent Presidents have a habit of taking full advantage of the powers of their office to assure the economy remains strong through the election. Second, President Trump is no exception as evidenced by his persistent pressure on the Federal Reserve Board (i.e., FED), and its Chairman Jay Powell. The primary reason he appears to be harping on this topic is to encourage borrowing by businesses and consumers, and thereby allow the recovery to continue. On the other hand, the President has persisted in dialing up the pressure on the trade talks with China. Any serious observer of Sino-American affairs recognizes China has taken a number of steps to advantage itself over the years. One result is this country has seen its trade deficit with China mushroom due in large part to the insatiable appetite of U.S. consumers for Chinese goods. In the simplest of terms they send us goods our consumers want and they receive our dollars in return, and the Chinese have been using our dollars to outmaneuver us economically, politically and militarily on the world stage.

Uncertainty Looms -It is generally acknowledged the long-term direction of stock market prices is a reflection of growth in the economy and the influence this has on corporate profitability. An expanding economy tends to result in higher stock prices. Politics, domestic and international come into play. Now, ten years after the Great Recession, the economy shows signs of weakening once again. After gaining praise for helping to revive the economy with his tax cuts and with insistence on rolling back the regulatory burden on businesses, the President has been involved with two tougher issues – tariffs and interest rates. He has unsuccessfully targeted a long list of our trading partners, but his lack of results to date call into question his ability to achieve some much needed wins before the election.

Will Act Two turn out as well? Although he is assuring the public the economy will continue to its winning ways, he assumes this will "guarantee" his reelection. Recent developments shed doubt on that conclusion. Stock prices are expected to remain volatile given the high valuations and the decelerating earnings trend. Interest rates are near record lows, yet the current sentiment of the experts is they may even go lower, and possibly even negative! Ironically, the challenges that have arisen can be traced back to his own chutzpah. It is important for investors to approach the year ahead with caution given the many uncertainties listed. If any cash needs are known, set aside appropriate reserves now while prices are high. JML