



Monday, August 4, 2014

SNAPSHOT OF WHAT'S HOT AND.....WHAT NOT

According to Nuveen's Chief Investment officer Bob Dahl, "a major equity market retrenchment looks unlikely". He said that since the 1970s, every major market correction has been preceded by a Fed rate hike, a double-digit rise in oil prices or an intense global crisis. He believes that the lack of these catalysts puts the odds of a major pullback quite low.

Sorry....but we don't necessarily buy it.

Why? Here's a great example. Three months before Enron tanked, I pulled an analysts' report that said the company was flush with \$1 billion in cash and had a "Buy" or "Strong – Buy" rating. Analysts see what they want to see. No disrespect to Mr. Dahl here because he's one of the best. I just don't care to throw caution to the wind because oil prices have temporarily dipped and when in reality.....we are at the tipping point when it comes to global crisis. (Can you say Ukraine, Hamas, Malaysian Airline attack, etc?)

Full-Time Flaws in Part-Time Numbers

JOBS REPORT! The headline on June's jobs report was clearly bullish. The 288,000 jump in payrolls was well above consensus and marked the fifth straight month nonfarm job gains exceeded 200,000, putting employment growth near a 15-year high!!!! Let's throw caution to the wind because everything's coming up jobs.

As my kids say when they think I'm out of my mind. "Seriously Dad?" Digging (not much) deeper into the data, it's clear that these JOBS! are concentrated in part-time jobs. (These rose 799,000 on the month while full-time jobs plunged 523,000). As Mark Twain said...."lies, damn lies and statistics".

Converting from QE to Organic Growth

For the last few years, the lender of last resort has been busy pumping Monopoly money into our broken economy. As we all know, when you introduce an artificial stimulant into a body for too long, the body grows dependent upon it. The body Economy has yet to feel the full impact of withholding the stimulant. If it takes about \$1 trillion per year to create a 5% GDP, **will it even be possible to create organic growth of 3% when our economy is barely able to crank out full-time jobs and is levered 350% to GDP!!!!** (That is not far off from the numbers 5 years ago.)

Accentuate the Positive

I address the dark spots in the economy not to get you down but to prepare you to make better decisions with your wealth. There are plenty of opportunities to profit from this ever changing world and there are plenty of tools to use to mitigate the risk of uncertainty.

The Empire and Philly manufacturing gauges surprised in July, with Empire rising to its highest level since April 2010 and Philly hitting a 40-month high. If strength in new orders, shipments and employment prove indicative of manufacturing nationwide, then third quarter activity is off to a great start.

By 2015, average manufacturing costs compared to the U.S. will be:

8% higher in the U.K.

10 % higher in Japan

16 % higher in Germany and in France

18 % higher in Italy

(Boston Consulting Group)

What's more, China's cost advantage over the U.S. in the manufacture of products intended for sale in the U.S. is eroding so quickly that **they are approaching a tipping point, where bringing production back to the U.S.** starts to make economic sense. A resulting surge in U.S exports could create more than 2.5 million jobs.

Investment Strategy

“Re-envision”

It's been said that as humans, we are drawn to the status quo. We create boxes to live in that shape our experience and interpretation of the world. In time the assumptions we choose to live with become paradigms that tend to be rigid and shortsighted.

History is full of examples of outdated assumptions and broken paradigms. Every once and while someone comes along and looks at the world a little differently. I like to call this concept re-envision.

“Re-Envision”

Re-envision: (v) To see anew

The Farmer and the Ford

I'll explain this with a short history lesson. When Henry Ford created the Model-T he figured that urban market was full of customers with rising incomes were his ultimate target. Everyone knows the story of how his shortsightedness regarding color and variety almost ruined his company. What we rarely hear about is how the Model T evolved into the first pickup truck.

Although the primary market for the Model T was the urban growth areas of the country, there was a rural market among farmers. However, for the farmer; ingenuity, vision and resourcefulness were not optional assets but requirements for survival. Farmers looked at the shape and cargo capacity of the Model T and saw an opportunity. A farmer figured if he removed the back seats, he could haul tools, hay and other cargo. It took Ford 19 more years to grasp the revolution and intentionally create a concept that would become the bestselling vehicle in history. The pickup truck.

THINK OUTSIDE THE “STYLE BOX”

Re-envision Your Portfolio

To re-envision a concept, idea or practice usually requires a mind for innovation and not status quo. For many investors, 2008 seems like an eternity away and although the world is far from stable, the status quo has become a mix of strong market returns mixed with periods of uncertainty. True crisis is barely visible in the rear view mirror so as a whole, investors are lulled into complacency. The meltdown of 2008 has been rationalized as an anomaly and not a possibility for the future.

Reality is periods of massive volatility will happen again. Traditional asset allocation built on a style-box only works in bull markets. **You cannot protect yourself in today's risk environment with 9 little boxes!!!**

That's why we created the **Wealth_{XL} CORE** models. Because you did not this hard to have to have your financial security hinging upon a concept as outdated as parachute pants.

(To learn more about this approach, check out the “Wealth Management Approach” under the “Home” tab to the left.)

The views presented herein are solely those of Mark Trimmer, and do not necessarily represent the views of RBC Wealth Management. Current status of issues discussed in this letter is subject to change based upon market conditions and industry fundamentals. Clients should work with their Financial Advisor to develop investment strategies tailored to their own financial circumstances. Past performance is no guarantee of future results.

RBC Wealth Management, a division of RBC Capital Markets, LLC Member NYSE/FINRA/SIPC.