ANALYTICS INVESTMENT ADVISORS, LLC

The Trump Economy

"We need to do more of what we are doing; growing technologically sophisticated market-based economies around the world".[1]

"Under socialism, you improve your life by addressing the needs of those in power (government elites)..." Under capitalism, you improve your life by satisfying the needs of others (consumers) by making sure they get what they need. It is capitalism that encourages altruistic behavior, produces vast economic benefits, and lifts standards of living across broad demographics (to differing degrees)." [2]

Richard C. Hoyt
January 11, 2020

What?

- **S&P 500 (SPX)** recorded a yearly gain in 2019 of 28.88%, the fourth highest percentage on record since 1975.[3] [4]
- **Gross Domestic Product (GDP)** expanded 2.10% in 3Q19; 2.3% in 2Q19 and 2.7% in 1Q19, for an average of 2.37%. Estimates for GDP growth this year vary from 2% to 3%.[5]
- **Discretionary Spending** by U.S. consumers was a solid 3.5% Yr. / Yr. as of November 2019.
- **U.S. Homebuilder Sentiment** advanced in December to the highest level since 1999 amid stronger sales, reflecting a 20 point gain for the index this year, while on a November Yr. / Yr. basis, new home sales were up 16.9%.
- **Michigan Consumer Sentiment Survey** concluded that consumers expect annual inflation of 2.2% over the next five years; and, December **Conference Board Consumer Confidence** remained an optimistic 126.5, essentially unchanged since September.
- **Initial Unemployment Claims** January 4th report showed initial claims settling back to the 214K level, reflecting an ongoing tight labor market.
- **Capacity Utilization** remained 77%, unchanged since July.

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[1] Andrew McAfee, *More from Less, The Surprising Story of How We Learned to Prosper Using Fewer Resources – and What Comes Next*, Scribner, An Imprint of Simon & Schuster, Inc., New York, NY, 2019, front flap.
[2] Andrew P. Puzder, *The Capitalistic Comeback – The Trump Boom and the Left's Plot to Stop It,* Center Street, New York, 2018, p.12.
[3] 31.55%, 1975; 31.01%, 1997; 29.60%, 2013; and,28.88%, 2019, Source: 1Stock1.com.
[4] While a portion of the 2019 gain was due to errant Federal Reserve 2018 interest rate policies; 2019 was still impressive.
[5] See for example: Paul Wiseman, "Business Economists See US Slowing but Avoiding Recession", *Newsmax, December 8, 2019*; Kudlow:"2020 Will Be a Very, Very Strong Economic Year", *Newsmax,* December 13, 2019; and, Peter Navarro:"2020 to Be One of the Greatest Years in US History", *Newsmax*, December 29, 2019.

- **Non-Farm Productivity** averaged 1.93% for Q1, Q2, Q3 2019; **Personal Consumption Expenditure (PCE)** Yr. / Yr. November was 1.5%; whereas, **Core Personal Expenditure (CPE)** inflation rate was 1.6%, representing a positive relationship for consumer spending growth as incomes are rising amidst relatively mild aggregate inflation pressures.
- **Nonfarm Payrolls** were 145K in December, averaging 196K since August; **Civilian Unemployment Rate** was 3.5% (lowest in 50 years); and, the **Labor Force Participation Rate** remained 63.2% .
- By just about every metric, this is the best job market since the late 1990s. The economy has been adding jobs for 110 straight months, a record; and, employment rates for African Americans, Hispanics, Asian Americans with less than high school education are at the lowest levels since the Labor Department began keeping track.[6]

Why?

- The above statistics convincingly depict a solid and growing U.S. economy. The elimination of burdensome regulations and lower taxes have created: "an economy in which people are incentivized to better their circumstances by meeting the needs of society as a whole, guided by the combined economic decisions members of society make every day".[7]
- It has been demonstrated that Productivity Growth accounted for an average 66.2% of GDP variability over the fifty year period between 1967 and 1916 (a 1% increase in productivity generated 1.2% increase in GDP).[8] It therefore stands to reason that if the recent gains in productivity continue in combination with full employment and supply creating it's own demand (Say's Law), the risks of a recession are substantially diminished.[9]
- An objective analysis of the current business cycle using tenets published by Fidelity Investments and Sam Stoval, *Standard and Poors Sector Investing*[10] can, in conjunction with sound economic theory, lead one to the conclusion that the economy is in a early to mid-business cycle, due principally to low interest rates and the strong performance of the technology and real estate sectors.[11]

How?

- Analytics Investment Advisors, LLC uses technical and fundamental analysis to create exchange traded fund (ETF) portfolios that are: *simple*,[12] *scalable,*[13] and *efficient.*[14]

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[6] Ed Morrissey, "NYT:" Yeah, Everything We Knew About the Job Market Was Wrong", Bloomberg, December 6, 2019.

[7] Ibid., Puzder, p.21.

[8] See Commentary, "Labor Productivity and GDP Growth" April 5, 2017, www.AnalyticsLLC.net.

[9] Jeff Cox, "Don't look now, but Goldman Sachs is saying the economy is nearly recession proof", CNBC, December 31, 2019.

[10] McGraw-Hill, 1996. See also, Achuthan, Lakshman and Anirvan Banerji, *Beating the Business Cycle,* Currency Doubleday, New York, 2004.

[11] It is probably for these reasons that the Federal Reserve recently opined that the current business cycle could last another 10 years.

[12] No more than 7 ETFs in each portfolio or strategic allocation (Moderate, Assertive 1 & 2, and Aggressive, p.4).

[13] The desire and ability to accommodate investors' desired strategic allocations consistent with long term investment objectives and currently observed optimal and actual performance and risk statistics.

[14] Efficiency is defined as balancing risk and reward measured by the Sharpe Ratio: (Nominal Return – Risk Free Return) / Standard Deviation), p.4.

- Eugene Fama, famous for his incredible work on efficient markets, suggested that momentum is the biggest embarrassment to the efficient market theory, or in his own words, momentum is the "premier anomaly".[15]
- Robert Schiller came to a similar conclusion: "The argument for the efficient market hypothesis represents one of the most remarkable errors in the history of economic thought. It is remarkable in the immediacy of its logical error and in the sweep and implications of its conclusions.[16]
- The following four independent studies in Table 1 give credence to the notion that Relative Strength is a sustainable and predictable exception to the efficient market hypothesis.

Table 1
Relative Strength v S&P 500
1930-2018

Source	Time Period	RS	S&P500	Differ
Gray & Vogel p.86	1930 to 2009	16.36%	9.53%	6.83%
Gray & Vogel p.127	1927 to 2014	15.80%	9.92%	5.88%
Gary Antonacci p.102	1975 to 2018	16.59%	9.85%	6.74%
MSCI USA Index	2014 to-2018	13.07%	5.36%	7.70%
Average	1930 to 2018	15.46%	8.67%	6.79%

Return = Relative Strength x .2402 (t=32.5255)

R^2 =.821, N=232, Mean Return 12.825, Mean RS 58.505

- Table 1 shows the that average excess Relative Strength Performance from 1930 to 2018 between was 6.79%.
- Equating this percentage to the Return Elasticity with respect to Relative Strength, .2402%, indicates that the implied Relative Strength to achieve the average difference in Returns of 6.79%, assuming a mean Relative Strength of 58.505,[17] is 28.3% (6.79% / .2402%). This coefficient added to 58.5% totals 86.8%, the latter being the implied Relative Strength necessary to achieve the average difference in Relative Strength Return and the S&P500 Return of 6.79%.

[15] Gray, Wesley R. and Jack R. Vogel, *Quantitative Momentum-A Practitioner's Guide to Building a Momentum-Based Stock Selection System, John Wiley and Sons, 2016, p.62.*

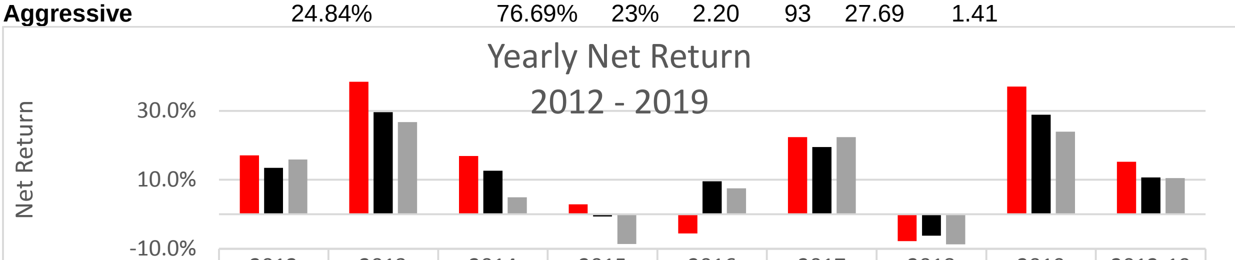
[16] Antonacci, Gary, *Dual Momentum Investing-An Innovative Strategy for Higher Returns with Lower Risk,* McGraw-Hill Education, 2015, p.9.

[17] See Commentary "Momentum Investing with Exchange Traded Funds" July 3, 2018 for more in depth statistics. www.AnalyticsLLC.net .

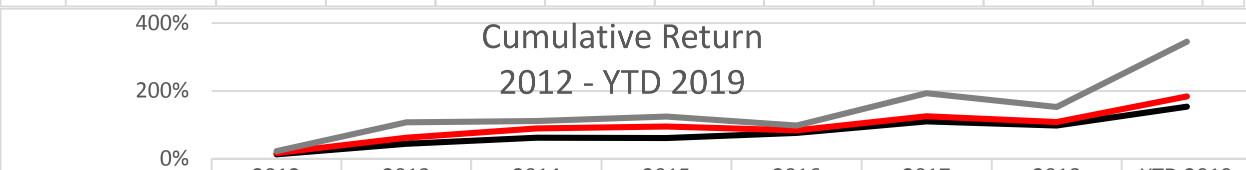
Analytics Investment Advisors, LLC

Performance Summary[18]

	2012-19 Avg.	YTD[19] 12/31/2019	AUM	Beta	R^2	SD	Sharpe Ratio
S&P500 ($SPX)	**10.70%**	**28.88%**					
Barclay US TR	**2.16%**	**8.72%**					
Cautious	n.a.	n.a.	0%				
Moderate	13.26%	32.03%	10%	.99	94	12.35	1.50
Assertive 1	15.16%	37.01%	45%	1.22	98	14.89	1.36
Assertive 2	20.35%	47.17%	21%	1.53	95	19.08	1.47
Aggressive	24.84%	76.69%	23%	2.20	93	27.69	1.41



	2012	2013	2014	2015	2016	2017	2018	2019	2012-19
Assertive1	17.1%	38.4%	16.9%	2.9%	-5.6%	22.4%	-7.8%	37.0%	15.2%
S&P500	13.4%	29.6%	12.6%	-0.7%	9.5%	19.5%	-6.2%	28.9%	10.7%
MSCI World	15.8%	26.7%	4.9%	-8.7%	7.5%	22.4%	-8.7%	24.0%	10.5%



	2012	2013	2014	2015	2016	2017	2018	YTD 2019
S&P500	13%	44%	62%	61%	76%	110%	97%	154%
Assertive 1	17%	62%	89%	95%	84%	125%	108%	184%
Aggressive	23%	107%	111%	124%	98%	193%	152%	345%

[18] **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 return. 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 higher long-term returns. Security of capital is secondary to potential wealth accumulation.

[19] Net Average Return, Portfolio Center, Schwab Portfolio Technologies. Fees are negotiable and range between .5% to 1.0% per year for assets under management. 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).