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September, 2016 NewsLetter

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To Our Valued Clients and Friends

THOUGHT FOR THE DAY

"Those who make peaceful revolution impossible make violent revolution inevitable. "

Pres. John F. Kennedy

MARKET PERFORMANCE

The Fed tipped its hand this month at their annual meeting in Jackson Hole, WY, that an interest rate increase is being considered *now that economic data is improving* (see **INSIDIOUS**). After 8 years of spinning our wheels, we are finally seeing some traction in housing, consumer spending and employment, even though the August jobs number just reported was uninspiring. As expected, the market's reaction after the meeting was to immediately sell off all of our favorite interest and dividend payers like bonds, REITs, utilities and dividend stocks because, when interest rates go up, it devalues the cash flow from these other investments and their prices fall. Of course, like cows, they keep on giving their 'milk' and so we tolerate the price correction while collecting the income. Once the market had a chance to think about it, stronger economic data overcame fear of a rate increase, and markets pushed higher into month-end. However, the threat of a Fed rate increase has taken the luster off the gold rally and is sure to mark a top in house prices. **YTD: DJI +5.6%; S&P +6.2%; NAS +3.9%; PRISM +8.3% Gold +29.3%; WTI OIL +21.1%; 10 yr TSY=1.58%**

STANDING FOR SOMETHING

I recently watched the classic movie *'A Man For All Seasons'* portraying the life of **Sir Thomas More** in the 16th century - lawyer, jurist, beloved for his sense of fairness, honesty, and standing for what was right. As a close friend of **Henry VIII** and trusted counselor, *More* was appointed Chancellor of England, only to find himself in the middle of the King's marital problems—a wife who was barren leaving Henry with no heir. Being good Catholics and owing their allegiance to the Pope in Rome, divorce was not an option—at least for *More*. By this time, Henry was having an affair with Anne Boleyn and wanted to divorce Katheryn and marry Anne, which Sir Thomas could not abide. To soften his resolve, the king had *More* imprisoned in the infamous Tower of London and coerced Parliament into passing a law making Henry the head of the Church of England and requiring all Englishmen to take a vow of loyalty to the King and the Church. *More* refused and was put on trial for high treason. During the trial *More* argued that even if Parliament passed a law that there was no God, it didn't make it so. *More* was put in that awkward position of having to hold to faith and what he knew to be right, or yield to political pressure and save his life. In the end, *More* lost his head at the chopping block (he was canonized by the Catholic Church in 1935 as a saint). *More* chose as his measuring stick his Christian values and fairness under the law. Today, the US Supreme Court has chosen to worship the law as *More* did, but without acknowledging the value system that stands behind the law—the Judeo-Christian ethic. In a recent interview on CNBC a woman who claimed to represent atheist non-believers-in-God, took pride in boasting about how many people in the US are finally admitting to not believing in God (even though a Gallup poll this June showed 89% of Americans polled believe in God). If she is as smart as she thinks she is, she should realize her atheism creates a sticky problem when it comes to governance. The foundation of America's greatness, most would agree, is the *Declaration of Independence* which says that men have *'unalienable rights'* which derive from their *Creator*. Take away the Creator and you have no *unalienable rights*, leaving society to define your rights and use or abuse you as it sees fit (of course if your ancestral line is primordial slime, then you're just a mutant and natural selection holds your number anyway). If they're smart, all atheists should *pretend* to believe in 'god' if only to protect their *unalienable rights* from the next Attila the Hun. The next US president could end up appointing 4 new justices, dramatically influencing the orientation of SCOTUS. We hope they remember that **our values dictate the law**, not the other way around. The last time I checked, the image of Moses holding the stone tablets is still engraved on the pediment over the Supreme Court building.

LAST WEEK TONIGHT

That's the name of a new TV show on Sunday nite that, I'm sure, few of us have ever watched, hosted by comedian John Oliver. The show is a somewhat bizarre form of journalism, researching arcane topics and then doing something 'impish' to entertain his audience. In a recent show, Oliver spent 20 minutes explaining the debt-buying industry—you know those companies that buy your old unpaid medical bill for pennies on the dollar and then either attempt to collect it (like getting a visit from Guido wearing a trench coat and hat and holding a baseball bat), or resell it. After describing how the industry works, Oliver wanted to prove that 'any idiot' could get into the business of buying and collecting people's old debts, so he revealed that he set up a debt-buying company on the Internet for \$50 and had purchased nearly \$15 million of old debts that still exist, but are so old that you can't take anyone to court anymore. The price he paid for the portfolio? \$60,000. Then with a flourish and the push of a giant red button, he started the process of officially *forgiving the debt - all \$15 million!* On another occasion, he and his staff started a church called **Our Lady of Perpetual Exemption** to prove how easy it is to make yourself a tax-exempt organization (**THE CLINTON FOUNDATION**). He actually received donations to his fictitious church which were sent along to **Doctors Without Borders**. This seems like a good time to remind you that individuals who are age 70 ½ and older can transfer up to \$100,000 annually from their IRAs directly to charity at any time during the year. These transfers count as part of your yearly RMD (required minimum distribution). The distributions are not taxable and thus won't add extra income to AGI which could hit itemized deductions and personal exemptions, or trigger more tax on your Social Security benefits. Since the contribution is coming from an IRA, you cannot deduct the donation.

PUT A RING ON IT

One of the great tragedies of American society today is the disintegration of black families. Countless studies and millions of research dollars have been spent on trying to figure out why young black men have a 38% unemployment rate, 72% of black children are born out of wedlock, and 58% of prison populations are black men under the age of 30. Black activists (BLM) continue to insist it's the lingering effects of white racism, thus making black people victims and giving them an excuse to fail. After many years of interacting with people of all races, especially blacks (don't expect me to use the politically-correct and patronizing term 'African American'), I have learned that we are culturally different and, I believe, always will be – and what's wrong with that? I will never be 'black' (or Indian or Oriental for that matter) and they will never be 'white'. Social engineers keep trying to homogenize us, thinking that will abate racism – which hasn't worked real well. In fact, it seems to have aggravated the problem. One thing I've learned is that black people have a unique pride and sense of humor that makes me realize that they are...well...cool. Most white people I know are not cool – and never will be. The problem is, I can tell that black cool-ness and pride makes it difficult for a young black man to take a job frying burgers at McDonalds – or any entry-level job for that matter – without feeling like he's somehow sold out to whitey or the system. Whose fault is that? Am I bitter that I have no sense of rhythm and most black people do, that I can't jump? Should white people feel discriminated against because 75% of NBA players are black? As a big fan of sports, I love the stories of young black men and women raised by a single mom (e.g. Olympic track star Allyson Felix) working multiple jobs to ensure that their kids stayed in school, learned to work hard, and acquired a vision of greatness and faith. I think that's the key. I think strong black women - especially *young* black women - are the key to saving black families. I think black people – young and old – want the same things white people do: some level of success, love, faith, family, and home (and maybe some *bling*). Unfortunately, our society has made black toughness and virility cool (gangster rap) and sexual promiscuity fashionable, so that it's easy for girls to *give it away* to young men without expecting a commitment from them. That makes it easy for young black men to be studly and cool, father a child, but without a commitment to anything but themselves – and maybe their gang. So girls – I say tell your men what **Beyonce** says: *If you like it then you shoulda put a ring on it!* You never know, girls – you just might change the world by saying 'No!'

BULL IN A CHINA SHOP

Candidate Trump managed to stir up the pot again when he accused Pres. Obama and Hillary Clinton as Secretary of State of being responsible for creating the terrorist group, ISIS. But what really caught the media's attention was when Sayyed Hassan Nasrallah, leader of Lebanon's own Muslim terrorist group, *Hezbollah*, agreed with Trump. *"This American candidate, who speaks in the name of the American Republican Party, has facts that can support this assertion."* Trump's comments came not long after encouraging the Russians to hack Hillary's emails, prompting Russian President Vladimir Putin to refer to Trump as *"the absolute leader of the presidential race."* Even though Trump later brushed aside his comments as 'sarcasm', vice presidential candidate Mike Pence said Trump wasn't joking. *"He was being very serious, and he was making a point that needs to be made, that there is no question that failed policies of Pres Obama and Secretary Clinton...created a vacuum within Iraq in which ISIS was able to arise."* As chaotic as the Trump campaign may be (having recently lost Paul Manafort as campaign manager), there's a certain bizarre excitement to the madness we see – like watching a bull in a china shop thrash around, destroying everything in sight. I don't know what kind of a President he would be, but watching Trump tear up Washington politics, bad foreign policy and lopsided trade agreements couldn't be *all* bad.

INSIDIOUS - LOOKING AHEAD

As you may know, *Insidious* is the title of a series of B horror films, but the word implies *'be afraid...be very afraid!'* It's the best word I can think of to express the economic point of view of the doomsayers writing in a variety of media, which, in turn, has fueled the speculation in gold and silver (fear metals). Once again, we see this fear is the result of extrapolation of persistently weak economic data to end in disaster, as if nothing is being done to change the curve. It has taken 8 years, but we are finally seeing this experiment in unlimited monetary stimulus by all the central banks begin to take hold in Europe, China, and the US. I think of the times I have been 4X4'ing and get stuck in the mud. I sit there spinning my wheels, waiting to get some traction until finally – the wheels find something to grip and out we crawl back onto solid ground. It's been a long time coming, but economic traction has finally showed up in US housing, European and American consumer spending, stable oil prices, steady new-job creation (averaging 200,000/month), Chinese auto sales, and improving S&P earnings (less negative). With so much cheap money sloshing around the globe, M & A (mergers) activity is reaching a fever pitch. Pessimists are betting its temporary by shorting the market, but the big money has been pushing stock markets to new highs, and paying premium prices for take-over candidates. We are betting that investors will tolerate a nominal rate increase now that economic data is improving, so a rate increase at the Fed's December meeting would not be a surprise. However, we think that Q4 S&P earnings forecasts are overly optimistic which means that the market is fully valued at these levels, warranting caution. Therefore, we will stay the course with our conservative dividend strategy, counting on dollar-cost averaging with reinvested dividends during periods of market weakness to maintain positive portfolio performance. We expect gas to fall below \$2/gallon this winter so we are adding some retail growth stocks to client portfolios: JCP, BBY, HPE, MRVL, EBAY

We value your questions or comments so please don't hesitate to email or call.

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