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THE ABUNDANT LIFE

Insights from the Perissos Wealth Group

The Rundown

- **Market Action: Trade, Earnings and the Fed dominate headlines as market fights uncertainty**
- **Technical Picture: Intermediate term correction**
- **Spotlight Piece: Automation Revolution**
- **Book of the Month: Educated: A Memoir by Tara Westover**

Perspective Quote

"Near the top of the market, investors are extraordinarily optimistic because they've seen mostly higher prices for a year or two. The sell-offs witnessed during that span were usually brief. Even when they were severe, the market bounced back quickly and always rose to loftier levels. At the top, optimism is king, speculation is running wild, stocks carry high P/E ratios, and liquidity has evaporated. A small rise in interest rates can easily be the catalyst for triggering a bear market at that point." - Martin Zweig

Market Action

"The more things change, the more they stay the same" - Benjamin Graham

There is a well-worn saying on Wall Street that bull markets don't die of old age, they die of euphoria. In January of 2018, the market experienced something akin to euphoria. Prospects of a robust economy and tax cuts had investors expecting a "melt-up", or a rapid rise in the market. So what happened? Indeed, there were a lot of things to be positive about, however, when the consensus opinion is in one direction, the market will usually do something entirely different. The indexes stayed true to form the following month and melted down over 10%. Many attributed the correction to the trade war. What most missed was the rapid rise in interest rates and valuations that preceded it, which warranted extreme caution. That is the great irony of the market and why it can be difficult to maintain disciplined investment and financial plans in times of maximum optimism. Human nature is one of herding. It's a survival mechanism that doesn't change much over time. Hence the phrase "history doesn't exactly repeat itself, but it sure does rhyme". We, as investors, are bound to experience events similar to what has occurred in market history.

By September of 2018, markets again managed to grind their way back up and make new highs. Interest rates continued to move higher, ultimately peaking a month later. What happened after that? Markets experienced a sharp correction into yearend. A peak to trough decline of 20%, almost in a straight line. The message was no surprise; interest rates and valuations matter.

As of July of 2019, indices, albeit incrementally, reached and were holding new highs, supported by a decline in interest rates. Despite that, share prices for most companies have made very little progress since the peak in January of 2018. Lower rates and easier monetary policy has rekindled those animal spirits we saw at the two prior peaks in 2018, while earnings and GDP have slowed. The Federal Reserve cutting the Fed Funds Rate (the rate banks charge each other for overnight loans of funds) a quarter point has many believing a recession will be avoided or, "that this time is different". Fundamentally and technically speaking, the markets appear to be at another apex of sorts; valuations remain high relative to history and the economic leading indicators are pointing downward. In this case, the Fed reducing rates sends us a message of caution.

The more troubling trend we've observed throughout this "sideways" period has been the rise in bullish sentiment. In both the February and September 2018 corrections, the prevailing mood was "buy the dip", a character change in the bull market that began in March of 2009. Prior corrections featured heightened levels of fear relative to what we have experienced more recently. Paradigm shifts such as this are important to observe as it has been seen at prior turning points in market history.

Why you shouldn't fear recessions and bear markets?
Recessions are a normal part of the business cycle and help wring the system of excesses and inefficiencies that built up in the expansion phase. Discouraging this natural phenomenon by aggressive monetary policy only kicks the can down the road, encouraging reckless financial behavior, as it did in 2000 and 2007.

So, what can you do?
· First, with disciplined investment and financial plans, portfolios can be structured to reduce the risk of a severe outcome, which then leads to a quicker recovery period.

· Second, your long term success can be improved by preserving capital during overvalued and sentiment-driven markets and investing in areas that exhibit reasonable valuations, cash flow growth, and good long term business prospects.

· Third, down markets often create opportunities, if you have the proper allocation leading up to and after the fact. As markets decline, the prospects for higher future returns increase, but only if one has "dry powder" to use when appropriate.

- Michael Matta

Spotlight Piece

The Automation Revolution

If my high school history hasn't failed me, the (first) Industrial Revolution began in Britain around 1760, shortly before the Revolutionary War. It was the start of a movement away from a largely agrarian existence towards a more urban, manufacturing-oriented society. This period of radical change turned the western world upside-down. Charles Dickens aptly portrayed the resulting disparity between the wealthy and the impoverished in "Oliver Twist" and other stories describing the plight of workers as industry took hold in the 1800s. It wasn't all bad, of course, as productivity increased dramatically and previously inaccessible goods became more plentiful and affordable to the common man.

Book of the Month

"I have fallen in love with the incredible story that is told in *Educated: A Memoir by Tara Westover*. This page turner introduces you to Tara, a women from rural Idaho whose family was opposed to public education or any outside intervention from mainstream society. After taking a huge personal risk and leaving her family behind at seventeen years old, Tara found herself in a classroom for the first time. *Educated* shows the great amount of resolution and determination Tara possessed throughout her journey—all leading up to her earning a PhD from Cambridge University. Tara's story brought me back to the realization of how important education is and how lucky I am to have one." - Mary Stoeser

Did You Know?

Charles Dickens was only 12 when he had to leave school and work to support his family after his father was imprisoned for being behind in his debt payments. Dickens worked long hours for little pay and he later wondered "how he could be cast away at such a young age". He felt that his time at the shoe factory marked the end of his childhood innocence.

A second wave of industrialization came about in the late 1800s, lasting up through the 1930s as transportation was changed forever first by the combustion engine, followed by automobiles, then air travel. Nobody but Buck Rogers thought it would go beyond that. A new generation of business magnates, or robber barons, depending on who you asked, emerged. John D. Rockefeller, J.P. Morgan and Henry Ford were the visionaries of the time, and the dominant industries became Railroads, Oil, Banking and Automobile production. Jobs in these fields remained among the most sought-after occupations for another fifty years due to their high wages and generous benefits.

That was just the way of life in America….until it wasn't. In 1975, a couple of long-haired college drop-outs fiddling around with computer code invented a workable operating system for "personal computers". The rest is history. Paul Allen and Bill Gates were to become the new Rockefellers (minus the union-busting and smoke filled rooms) and the Technology Revolution was born. This new phenomenon proved to be just as disruptive to business, society and the economy as the rise of machinery was eighty years earlier. Blessing or curse (or both), the information age has fundamentally transformed how we think, learn, work, purchase and communicate. In short, there is almost no aspect of culture that is unaffected by technology which has only been widely used for a couple of decades. My maternal grandmother, born in 1896, sixty years to the day older than me, came west from Ohio in a covered wagon to their farm in Othello, Washington. She constantly marveled at how the world changed during her 104 years of life before her passing in 2000, and she never did adopt technology in anything but its simplest form!

Over one hundred and twenty years elapsed between the beginnings of the first and second Industrial Revolutions. Roughly another eighty years went by before Microsoft was founded, ushering in the modern era. We, at Perissos Wealth Group, believe the newest megatrend is already well under way. The marriage of technology and industry has resulted in what we see as the next major cycle of innovation: Automation. You might be thinking; heck, they've had machines building cars for twenty-five years, isn't that automation? It is, of course, but we're looking at automation creeping, no, galloping into tasks previously thought to be off limits to "machines". Robotic surgery anyone? I will personally NEVER (said with some trepidation) climb into a self-driving car, but lots of people no doubt will. Think about the last time you went to a bank branch, if you ever do anymore. Are there still lines at the teller windows, er, window, or does the place look like a ghost town in a Clint Eastwood western? I almost expect a tumbleweed to come rolling by. The fact is automation is here to stay, and we are adjusting our investment outlook to embrace this "Automation Revolution" rather than be left holding the proverbial "buggy whip".

- Doug Dumais