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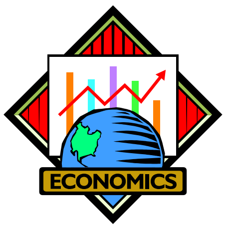
Private Wealth Solutions

Generational Wealth Management



Economic Outlook

The overall US economy continues to be strong even as the global economy trudges through economic malaise. US Unemployment is lower than it has been for 50 years, worker productivity is up to 2.4%, as of the first quarter, and US GDP averaged just over 3% for the past year. So we have low interest rates, and a booming economy. What's there to worry about? In a word, trade.

It is widely accepted that China has been violating our intellectual property rights laws for years. One doesn't need to be in China for long to find bootlegged movies that have just been released for example. There appears to be bipartisan support in the financial community to deal with this long standing issue. According to Jason DeServa Tremmert, CEO of Stregas Research Partners, "There was a bipartisan feeling (among his institutional clients) that standing up to China was a fight worth having to protect national security and economic interests of the United States".

What's the best approach?

It's not a stretch to say our current President seems to relish in conflict. While traditional politicians look to compromise, President Trump likes to antagonize his opponents. Robert Lighthizer, the lead US trade negotiator with China, shares our leader's desire for confrontation. One sticking point in the negotiations is that Lighthizer seems to be requiring a "legally binding agreement" so the Chinese can't cheat. Therefore, it's not surprising that, although a trade deal is in both countries best interest, China and the US are posturing for a prolonged conflict. Although China has more to lose in a trade war than the US, they may be taking the long view figuring they can respond to a slowing domestic economy with weak monetary policy in the event of a prolonged trade conflict.

Although many commentators are quick to point out that the Chinese takes the long view and Trump will be subject to political pressure to strike a deal as he seeks re-election next year, they don't often point out the leverage the US has in these negotiations. Let's look at some now.

- Millions of Chinese citizens work for US companies, directly or indirectly.
- Our economy is $21 trillion and even the full $500 billion in Chinese exports that could be at risk is relatively small.
- Huawei, a major Chinese telecommunications company, desperately wants access to the budding US 5G market.
- Lastly, the timing of a war, if you're going to have one, is good. "If you were ever going to impose costs on the U.S. consumer, the time is when unemployment is at 50-year lows and inflation is a pancake", according to Christopher Smart of Barings Investment Institute.

Random Thoughts

Patriotism is supporting your country all the time, and your government when it deserves it.
-Mark Twain

There is nothing wrong with America that cannot be cured with what is right with America.
-William J. Clinton

Since 1896, the DOW has fallen by at least 2% in a single day 1,011 times. That's once every 33 trading days on average. At today's levels on the DOW, by historical standards alone, investors should expect stocks to fall at least 520 points once every six weeks or so. *-WSJ, May 17, 2019*

Inside this issue:

Stay Active

Just buy the index. It is cheap and gives you access to the whole stock market. You'll outperform in the long run. Statements like these seem to be commonplace in our financial media. Blindly buying a collection of stocks is widely believed to be a much better approach than more fundamental investing. Recent stock market performance seems to support the case for indexing. But is there more to investing than blindly picking an index? Let's look at a case study for both stocks and bonds.

Buying a company simply because it is part of an index doesn't make any sense to me. When you buy a stock you are essentially buying their profits, and losses of the company. Before I bought a business, I would want to know: How much money does it make? What are the prospects for future profits? What do its customers think? What about competitors? How about government regulations? Buying a company without considering these variables seems reckless to me. For a case in point, consider Tesla. Most of us are familiar with the car, but is the company a good investment? As many of you know I do not have opinions on individual stocks and leave that decision to the mutual fund managers I work with, but let's take a deeper dive into Tesla. The company is burning through cash as it attempts to positions itself as the leader in electric, and ultimately, self-driving cars. Elon Musk recently raised $2.7 billion in company stock after saying he didn't need to raise capital. Recently he tweeted that the $2.7 billion will last just 10 months. The stock is down 41% this year making it the worst performer on the NSADAQ 100 list. One analyst recently wrote than in a worst case scenario the stock, which closed at $190.63 on Friday 5/26/19, could trade for $10 a share. It was just about a year ago that Elon famously tweeted "funding secured at $420 a share". Sometimes it pays to kick the tires.

you have to know what you own and why you own it

How about Bonds? According to Barrons, the "quoted value of negative yielding debt the world over hit 10.6 trillion the other day… (5/27/19) In other words, somebody is buying bonds that give them a guaranteed negative return. Who would lend $100,000, ask for no interest, and settle for getting $99,500 back in 10 years? Who is buying this stuff? According to the same Barrons article, it's index investors. "…anybody who owns a **passive** mutual fund tied to the Global Agg. Or anyone who might now own a **passive** ETF tied to a global bond index. Or anyone who owns a popular target-date fund that has **passive** exposure to global bond indexes. In other words, millions of Americans."

I simply believe you have to know what you own and why you own it. Investing blindly is not smart and may get you invested in a car company that is losing a lot of money, or lending money to the Swiss government at -0.50%. Common sense long term investing may not get you rich, but it it should help you earn a reasonable rate of return over time.

Doug Lagerstrom

Spring Cleaning Savings

If you are like me, these past few months have been full of spring cleaning. Out with the old, and in with the new, but exactly what should you do with the old? When I learned about Poshmark, it completely changed the way I looked at "the old." Poshmark is an online marketplace that allows its users to buy and sell new or used clothing, shoes, and accessories. It's perfect for anything from Dad's old watch to that purse you bought for your niece that she just didn't love. Now, you can sell those items to someone else who might really love them. Once you make an account through the Poshmark website or mobile app, selling your items is as easy as uploading some pictures. Share your listings with other users, offer sales, and even negotiate prices. Granted, you might not be able to sell everything you list, but the up-cycling does not stop there. At H&M, you can drop off old clothes, and for every bag of reusable textiles you drop off, you gain 15% off your next purchase.

Not only is all of this good for your closet and wallet, but it's even better for the environment! Last year, the EPA reported that nine percent of municipal solid waste in the U.S. comes from rubber, leather, and textiles. This means that the average American throws away about 81 pounds of clothing every year. Practices like selling or buying used clothes create a more sustainable way of using fashion. Additionally, you can probably find many current trends, like tortoise shell buttons or gingham galore, in the back of your closet or storage spaces. Of course, you can always donate these items to thrift stores like Goodwill, but you might be surprised to see how your trash might become someone else's treasure!

Tamar Tellado

Balance

It doesn't take much to make investors uneasy about the markets these days. Scanning the headlines is like taking a walk through a minefield of trigger words: Interest rates, tax laws, international politics, and of course tariffs. How's an investor to react? In times of uncertainty and conflicting signals, it's tempting to stop adding to your portfolio, constantly reallocating your assets, and moving into nonstock market investments. According to a study by Fidelity, that's a bad idea. Their study of more than 11 million retirement accounts found that investors who pulled money out of the market at the end of 2008 or the beginning of 2009 and stood on the sidelines through March 2010 lost an average of nearly 7% in their retirement accounts. On the flip side, what about the savers who didn't stop investing and didn't get out of the market? Their study showed that investors who continued to make contributions and maintained their allocation from September 2008 to March 2010 saw their balances increase roughly 22%. Wow, that's a big difference!

> Short-term market volatility is just noise and if the noise is loud enough, it detracts investors from achieving their goals

Staying the course and almost using a hibernation mentality is very difficult in our era of 25 hours a day news and everyone's so called best advice and best investment strategy that changes every time the wind blows a different direction. So I ask again. How's an investor to react?? I believe there are several things that investors can do to cultivate the maintaining balance mindset and resist the fight-or-flight impulses that can get them into trouble. First and foremost, investors need to recognize and fully grasp that dips in the market are part of normal market cycles. Second, these investments are for the long term. They are not day trading accounts, but rather decade trading accounts. Short-term market volatility is just noise and if the noise is loud enough, it detracts investors from achieving their goals.

Third, don't second guess the future of your core and best performing investments. There is something to be said about an investment that, during a down cycle, loses less than its peers. That's often a sign of strength. But by selling at the first sign of trouble, investors lock in their losses and risk missing out on the rebound. Fourth and most important, they must actually maintain balance.; Not just emotionally, but within their investment portfolio. Investors should remember to stick to their original plan which was established and put in place during a time when cooler heads prevailed. Re-visiting that plan will in turn allow investors to resist the urge to continually adjust their risk tolerance based on today's headlines and hence please say it with me "MAINTAIN BALANCE".

Allen Minassian

Your Money...moving

The TD Ameritrade Institutional Move Money Form is an authorization that a client signs and provides to the advisor in order to allow the advisor to distribute ACH or deposit funds per the instructions provided. It establishes a standing authorization to request checks, internal transfers, and/or electronic fund transfers between client's TD Ameritrade account and a checking or savings account at their banking financial institution.

The Benefits of using TDA Move Money is the convenience of moving funds to and from your bank account. This is easy to track when processed. It is nice not having to write a check and mailing it with postage you need to pay for, plus the delivery time. It is also more environmentally friendly (checks, envelopes and the fuel to transport).

You might be asking: Is it safe to have this link between my accounts? Outside people cannot call to request funds from your TDA account to go into another person's bank account or have a check issued. This only authorizes Private Wealth Solutions to request funds. Once Move Money is set up on your account and we are requesting funds with TD Ameritrade, there is still a multi-step verification process we must provide. Everything must line up and match before funds are released.

If you are not certain if you have TD Ameritrade Move Money linked to your Trust or Individual accounts or have any questions, please give me a call at 818-264-0600.

Lynn Hillyard

Economic Outlook (Cont.)

There is also an issue of the trade imbalance between our two countries. There is certainly less consensus on the view that this issue necessitates a trade war. For starters, China may be less of a culprit here than Europe. Excess production measures the amount of economic activity generated domestically minus the amount consumed in country. Since 2013 Europe's total excess has been larger than China's every year. In 2018, Italy alone had a larger imbalance than China! The reason for this imbalance isn't cheating on trade or currency manipulation. Simply put, the economy is much worse in Europe than other parts of the world. Since 2008 consumption and Investment has fallen in Europe, while exports have risen with global demand. Domestic spending is still 7% less than before 2008, and unemployment and poverty are higher. In short, the excess production is not a case of an importing countries problems, but a symptom of the exporter.

It is possible that Lighthizer is trying to negotiate a "Plaza Accord" like deal with the Chinese. For those who don't know, President Reagan was dealing with a trade imbalance with Japan. The Plaza Accord required Japan to strengthen its currency to allow the US to export more goods (our goods become cheaper to the Japanese if their currency is worth more. Japan responded by lowering interest rates to stimulate the economy in the face of a slowdown in exports. The result was the greatest asset bubble in my lifetime. The Nikkei stock market trades at roughly 21,000. In 1989 it reached a peak of 33,000. In other words, if you invested $33,000 in the Japanese total stock market in 1989, you would have $21,000 today, 30 years later! There are reasons that the Chinese won't face a similar fate.

- Japan's currency floated and China controls the yuan.
- China has $1.1 Trillion in US treasuries
- Beijing may depreciate their currency, but not to a level that destabilizes the economy.

We are likely to ultimately get a deal since it is in both leader's interest to complete one. President XI, although not facing an election, does face some pressure form the Chinese middle class. Huawei also needs US microchips. By blocking access to that import, President Trump has increased his leverage. President Trump is, of course, up for re-election in 2020. If you've been paying attention to his tweets, you know he watches the stock market and appears to grade his Presidency by the performance of the market. He also needs a deal to solidify his self-proclaimed position as a great negotiator, but first he has to play tough so he can tell voters this was the best possible deal he could get.

In the meantime, the US investor has a volatile front row seat as this drama plays out.

Our People

Tamar Tellado will be leaving us on 6/30/2019 for law school. She will be attending Villanova in the fall. During her time with us Tamar revamped the website, and organized our written supervisory procedures, Join us in wishing Tamar all the best in her legal endeavors. We hope to see you again soon Tamar.

PRIVATE WEALTH SOLUTIONS

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