

WEIGHING THE EVIDENCE, REVISITED

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In late April of this year, I published a seventeen-page white paper on then current market conditions entitled, "*Weighing the Evidence*". For those who may have missed it, here's a link to its posting on our site: <http://ashtonthomaspw.com/2018/04/20/april-2018-special-report-weighing-evidence/>

The paper's intent was to share with the readers my list of readily observable market conditions considered to be "Pros" (reasons to believe the equity markets would continue their historic rise), and "Cons" (reasons to believe the bull market would soon come to an end). It was a broad view of economic, geopolitical, and psychological factors and stimuli investors should be considering in both their decisions to deploy investment capital, and, as importantly, whether to invest that capital "passively" (i.e. strategically, aka "buy and hold") or "actively" (i.e. tactically, using money managers employing both "buy", and "sell" disciplines).

The lists were extensive, and reasonably balanced, and I reproduce them here:

Pros

Corporate Earnings are rising fast.
U.S. GDP is accelerating.
Global "synchronized" expansion.
Unemployment is at cyclical lows.
Interest Rates are still cyclically low.
Investor Sentiment is weakening.
\$800 Billion in Stock Buybacks in 2018.

Cons

Stock Valuations extremely high.
The Federal Reserve is a headwind.
Govt., Corp., Household Debt are high.
Yield Curve is "flattening".
Inflation is starting to rise.
Geopolitical Risks are rising.
Political Polarization.

Since that time, the most readily observable change has been in the divergence between U.S. and foreign equity markets. Here's an update to the chart that appeared at the beginning of the April report, showing the S&P 500 Index (Blue Line) a proxy for domestic stocks, the MSCI E.A.F.E. Index (Green Line) a proxy for foreign, developed stock markets, and the Bloomberg Barclays U.S. Aggregate Bond Index (Red Line), a proxy for domestic bonds:



Source: <https://finance.yahoo.com>

At the time I published the white paper in mid-April, both domestic and foreign stocks (Blue and Green lines) were moving in relative lock-step, but a month later, in the third week of May, the foreign stock markets took a sharp downward trajectory, largely, if not entirely due to the divergence in global Central Bank policies, as the U.S.' Federal Reserve Bank (the "Fed") has continued to hike short-term interest rates in the U.S., while foreign Central Banks have kept their interest rates at, or below 0%. As investor capital naturally seeks its highest reward, overseas investor capital has flowed out of foreign markets (and currencies) into the U.S., where it is "rewarded" with higher interest payments. From April 2018, through September 14th, the U.S. Dollar Index (DXY), a measure of the U.S. Dollar's strength against a weighted geometric mean of a basket of foreign currencies, including the Euro, the Japanese Yen, the British Pound Sterling, the Canadian Dollar, the Swedish Krona, and the Swiss Franc, has appreciated by +5.6% ⁽¹⁾. The strength of the U.S. Dollar has become a headwind to foreign equity markets, as investors in non-U.S. capital markets see their capital lost to currency exchange rates. This is a trend we see continuing, as the Fed has signaled its intention to raise rates two more times this year alone.

Let's go back to my lists, and see what we observed then, and now. Starting with the "Pros":

Corporate earnings are rising fast.

What I said then: *"Analysts' consensus estimates are that 2018 will see (the S&P 500 Index)' "As Reported Earnings" (per Index share) rise another 33% in 2018, primarily a result of the "Tax Cuts and Jobs Act" Congress passed into law in December of last year."*

What I observe now: With 499 of the 505 constituent companies (98.8%) in the S&P 500 Index having reported their Q2 2018 earnings, "As Reported" earnings in the first two calendar quarters of 2018 are +23.13% higher than were reported during the first two calendar quarters of 2017. Consensus Analysts' estimates for full-year 2018 "As Reported" earnings for the Index are that they will come in +30.15% higher than the full year "As Reported" Index earnings they delivered in 2017. A slight decline in the projected rate of growth, but still quite impressive. ⁽²⁾

U.S. GDP is accelerating.

What I said then: *"...consensus estimates by the Federal Reserve and others are that we may see the first yearly increase in GDP "north" of +3% since the four calendar quarters ended March of 2015, when we averaged +3.75% GDP growth."*

What I observe now: After a somewhat disappointing Q1 2018 GDP report of +2.2% growth, Q2 2018 GDP was up +4.2%, an incredible acceleration in growth over the prior quarter and year ⁽³⁾. The Wall Street Journal's Economic Forecasting Survey, a monthly survey of more than 60 economists, projects Q3 GDP will come in +3.1%, and Q4 GDP is projected to come in +2.9% ⁽⁴⁾. If these next two quarterly consensus' estimates are realized, the U.S economy will have grown at an average + 3.1% rate in 2018. If so, it will be the first calendar year since 2005 that the US economy has grown more than 3% ⁽⁵⁾. Very impressive, especially for an economy the size of the U.S.', one producing \$19.39 Trillion in goods and services annually.

Real GDP growth of the United States from 1990 to 2017

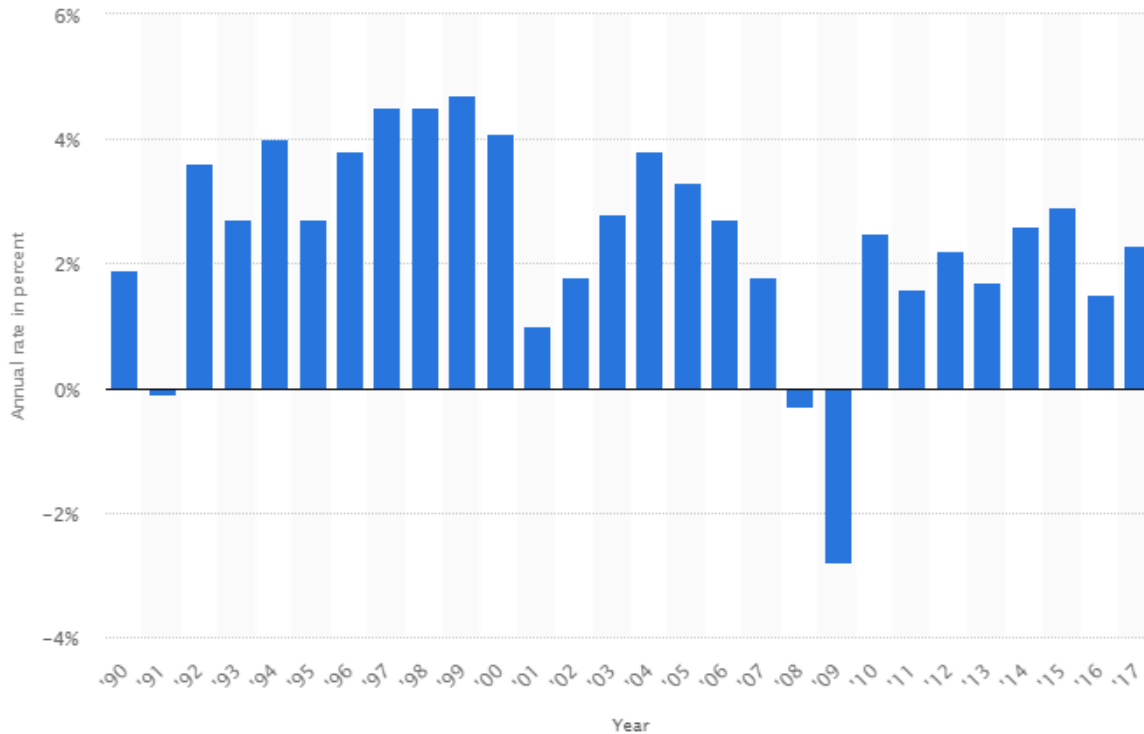


Chart Source: <https://www.statista.com/statistics/188165/annual-gdp-growth-of-the-united-states-since-1990/>

Global “synchronized” expansion.

What I said then: “The entire world is experiencing the first “synchronized global expansion” since 2010. According to the World Bank, “Real” (inflation-adjusted) GDP Growth for the U.S. is expected to reach +2.9%. In Europe, they expect +2.1%, in Japan, +1.5%, in China, up +6.9%, and in the Emerging Markets, they are forecasting GDP Growth of +4.5%.”

What I observe now: The International Monetary Fund, in its July 2018 publication, “World Economic Outlook” observed that: “the (global synchronized expansion) is becoming less even, and risks to the outlook are mounting. The rate of expansion appears to have peaked in some major economies and growth has become less synchronized. Growth projections have been revised down for the Euro area, Japan, and the United Kingdom, reflecting negative surprises to activity in early 2018. Among emerging markets and developing economies, growth prospects are also becoming more uneven, amid rising oil prices, higher yields in the United States, escalating trade tensions, and market pressures on the currencies of some economies with weaker fundamentals” ⁽⁵⁾. Clearly, the “tide” of economic

momentum that rises all boats is going out. Global investors are leaving foreign and developed countries' equity markets, and flocking to the U.S. markets, and to the U.S. Dollar. This "Pro", is quickly turning into a "Con".

Unemployment is at cyclical lows.

What I said then: "At 4.1% (unemployment in the U.S.), the U.S. labor force is close to fully employed...Since President Trump was elected, the country has added 3,052,000 jobs to the labor force. Labor Force Participation has gone from 62.7% to 62.9%".

What I observe now: August's Unemployment Rate was 3.9%, a 0.2% improvement from the March rate I reported in my April white paper. However, the Labor Force Participation Rate has decreased by (-0.2%) from the March reading, to 62.7% in August. The country has added an additional 1,009,000 jobs since March, an average increase of 201,000 per month, a slightly higher monthly average increase than was reported during the first 15 months (Jan. 2017 – Mar. 2018) of the Trump Administration, when we saw an average of 189,000 new jobs a month ⁽⁶⁾. That said, further improvements in the Unemployment Rate, the Labor Force Participation Rate, and in the number of new jobs created monthly will be challenged by a recent phenomenon, a condition called "Structural Unemployment", which is evidenced in the fact that there are 6.7 million job openings with just 6.4 million available workers to fill them. The problem is exacerbated by the current "mismatch" of skilled jobs available, and the workers with the skills to perform them. March was the first time in U.S. history where the number of available jobs exceeded the number of available workers, and until and unless workers attain the "skills" required to perform them, these jobs will continue to be vacant ⁽⁷⁾. With unemployment this low, we would expect Wage Inflation would be rising faster than it is, but with the "skills gap" we've observed, I expect improvements in the U.S. employment situation to be challenging from here. While this "Pro" has certainly not become a "Con", I would suggest the current employment environment is more of a "Neutral" factor in the country's near-term economic health.

Interest Rates are still cyclically low.

What I said then: "On Tuesday, July 5th, 2016. The benchmark Ten-Year Treasury Bond yield fell to an all-time historic low of 1.37%. It has risen to 2.83% as of April 17th, 2018, but as the chart below reveals, these higher rates remain well below historical averages."

What I observe now: The Ten-Year U.S. Treasury Bond's yield "peaked" for 2018 on May 17th, when it reached 3.11%. It fell to 2.77% seven trading days later (May 29th), but it has been climbing higher since, and closed at 2.99% on September 14th, 2018 ⁽⁸⁾. That said, we remain in an environment where rates are near historic lows. For some historical perspective, the post-World War II average yield for the Ten-Year Treasury Bond has been 5.52% ⁽⁹⁾. The record high rate for the Ten-Year U.S. Treasury Bond yield was 15.82%, reached back in 1981, so current rates, while rising, are still well below average yields. I

would still consider current interest rates as “accommodative” to economic growth, and thus still a “Pro” from the capital markets perspective. There are concerns about the yield curve however, and I’ll discuss that during our review of the list of “Cons” later in this update.

Investor Sentiment is weakening.

What I said then: *“The American Association of Individual Investors (“AII”) weekly Investor Sentiment Survey is conducted with 170,000 individual investors. These investors are asked one question each week: Over the next six-months, are you “Bullish”, “Bearish”, or “Neutral” about the direction of the stock market? Interestingly, and counterintuitively, six months (market) returns following high levels of (investor) pessimism have been better than following high levels of optimism. In fact, the more pessimistic, the better the returns. For the week ended April 11th, 2018, 42.8% of respondents indicated they were “Bearish”, while 31.2% said they were “Neutral”. Only 26.1% of respondents said they were “Bullish”. A “Bearish” reading of 42.8% is higher than the historical average of 30.6.....While the indicator is not a perfect contrarian indicator, there is an impressive amount of data to suggest that when “Bearish” sentiment is high, as it is today, the market is more likely to rise, than to fall.”*

What I observe now: On April 11th, 2018, the day the referenced survey was taken, the S&P 500 Index closed at 2642.19. On Friday, September 14th, it closed at 2,904.98, a gain of +9.95% over that five-month period, so the survey’s value as a contrarian future indicator seems validated. That said, the most recent survey taken during the week ending September 12th, showed that favorable Investor Sentiment has increased, with 32.1% claiming to be “Bullish” today (as opposed to 26.1% back in April), still well below the survey’s historical average of 38.8%, while the number of “Bears” has decreased to 32.8%, a bit above the historical average of 30.6% ⁽¹⁰⁾. If this survey remains a reliable contrarian indicator, the shift to a more “Bullish” sentiment among today’s investors should be considered a warning that trouble lies ahead. This “Pro” would now have to be considered a “Neutral” factor at best, trending toward a “Con” today.

\$800 Billion in Stock Buy-Backs (projected) for 2018

What I said then: *“Last year (2017) \$525 Billion was reinvested into repurchasing shares, and according to Mark Kolakowski of Investopedia, 2018 is set to see a whopping \$800 Billion, a 55% increase in share repurchase programs. That’s \$800 Billion in increased demand for those companies’ shares than the market demand itself would provide. And that added demand will help prices rise.”*

What I observe now: On August 13th, 2018, the Nasdaq market posted an article to its site entitled, “Stock Buybacks Poised to Eclipse \$1 Trillion” ⁽¹¹⁾. At the time of the article’s writing, \$754 Billion in stock buyback plans had already been announced this year, placing the \$1 Trillion mark for 2018 clearly in the crosshairs. One can argue that stock buybacks are often a tool used by corporate management

to “financially engineer” better earnings going forward by reducing the number of shares outstanding over which to spread quarterly earnings, but there is little doubt that \$1 Trillion in additional demand for those stocks will provide upward pressure to their prices. A strong “Pro” on our list is getting stronger still.

A quick review of the seven market “Pros” I listed in my April paper reveals that four of them remain intact, while two (*Unemployment Rate* and *Investor Sentiment*) are now “Neutral”, and another (*Global Synchronized Expansion*) would now have to fall onto the “Con” list.

Speaking of “Cons”, or reasons to be bearish, back in April we sited:

Stock valuations are extremely high

What I said then: *“The current P/E Ratio of the S&P 500 Index is 24.63, meaning an investor in that Index would pay \$24.63 for every \$1 in earnings those companies collectively generated over the prior four quarters. The Index’ average (Mean) over its history is 15.70, and the Median P/E is just 14.69. At the current P/E level, we are 55%, and 66% above the Mean and Median readings, respectively.”*

What I observe today: The “As Reported” trailing four quarters (ended June 30th, 2018) P/E Ratio for the S&P 500 Index declined to 23.71 times earnings, and Analysts’ Consensus Estimates for the P/E Ratio we’ll see when September 30th earnings are eventually reported, are that it will fall further still, to 22.20 times earnings ⁽¹²⁾. A shrinking P/E Ratio is a positive trend to be sure, but we still remain 41%, and 51% above the Index’ average Mean and Median P/E Ratios, historically. Stocks remain very expensive from any fundamental measure, and as such, this “Con” remains on this list.

The Federal Reserve is a headwind.

What I said then: *“There is an old expression amongst stock traders: ‘Don’t fight the Fed’. What that means is when the Fed is “accommodative” in its monetary policy, lowering the Fed Funds Rate and adding to its Balance Sheet with printed money, as it did from 2009 – 2017, investors should ride the wave to higher stock prices. When they are “removing accommodation”, i.e. raising the Fed Funds Rate and decreasing its Balance Sheet, as it is now, watch out. The Fed has provided an incredible*

“tailwind” to the markets the last eight years, a wind that has become a headwind to the stock market as of last October.”

What I observe today: Since I wrote that, the Fed increased its Fed Funds Rate on June 13th to a range of 1.75% - 2:00%, its seventh rate hike since December 2015. There are three more meetings of the Federal Reserve’s Open Market Committee scheduled for the remainder of 2018, the next just a few days away on September 26th. As this is written, the market continues to think there is a near certainty that another rate hike will be announced by the Fed next week, and an approximately 80% likelihood of another in December, which would be the fourth rate hike this year (13). In its annual gathering of Global Central Bankers in Jackson Hole, Wyoming, Fed Chair Jerome Powell said that the U.S. Central Bank will continue its path of “rate normalization” (i.e. gradually raising interest rates).

While rates certainly remain low by historical standards, higher interest rates are a significantly negative “input” on Corporate Earnings calculations, especially as Corporations have re-levered their Balance Sheets in recent years. Historically, the Fed has rarely been successful in threading the needle of raising interest rates in a way that would keep an accelerating economy from “overheating” and doing so at a pace that doesn’t choke off growth entirely. We’ll see if Chairman Powell’s policy prescriptions are better than his predecessors in this respect, but this “Con” clearly remains on the list.

Govt., Corp., Household Debt are high.

What I said then: *“Federal Debt, as a percentage of the country’s GDP has risen to 105%....American non-financial Corporations have increased their debt as a percentage of GDP as well, now at a record high of 73%....At its height in 2008, U.S. Households had personal and mortgage debt totaling 98% of the country’s GDP. It has moderated as a percentage of GDP to 79% in the ten years since....the total debt (Federal, Corporate, and Households, combined) in nominal dollar terms is at its all-time high.”*

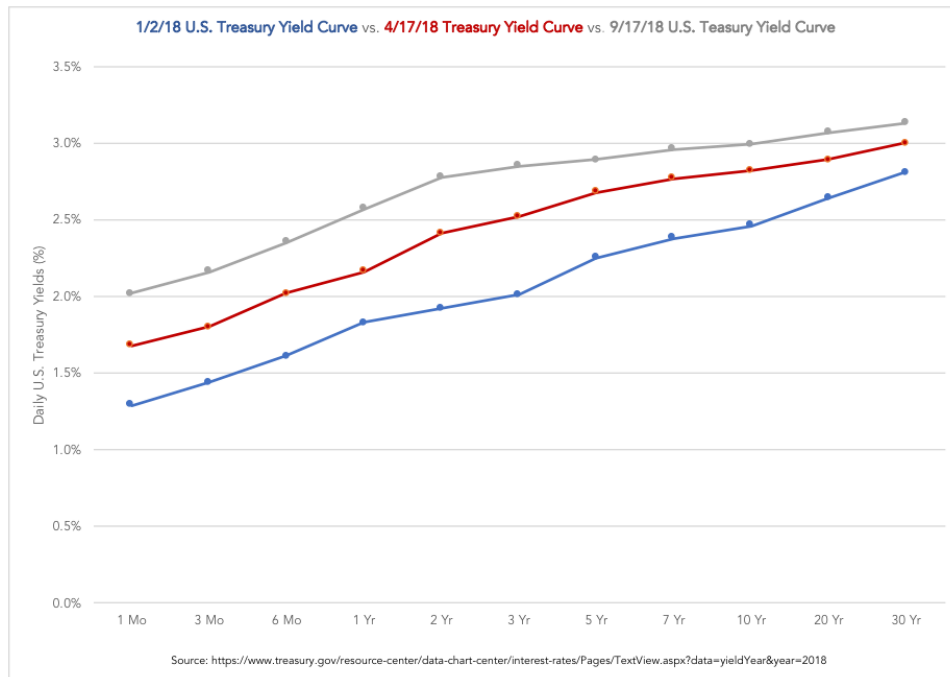
What I observe today: Checking in again, the U.S Debt Clock (“Real Time” as I type this) shows U.S National (Federal Government) Debt of \$21,485,286,997,045, with U.S GDP at \$20,525,380,915,780⁽¹⁴⁾. Dividing Debt by GDP brings me to a Federal Debt to GDP Ratio of 104.7%, just about where it was in April. (This tells me that for every dollar of new “productivity” we generate as a country, the Feds are borrowing an additional dollar.) The data cited in the April report was the Federal Reserve’s estimate for American non-financial Corporation Debt as a Percentage of GDP, at 73%. The Fed’s most recent update for that metric has slightly increased that to 73.5%, so corporate debt has seen an increase of one-half of 1% of GDP in total since April. According to the latest available data from Trading

Economics, U.S. Household Debt to U.S GDP stands at 78.7%, a slight decrease from the 79% we observed in April. Federal, Corporate, and U.S. Household Debts as Percentages of the U.S GDP haven't really moved, which means we are still at, or near record highs in many debt categories. Given the levels of debt, and the deteriorating quality of new debt issuance, these dangerous debt levels remain a strong "Con" for market prospects going forward ⁽¹⁵⁾.

The Yield Curve is Flattening

What I said then: "An oft-cited measure of the health of the interest rate environment is the difference in yield an investor in 10-Year Treasury Bonds would receive, as opposed to the yield an investor in 2-Year Treasury Bonds would receive. Historically the "spread" (excess interest) investors get for buying the longer-dated bond is between 0% and 2.50%. Anywhere in the middle of that range would be considered "normal". As I type this on April 17th, 2018, it is just 0.41%, and trending downward. Why is a flattening yield curve bad, you ask? Without getting too deeply into the reasons why, historically, whenever the yield curve "inverts", where the longer-dated bonds pay less than shorter-dated bonds, a recession occurs in the near term."

What I observe today:



The chart on the previous page shows Treasury Yields for 1-Month to 30-Year Treasury maturities on January 2nd of this year (**Blue Line**), for April 17th of this year (**Red Line** - the date of the previous Report), and today's (**Grey Line** - September 17th) market close. The "2 – 10 Spread" as it is commonly referred to was 0.54% on the first trading day of the year, shrank to a 0.41% spread in April, and is just 0.21% today. The yield curve is indeed flattening, and with one or two more rate hikes by the Fed, without corresponding increases in the yields of longer-dated bonds, we could see a completely "flat" yield curve soon, and possibly, an "inverted" yield curve. This worrisome "Con" for economic (and market) prospects remains a "Con", and it is deteriorating.

Inflation is starting to rise.

What I said then: *"Through March of this year, the Consumer Price Index ("CPI"), the "official" measure of the U.S. Inflation Rate is +2.4%, the highest monthly reading since March 2017. Employment Costs, or Wages, are a large percentage of CPI, and are now +2.6% higher than a year ago....If Inflation reaches +3% or greater, I believe we will see a direct impact on stock prices."*

What I observe today: The U.S Inflation Rate ("CPI") has continued to rise and is now +2.7% higher for the twelve months ending August 31st (16). The latest data on Employment Costs show that Wages have now risen +2.8% for the 12-months ended June 30th, the most recent data available ⁽¹⁷⁾. With 0.3% and 0.2% (annualized) increases in both CPI and Wages, respectively, since April, we are approaching some dangerous rates of growth. This remains a "Con" in terms of market conditions, and it, like the yield curve data, is a deteriorating statistic.

Geopolitical Risks are rising.

What I said then: *"The list of potential problems that could lead to military intervention or all-out war is scary. We are rattling sabers (or worse, in armed conflagrations) with Russia, North Korea, Syria, Iran, and we may add China to the list in the South China Sea. We are aggressively sanctioning several countries and outright rescinding previously agreed-to Trade Pacts and Nuclear Proliferation Deals. The world has become a very dangerous place in recent years...Capital markets hate armed conflicts."*

What I observe today: June's "Singapore Summit" between President Trump and North Korea's Kim Jung-Un was initially hailed as a breakthrough in North Korean – U.S. relations. It was initially reported that Chairman Kim and the U.S. President had come to an agreement in principal to "denuclearize" North Korea, perhaps the world's most dangerous place. As time passed however, despite some

superficial displays of the destruction of a nuclear test site to global media, and a claim to have stopped developing its ballistic missile capabilities, satellite images show that North Korea continues to enrich fissile materials, and to “cheat” the impositions of economic sanctions the United Nations had placed on it. With some robust diplomacy from Secretary of State Pompeo, North Korea has again, publicly restated its commitment to “*denuclearize during President Trump’s first term in office*” (by January 2021). Though many in the media and in foreign affairs are rightly skeptical of Chairman Kim’s true intentions, I think it is safe to say that the President (and Secretary Pompeo) will be holding Kim’s feet to the fire with the threat of continued economic sanctions, and ultimately, a pre-emptive strike on the Hermit Kingdom.

Think of Trump what you may, he and his diplomatic and intelligence teams seem fully committed to this “denuclearization” of North Korea, and I would not dismiss the President’s willingness to deploy a first-strike on Korea if it became obvious Kim’s intentions are dishonorable. It was recently reported that Trump wanted to remove all civilian family members of military personnel stationed in the Korean peninsula and in the country of Japan, so that “step” would be made if and/or when he decided to strike. His military and diplomatic advisors urged him to delay that action, for fear that it would trigger a “panic” in the markets. Stay tuned...

We are still seeing Russian fighter jets routinely approach U.S. airspace in Alaska, and we have come very close to further “confliction” between U.S. and Russian troops operating in Syria. Most of the U.S. electorate is pretty upset about Russian interference in the 2016 election, and it appears those efforts continue in 2018. The Iranians are as committed to separating the U.S. from our European allies over President Trump’s decision in May of this year to leave the Joint Comprehensive Plan of Action, commonly known as the “Iran Nuclear Deal.” Ayatollah Khomeini and his government are desperate to save their “Islamic State” from rioting Iranians who see an economy in shambles, due to the re-imposition of U.S. sanction, with more sanctions scheduled to go into effect in November. The Iranian Rial, the country’s currency, has lost about two thirds of its value this year ⁽¹⁸⁾. The country’s “official” Unemployment Rate is 12.1% (28.4% for Youth), the Inflation Rate is +18% (+25% for Food), and it’s getting worse ⁽¹⁹⁾. A regime on the brink of collapse, or of popular overthrow is a dangerous one, and Iran and its proxies in the Middle East remain a dangerous geopolitical threat.

Finally, what appeared in April to be a strongly positive relationship between President Trump and Chinese President Xi Jinping, has completely deteriorated into a massive “Trade War”. President Trump began this war by denouncing Chinese currency manipulation, and its dumping of subsidized products on U.S. consumers to the detriment of U.S. manufacturers and producers. He then announced a set of

tariffs on \$34 billion of Chinese imported goods, primarily steel and aluminum, which China promptly matched in retaliation on U.S. agricultural exports to China. Trump “trumped” those tariffs by announcing another \$200 Billion in tariffs on Chinese goods, (i.e. refrigerators, furnishings, televisions, etc.), an escalation China quickly said it would “match” on U.S. exports⁽²⁰⁾. With the trade war spiraling upward in a giant game of “chicken”, with unintended victims and entire industries, like U.S. agriculture, caught in the crossfire, tensions between the two are further inflamed by China’s apparent “cheating” on the U.N. sanctions on North Korea it voted for as part of the unanimous U.N. Security Council. The South China Sea is still a bone of contention between these two nations, but this new Trade War makes things even more dangerous today. This “Con” remains a “Con” from the perspective of capital markets, and it’s getting worse.

Political Polarization.

What I said then: *“Perhaps it’s just recency bias.... but I don’t recall a time in my adult life when we’ve had more political polarization in this country....Both sides are entrenched in their efforts, not just to trying to advocate for, or promote their respective agendas, but seemingly just as importantly, to stopping their political opposites from moving their agendas forward. The inability of our elected leaders to work together to do the people’s business is a problem. The capital markets need to be able to plan their business activities knowing that the government agencies that manage the country’s businesses are working efficiently.”*

What I observe today: For anyone who thinks this is getting better since my last Report to you, I have two words: Judge Kavanaugh. The recent Senate Judiciary Committee hearings on Judge Kavanaugh’s nomination to the U.S. Supreme Court were nothing short of “embarrassing” to watch. The polarization between the two major political parties in this country continues to worsen every day the current Administration remains in power, and the political opposition to it intensifies. It’s a sad fact that before the Committee even listened to Judge Kavanaugh, every Democrat on the Committee had already publicly announced their opposition to the Judge’s nomination. The Judiciary Committee will vote 11 – 10, along party lines, if it votes on his nomination as planned this Thursday. I say “if” they vote, because 35-year-old allegations of sexual misconduct on the part of the Judge while he was in high school have suddenly appeared, and opponents to the Judge’s nomination are trying to use the allegations to delay a Senate-wide vote on the Judge’s election to the high court until after the elections in November. While the Democrats didn’t do themselves proud this last week in the confirmation hearings, the Republicans who controlled the Senate played the exact same game in the waning months of the Obama Administration, when Obama nominated Judge Merrick Garland to the Supreme Court,

many refusing to even meet the Judge, let alone allow a vote on him. This country's politics are a "mess", and we've completely forgotten that ultimately, given all the foreign dangers and threats we face, we're all Americans, and on the same team! This remains a strong "Con" in terms of the capital markets' ability to depend upon a functioning government focused on doing the work of the people.

As I review my list of seven "Cons" from back in April, I find four factors remain at about the danger levels they were at the time, while three (i.e. Flattening Yield Curve, Rising Inflation, and Geopolitical Risks) are worsening.

As I "re-weigh" the evidence for, and against, continued market advances, I would have to say that an honest assessment of both the "Pros" and "Cons" listed would leave the reader slightly less confident in continued advancements in stock and bond markets going forward today, than we were in April.

Given this assessment of economic and political conditions, and with an acknowledgement that any market's point of "inflection" from advance to decline, or vice-versa, is almost impossible to pinpoint with any degree of accuracy, I would suggest that a "tactically-defensive" approach to allocating capital remains warranted, and perhaps even more so today than in April. That is why we deploy our clients' investment capital using money managers and funds that have both a "buy" and a "sell" discipline. We want to "participate" when the markets continue to rise, even when such advances seem to lack data to support them, but we also want to avoid large losses by using managers that eschew the "buy and hold" approach so many managers and funds seem to use today. In our experience, investors tend to be "relative-return" oriented as markets rise, but that orientation becomes "absolute-return" related as markets fall. Our intention is to keep that "absolute-return" orientation at the forefront of our minds, especially considering the current challenges we face.

As always, we welcome your questions and comments. Happy investing!



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- (1) Source: <https://www.marketwatch.com/investing/index/dxy/charts>
- (2) Source: <https://us.spindices.com/indices/equity/sp-500>
- (3) Source: <https://www.bea.gov/data/gdp/gross-domestic-product>
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- (19) Source: <https://tradingeconomics.com/iran/forecast>
- (20) Source: <https://www.scmp.com/news/china/diplomacy-defence/article/2154796/donald-trumps-latest-tariffs-risk-destroying-trade>

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