



# KINSEY

WEALTH MANAGEMENT GROUP

of Wells Fargo Advisors

## The Kinsey Report

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As summer winds down, we enjoyed the experience of a solar eclipse. At one point, there were more than a dozen of us standing in front of the office with our solar glasses, watching more than 90% of the sun disappear and feeling the temperature drop markedly. But, in less than 45 minutes, all was normal. Perhaps the primary difference between an eclipse and a stock market correction is that we can predict to the minute when an eclipse will occur...

### THE MARKET

So eclipses and market corrections both occur... and both end. But with market corrections, we simply don't know the timing. We do know however, that at the close on election day, the Dow Jones Industrials stood at 18332.74 and the S&P 500 at 2139.56. At this writing the Dow is at 21857 and the S&P 500 at 2451. That is an increase of 19% for the Dow and 14.5% for the S&P. So why the disparity? We are learning that many clients are unaware there are only 30 stocks in the Dow Jones Industrial average. The S&P 500 actually has 505 common stocks (issued by 500 companies.) We do know that "growth" stocks have outperformed "value" stocks in this run-up. And some companies are more than 13% off their highs. Remember, over the longer-term, earnings drive the market, and the market tends to predict the economy. (See 'The Economy' in the May issue of 'The Kinsey Report'.)

### THE ECONOMY

So what about the economy? As of August 16th, the Atlanta Fed's "GDP Now" model, which tracks and estimates real GDP growth, says the economy is expanding at a 3.8% annual rate in the third-quarter. If correct, it would be the best pace we have seen for any quarter since 2014. That being said, 1% appears to be coming from inventory build up, leaving the GDP forecast up 2.8% if we discount the inventory. Whether or not the quarter ends in this range of GDP growth, is yet to be seen. But considering the original report for the first-quarter

GDP growth was under 1%, things certainly seem to be looking up, just as the market has suggested since the election.

### AT THE FED

After going more than a decade without increasing rates, the Federal Reserve Open Market committee (the Fed) has now increased in December, March and June. The combined increases now total 0.75%, but that still leaves bond and mortgage interest rates near historically low levels. We are part of the many who expect the Fed to increase the federal funds target rate again prior to year-end. Even so, monetary policy is still very loose. Short-term interest rates are well below normal, and there are over \$2 trillion in excess reserves in the banking system. None of which point to negative pressure on the markets or economy, in our opinion.



### INVESTMENT STRATEGY

So what do we do now? One spring, a number of years ago, a local television weather man that I know suggested we were going to have a second summer of extremely low rainfall and so a continuing drought. The lake we live on was already 7 feet below its normal pool level and so I expressed my disappointment with his prediction. He looked me in the eye and asked: "Keith, do you know the best part of my job?" I said "no I don't." He responded "I'm paid to be wrong, 70% of the time." We both laughed.

In my opinion, making predictions about the market, is often times just as accurate. So the answer is to meet our longer-term goals with longer-term strategies, and keep enough cash to meet our shorter-term objectives. Then we can ride the ebbs and flows of the market without selling at the wrong time. By the way, spring rains filled the lake that year by mid-April.

### Politics and Policy

Whether you lean to the right or the left, most would agree that we currently have an 'unconventional' president. He is clearly a fighter - fighting with both Congress and the press. And they are clearly fighters as well. Let's start with Congress...

The last time we were 8 years into an expansion of the economy, we had a budget surplus. Clearly this is not the case this time, as we have a 700 Billion dollar deficit with no surplus in sight. In my opinion, that issue lies clearly in the lap of Congress.

That said, in my opinion, what is more important is Policy. Let's look at some specific policy issues that have negatively impacted the markets and economy in the past:

**Monetary Policy** - the Fed is tightening so slowly, in my opinion, it's not an issue.

**Trade Policy** - we heard about tariffs early on, and in my opinion, it's a much murkier issue than most understand. But now it would appear the topic has lost most of its momentum, leaving us a slim chance that a trade war is a possibility.

**Tax Policy** - we were hearing about tax cuts during the election, but tax increases seem to hurt economic growth. I am not convinced we will see much in the way of tax reform or tax reduction, but personally I believe we are no where near having tax increases at a federal level. (notice I am not addressing the great state of Illinois.)

**Spending & Regulation Policy** - spending has not been cut, but the hiring freeze has changed the direction of federal employment. From January thru July, federal employment is down by 7,000. This compares with the same period increase of 31,000 in 2016 and 12,000 in 2015. I personally feel this is a positive trend. Regulation has changed dramatically with a few regulation roll-backs and virtually no additional regulations coming on. When you combine a shrinking in the size of the federal government and a slowing in the pace of accelerated regulatory expenses, you improve the environment for entrepreneurship. That group doesn't much care about the political noise and the news. They focus on new ideas and innovation. That's what drives productivity and so, the economy.

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Happy Investing!  
May God Bless!

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# The Kinsey Report

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*I shared the following story with our friend Kay C. and she suggested I might include it in 'The Kinsey Report.' ...  
...Thanks Kay! Now I have someone to blame!*

## **The Airport Chauffeur** by Keith Kinsey

As I write this, our youngest daughter, Kim, is home for a two-week visit. She is a graduate student in Brooklyn, NY, and we all make an effort to spend time together whenever she has a break.

Prior to this visit, she flew back home for our annual 4th of July family reunion. As she typically will fly from LaGuardia to Midway, I remember being thrilled when she found an economical flight bringing her to the Peoria airport. How convenient to pick her up just 20 minutes from the office!

But, as fate would have it, Kristen and I found it best for our schedule, to meet with clients in Chicagoland the day of her flight to Peoria. Like the cavalry, Kristen's pharmacist husband saved the day by graciously volunteering to meet Kim at the Peoria airport.

Peoria has a new, beautiful, one level airport. As you proceed from the gates through the security exit, it opens to a wide hallway that ends with the exit straight ahead and the baggage claim on the right side. The Peoria Airport is not big enough to have the proverbial group of drivers holding up signs with passenger's names on them for pick-up. In fact, in more than 30 years flying in and out of Peoria, we have never seen one.

Kim had never seen one either, until that afternoon.

As she walked down the hallway with a group of 30 other passengers, there stood Chris—donning a jacket—holding up a sign that said "Steve." At the bottom in smaller print it said: "Gordon Transportation Services" - *\*a completely fictional company.\**

Kim, a little taken aback and perhaps a bit embarrassed, did take a photo with her phone and immediately sent it to each of us.

At the same time, Kristen and I were finished with our meetings and sitting in rush-hour traffic in Chicago when the photo arrived. Kristen told me about it, and immediately dialed her sister's cell-phone. Here is what I heard next...

Kim: Hello,

Kristen: This is Kristen from Gordon Transportation Services. I'm calling to see if you are pleased with the driver we sent to pick you up today. *(At this time, Chris and Kim were walking through the parking lot at the airport.)*

Kim: "He Sucks! He even got my name wrong - the sign said Steve, the only thing he's done right is get my bag and at least he's carrying it to the car." *At that point we could hear Chris's voice in the distant background and then Kim said: "And now he's lost the car! This guy doesn't even know where he parked!" (OK, who among us has never missed by an aisle or two?)*

Alas, I fear the future of Gordon Transportation Services is quite grim.

Next Sunday, we bring Kim up to Midway to head back to Brooklyn, and then drive on to O'Hare to pick-up Kristen and Chris as they return from a well deserved trip to Germany.

Perhaps Karen and I should make a pass at starting Kinsey Transportation Services...

...or perhaps not!



## **Hurricane Harvey**

There are currently 17,000 people in shelters in Texas due to the flooding caused by Hurricane Harvey. This total is expected to reach more than 30,000 as more rain impacts the southern portion of the state.

We are reminded of what we in this country do whenever a crisis impacts our fellow man. Regardless of political opinion, race, religion or even nationality; Americans are supplying resources to include food, shelter, manpower, equipment and funding to assist those in need. This compassion is engrained in our culture. It is truly the soul of this great nation. We choose to focus on this, not the noise, and be proud of our nation's spirit.

**Please join us by supporting one of the organizations with 'boots on the ground' in Texas.**