MOENIO CONSULTING

July 2019 Update on Markets

An Accident Waiting to Happen

Is your Advisor Prepared?

An Accident Waiting to Happen

In my senior year of college, I took time to earn the Emergency Medical Technician Certificate (EMT) and became a First Responder working on an ambulance one summer. Part of our training was to spend time with fire fighters as we might interact with them on emergency calls, and to collect insight on what not to do when rushing to the help of those injured.

One key piece of advice I remembered was on "rushing to help," in a car accident challenge. The advice was sound but hard to follow. You're rolling up to an auto accident and you see a victim in a vehicle that has been severely damaged. Rather than jumping out of the ambulance and running immediately to the victim, you first make yourself aware of your surroundings; gas leaks (check), loose wiring from vehicle(s) (check), liquids apparent – slippery or flammable (check), traffic (check) and more, then you attend to the victim.

2019 is beginning to remind me of my short time on the ambulance and the sage advice provided;

I hear clients shouting, **"I need income"** and **"I need growth"** with advisors rushing to their needs but the caution before entering the scene needs to be addressed:

- There are wires dangling everywhere *(negative yields and loose covenants)*
  I am hearing - "No worries, we can get around those"

- Gas is flowing on the ground ready to explode *(Central Bank easing)*
  I am hearing - "It is typically a bad sign, but this time is different"

- A car is headed directly towards them *(yield curve inversion)*
  I am hearing - "We can step out of the way when the time is right"

- A small fire has begun around the engine *(slowing economies and corporate growth)*
  I am hearing - "I know why that is happening, it won't last"

It is unusual for me to send **"Market Updates."** In fact, this will be our third update in 18-months. I feel it is important to remain neutral and let financial advisors do their job – which is to invest on your behalf.

However, our role is one with a key purpose:

Making certain that our clients are working with the Best Advisors in the industry to manage their wealth

Basically, we are a protector for our clients and their family when working with financial advisors, investment advisors, multi-family offices, trustees and more.

I share updates when I see strong, positively correlated trends in advisors who I consider to be in the **Top 5% that are in contrast to the other 95% (average advisors).** When this happens, I begin to investigate the trend and try to understand why it is happening.

The Top 5% are beginning to act differently once again.

– **Quick Note:**
At the end of this update, I will share our recent recommendations when hired by clients with NEW money to be invested (liquidity event) or EXISTING advisors with money in the markets.

Our Last Update:

This update I shared in October 2018. I wrote this when the S&P 500 had claimed an all-time high at the beginning of October and everyone was enjoying the ride up. I had two outstanding advisory teams going against everyone else in their thought process. Two months after writing this, the S&P 500 was down -24% from October 2018 – December 2018. It was my warning (taken from the two teams) to be mindful of risks and I asked, ***"What is your advisor doing at this moment or, potentially, had done in the last few months with risk management in mind?"***

Paper Link HERE

July 2019 Update

In my research of what the top advisors are recommending, they are being very cautious. The world is not spinning out of control, but the warning signs are flashing bright yellow with some already at red.

Some key warning indicators and note to begin:

- I am not arguing we are headed for a recession, in a recession, or have **"clear sailing"** for the next three to five years. These are warning signs with a historical perspective – they are often proven, over time, to be indicative of market direction.

- Too many advisors are rushing to help their clients achieve income or growth but are not taking into account key risk factors. Being invested is most often the best path, and right path, as timing the markets typically does not work. It is about the subtle shifts in a portfolio and the art of asset allocation that separates the great financial advisors from others.

Trivia question before I share the warning signs:

"When did the FED last cut interest rates?"

Warning Signs shared with us by Top Advisors:

1 We are in the longest bull market in history. It can be argued that the move down in later 2018 being -24% on the S&P 500 reset the bull market, however the move back to the highs so quickly allows us to argue this as a continuation of the bull market.

2 The NY Fed has a **"recession indicator"** I've added here with a link. At no time in history has this indicator gone above 30 without a recession being imminent except in 1968 when the recession took a bit longer to materialize. In fact, the last two times this indicator has gone above 30 we were already in a recession (it takes time for the National Bureau of Economic Research (NBER) to designate a recession).

3 The Kansas City Fed put together a "working research piece" based on the spread between the 10-year US Treasury yield and the 3-month US Treasury yield. Interestingly, when this has gone negative, a recession has occurred five of the last six times. The one time it did not happen, it actually went into recession before going negative. BTW – we have been negative since May 2019.

4 I find this article from the St. Louis Fed written in 2018 concerning the US Unemployment Rate and the Yield Curve to be fascinating. It asks the question, "Is a yield curve inversion and a trough (low) in the unemployment rate a reliable indicator of a recession?" To steal the ending, Yes. But the paper goes further by comparing both the inversion and unemployment together which provides an even stronger correlation of a recession. The question to ask is, "are we at a low in unemployment?" I don't think it can be argued that we are pretty close.

5 One of the smartest thinkers and writers on the markets shared a recent update. This is from someone who predicted the 2000-2002 and 2008 recessions. He is always too early, so I give him a two-year lead time on paying attention. Here is his latest paper on July 15th, 2019. He is at the two-year mark, so I am paying attention.

The counter-argument: One additional piece of information

If you view #2, #3 and #4 they are based in part, or whole, on the spread between the 10-year/3-month treasury spread. If we look at the 10-year/2-year treasury spread, this needs to go negative based on the 1980's as recession indicator. Link here

There are some who argue the FED's manipulation of rates has created this inversion and can be "undone." Using history to make our bet, I'm asking the advisor, banker, investor or others;

"What bet on the dice are you making with your client's money?"

— **A few important notes:**

- The intent of this update is to provide you insight related to what we are witnessing with advisors – A different conversation than "stay the course." Has your advisor(s) begun to shift your portfolio taking into account the various warning signs? An example would be a paper we wrote in February 2018 about the historical shifts an advisor could make to de-risk a portfolio for potential downward pressures.

- This is not meant to have you "sell" and go into cash, running from the markets. You should be utilizing your investment advisor to help you make a decision on your future investments taking into account your current situation combined with your future needs. A key question from this would be; ***"Do you have the right advisor?"*** ***(advisor = banker, investor, etc.)***

- The markets can stay irrational longer than most can stay solvent. Quantitative Easing along with Operation Twist have shown the ability of Central Banks to manipulate markets and investors. However, the data we provided has stood the test of time for 50-years. Yes, this could be different and yes, central banks are manipulating so this has the potential to make these warning signs less relevant but still insightful.

NEW MONEY TO INVEST (Liquidity Event)

You are in a difficult position. The last 10 years have been great for investors, but all things must end. With new money you do not want to be the **"last-in."** Every asset must be held by someone at each point in time. Someone sells, there is a buyer who believes it is the right time to hold that asset. At this point, our advice is simple. You have been on the sidelines for 10-years. No reason to be the last person or next to last person to hold the asset before it finally goes down in value substantially.

If an advisor or team is recommending a **"complete investment allocation"** we would have serious questions and concerns for them on their approach to investing.

— **Tip:**
New money given to an advisor in "late-stage investing" provides a key indicator of the skill-set of an advisor. If the advisor is suggesting, "Invest, we cannot time the markets," we would have reservations.

EXISTING MONEY IN THE MARKETS:

As stated above, the last 10 years have been a great market for prudent investors. However, to truly understand what you should do, there is one overriding question that must be answered:

"Did you fully participate in the markets?"

A 5-year and 7-year investment performance comparison would tell you how you have done

If your advisor had you fully participating in a thoughtful asset allocation since 2009, then you have substantial "dry powder" built up to continue investing. No running to the hills or hiding. You should consider a portfolio built around gradual shifts into value versus growth with safety included.

If you underperformed in your 5-year and 7-year returns, you are in a difficult position. You were invested but did not participate fully. Any downturn in the markets over the next two years could have a negative impact on your future plans. A move into safer assets is probably wise.

FEE RATIO:

As always, run your fee ratio. How much did you pay in fees over the past 3-year period and how much did your advisor provide as a return? If your ratio is over 20% (your total fees paid divided by your net return) then you could be paying too much. Give us a shout if you need help with this one.

Your Fee Ratio = 21%

(Fees Paid/3-Year Return)

$1,000,00	Investable Assets
$118,000	3-Year Net Return
$25,000	Fees Paid over 3-Years

What is your Fee Ratio?

Who are we?

We are **MOENIO** - a client advocacy firm working on behalf of our clients to make certain they work with, or will work with, a great financial advisor.

With over 600,000 registered advisors in the United States, how do you know the advisor you might choose is one of the best?

We have four core areas in which clients entrust us to help:

1.

EVALUATE your current financial advisor in 16+ areas; fee's being charged, investment returns, investment products being used, background check on the advisor and firm, to name a few.

2.

FIND a great financial advisor with a customized search based on your needs and goals but making certain the advisor delivers good, risk-based returns for a fair fee.

3.

PERFORMANCE GUARD is focused on providing periodic check-ups on your investments and returns. We give you comfort in knowing your investments are being managed correctly with the right risk-adjusted returns you've agreed to and want from your advisor.

4.

TRUST & INVESTMENT PROTECTOR providing a level of oversight on the trustee and the assets being managed going beyond the basics - a 360° View. Moenio evaluates and continually monitors the trustee, when required, and those managing the assets - adding an additional layer of protection.

Your interest is our sole interest.