

## Slow, Slower, Slowest Richard C. Hoyt July 1, 2014

**What?** The U.S. economy contracted by -2.9% in the first quarter of 2014 and is the weakest recovery since Franklin Roosevelt's tenure with GDP growth averaging only 1/3 of the historical average since 1933 in spite of large amounts of monetary and fiscal stimuli.

Roosevelt	(1933-40)	6.2%	Reagan	(1981-88)	3.5%
rooseveit	(1933-40)	0.27	Reagaii	(1301-00)	3.5%
Truman	(1947-52)	3.8%	G.H.W. Bush	(1989-92)	2.3%
Eisenhower	(1953-60)	3.0%	Clinton	(1993-00)	3.9%
Kennedy-Johnson (1961-68) 5.		5.0%	G.W. Bush	(2001-08)	2.1%
Nixon-Ford	(1969-76)	2.8%	Average (1933-2013)		3.6%
Carter	(1977-80)	3.3%	Obama	(2009-13)	1.2%

## Why?

- Excessive regulation is choking the recovery;
- The unemployment rate is 12.3% when taking into consideration part-time workers that prefer to work full time;
- Teenage unemployment is approximating 20%;
- Federal policies of extending unemployment and liberalizing disability eligibility have reduced the incentive to search for work;
- The Dodd-Frank Act is adding to business' cost of operation, discouraging lending;
- Reduced competition for Obama Care is significantly increasing costs to consumers, reducing service options and creating a high degree of uncertainty; and,
- The lowest labor participation rate in 36 years (62.8%) is resulting in an underutilized labor force, sapping the U.S. economy of the necessary manpower needed to boost expansion to a higher level.

**How?** In spite of the numerous adverse consequences of misguided federal policies, there is vigorous competition between states, the private sector is growing at 4%, housing is rebounding, and the stock market continues to rise (Chart 1). Moreover, corporate profits are projected to improve, consumer confidence is rising, and the service and manufacturing sectors are expanding (Table 1). These seemingly diverse observations can reconciled by:

- Continuing to offer a range of strategic allocation models utilizing exchange traded funds (Table 2);
- Staying fully invested while maintaining the flexibility to adjust to changing economic and unforeseen global circumstances; and,
- Emphasizing sectors that show good relative strength and the potential to outperform the overall market as measured by the S&P 500, which will be the topic of the next quarterly newsletter in October.

Table 1. Market Fundamentals 1/

	June	May	Apr	Mar	Feb	
Consumer Confidence	85.2	82.2	81.7	83.9	78.3	Conference Board
Retail Sales	2/	0.1%	0.5%	0.2%	0.9%	% Change
Housing	2/	504	425	410	432	New Home Sales 000s
Durable Goods	2/	-1.0%	0.8%	0.4%	0.3%	% Change
Deficit (-)/Surplus	2/	-\$490	-\$499	-\$493	-\$563	12 Months Billions
	June	May	Apr	Mar	Feb	
Manufacturing	55.3	55.4	54.9	53.7	53.2	ISM Manufacturing Index
Services	56.5	56.3	55.2	53.1	51.6	ISM Services Index
Capacity Utilization	2/	77.0%	76.7%	76.9%	76.5%	% of Capacity Total
Inventories/Sales	2/	n.a.	1.18	1.18	1.19	Wholesale Business
Employment	230	217	282	203	222	Non-Farm Payrolls 000s
	<b>2Q</b> 3/	1Q	Q4	Q3	Q2	Quarters 2014 - 2013
GDP	2/	-2.9%	2.6%	4.1%	2.5%	% Change GDP Yr/Yr
Corporate Profits	11.91%	6.36%	22.0%	12.17%	3.66%	% Change EPS Yr/Yr
	June	May	Apr	Mar	Feb	
Leading Indicators	2/	0.5%	0.4%	0.3%	0.2%	Total Index
Inflation	2/	0.4%	0.3%	0.2%	0.1%	CPI All Items
	Retail Sales Housing Durable Goods Deficit (-)/Surplus  Manufacturing Services Capacity Utilization Inventories/Sales Employment  GDP Corporate Profits  Leading Indicators	Consumer Confidence Retail Sales Retail Sales 2/ Housing 2/ Durable Goods 2/ Deficit (-)/Surplus 2/  Manufacturing 55.3 Services 56.5 Capacity Utilization 12/ Inventories/Sales 2/ Employment 220 3/ GDP 2/ Corporate Profits 11.91%  June Leading Indicators 2/ June Leading Indicators 2/ June 2/ June 20 3/ June 20 21 22 23 24 25 26 27 27 27 27 27 27 27 27 27 27 27 27 27	Consumer Confidence         85.2         82.2           Retail Sales         2/         0.1%           Housing         2/         504           Durable Goods         2/         -1.0%           Deficit (-)/Surplus         2/         -\$490           June May           Manufacturing         55.3         55.4           Services         56.5         56.3           Capacity Utilization         2/         77.0%           Inventories/Sales         2/         n.a.           Employment         230         217           GDP         2/         -2.9%           Corporate Profits         11.91%         6.36%           Leading Indicators         2/         0.5%	Consumer Confidence         85.2         82.2         81.7           Retail Sales         2/         0.1%         0.5%           Housing         2/         504         425           Durable Goods         2/         -1.0%         0.8%           Deficit (-)/Surplus         2/         -\$490         -\$499           Manufacturing         55.3         55.4         54.9           Services         56.5         56.3         55.2           Capacity Utilization         2/         77.0%         76.7%           Inventories/Sales         2/         n.a.         1.18           Employment         230         217         282           2Q 3/         1Q         Q4           GDP         2/         -2.9%         2.6%           Corporate Profits         11.91%         6.36%         22.0%           Leading Indicators         2/         0.5%         0.4%	Consumer Confidence         85.2         82.2         81.7         83.9           Retail Sales         2/         0.1%         0.5%         0.2%           Housing         2/         504         425         410           Durable Goods         2/         -1.0%         0.8%         0.4%           Deficit (-)/Surplus         2/         -\$490         -\$499         -\$493           Manufacturing         55.3         55.4         54.9         53.7           Services         56.5         56.3         55.2         53.1           Capacity Utilization         2/         77.0%         76.7%         76.9%           Inventories/Sales         2/         n.a.         1.18         1.18           Employment         230         217         282         203           ZQ 3/         1Q         Q4         Q3           GDP         2/         -2.9%         2.6%         4.1%           Corporate Profits         11.91%         6.36%         22.0%         12.17%           June         May         Apr         Mar           Leading Indicators         2/         0.5%         0.4%         0.3%	Consumer Confidence         85.2         82.2         81.7         83.9         78.3           Retail Sales         2/         0.1%         0.5%         0.2%         0.9%           Housing         2/         504         425         410         432           Durable Goods         2/         -1.0%         0.8%         0.4%         0.3%           Deficit (-)/Surplus         2/         -\$490         -\$499         -\$493         -\$563           Manufacturing         55.3         55.4         54.9         53.7         53.2           Services         56.5         56.3         55.2         53.1         51.6           Capacity Utilization         2/         77.0%         76.7%         76.9%         76.5%           Inventories/Sales         2/         n.a.         1.18         1.18         1.19           Employment         230         217         282         203         222           GOP         2/         -2.9%         2.6%         4.1%         2.5%           Corporate Profits         11.91%         6.36%         22.0%         12.17%         3.66%           Leading Indicators         2/         0.5%         0.4%         0.3%

<sup>1/</sup> Source: www.briefing.com/investor/calendars/economic/ 2/ Not Available

<sup>3/</sup> Projected

	2012	2013	2014 30-Jun	Ris	k Criteria	
S&P 500 Barclay US TR	13.41% 4.42%	29.60% 2.02%	6.05% 3.93%	Alpha	Beta	Sharpe Ratio
Cautious	8.53%	32.73%	5.89%	4.61	0.93	1.74
Moderate	10.51%	35.85%	6.76%	5.25	0.97	1.75
Assertive 1	17.10%	38.40%	6.92%	7.7	1.05	1.87
Assertive 2	n/a	44.93%	11.73%	11.63	1.55	1.80
Aggressive	22.70%	68.62%	-5.60%	11.65	2.05	1.67

Chart 1. S&P 500 (SPY 12 month) Price, 13 Week & 200 Day Moving Averages

