Wealth COACH
Financial Services Inc.
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April 5, 2018

Dear Client,

From our opening paragraph last quarter:

Record highs! A rocket ship! A new era! … the Trump Bump has become the Trump Jump, and the only party-spoiling question is whether the good times will continue or rather instead turn into the Trump Dump?! Let's explore!

The Trump Pump came out of the gate hard in January with major stock market indices rising nearly each and every day. 'Animal Spirits' (the term Wall Street likes to ascribe to the greed function gripping investors left and right) were soaring on 'the fear of missing out', or 'FOMO'.

By the end of Q1, however, the major stock indices across the globe were largely in negative territory for the period the first time since 2015. The Tax Cut and Jobs Act may have passed, and it may indeed have put more disposable income into the pockets of American workers, but there are many other forces also at play these days:

1. Geo-political pressures due to Tariff pressures and regional conflicts are climbing, *and*
2. Other living expenses in 'pick-a-category' continue rising (as they have been for years),
3. And … the only factor that really matters is now in question: central bank shenanigans

Quite simply, the first two factors matter, but the ***third*** is definitely the Big Kahuna.

For nine years, central banks have been a) printing money, b) lowering interest rates, and c) buying stocks and bonds … ***outright*** in many cases. Now? Central banks are a) ceasing to print money (except Japan), b) raising interest rates, and c) reducing stock and bond purchases.

That's really the key to it all. While we greatly appreciate that it is easy to get caught up in the politics, the economics and the trade policies in the news, in the end the key factor is clear: ***if debt is being generated and money spewed around*** (and assuming faith remains in the debt-based monetary system employed by almost all major countries)***, asset prices will rise …*** including 401k account values across the U.S. When the debt trend reverses … its going to be a tall order to hold onto the upward direction of asset prices. That is where we find ourselves now.

There are many signs that the central-bank induced rally sparked in 2009 is near an end, but the most important one lies in #3 above. We will cover some of the warning signs and related issues in the detail section that follows. (For example, the economy did expand in terms of GDP in Q1 2018, but debt *exploded*, making Q1 one of the worst quarters on record in that regard!) We will simply state here that if you liked your year-end balances when 2017 ended, you're most likely in that exact same neighborhood today, perhaps not a bad place to bank some gains. There may be more upside ahead, but read the detail that follows and review your allocations.

Once more: we have surmised that Trump is ripe to be 'played' *exactly* as Herbert Hoover (the other 'successful global businessman') was played, pre-1929. Without question, Trump is serving as a human wrecking ball to the status quo in Washington and worldwide. Agree with him or not, the volatility is undeniable. Even with more potential upside ahead, big winds are changing. That may also be 'it' for this rally. Call us at (614) 734-WLTH (9584) if we can help!

Best Regards,

Mike Sullivan, President, Certified Financial Planner ®

Market Update & Backdrop

There is a noteworthy change in our outlook this quarter, and it's not just the obvious observation that ***everything's down instead of up!*** It's that the powers that be (TPTB) are now withdrawing from driving up asset prices. Only the Bank of Japan plans to keep new money flowing. The European Central Bank is stepping back, as is the Federal Reserve in the U.S. The second half of Q1 reflected the degree to which markets are 'all about' those central banks. Q1's not-so-good results:

INDEX	TYPE	YTD 03/31/18
Standard & Poor's 500	US Based Large Stocks (500)	**-1.3%**
Dow Jones Industrials	US Based Large Stocks (30)	**-2.5%**
Nasdaq Composite	US Based Large Stocks	**2.3%**
Standard & Poor's 400	US Based Mid-Cap Stocks (400)	**-1.3%**
Russell 2000	US Based Small-Cap Stocks (2000)	**-0.4%**
Dow Jones Transports	US Based Transportation Stocks	**-2.0%**
Dow Jones Utilities	US Based Utility Stocks	**-4.0%**
MSCI EAFE	International Large Cap	**-1.5%**
Japan Topix	Japanese Stocks	**0.8%**
MSCI Emerging Markets	Diversified Emerging Markets	**1.0%**
Barclay Aggregate Bond	Intermediate Bond	**-1.5%**
Interm Term Treasuries	Intermediate Term Government Bond	**-1.1%**
Short Term Treasuries	Cash Equivalent	**-0.3%**

- Rates of return for the periods ended 3/31/2018. Data from Morningstar, yahoo.com

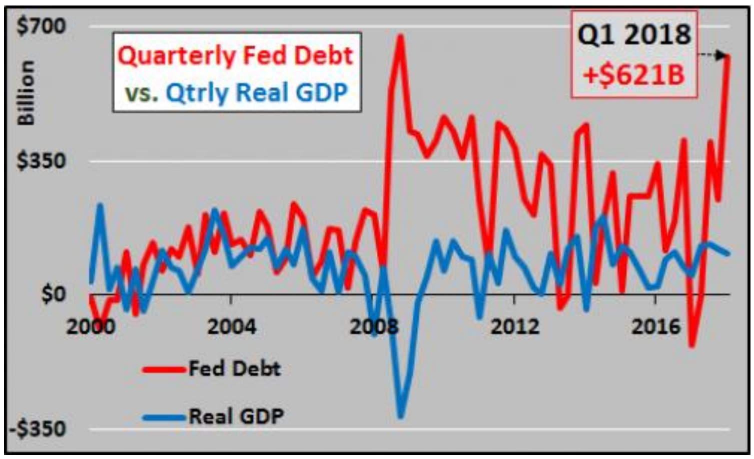
Strength again came from just about everywhere in January, replicating Q2 – Q4 2017. Then … the room started to shake. The 2017 leaders, from Information Technology, got a wake-up call. The 'market Generals' known as the 'FANGs' (Facebook, Netflix, Microsoft, Google(Alphabet), Apple and Amazon) all got smacked for various reasons (not the least of which includes their vast over-reaching into the privacy rights of users worldwide). This is important as market cycles tend to end when the Generals all of a sudden get pounded and everyone realizes they were way ahead of themselves. Facebook's and Google's privacy invasion issues are real, and threaten both valuations and business.

Here are some economic updates:

- The Gross Domestic Product forecast for Q4 received a final print of 2.5%, weaker than expected following its prior strong showing of +3.0% in Q2 and Q3.
- Activity surveys from the various Fed regions continue to reflect solid growth, with only Chicago showing a bit of a slowdown. Leading Indicators rose 0.6% in March.
- Consumer prices rose 2.2% year-over-year (as measured by its warped methodology!)
- The NFIB Small Business Optimism index returned to record heights again at 107.6
- The Bloomberg Consumer Comfort index hit 56.8, just under 17 year highs.
- The March PMI Manufacturing index hit 55.3, weighing in underneath the low end of the range and Durable Goods orders dropped 3.7% month over month, but are still up 6.8% year over year. Industrial Production on the other hand rose 1.1% beating expectations,
- The Jobs Report surged for February, adding 313,000 jobs, with private payrolls jumping 287,000 jobs; average hourly earnings bumped up 2.6%. ADP announced growth of 241,000 jobs in the private sector for March.
- The Housing Market is cooling a bit with 593k new homes sold vs a consensus of 640k in March, and pending home sales for existing homes dropped -4.7%. Both the FHFA & Case Shiller showed house prices rising 6.3% year over year, so no surprise things are cooling off.

So, from a data standpoint, we are still in good shape. And … fundamentally things remain sound. Corporate earnings have been increasingly strong, and the Tax Cuts and Jobs Act should put even more money into corporate pockets. As the direction of future corporate earnings, like it or not, is the primary driver of stock market direction, they seem quite supportive of stock prices at the moment.

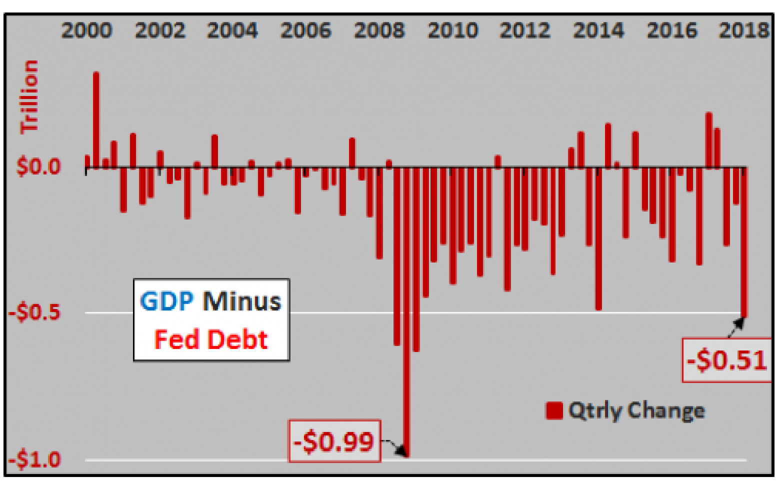
Thus, we can remain in good shape ***if*** the central banks (CBs) remain supportive and keep the game alive. So far in 2018, however, that is not at all the indication. Rather CBs are now indicating that they are embarking on a path to do the opposite of what they have done the past ten years or so. In fact, the Fed continued on its campaign to 'cool things off', cranking up interest rates another 0.25% in March, and announcing expectations of another two or three hikes in 2018! Nonetheless, we can see below that the entire essence of our economic 'strength' is really nothing but debt and price manipulations with that debt, despite the Fed's gibberish. And, ongoing confidence is required:



The chart above, provided by Chris Hamilton who blogs for www.econimica.com , illustrates clearly the Federal Debt being generated in order to create 'growth' (which has actually been utterly anemic throughout the entire 'recovery' that started in 2009) is the key to the entire charade.[i]

In other words, the only things that have been 'recovered' are the (temporary) prices of assets that are being chased by more and more dollars being stolen from the future in terms of more debt. In Q1 2018 it actually took $621 BILLION in ***new debt*** to just goose the economy that meager 2.5%.

Looked at a bit differently, Hamilton's chart below shows the 'net' 'growth' we realize each quarter through this system represented by the growth in Gross Domestic Product for the quarter ***minus*** the debt generated to produce it. Note it was the ***worst*** quarter since the financial Armageddon days of 2008 – 2009, net debt, not growth! The phrase 'growth, but at what cost?' comes to mind, does it not?!



Very few people care about these issues, as they're not really visible because central banks mask everything by printing the money that chases the asset prices upward. Doing so makes tomorrow look like today, today look like yesterday, and every week look like prior weeks over the past many decades … as the powers that be fiddle around behind the scenes and distort then 'rescue' everything.

The only problem is that these rises in prices are too-often temporary, running in eight year cycles. The ones who 'capture' the rise (IE, sell out and bank profits) tend to be the same Wall Street cads that should have gotten jail time in 2009. Everyone else merely rides the roller coaster up and down, not fully understanding the WS game … and it is a game: the wealth and income inequality game.

Central bank shenanigans may well not be over, nor are we saying the rally is necessarily over. In fact, only if and when those pulling the levers want it to be over, will it be over. Other than by their choice, it can end three other ways: 1) when the masses see what is occurring and lose confidence in the game and move to the sidelines, 2) when the debt becomes so unsupportable it collapses in upon itself (see graphs above), or 3) when the five major central banks stop cooperating with each other.

This last point is one mentioned several times recently, and it is the one that point that may be in play now as China and the US do battle over trade policies, tariffs, and global economic dominance.

Today, very few people understand that since the early 1970's, when Nixon took the U.S. dollar off the gold standard, he effectively backed it instead by oil by having Henry Kissinger negotiate with Saudi Arabia and OPEC to guarantee all oil would be purchased in U.S. dollars. This 'backing' effectively created the 'Petro-dollar' and mandated that all countries around the globe buy dollars if they wanted to buy oil. Since oil is the most highly traded and heavily used commodity, the U.S. dollar has enjoyed nearly five decades of being in higher demand than it ever should have been based on our government's wasteful management and cronyism.[ii] Two countries since have tried to move to have oil priced in currencies other than the U.S. dollar: Iraq under Saddam Hussein, and Libya under Moammar Ghadaffi. We saw how things turned out for each of them, did we not?

<u>During the last week of March 2018, unknown by most Americans, China launched an exchange that now trades oil in the Chinese currency, the Yuan.</u> The Chinese have quite successfully done what Iraq and Libya could not: unseat the U.S. Dollar's dominance on the world stage. This ***practically*** means that we no longer have unlimited dollars to print and spend, and we will now be matched to some degree by China. The dollars we were 'spending' were really the military equipment we use, the foreign aid we bestow, and the foreign governments we were buying. The world just changed ***dramatically*** during the end of March and very few realize it at all.[iii]

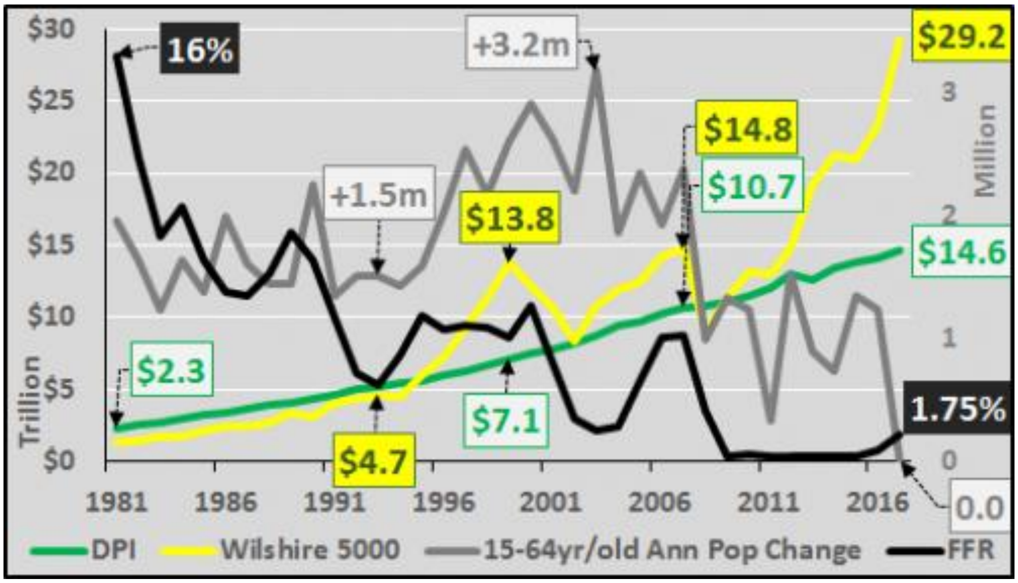
The 'Trade War' with China, currently in the headlines, can also be a large factor in market direction. Unlike the corporate news media's message suggests, the Trade War is not being started by Trump, it has been underway for years, enabled by corrupt or incompetent politicians who profit from it, along with China. It is indeed time the issue was addressed. The only question becomes what the cost will be. Will this be Trump working the Art of the Deal where he ultimately softens the stance of the U.S.? Or, will it take hold and escalate instead? You can see how the answer to this question may very well influence whether or not the major central banks continue to cooperate … or not.

So … the geo-political risk … risk item #2 identified in the cover letter … may be heavily in play.

Regarding risk item #3, the central banks, I attended a conference recently where I had occasion to spend some time with Peter Schiff. I share with him great concern about 1) our unpayable debt, 2) the potential timing of the day a price will ultimately be paid, and 3) most importantly … ***who*** will likely pay it! The fact that nobody was jailed in 2009 suggests it won't be the Wall Street gang that pays the price (unless rule of law is returned to the upper echelons of government). And it won't be Wall Street's unelected cronies at the Fed. So … that suggests the rest of us should look deeply in the mirror and plan for the day the price comes due. Assets price increases do indeed get captured by a few. Unfortunately, they don't send advance memos to those they prefer end up holding the bag.

That means an understanding of what is happening in China, and an opinion on whether it will even be possible to bail everything out via the debt-creation tactics the Fed has used in the past, are very important considerations for investors. Does the rise of the Petro-yuan and the decline of the Petro-dollar signify a massive change in global and economic power? With the introduction of the Petro-yuan and the decline in power of the Petro-dollar, could the Fed even deploy another debt-funded bail-out? Or did everything just change?

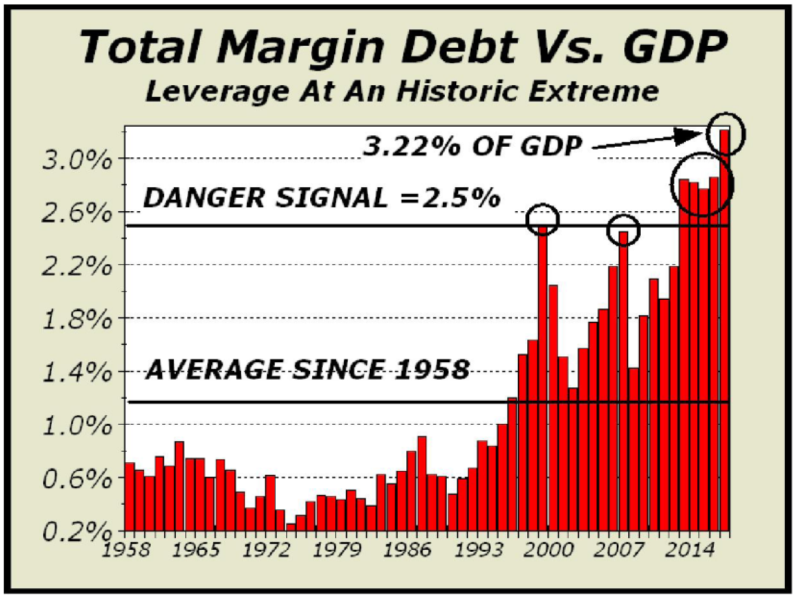
Hamilton's last chart leaves these global issues off the table for now and rather simply compares the rise in the stock market (depicted by the Wilshire 5000 index in yellow) to the rise in disposable personal income (green, miniscule), population growth (gray, miniscule) and the Federal Reserve's 'Fed Funds Rate' (FFR = the interest rate that drives the cost of money … when it rises, money costs more so asset prices don't rise quite so easily). Note the turn upward in the FFR, the black line, as of late as the Fed seeks to moderate or unwind the bubble it has inflated over the past eight years …



What the chart is clearly saying is that 1) the asset owners depicted by the yellow Wilshire 5000 line are the ones that have collected all of the 'growth' over the past 9 years (if they keep it), and 2) the Fed has demonstrated it thinks it is time to hike the FFR and cool off the asset-price-inflation party.

Whether we like it or not, it is the unelected academics and cronies in suits that hide behind the curtain and drive everything. It is not Trump and it was not Obama driving overall direction, even though their policies may have near term impacts on the business environment and to some modest degree … the markets. And, yes, we have talked about the monetary policy and debt debauchery for years as asset prices have risen. Again, note the black line above, note what it did from 2008 until 2017, and consider how well you liked your 12/31/17 balances. Then do assess whether things may have changed at last!

The last chart is one we presented last quarter too, the ratio of margin debt vs GDP, presently at an all-time high. When market cycles end, the borrowed money gets hit first and gets 'un-wound'. That creates noticeable volatility … kind of like what we've seen towards the end of Q1, no?



Last, below please find this quarter's review of the three Critical Success Factors that we have tracked for many quarters. Note the big change from last quarter:

1. Central Banks must continue to mint money and buy stocks – **backing off … China?**
2. Any 'growth' initiatives by Trump must be funded – **$1Trillion deficits … in a boom?**
3. The public must continue to be influenced to continue borrowing and buying – **slowing**

Rather than repeat all of the detailed analysis from last quarter, we invite you to revisit our letter from last quarter. Many of the observable changes just covered in this letter's preceding detail should reveal the changes in red text, but if you'd like to contrast them to last quarter to see how quickly things have changed, the last quarterly letter is worth a visit. You can find at www.wealthcoachfinancial.com !

If we can help you re-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 the Spring!

[i] https://econimica.blogspot.mx/2018/04/q1-2018-was-disaster-for-america.html
[ii] https://www.bloomberg.com/news/features/2016-05-30/the-untold-story-behind-saudi-arabia-s-41-year-u-s-debt-secret
[iii] http://www.shtfplan.com/headline-news/china-challenges-the-us-dollar-by-launching-petro-yuan-dollars-death-imminent_03262018