



CAPITAL MANAGEMENT GROUP
of Wells Fargo Advisors

The Hefter Report - September 2017

Enjoy it now.

Stocks are up and performance is great. But nothing lasts forever. So what to do now?

For the first time in over a decade, the major economies across the globe are experiencing simultaneous growth. In fact, of the 45 countries followed by the OECD (Organization for Economic Cooperation and Development) all are projected to have better growth this year than last. Further, monetary stimulus through low interest rates continues in every region of the world.

Everyone should be smiling, laughing, enjoying life and singing the praises of a global economic boom. But every night the news shows a world on the brink of nuclear war, and a divided US Congress that can't get anything done. And yet, after managing money for the past 34 years, I believe that's actually good news for stocks.

Historically, the stock markets have loved to climb a wall of worry. It's usually been during periods of optimism and predicted higher prices that equities fall precipitously. In 1987, very few were predicting a 20% drop. In early 2000 after getting through Y2K virtually unscathed, people were practically euphoric, believing that the new internet stocks had unlimited upside and that P/E ratios of 50 and higher were the new normal. As people's homes appreciated significantly in value by 2007, people were borrowing more to buy more homes and more stocks. It was at each of these times that stocks fell.

I believe this bull market will continue until we see a few quarters of increasing GDP growth. This could then trigger predictions of higher stock prices and a final "capitulation" where a lot of money that's sitting on the sidelines, in cash and in bonds, floods into stocks. At that time, interest rates should rise and slow things down leading to the next recession. We will be closely watching the yield curve, currencies, and interest rates to see any warning signs of a downturn.

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Our negative call on the dollar was fortuitous and has helped our international investments. The lower dollar has also helped US exports to grow at a 6% annual rate in the first half of this year, yet European growth is actually now surpassing the US. In Italy, exports were up 8% from the previous year. Japan's annualized GDP growth of 4.4% through the first half of the year, also beats the US annualized GDP growth rate. We continue to favor international investments over domestic.

Our move into emerging market bonds and equities has also been working quite nicely. In August, China's producer prices surged 6% from the previous year. The recent rise in commodity prices such as copper and iron ore also enforces our case for investing more in emerging markets, especially in Asia.

In addition, our portfolios are benefitting from our investments in the new exponential technology companies of the future. These are the companies pioneering new developments in areas such as CRISPR technology, robotics, and artificial intelligence.

For now, stocks are up, we remain invested and people are worried. I will begin to worry when people stop worrying. Then we may need to realize that nothing lasts forever and it's time to lighten up.

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