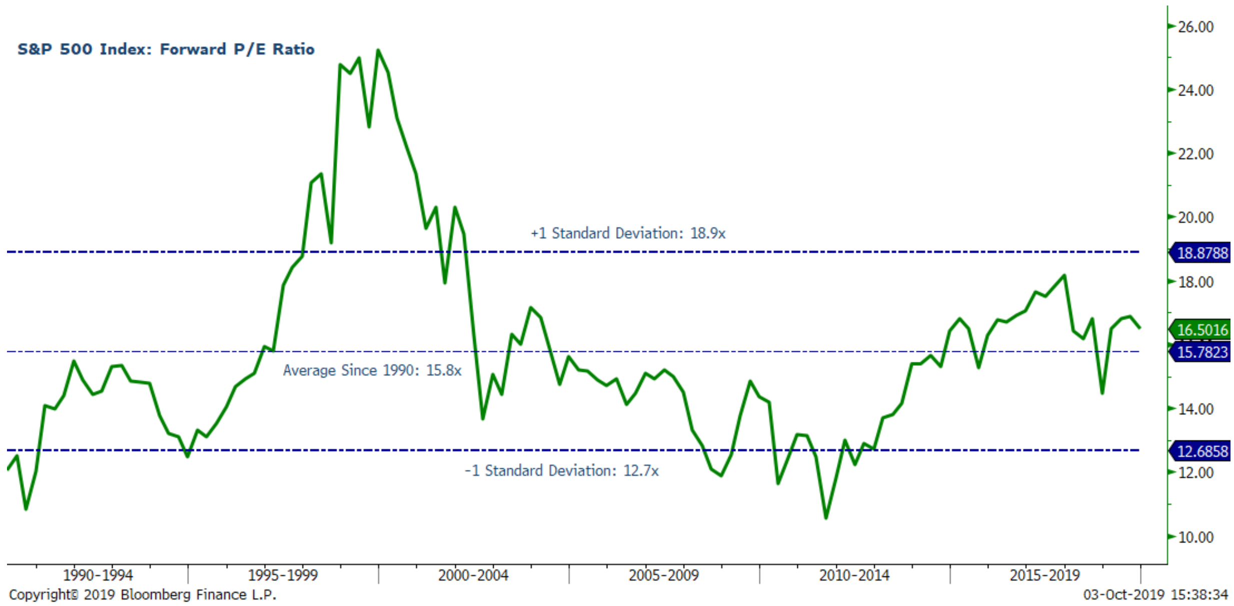
2019 Third Quarter Market Commentary
October 7, 2019

What an unbelievable year so far: the S&P 500 is up 20.6% year to date through September and the iShares Core US Aggregate Bond ETF (AGG) is up 8.3% for the same period. The positive performance has come in spite of the constant wall of worry that we have documented in our quarterly updates. We will describe below what still concerns us and what we still see as positives for the market.

First and foremost, we see the world economy slowing down. The global economy is weak, and it is pulling the US economy down with it. We don't have to look any further than the number of country's with negative interest rates to determine there is little or no growth around the world.

Of course, as our economy slows down, we can expect lower investment returns. But a slowing economy does not mean the US is heading into a recession. Growth is slowing, but it is not dead! Autos, housing, business investment spending and inventories do not appear to be over extended. In addition, Inflation is still not above the Fed's current target of 2%.

Have you noticed the unemployment rate lately? The unemployment rate stands at a projected 3.7% for 2019. The last time the unemployment rate was this low was in 1969, 50 years ago! Anyone that can fog a mirror and doesn't have to necessarily pass a drug test can get a job somewhere!



Lately there has been a lot of discussion that the market is overvalued, that the market Bull Run has gone on too long. As the chart above shows, the market is slightly above average but nowhere above the historical P/E average as documented above. It look pretty average to us at the current valuation.

Do you need to borrow money? 30 year mortgage loans hit 3.5% in September. As many of you have heard before, my first mortgage was at 12%. A mortgage rate of 3.5% is a gift, a margin loan! The 10-year treasury has a current yield of 1.6%. Since 1961, the yield was only lower once, in June of 2016. There are a lot of positives still for the equity markets.

As we said at the end of the third quarter last year:

"North Korea remains a mystery, Congress, (especially the US house of late) has showed us how the sausage is made in Washington, DC, and still no one has been able to lock down President Trump's Twitter account."

Nothing has really changed! Politics remain the current headline, without question! The United States is deeply divided politically, and this division is impacting the stock market. Fortunately, corporate profits remain positive, Interest rates are historically low and trade agreements continue to be renegotiated. We will continue to follow the trend, lean into our equity allocations, and ignore our nagging doubts. Value stocks have finally taken the lead over growth. Fortunately, we have focused on the individual merit of stocks rather than how it trades, and have had a mix of both.

We suggest that our client maintain the course and sit on their hands. The election season is just beginning, and we forecast that it will be bruising, not for the faint of heart, but this too will pass!