Breaking Up Is Hard To Do

Brexit in a nutshell . . .

A guy decides to get a divorce and says he doesn't want to pay alimony. The judge says, "Sorry, you have to pay alimony."

The guy says he doesn't want to pay child support. The judge says, "Sorry, you had the children, you have to pay child support."

The guy says he doesn't want to split up marital assets. The judge says, "Sorry, the assets belong to both of you so they must be split."

The guy says, "Can I keep my red truck?" The judge says, "Maybe. We'll take a vote."

The guy finally says, "Can I call off the divorce and stay married?" Everyone says, "Sorry, that ship has sailed and your soon-to-be ex-wife has moved on. She doesn't care about you anymore."

So Britain decided to leave the European Union, which, as it turns out, is a process *much* more difficult than getting a divorce (even a Jeff Bezos messy divorce).

Apparently there are all sorts of agreements between the members of the European Union that ensure their ability to trade freely with each other, and furthermore, the majority of member countries use the same currency (the euro). This introduction of the euro in 2002 was intended to further facilitate trade and strengthen economic (and political) ties between European countries, making them a little like a United States of Europe.

Of course, one major difference between the two entities is that in the United States we all speak English. Some better than others but English nevertheless. But the French still speak French, Germans German, Poles Polish, etc. — roughly 20+ different languages for one "common union." Which makes it not nearly as "common" as they would like for it to be.

Three years ago, British citizens decided via a referendum that being "just Britain" was better than being in a marriage with twenty-seven other nations. Skepticism regarding European economic and military organizations has long been a part of the British DNA going back as far as at least Churchill. However, the vote to exit the bloc in 2016 was heavily influenced by the citizens' concerns about the thousands of immigrants flooding into European countries at that time.

BCWM
PROVIDING PEACE OF MIND

Portfolio Management
Richard W. Boyer, CFP®, CFA
Laura Carley, CFP®, CFA
Cory Bloodgood, CFA

BCWM, LLC
14221 Metcalf Avenue
Suite 201
Overland Park, KS 66223

Phone: 913-685-2300
Email: info@bcwm.com

Nonetheless, for three years British politicians have been unable to come to an agreement about what Brexit ought to look like — or more specifically, how *they* would like it to look. And this has proved to be an exercise in futility, because how the British want Brexit to play out is nothing like what the other twenty-seven countries will accept. And the other countries hold all the cards in this divorce.

Even if the British were to come to a meeting of minds, the withdrawal agreement must still be approved by every single member of the European Union. It takes only *one* country voting "no" for the deal to be rejected. This includes the nation of Malta, population 432,000. The population of the United Kingdom is over 66 million. A country with fewer than half a million people has as much say-so as *any other country* in the European Union, no doubt making the average Brit wonder why they got involved in this marriage to begin with.

Bottom line: Britain is *never* going to get the European Union to agree to *any* Brexit deal that is the least bit favorable to the Brits. They probably won't even get to keep the "red truck."

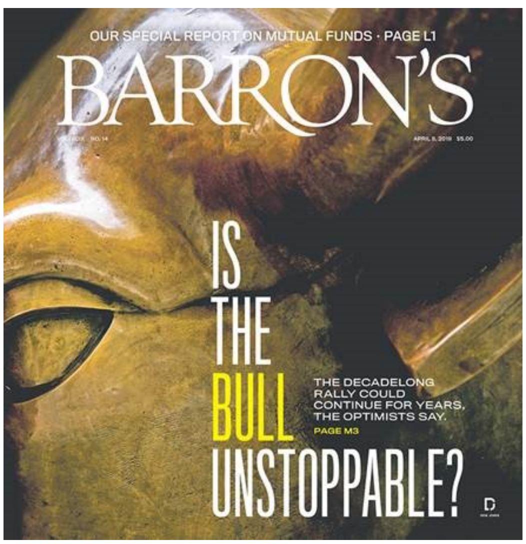
Many people opine that, if the vote were held again today, Britain might vote to remain in the EU. But, as that guy found out, that ship has sailed.

There's a saying in our business: "Buy on bad news, sell on good news." The idea is that, more often than not, you will be buying stocks near the bottom and selling them near the top. Not always, but you get the idea.

With that in mind, this past month it was tempting to take a serious look at owning Boeing, following the two air tragedies involving its 737 MAX8. The stock price took a significant hit and, given that Boeing is still one of only two companies in the world making large passenger aircraft, we thought it might be an investment opportunity.

We passed on the idea, though, because, as days went by, we began to realize that all the bad news may not yet be public. Additionally, even with the price decline, we determined that the stock was still not "cheap."

Check out this week's cover of *Barron's* . . .



This is the type of headline we start seeing when the stock market rally is running out of steam. When more and more headlines like this appear, you should be getting more and more concerned.

Is the Bull Market unstoppable? Should you be worried?

Reasons to be pessimistic:

- Global uncertainties like Brexit (see above) and prolonged trade wars
- Stock valuations that are still well above historical "fair" prices
- The IMF's recent downgrading of growth forecasts for all major economies
- The bond market signaling slow and/or negative economic growth in the U.S. (March saw an inverted yield curve, which we explain here and here.)
- The U.S. government's dearth of recession-fighting ammunition (fiscal stimulus) following the massive tax overhaul of 2018, which also led to record-high debt levels

While we are skeptical that the "decade-long rally could continue for years," as the *Barron's* article implies, there are reasons for optimism in the near term:

- The U.S. is experiencing a robust job market with record-low unemployment and hundreds of thousands of new jobs added each month.
- The housing market is showing signs of life again after a slow end to 2018.
- Any concrete trade deal with China seems almost certain to propel the stock market higher. With the cloud of a potential trade war removed, the stock market might get an immediate boost that could last a few months.
- The Federal Reserve has signaled that it may be done hiking rates for the foreseeable future. The bond market is actually making bets that there will be a rate *cut* by the end of this year. If this comes to fruition, it is possible that stocks will react positively to more "easy money."

With regard to the last bullet point, it is important to note that the Federal Reserve typically cuts interest rates to boost a struggling economy. While the market may initially react positively, in the long run a poor economy is bad for stocks.

This commentary is being sent to you two days prior to the deadline for Britain to leave the EU without a deal. Will the divorce go through or will there be more delays? Stay tuned . . .

On this side of the pond, it is pretty much business as usual. U.S. interest rates are low and trending lower, stocks are still relatively expensive, and BCWM client portfolios are positioned defensively.