ANALYTICS INVESTMENT ADVISORS, LLC

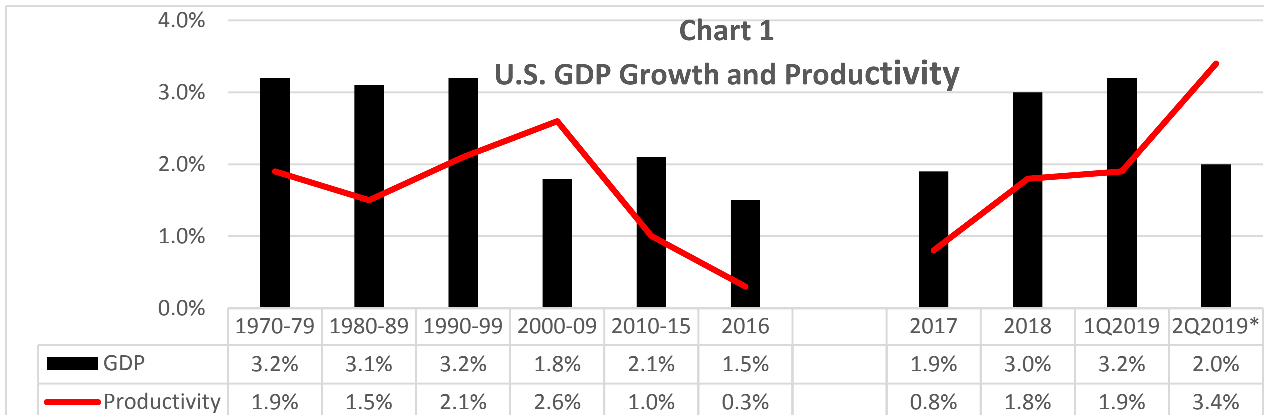
Slow and Easy

"The most likely outcome continues to be that the economy will maintain its good performance in 2019 - a sustainable growth scenario in which output slows, labor markets remain strong, and after some near-term softness, inflation moves back to our 2% goal..."[1]

Richard C. Hoyt
October 10, 2019

What?

- The GDP for the U.S. Economy was .9% in 2017, 3.0% in 2018, and 3.2% in 1Q2019 (Chart1).
- The Council of Economic Advisors projected in March that the average GDP for 2019 will exceed 3%, but the 2Q2019 GDP is estimated to be in the 2% range due to a slowdown in inventories (Chart 1).
- Productivity continues to improve from .8% in 2017, to 3.0% in 2018, and 3.4% in June 2019 (Chart 1).
- The S&P500 rose17.3% for first six months of 2019, the best first half performance since 1997 when the index increased 19.5%.[2]



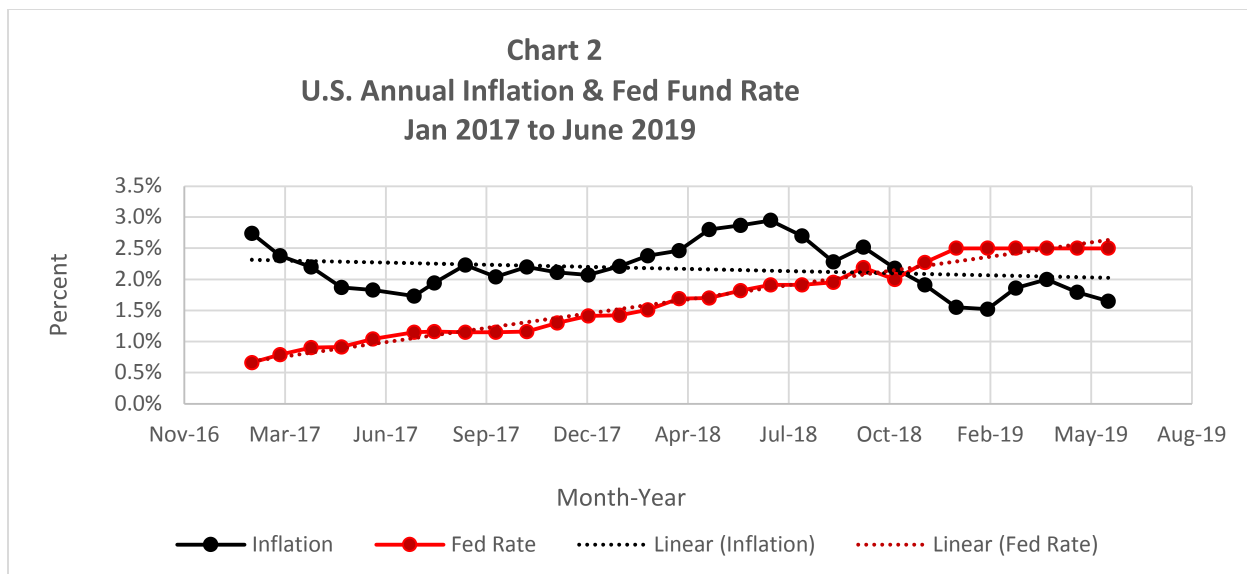
	1970-79	1980-89	1990-99	2000-09	2010-15	2016		2017	2018	1Q2019	2Q2019*
GDP	3.2%	3.1%	3.2%	1.8%	2.1%	1.5%		1.9%	3.0%	3.2%	2.0%
Productivity	1.9%	1.5%	2.1%	2.6%	1.0%	0.3%		0.8%	1.8%	1.9%	3.4%

*2Q2019 GDP is estimated

- Nonfarm payrolls rose by 224,000 in June, while the jobless rate increased from a 50 year low to 3.7%, and wages advanced 3.1% from a year earlier.
- The Federal Reserve held their short term benchmark rate at 2.5%, whereas the U.S. annual inflation varied between 1.5% in March to 2.0% in April, to 1.7% in June (Chart 2).

[1] Mester, Loretta, President, Cleveland Federal Reserve https://www.wsj.com/articles, July 2, 2019-11562079699

[2] It can be convincingly argued, however, that there would not have been a -16.70% SPX return in 2018 but for the Federal Reserve announcement of three additional interest rate increases in 2019, after four moves higher in 2018. Chart 2 gives credence to this hypothesis and implies that the S&P 500 Price Index (SPX) would have approximated current levels in January 2019.



- Household spending and incomes recorded solid gains in May, consumer confidence remains strong, the labor participation rate in June improved to 62.9%, suggesting that there is still capacity to entice employees into the workforce, a key to future employment and economic growth.

Why?

- Interest rates are low, not for lack of demand, but rather because the U.S economy is experiencing a supply side recovery due to substantial increases in productivity, which is non-inflationary.[3]
- Business investing continues with the Federal Reserve funds rate at 2.5%, giving continued impetus to improving productivity, new hires, and GDP.[4]
- In addition to the above phenomenon, the likelihood of a near term recession is minimal given: 1) plenty of excess reserves;[5] 2) no recession has ever been caused by overseas weakness; 3) full employment with 1.6 million more job openings than total unemployed; 4) nominal GDP at nearly two time the federal funds rate; and 5) retail sales are up 10.9% annually the past three months.
- Business cycle don’t end because of longevity, but rather an economic disruption of some sort, which present conditions seem to obviate.

How?

- Stay fully invested in efficient[6] Exchanged Traded Fund portfolios with high relative strength for diversification and growth potential.
- Make sure that the marginal risk and return of each strategic allocation are in balance.[7]

---

[3] The economic rationale for supply creating its own demand (Say’s Law) is: increased output by the same number of workers causes an upward shift in the aggregate production function, expanding aggregate supply relative to demand, and causing prices to decrease.

[4] GDP is generally thought of as the sum of new hires + productivity.

[5] There is currently $1.4 trillion in excess reserves, and 4.8% nominal GDP which is two times greater than the federal funds rate,

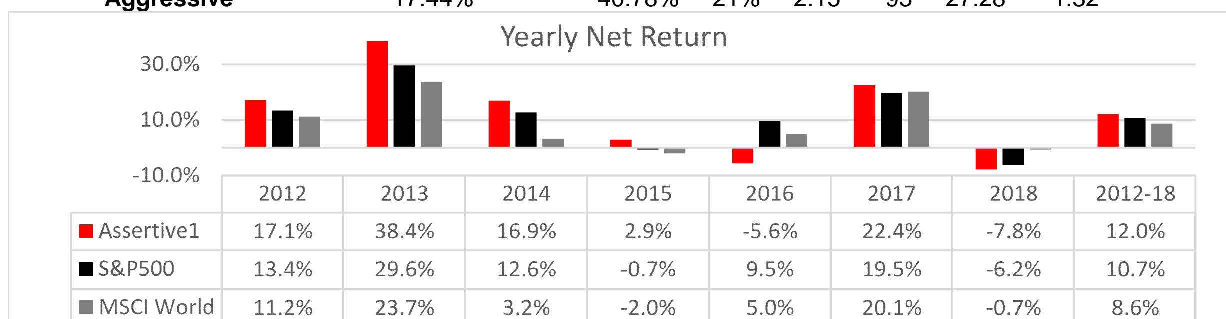
[6] Sharpe Ratio is a common measure of portfolio efficiency (See Portfolio Summary).

[7] Beta: Systematic Risk (volatility) of a portfolio compared to the overall market (See Portfolio Summary).

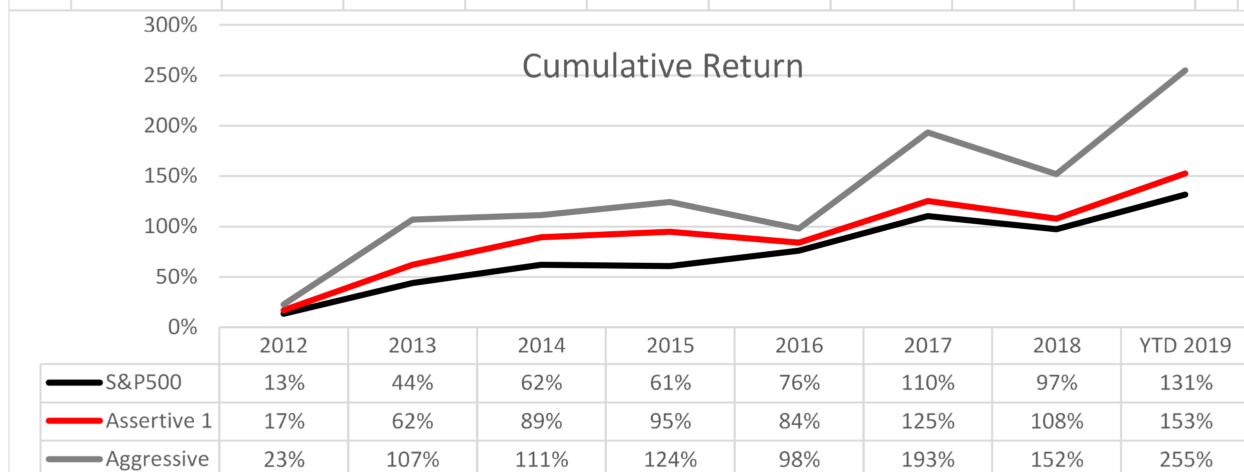
ANALYTICS INVESTMENT ADVISORS, LLC

Performance Summary[1]

	2012-18 Avg.	YTD[2] 06/30/2019	AUM	Beta	R^2	SD	Sharpe Ratio
S&P500 ($SPX)	**10.70%**	**17.34%**					
Barclay US TR	**1.78%**	**4.80%**					
Cautious	9.88%	n.a.	0%				
Moderate	10.32%	19.38%	13%	1.03	92	13.18	1.28
Assertive 1	12.04%	21.76%	46%	1.24	96	15.39	1.19
Assertive 2	15.88%	26.40%	20%	1.51	92	19.15	1.35
Aggressive	17.44%	40.78%	21%	2.15	93	27.28	1.32



	2012	2013	2014	2015	2016	2017	2018	2012-18
Assertive1	17.1%	38.4%	16.9%	2.9%	-5.6%	22.4%	-7.8%	12.0%
S&P500	13.4%	29.6%	12.6%	-0.7%	9.5%	19.5%	-6.2%	10.7%
MSCI World	11.2%	23.7%	3.2%	-2.0%	5.0%	20.1%	-0.7%	8.6%



	2012	2013	2014	2015	2016	2017	2018	YTD 2019
S&P500	13%	44%	62%	61%	76%	110%	97%	131%
Assertive 1	17%	62%	89%	95%	84%	125%	108%	153%
Aggressive	23%	107%	111%	124%	98%	193%	152%	255%

[1] **Cautious:** Investors seeking better than nominal returns, but with low risk and emphasis on wealth preservation. **Moderate:** Prudent investors desiring portfolios designed to accomplish medium long term. Calculated risk is acceptable to achieve good returns. **Assertive 1 & 2**: Investors with sufficient income to invest mostly in capital growth. Higher volatility and more aggressive investments are acceptable to accumulate wealth in the long run. **Aggressive:** Investors intending to compromise portfolio balance in pursuit of y higher long-term returns. Security of capital is secondary to potential wealth accumulation.

[2] Net Average Return, Portfolio Center, Schwab Portfolio Technologies. Fees are negotiable and range between 50 and 125 basis points. Risk Statistics, Morningstar Advisor Workstation; most recent 3 years, computed quarterly.

Beta	Expected change in portfolio return per 1% change in market index return.
R^2	Percent of variation in regression equation explained by the independent variable (S&P500).
SD	Standard deviation of the dependent variable (Net Return).
Sharpe	Reward-to-Variability Ratio; i.e., portfolio return above risk free rate of return divided by standard deviation (RVAR).