Quarterly Video Market Update Q4/2018

Hi this is Jim Laughton and welcome to the Laughton Wealth Advisory Groups 4th quarter video update. This quarter we will take a look at what is driving the markets higher and the overall outlook for the economy. I hope you find this informative so sit back and let's get started.

This first chart shows us what the stock market has done since 1900. Many investors think the market just moves up and down without any long term trend, but as you can see from this graph that the trend over the long term has been mainly positive. We see periods of flat markets and then periods of steadily rising markets. In many of the rising periods the markets moved up over long 20 year cycles for example from 1950 to 1970 and from 1980 to 2000. So while we have been in the most recent expansion for 9 years, history tells us we may have some more years to go.

Many investors are concerned about the length of this economic cycle. As you can see, we have been expanding now for 111 months and in just a few months we will have set a record for the longest expansion in our history. But bull markets don't die of old age, something has to kill them. So let's take a look at where the economy stands right now.

Let's examine what makes up GDP, or gross domestic product, as that is how we measure how well the economy is growing. You can see from this chart, 68% of GDP is made up of consumer spending. So it stands to reason that as long as the consumer is working and spending money, the economy should continue to grow. That has certainly been the case for the last few years as GDP growth has started to pick up.

When looking at the consumer, we have to take a look at their balance sheet. As you can see from this chart consumers have in excess of $127 trillion in assets compared to $83 trillion in asset in 2007, before the last recession. But perhaps more importantly, the debt service ratio, as a percentage of income, is at the lowest level in almost 40 years. Which leads me to believe that consumers are in a healthy position and will continue to spend, helping to drive the economy.

This next chart depicts the unemployment rate since 1970. As you can see from the bold line we are currently at some of the lowest unemployment rates in 50 years. One of the knocks on this current expansion, has been that wages haven't risen at the rate we have seen in the past, but that seems to be changing. As wages continue to rise, workers have more money to spend which has the effect of prolonging this current expansion.

Eventually, the economy will slip into another recession, but the timing can matter a great deal to our portfolios. As you can see from this chart, the average return for the market 24 months prior to the next down cycle has been about 41% since 1945. That's not chicken feed as they like to say. As long as the economy continues on its upward track, I would expect the market to continue to move higher.

Thanks again for watching this quarters update, I hope you found it informative. As always if you have any questions or concerns please don't hesitate to contact us. Enjoy the beautiful fall weather.