Doug, Ralph, Chris, Michelle, Andrea

Portfolio Talk **Second Quarter 2019**

"There is one rule for industrialists and that is: Make the best quality of goods possible at the lowest cost possible, paying the highest wages possible."

-Henry Ford

Continuing down the path of the longest economic expansion in our nation's history we should take a moment to understand the reasons behind its longevity. Part of that understanding is that by March 2009 the markets had contracted so much it was as if we were headed for a total collapse of the financial system and thereby the whole economy. Coming up from such an extreme low once confidence started seeping back in was the beginning. What happened next was a normal human response to adversity; overreact to try and prevent a recurrence. By that I mean our lawmakers began to regulate to a degree not seen since the Great Depression of the 1930's. Adding approximately 21,000 new regulations, law makers required businesses to comply with these new laws at an estimated $22 billion annual cost. This left businesses with less to raise wages and invest in capital expenditures, all things that slowed the recovery. While I'm not arguing there wasn't a need to increase scrutiny over the bad actors in the financial markets, what I do believe is that the agencies responsible for oversight were equally at fault in not following the regulations that were already on the books. Knowing that tweaking regulations to keep laws current is vital, creating new ones and not getting rid of the old tends to be overkill.

As Congress began reducing regulations and embarking on a tax reform package, businesses began to gain confidence in their ability to compete globally. With that new-found confidence, they began to invest in themselves as well as their employees. An argument can be made that too much of these new-found funds were used to buy back stock and pay CEO's bigger bonuses, in some cases may be true; however, in a broader sense its not. GDP would not be growing at a 3% plus level and wages for all workers up 5% in 2018 without investment and expansion taking place. Even though more time is needed to see the full effect of these legislative changes, on the surface the economy is growing above normal and unemployment is at historic lows.

Where to now? That's the $64,000 question. Unilateral negotiations tend to be the stated direction. Would we as a nation be better off with our allies by our side? Not sure, but when our allies are taking advantage of us through added tariffs against us is it possible to negotiate against one's self? Tariffs that were agreed upon on the 1940's to help rebuild Europe and Asia after World War II have out lived their purpose. Tariffs agreed upon with China when China was an emerging economy and needed help in kick starting their growth have out lived their purpose. Years of kicking the can down the road should end, however the direction of these negotiations are tough to watch.

I do believe it's in the best interest of all parties to reach an agreement on trade, but a quick fix is improbable. One thought is that with the election just 17 months away some resolution is probable prior to that date. Politicians in power realize that a good economy tends to keep them in power.

Update

The economy is growing at a 3.2% level coming out of the second quarter. Unemployment is at 3.7% nationally. The consumer is strong, but manufacturing, materials and transportation are feeling the effect of the trade scrimmage the most. Financials are also having troubles with net interest margins (NIM) due to low interest rates. Pharmaceuticals are struggling because of the pending legislative issues with the cost of certain medicines. However, I believe these issues will be resolved, and as they are, I'll be looking to add names of companies wrongly sold off and that show upside opportunity. Earnings are still beating analysts' projections, however in most cases those estimates have been revised lower over the past three months. Even though the likelihood of an earnings recession is possible, it's now looking improbable. Earnings for the second quarter should come in with an increase of approximately +1%. More later...

Douglas E. Wells
Managing Director
Chief Investment Officer
(330) 752-4843

Ralph E. Trecaso
Managing Director
Family Wealth Advisor
(330) 752-6093

Christopher C. Walters
Managing Director
Portfolio Manager
(330) 242-0580

Michelle L. Weaver
Client Service Director
(330) 752-8825

Andrea B. Otte
Client Service Director
(330) 752-8825