October 25, 2017

Wealth COACH Financial Services Inc.
(614) 734-WLTH

Dear Client,

As we prepare to go to print, stock markets around the world hover around record highs.

Q3 saw large and small domestic stock indices rise, generally in a range of 4% to 6%. Large stocks led once more, with the tech titans leading the charge. Developed countries international stock indices also rose 6%+, while emerging market indices soared in the neighborhood of 8% or more. Intermediate bond indices rose another 0.8%, ***everything*** rises in this world of central planning!

Earnings season has gotten off to a relatively decent start, but the real driver of this recent climb has been the dynamic duo of the 'tax cut' effort in Washington and the central banks buying up assets all over the planet. The current narrative is that the markets are displaying optimism that the pro-business agenda of the Trump administration will materialize, despite the sad circus that is Washington. The real story is the same one that has lifted assets relentlessly since 2009: central bank monetary manipulations will seemingly allow no downward movement with so much at stake.

In general, the economic backdrop is sound. Businesses care little about the hi-jinx of the central planners: hiring remains solid, housing activity is good, retail sales continue to rise in the neighborhood of inflation, the service and manufacturing sectors both look good, employment is solid, and 1.5 million fewer Americans are relying on food stamps[i]. The hurricanes that ravaged Texas and Florida have had less of an impact on the national economy than might have been expected, not a fun fact from those who live there, but a sign of the existing economic resiliency.

The key risks to this upward trajectory remain the same: any ineffective removal of central bank support could turn both the markets and the economy on their heads in the blink of an eye. We suspect they will remain terrified of causing any major sell-off as bankers are clearly visible and thus now accountable to investors across the globe; elites certainly want to keep the seats in their castles!

Even with the markets levitated to these record highs, the financial landscape across the U.S. remains fragile beyond the common understanding. The income and wealth inequalities we have written about for years continue to stretch to disparities never before seen in history. The wealthy asset-owners are enjoying record prosperity, but the rest of the country toils to just get by. Legendary investor Ray Dalio put out an interesting piece on the surging disparity, and will now present all economic data from the viewpoint of two groups: the top 40% and the other 60%. Because they live in vastly different worlds. Meanwhile, the top 10% owns more assets than the bottom 90% of the populace. We share some of Dalio's key points with you in the detail section that follows[ii].

Of further note, the promises made to the masses, including the bottom 60%, remain at high risk with states like Illinois and Kentucky not even 40% funded in their municipal pension plans. With such a backdrop, and central planners demonstrating that almost anything goes to keep asset prices rising, a market drop seems almost inconceivable, does it not?! It is scarily absurd for investors to even think such thoughts, yet that is precisely the position into which they have been dragged.

We suggest investors target allocations within their normal risk tolerance. As we have seen, neither hurricanes nor missiles flying over Japan can disrupt the current 'market' environment. It seems only central bank policy matters; but have an escape hatch. Enjoy the rest of this beautiful Fall and the upcoming holiday season! As always, call us if we can be of assistance: (614) 734-WLTH (9584)

Best Regards,

Mike Sullivan,
President, Certified Financial Planner ®

Market Update & Backdrop

The Q3 rise was just as steady as Q2's as once again almost every sector and every country participated … an extended thank you to last quarter's sponsors: the Bank of Japan and European Central Bank! As we said last quarter, the direction ***needs to be up***, and so up it is!

INDEX	TYPE	Q3	YTD 9/30
Standard & Poor's 500	US Based Large Stocks (500)	**4.4%**	**12.0%**
Dow Jones Industrials	US Based Large Stocks (30)	**5.6%**	**15.2%**
Nasdaq Composite	US Based Large Stocks	**5.8%**	**20.7%**
Standard & Poor's 400	US Based Mid-Cap Stocks (400)	**3.2%**	**8.2%**
Russell 2000	US Based Small-Cap Stocks (2000)	**5.7%**	**9.5%**
Dow Jones Transports	US Based Transportation Stocks	**4.0%**	**9.6%**
Dow Jones Utilities	US Based Utility Stocks	**2.8%**	**10.5%**
MSCI EAFE	International Large Cap	**5.4%**	**19.7%**
Nikkei 225	Japanese Stocks	**3.4%**	**6.3%**
MSCI Emerging Markets	Diversified Emerging Markets	**7.9%**	**28.7%**
Barclay Aggregate Bond	Intermediate Bond	**0.8%**	**0.0%**
10 Year Treasuries	Long Term Government Bond	**0.3%**	**-3.6%**
3 Month Treasuries	Cash Equivalent	**0.2%**	**0.4%**

- Rates of return for the periods ended 9/30/2017. Data from Morningstar, yahoo.com

The Q3 strength, just as was the case in Q2, came from just about everywhere. The 2017 rally is being led by Technology and Healthcare which are running neck and neck near the +16% range. The only down sectors year to date are energy and telecom.[iii] Large companies again fared better than smaller companies. Emerging market countries fared better overall than developed countries.

Switching gears, here is a look around at where we are presently with regards to the economic data[iv].

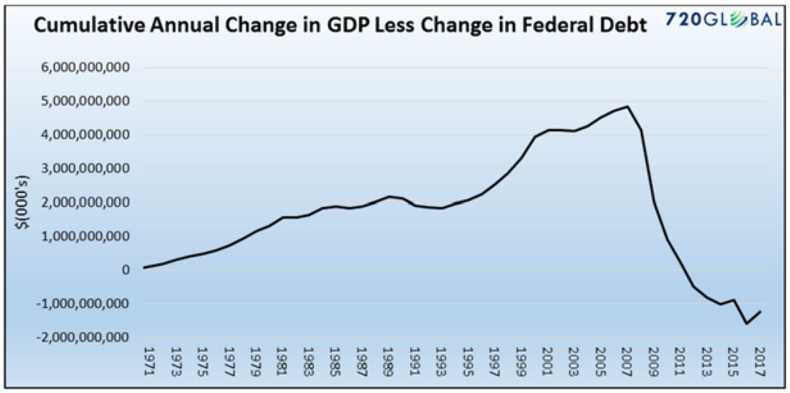
- The Gross Domestic Product forecast for Q2 received a final print of 3.1%, notably stronger than the 2.6% estimate shared in our Q2 letter. The Atlanta Fed projects Q3 GDP to ring in at 2.7%, another decent showing.
- Activity surveys from the various Fed regions reflect modest growth overall.
- Industrial Production rose modestly, up 0.3%
- Retail sales rose a modest 1.6%.
- The NFIB Small Business Optimism index declined from August, down -2.1%, but August's 105.3 reading was the strongest in twelve years.
- Consumer Sentiment surged to 101.1, the highest showing in twelve years.
- In the Manufacturing sector, the September ISM Manufacturing index hit 60.8, indicating solid growth continues, while its Services index hit a strong 59.8. PMI indices followed suit.
- The Jobs Report was abysmal in September showing a loss of -33,000 jobs, but heavily affected by the hurricanes in Texas and Florida. The rest of the Jobs data remained strong.
- Case Shiller's index of home prices in twenty major cities crept a smidge higher, +0.7%, reaching the highest level since 2009's bust. Existing home sales dipped slightly, down -1.1%
- Import prices increased 2.7% year over year, Export prices increased 2.9%. (Congrats Fed.)
- Interestingly, Leading Indicators dropped at a rate of **-0.2%**, not a great sign.

So, the theme remains the same. Economic growth is decent overall, the credit expansion continues to push economic expansion, and central bank policy remains supportive. The possibility we are transitioning into an earnings-driven rally, as unlikely as that should be given the pinch to the middle class balance sheets, increases from last quarter. Congratulations to the central banks.

We're going to keep this Quarter's letter relatively short and to the point. Without the central banks' meddling, the U.S. would have been in a Depression ***for the past 9 years!*** Lance Roberts' group illustrates this point well. The charts below sum things up rather well. From his article:

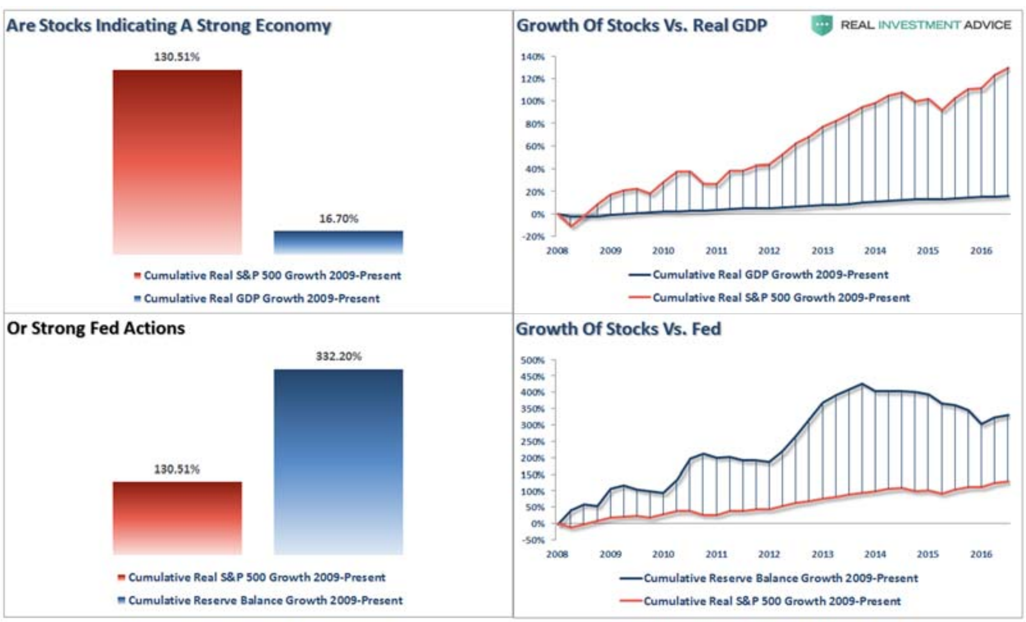
A Depression!

Since the financial crisis of 2008, the annual increase in Federal debt has dwarfed the annual growth in GDP. Without the enormous increase in government borrowing and accompanying spending, averaging approximately $1 trillion a year since 2008, GDP would have been negative for the last nine years. The post-crisis trend marks a sharp departure from the years prior – an unprecedented *"Great Depression."*



The Great Disconnect

Since Jan 1st of 2009, through the end of June, the stock market has risen by an astounding 130.51%. However, if we measure from the March 9, 2009 lows, the percentage gain explodes to more than 200%. **With such a large gain in the financial markets we should see a commensurate indication of economic growth – right?**

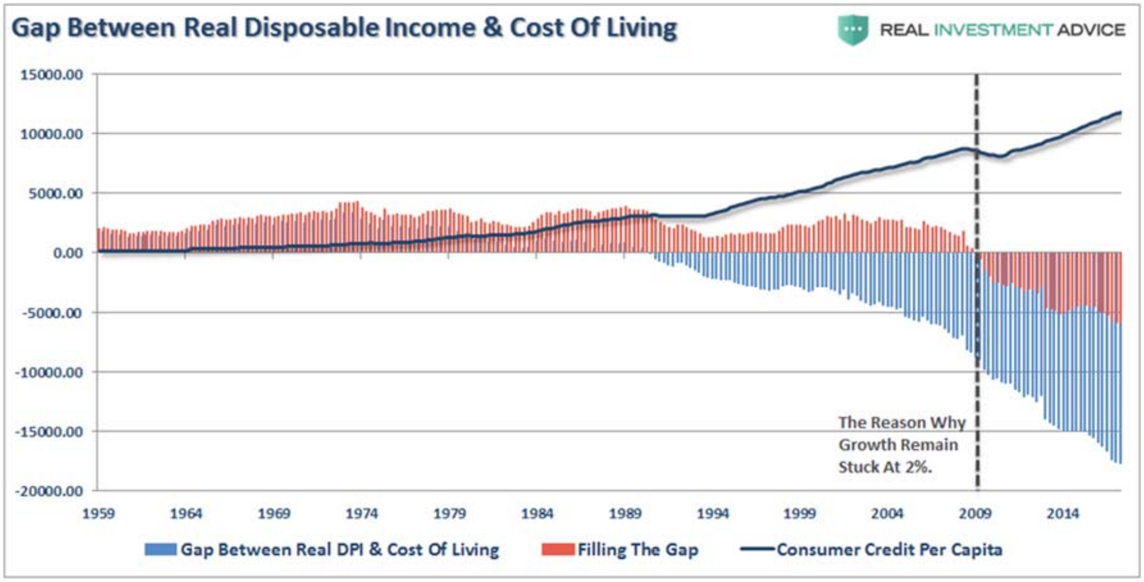


The reality is that after 3-massive Federal Reserve driven *"Quantitative Easing"* programs, a maturity extension program, bailouts of TARP, TGLP, TGLF, etc., HAMP, HARP, direct bailouts of Bear Stearns, AIG, GM, bank supports, etc., all of which total more than $33 Trillion, **the economy grew by just $2.64 Trillion, or a whopping 16.7% since the beginning of 2009. The ROI equates to $12.50 of interventions for every $1 of economic growth.**

Not a very good bargain.

Can't Afford It…Use Debt!

Therefore, as the gap between the *"desired"* living standard and disposable income expanded it led to a decrease in the personal savings rates and increase in leverage. **It is a simple function of math.** But the following chart shows why this has likely come to the inevitable conclusion, **and why tax cuts and reforms are unlikely to spur higher rates of economic growth.**



Beginning in 2009, the gap between the real disposable incomes and the cost of living was no longer able to be filled by credit expansion. In other words, as opposed to prior 1980, the situation is quite different and a harbinger of potentially bigger problems ahead. **The consumer is no longer turning to credit to leverage UP consumption – they are turning to credit to maintain their current living needs.**

We fully agree, thanks Lance. In fact, it is precisely the point we have made over these past several years. The markets may be advancing, but that is by manipulation and misrepresentation. The central banks can lie about inflation numbers as much as they want, but as we have long said, in the end, mathematics will win. Unfortunately, that is exactly what is happening in the chart above.

So, that leaves us with the knowledge that it clearly is central bank policy that is ***the one key factor*** on which we must focus in trying to position for future market movement.

The three Critical Success Factors that we have tracked for many quarters continue to suggest there is enough support for more upside ahead, but one factor is now in question. Here's the status update:

1. Central Banks must continue to mint money and buy stocks – ***they are***
2. Any 'growth' initiatives by Trump must be funded – ***not yet, does it matter?! Or only #1?***
3. The public must continue to be influenced to continue borrowing and buying - ***cooling***

Regarding Point 1, the ECB, BOJ and other central banks continue to prop up stocks. In the U.S. the Federal Reserve is jawboning, but doing little else. Their policy remains supportive, or at least not unsupportive, which seems to be fine with the other central banks pumping out the funny money.

Fed Chairwoman Janet Yellen reaches the end of her term in February 2018. The next Chairperson, who will be appointed by President Trump, may be the most important key to the market's next major move. Bond King Jeff Gundlach agrees with us in a wide-ranging interview worth watching.[v]

Regarding Point 2, nothing had changed in Q2 since our Q1 observation: nothing Trump is proposing is paid for. This quarter, with progress emerging, we have seen virtually no market downside even though the 'biggest tax cuts in the history of the country' remain largely unfunded. As we saw from

Lance Roberts' work above, all of the advance enjoyed since 2009 has been funded by debt, so, one can suppose, why shouldn't underfunded tax cuts have the exact same impact? It looks like they just might. That of course strongly suggests that the Washington budgeting process is nothing but theater and the central banks will pay for everything, just as they have been. We may have to scratch Point 2 at some point, but we'll leave it in place at least until we have a new Fed Chair.

Regarding Point 3, we know credit card debt and student loan debt are at record highs. As Lance illustrates, the debt being accumulated now is being used to just maintain living standards. It follows that such debt is decreasingly likely to be paid off. The issues below carry over from Q2 and remain the ones investors should have in focus as we roll into Q4, nothing has changed at all:

- Central bank policy matters most (still). The money-printing continues in Europe and Japan, hence there should be extra support in those regions.
- '**Re-patriation**' of corporate money sitting overseas likely matters second, like rocket fuel.
- Washington matters less, but it still matters. In light of the Fed hiking rates, a reversal of progress on Tax Reform may be just the catalyst for a market sell-off.
- Geo-political events may one day matter again, particularly a trade war with China or a military conflict with North Korea or Iran, but so far in 2017 … they do not matter ***at all***.
- Within the corporate world, we still like internet security, a few commodity plays, and the occasional downside over-reaction that presents itself on a security by security basis. Everything else, barring the central bank shenanigans, looks fairly valued, at least.

We have implemented our risk-based portfolios for a number of clients in Q3. They utilize low-cost broad market ETFs and some stocks (such as Berkshire Hathaway), and are designed to capture upside as they capture the various sector rotations. They also include the ability to pull the ejector lever should all of this central bank hocus-pocus unravel. If you have not yet explored them with us, but are interested, just let us know. Additionally, if we can help you assess your risk exposure and review your allocations with you, please do not hesitate to call us at (614) 734-9584. In the meantime, enjoy Autumn!

[i] https://fns-prod.azureedge.net/sites/default/files/pd/34SNAPmonthly.pdf

[ii] https://www.linkedin.com/pulse/our-biggest-economic-social-political-issue-two-economies-ray-dalio

[iii] https://www.fidelity.com/viewpoints/investing-ideas/quarterly-sector-update

[iv] www.bloomberg.com

[v] https://www.vanityfair.com/news/2017/10/jeffrey-gundlach-volatile-bond-market