JAMESSON ASSOCIATES

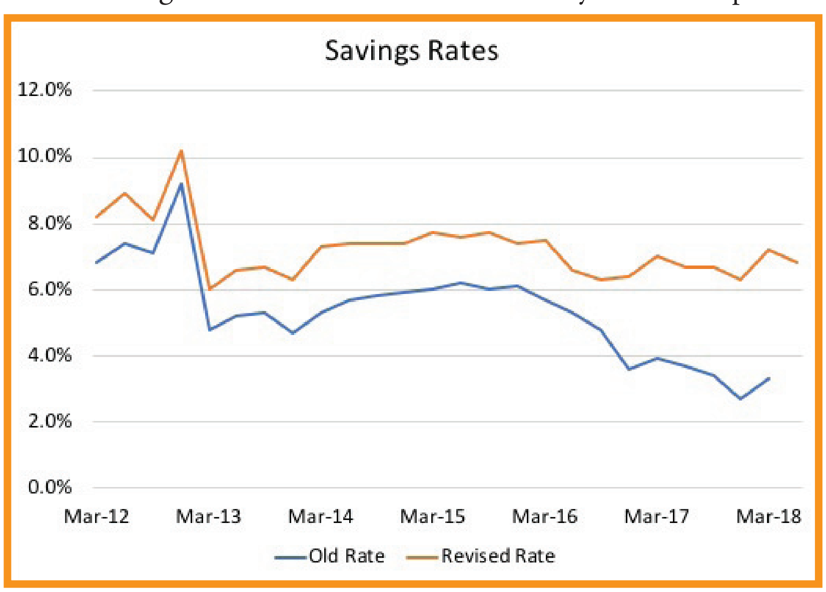
FALL 2018

QUARTERLY NEWSLETTER

Recent Economic Events

Are workers finally benefiting from the long but slow expansion? The August employment report offers hope, as does a big revision in personal savings statistics. The US turned in a solid economic performance as measured by second-quarter GDP figure. Plus, small business optimism is positively giddy. Challenging the upbeat outlook are more comprehensive business statistics, rumblings of a trade war, and increasing inflation which threatens to force the Federal Reserve to tighten, perhaps more than they should.

The American economy added to its record string of monthly job gains in August, posting 201,000 new positions. Excluding months in late 2010 when census workers were laid off, the streak of job gains extends for 104 months. And for the first time since the recession ended, annual wage gains hit 2.9%. This welcome news was accompanied by a substantial revision in the government's assessment of personal savings rates. Previously, it appeared that the savings rate had declined to rock-bottom levels of under 3%. However, government statisticians found that income had been underreported, mostly by sole proprietors. The new savings rate is a much healthier 6.7% as of July.



Real second-quarter GDP growth came in at a strong 4.2%, boosting the year-over-year rate to 2.9%. The stars included personal consumption, business investment, and exports. The two former categories reflect some of the impact of the tax cuts enacted late last year, while the latter is a one-time factor due to a surge in soybean exports to beat retaliatory Chinese tariffs.

Small business confidence hit an all-time high in August, surpassing the record set in 1983. Perhaps, now that tax rates are lower, those folks will report all of their income. Whether they do or don't, it seems that plans for expansion and new hiring are at elevated levels. The ongoing skills gap remains a challenge for hiring, however, because the survey still shows labor quality as the top concern.

Looking at the bigger picture, statistics such as industrial production and durable goods orders are positive but not at record levels. Much of the tax cut benefit that big business has obtained has flowed not into new investment, but rather stock repurchases. This reflects the drumbeat of tariffs imposed or threatened and the general lack of attractive investment opportunities. It certainly has helped the stock market.

Whether we are in a trade war or not, politics have already had an impact on inflation. Prices for items targeted in the tit-for-tat tariff battle have jumped. OPEC is limiting oil supply and the American withdrawal from the Iran nuclear deal has led to a collapse in Iranian oil exports. Venezuela is an example of populist ideas overwhelming

Recent Economic Events *(continued)*

good business as their oil production has plummeted. All of these developments have helped to keep oil prices elevated, costing American drivers money at the pump.

The Federal Reserve has noted the strong economic growth and the upswing in prices, reinforcing their signals for higher interest rates. September and December will almost certainly see increases and the comments of Federal Reserve members suggest that the three increases penciled in for 2019 should be taken seriously. Because monetary policy acts with a lag, it may very well be that the Fed is justified in raising rates today and tomorrow, but the implications of the increases will have their greatest impact next year and the one after.

Current economic performance is pretty darn good (How's that for Econo-speak?). It seems a shame that the continuation of the fundamentally sound and next to longest economic expansion in US history is mostly dependent on the unpredictable actions of political players.

Commentary

The following is offered with apologies to those with real poetic talent whether amateur or professional. No apologies for the sentiments expressed as I believe that it is the most important issue that we face as human beings. Please see GMO.com for Jeremy Grantham's "The Race of Our Lives Revisited" for a more thorough exposition of the issue.

Only the ignorant,
Those who ignore facts that are clear,
Deny global warming is here.

Out in the west, fires rage
Far and wide, burning tree after tree
Even closing Yosemite.

Melting ice in the Artic
Wakes a dream to sail to the north
Thus, speeding the trip by a fourth.

Lane, Gordon, and Florence
Are not of the past but news of the day
Putting millions in harm's way.

Here in Upstate New York
Drought withered grass, and dried fruit tree buds.
Heavy rains then caused flash floods.

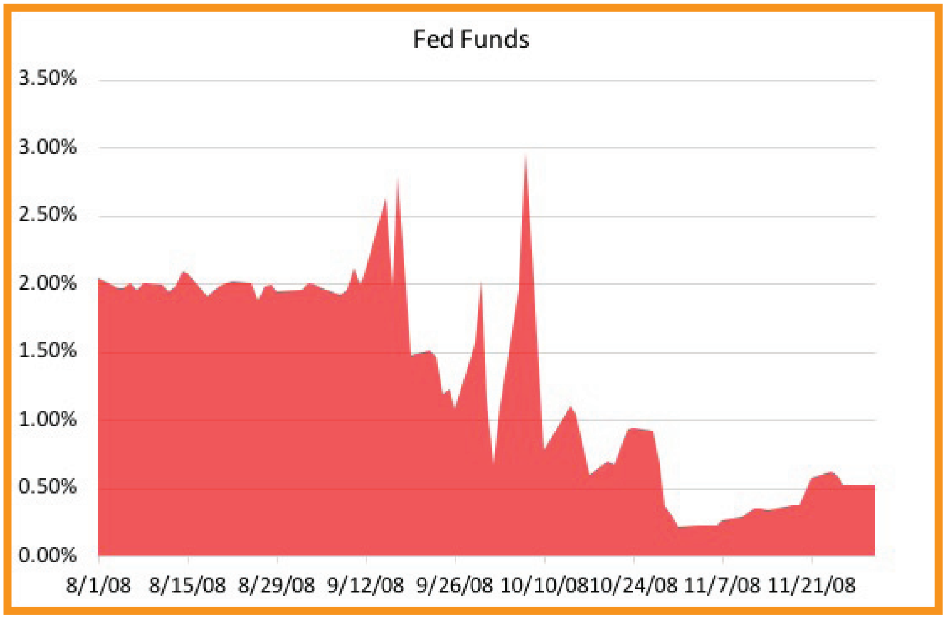
Voters foolishly chose
A man with a focus so short
It stops with a Twitter retort.

His response to the threat?
Directing roll-backs on fossil fuels
Through lackeys who erase the rules.

I'm afraid that depending
On him to carry out the laws
Hurts not furthers our noble cause.

No, we must rely on
Regular folks to protect the Earth,
Thereby proving our species' worth.

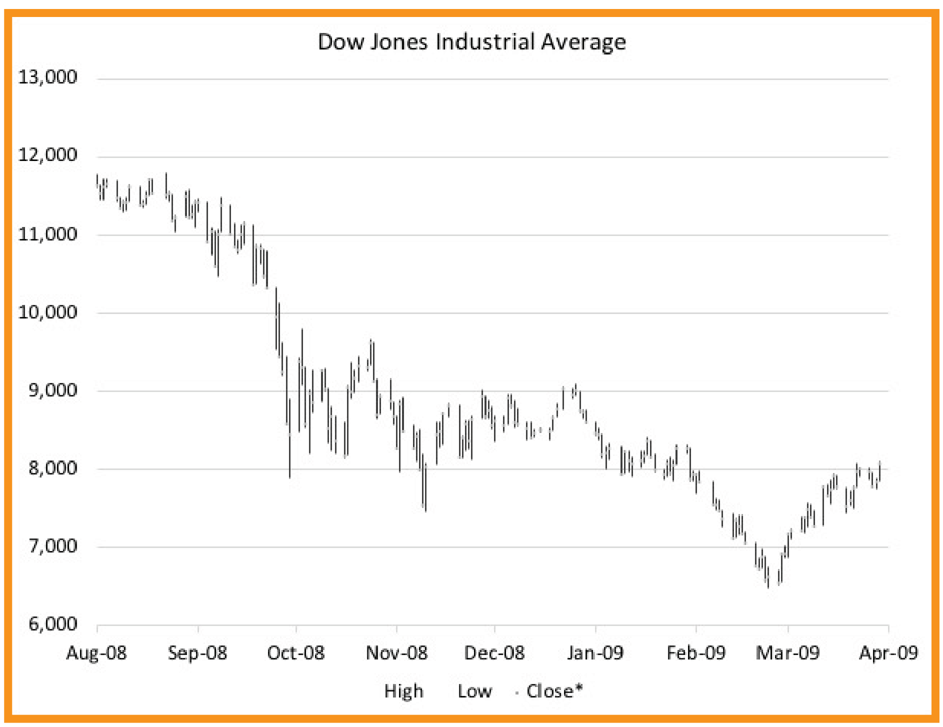
Market View



The ten-year anniversary of the financial meltdown is upon us. From early September to early November 2008, the Federal Funds rate collapsed from 2% to less than .25%. As you can see on the chart, it was not a steady glide path down. Cash went from a low-yielding asset with no particular benefits to the most valuable commodity of all during the height of the crisis and then to trash once the fever had passed. But anyone holding cash during the meltdown found other asset prices on clearance sale. By the time that the dust had settled in March 2009, cash could buy 75% more of the Dow components than it could have in August 2008. Not bad.

History will repeat itself. The stock market reflects high valuations of earnings boosted by both the tax cuts and stock repurchases. That seems like a rickety foundation to me. However, it's hard to stand in front of the powerful momentum that equities are exhibiting. While I am pretty sure that the next decade will produce at least one stomach-turning decline and that overall returns will be sub-par, the timing is opaque.

My advice is a reverse dollar-averaging approach. Plan on selling a percentage of your stock portfolio each month and going to cash. The ultimate target would be about 15% to 20%, implying 2% to 3% per month. Those dollars should not sit idle. Yields for liquid funds are near 2%, and tying up money for only a year or so should yield 2.5%. By building up a cash reserve, you will have some dry powder to invest when prices return to more reasonable valuations. In the meantime, you earn a steady return.



Market View *(continued)*

Overall commodity prices have been buffeted by geopolitical factors, making an investment a truly dicey proposition. If I am correct that the economy has seen its best days and that either a slowdown or an actual recession is in our future, demand for commodities will likely stay weak. The one exception is oil.

There are a number of factors that suggest an upward direction for oil prices. Supply issues are first and foremost. OPEC has shown production discipline. Iran, Venezuela, and Libya have all suffered production and export reductions for reasons that will not change soon. On the demand side of the ledger, emerging nations will still show positive growth even in the face of an economic slowdown in the developed economies. They will continue their voracious demand for petroleum for transportation as they graduate from bicycle to motorbike to automobile.

The gains I expect in energy prices should keep a floor on inflation, suggesting that Treasury Inflation Protection Securities (TIPS) are an excellent way to invest the fixed income portion of your portfolio. At some point (probably when the yield curve inverts), adding to longer-term regular bonds will make sense. Patience will be rewarded on that score.

Michael Jamesson
Jamesson Associates
Scottsville, NY
(585) 889-8090

Mjamesson@aol.com
Michael@JamessonAssociates.com

Editor's Note

Soon after penning my June newsletter, Susan said to me, "Why don't we go to the Belmont Stakes?" She noted that her horse, Justify, had won both the Kentucky Derby and the Preakness, and it would be really neat to see a Triple Crown winner. Being none the wiser as to how to get to Belmont Park, I agreed. Not surprisingly, hotels near the track were either booked or as expensive as Manhattan penthouses. On top of that, driving to and parking for the race promised to be a nightmare. Instead, we chose a hotel near Penn Station which made taking the special Long Island RR train directly to and from the track an easy choice. The deal was no alcohol on the train and a promised 30 minute journey. Well, we arrived more than an hour after departure, and I'm pretty sure empty beer cans outnumbered the passengers. Fortunately, the race was as hoped with Justify winning by one and three-quarters lengths. When he came down the homestretch, and it was obvious no one would catch him, we felt a thunderous cheer welling up from the entire crowd which "justified" the hassle of attending in person. The attached picture commemorates our experience.