MERITAS ADVISORS

FINANCIAL
Insights

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Beware the Bears

If you've been paying attention to the financial news lately, you're probably seeing a lot of ominous predictions—and they're usually backed up by some ominous headline. The most simplistic are saying that the bull market has now lasted ten years, so therefore it's about to come to an end—as if bull markets come with a time limit. Others, equally simplistic, are saying that the market has reached a new high, and, well, don't markets fall from their all-time highs? This ignores the fact that more than 70% of the time, a new high is followed by another new high—and ultimately, so far in history, every new high has eventually been surpassed by the next one.

The more credible predictions are based on the fact that the U.S. debt is exploding, or that the U.S. is experiencing an expanding credit bubble in the government, corporate sector and also—perhaps for the first time—also the youngest workers with their crushing student loans. The Fed is committed to raising interest rates, which will make all that debt more meaningful somewhere down the road. And then we have the meltdown in Turkey, the potential consequences of reckless trade wars on the global economy, and the flat yield curve that is in danger of inverting.

The most important thing to know about all this is that there is no economic consensus that the U.S. or the world economy are about to plunge into recession in the next six to 12 months. None of these simplistic arguments or ominous headlines, separately or together, add up to an imminent market meltdown or fire sale of the same stocks that you're holding in your portfolio. That, of course, doesn't mean that a meltdown couldn't happen tomorrow, but it could just as easily happen one, two or three years down the road. And it's helpful to remember that various pundits have been predicting a major pullback constantly over the past nine years of bull market returns. Anybody who was spooked by these pundits would have missed out on significant gains.

This is more of the same noise, albeit with somewhat scarier headlines in the background.

Interestingly, the indicator that is taken most seriously in economic circles is the inverted yield curve. We aren't there yet, but the bond markets are certainly moving toward one of those rare times when two-year Treasuries are yielding more than 10-year bonds. Every recession since 1977 has been preceded by a yield curve inversion.

But is this cause, effect or coincidence? A recent article by Laurence Siegel, Director of Research at the CPA Institute Research Foundation, acknowledges that inverted yield curves have been a pretty good predictor in the past. But he says that in the present marketplace, there is, as yet, no pressure coming from the things that a recession corrects: high inflation, high levels of debt, rich stock market valuations (though we may be moving in that direction), and tightness in the labor market.

A yield curve inversion affects the supply and demand for capital, which can have impacts on the economy which could cause a recession. It discourages banks from doing what they were made to do: borrowing short and lending long to viable businesses that are expanding. In the past, there may have been a more direct cause and effect than there is today. Today, banks can turn to hedge funds and a variety of other lenders who will allow them to borrow short at reasonable rates.

The bigger point is that recessions are inherently unpredictable. If we had a reliable way to predict them, we would already be in them, because companies, knowing the time and date of the recession, would pull back in anticipation of it, and simply bring it on more quickly. The same is true of major market pullbacks; if you, or I, or anyone else knew when it was going to happen, we would already be running for the exits, triggering the pullback prematurely.

Bottom line: we don't know when or where the pain will come; we only know THAT it will come. And we know with some certainty the direction of the next 100% movement in the markets. That may be enough.

-Bob Veres

Sources:

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The market at a glance

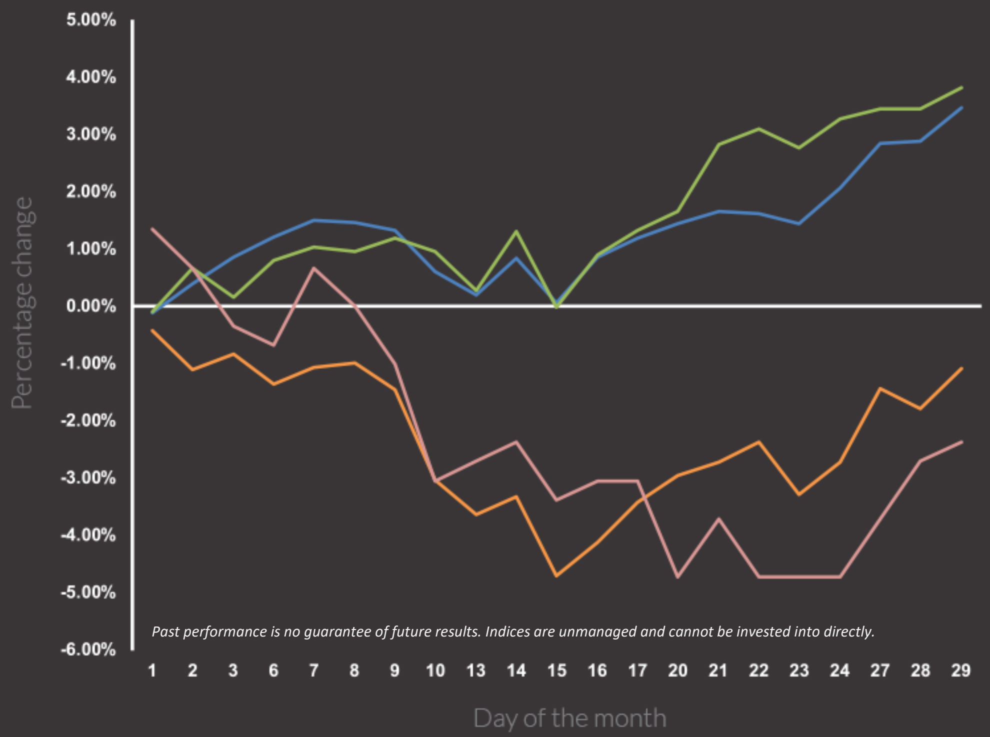
August

U.S. Large Cap
(S&P 500)
2,901.52 (3.03%) ▲

U.S. Mid/Small
(Russell 2000)
1,740.75 (4.19%) ▲

International Large
(NYSE International 100)
5,552.67 (-2.82%) ▼

U.S. Treasuries
(U.S. 10-year Treasury yield rate)
2.86 (-3.38%) ▼



Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

The market in action

- Electric car and power manufacturer, Tesla, saw volatile changes in stock price following CEO Elon Musk tweeting that he may take the company private. In just minutes, the stock price soared up by $25 per share only to fall downwards through the rest of August amid concerns of production and an SEC investigation.

- The U.S. budget deficit in August was 21 percent higher than at the same time last year, while revenues rose only 1 percent. Reductions in corporate tax payments and increased spending on domestic and military programs are primary contributors to the change.

- AT&T employees represented by the Communications Workers of America are rallying around a new analysis of the the telecom giant's Q2 earnings report, which estimates that the company has eliminated over 7,000 jobs since January. The Q2 earnings report revealed that AT&T has increased its spending on share buybacks to their highest level since 2014.

- Americans' consumer confidence rose to an 18-year high in August as current economic conditions continued to improve. Consumers are becoming more confident in their ability to get find employment and spend more freely.

- The U.S. and Mexico agreed on a new trade deal, paving the way for a revamped NAFTA. The agreement focuses on areas such as agriculture and automobile production while retaining the ability for American companies to operate in Mexico and Canada without tariffs

Cost and timing of home remodeling

As with many large purchases, timing matters when remodeling a home. Each season holds advantages for different types of projects based on price and availability. Consider these tips to take advantage of potential savings:

Fall: Pools, kitchens, and appliances

Though pools and summer are tightly linked, waiting until fall for installation can bring worthwhile savings. With the average cost of installing an in-ground pool at $49,224, those savings may be worth the wait.

Kitchen remodeling is among the most popular renovation projects and can be done at any time of the year. Scheduling this project for the fall capitalizes on a slower season for contractors, which can result in lower labor prices. Also, in terms of convenience, tearing apart the kitchen might be easier once children are back in school. While some kitchen renovations can fall in the $10,000 to $15,000 range, expect closer to the average of $22,530.

Fall can also be an ideal time for purchasing new appliances. In preparation for the holiday shopping season, most manufacturers will introduce their new models in the fall, resulting in sales on previous models.

Winter: Decks, bathrooms, and air conditioning

Ideally, you'll want a new deck ready to go once the weather warms up but winter is actually the best time to schedule the preliminary planning and design process. This is a dead season for deck contractors and allows your project to be their top priority once the ground softens in the spring. While the cost of building a new deck varies with size, expect anywhere from $2,000 to $7,000.

Competing with the kitchen for the most popular home renovation is the bathroom. Again, indoor work such as this can be completed at any time of the year, but lower rates are more likely during contractors' slow winters. This should make it easier to schedule the contractor and may lead to a quicker completion. Homeowners tend to spend an average of $10,167 on a new-look bathroom.

While air conditioning is likely the last thought on most consumers' minds during the winter, this is the time for big savings on both repairs and replacements. Once spring and summer heatwaves kick in, rates will jump back up. The average cost for an A/C repair is $342, while a replacement is $5,465.

Spring: Windows and flooring

Window replacements become common in summer once homeowners start running the A/C, but getting ahead of the curve will help score a deal on installation. Be on the lookout for window companies offering sales to kick off the season and ideally schedule installation once it warms up to over 50 degrees. Prices vary widely based on home size, amount of windows, and type of windows. The average cost for a single-story home with 10 windows is between $3,000 and $7,000.

Late spring is also a great time to pull the trigger on flooring. Early spring can be busy for flooring companies as homeowners begin spending their tax returns, causing tighter scheduling. May is the sweet spot, being right in between this tax-return season and summer's peak home buying season. Hardwood flooring averages between eight and $10 per square foot with installation while carpeting averages around $3.50 per square foot with installation.

Summer: Paint, landscaping, and furnaces

Demand for almost every renovation project increases during the summer, but there are still deals to be scored. As high school and college students take a break from the classroom, many of them will look towards the popular student painting services for employment. Student-operated painting crews boast substantial savings compared to the labor of professional crews, which should help trim down the $4,000 average cost of an exterior paint job.

Additionally, landscaping and yard work make the most sense to be completed during the summer when the work will be most visible. Though it may be tough to find any deals with the high demand, long summer days allow for more DIY opportunities to cut costs.

Lastly, like air conditioning in the winter, savings can be found on furnace repair and replacement in the summer. Average furnace repair costs are a little less than A/C, coming in at $287, while replacement costs an average of $4,237.

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