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PROVIDING PEACE OF MIND

Free Dinners Aren't Free

Every week we receive mail inviting us to a "Free Steak Dinner" at a local high-end restaurant. Sometimes twice a week. The offer usually comes with the promise of helping to reduce or avoid taxes in retirement.

Virtually all of these free dinners are conducted by financial advisors (we use that term *very* loosely) whose primary goal is to separate you from your money. They do this by convincing you that an annuity (variable annuity, equity-indexed annuity, etc.) is the best investment vehicle for you. They make them sound so unbelievably good, you may be persuaded to pull out your checkbook before dessert hits the table.

Resist the urge because . . .

The only person who truly benefits from these investment "products" are those selling them. The typical commission for selling an annuity is anywhere from 6% to 10%.

These dinners, which are *very* dangerous and *not* in your best interest, just became *more* dangerous and "officially" *not* in your best interest. Why? Because of the demise of the Labor Department's fiduciary rule, which required brokers who oversee retirement savings to act in their clients' best interests.

We find it incredible that any advisor needs to be required to act in the best interest of her/his client. Call us naïve, but we thought that acting in the client's best interests was what you were supposed to do, without needing a rule to enforce it. It's a practice that should be learned in childhood.

Don't go to the free dinners. They are not free. They are dangerous.

Don't invest in annuities. They are not nearly as good as the salesperson makes them sound.

November gave us the mid-term elections, where the campaigns were dominated by social issues. This is in contrast to four years ago where national economics and the Tea Party movement drove election agendas.

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Whatever happened to the Tea Party? When's the last time you heard about them? As a matter of fact, one candidate whose name was almost synonymous with the Tea Party barely won his race for the Senate in the state of Texas.

Issues that seemed so important in the past few elections (national debt and budget deficit) were hardly mentioned this election (even though the debt and the deficit have grown larger than they were two years ago).

The Republicans retained control of the Senate (and added three seats) and the Democrats regained the majority in the House. With a split Congress, the only large bipartisan issue that seems probable over the next two years is the reparation of our country's ailing infrastructure, which has been given a D+ rating by the American Society of Civil Engineers. Our roads and bridges are barely passing. When the average grade for a class is D+, you know some students received an F!

We have over $20 trillion in debt and fixing the infrastructure will add at least $1 trillion to that total. But that's OK for Congress given that few candidates were elected on the promise that they would work to reduce the national debt.

October, as it frequently does, gave us a nasty investment month. And this time it came with a double whammy: both stocks *and* bonds declined in value.

And November hasn't been much better. We are not declaring the 9½-year bull market is over, but if the last six weeks didn't knock you out, you at least got a bloody nose. The S&P 500 has declined over 7% since its peak in September. And bond prices declined as interest rates increased.

And the FAANG stocks finally got blistered. Facebook, Amazon, Apple, Netflix, and Google declined anywhere from 17% to 35% over the past few months. A drastic rotation from tech stocks into more defensive sectors has been taking place.

Meanwhile, volatility is BACK! The Volatility Index (VIX), something that concerned us in February, is now rearing its ugly head again. Earlier this year, volatility spiked, then dissipated, allowing the market to continue its slow trek upward. But persistent volatility is almost always accompanied by a declining stock market.

Last month, we discussed how comments from Jerome Powell, the Federal Reserve Chair, really set off market volatility. Other issues have persisted as well, keeping the VIX elevated.

- Additional tariffs and a trade war are still on the table.
- Crude oil prices plummeted after sanctions against Iran turned out to be less restrictive than expected. Iran will likely produce more oil, boosting supply and dropping prices.
- Recent company-earnings reports have been less positive than prior quarters.
- Signs of weakness in the housing market suggest that the economy may be slowing.
    - ◊ Inventory levels have grown
    - ◊ Fewer new homes are being sold
    - ◊ Mortgage rates are higher

The labor market continues to strengthen as new jobs are added and unemployment hovers around its lowest level in fifty years. Over the past few years, workers have become more and more scarce. You may have noticed retail shops in your area closing down for periods of time solely because they can't hire enough people to stay open.

We've been keeping our eye on growth in workers' wages as it is a good inflation indicator. The supply of labor has steadily decreased, but workers' wages haven't responded — that is until just recently. Last month wage growth hit 3.1%, the highest since the recession.

Perhaps companies are finally feeling the pressure to raise pay to maintain their workforce. Or maybe lower tax rates have freed up money to raise pay. We aren't quite sure. But one thing we are sure of, wage growth has not led to higher inflation . . . yet.

We view the recent selloff as overdue. We never "time the market," hopping in and out of stocks based on our forecast, because we know that it pays to be invested over the long-term. We do remain defensive, however, and will stay that way until market fundamentals suggest we should do otherwise.

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