



THE \$TRATEGIST

Late-Cycle Bull Market

By Kirk Hackbarth, CFP®, CPA/PFS, MS

Where does the current bull market rank in terms of historical significance? If the current bull market continues through late August of this year, it will become the longest bull market since modern records began in 1945.

Since the market is clearly approaching uncharted territory, will the bull market continue? Thanks to stable economic growth and the Fed's easy-money policy, we think the bull market will break the all-time record for the longest ever.

S&P 500 earnings growth in the second quarter is expected to be very strong 20% according to FactSet. If earnings turn out to be this robust, it will mark the second highest earnings growth quarter since Q3 of 2010. With strong corporate profits, low unemployment, corporate tax cuts, inflation in check etc., we still aren't seeing any recessionary indicators suggesting that the bull market end is near.

Let's take a deeper dive into other economic factors that bode well for the current bull market.

- Repatriation of foreign profits. In Q1, companies repatriated \$296 billion. This is only about 17% of the total corporate profits overseas. Why is this a positive indicator? The repatriated funds are earmarked primarily for

	Bull Market	Dates	Months	S&P 500 Return	Annualized Return
1	Great Expansion	'90-'00	114	418%	19%
2	Post Great Recession	'09-'18*	113*	302%	16.7%
3	Post-War Boom	'49-'56	86	267%	20%
4	'70s Growth	'74-'80	74	126%	14.1%
5	Reagan Era	'82-'87	60	229%	26.7%

*Still ongoing

stock buybacks, new capital spending, dividend increases, and mergers and acquisitions.

- Currently, stock valuations still look reasonable. The 12-month forward price earnings (P/E) ratio of the S&P 500 is 16.1. The 25-year forward P/E average is 16.1. Even at this late stage of the current bull market cycle, valuations are not over-valued.
- The Fed has hiked rates seven times since 2015, sending the Federal Funds rate from a low of 0.25% to 2.0% today. However, this is one of the slowest rate hike trajectories in their history. It appears that the Fed will raise rates as much as they can without overshooting and raising rates too high. Look for one, possibly two more rate hikes yet this year in increments of 0.25% as they move to a more neutral monetary position.

- The economy still remains in growth mode. The Conference Board's Consumer Confidence Index is still healthy. Since consumer spending makes up about 69% of growth domestic product (GDP), this is a positive sign for the markets.

With this positive economic backdrop in place, what could end the current bull market cycle?

- Fed too aggressive with monetary policy;
- A valuation bubble somewhere in the economic system;
- A recession;
- Escalation of geopolitical factors such as tariffs and trade issues.

The most likely culprit today is an escalation of tariffs and trade wars. This is the major risk to global growth outcomes for this year and next.

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Planning Notes

By June Ann Schroeder, R.N. CFP®

Where is my bank branch? Thousands of US branches have closed, with 2017 seeing the largest decline on record. The pace continues today. One big reason is the increasing use of banking online. Example: we see clients who have never, ever written a paper check as all transactions are electronic!

Medicare Costs Rising: High income earners will be paying 85% instead of 80% of their Medicare Part B and D benefits in 2019. This follows an increase for 2018 for some of them from 65% to 80% this year! Also, more Medicare recipients will be paying more than the standard premium, often due to receiving more taxable income from Required Minimum Distributions (RMD) as they reach 70½.

QCD Benefits Taxpayer and Charity: For some taxpayers, *qualified charitable distributions* can reduce income to avoid the Medicare increases mentioned in

the previous paragraph. QCDs are sent directly from your IRA to your designated charities in the amounts you determine, are counted as part of your RMD, and are NOT included in your taxable income. QCDs are a good way to advance your charitable inclinations even if you are not trying to avoid Medicare increases. You and the charity both win!

Cash Advance Alerts: Transaction fees are usually 2-5% of the amount of the advance. ATM fees can be added if you don't use designated machines. Foreign transaction fees may be charged outside the US by some cards. Interest rates are usually higher and start accruing immediately.

Airbnb Scam: Scammers constantly invent new ways to cheat honest people. In this one, scammers list properties on Airbnb. When you express interest, they suggest communicating via email, rather than the Airbnb site, for convenience. When ready to book the property, the

crook sends a professional looking phony link and steals the booking fee. Lesson: Stick with the Airbnb site or app when paying for a rental.

Overdraft Fees on the Rise: Consumers paid over \$34 billion in overdraft fees last year, the most since 2009. Credit unions have increased their fees to closely match those of banks. An easy fix is to set up mobile app or email alerts when your account balance is low and it is time to transfer funds from saving to checking. Or stop spending!

Think twice before refinancing: As interest rates creep up, refi's have declined precipitously since the high of 72% of homeowner's in 2012. Mortgage lenders are responding with a push to do cash out refi's. This means taking out more than you owe on your current mortgage for home improvements, etc. But this converts what is most likely short term debt into long term debt. Better choice: a home equity loan or line of credit.

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continued

Late-cycle bull markets are challenging to navigate and predict. It can often take several months for a market top to emerge. This development typically occurs alongside tighter monetary policy and valuations risks. At present, neither indicator is flashing a negative signal. Therefore, the current bull market cycle appears to have enough positive economic momentum to post additional positive gains.

Featured Artist: Lynne Carol Austin

Lynne is a self-taught artist. Her artwork reflects an inner spiritual meaning and identification with the natural world. Her latest work uses alcohol ink, acrylics and handmade papers. The inks produce vibrant color and effect, although challenging to work with because of the problems in controlling the watery ink.



Also a published writer, her five books range from children's books to novels. The latest, *Gull Soup*, was released this year. She did her own art for two of her children's books, *Edith Ann Marie The Sun is in My Heart* and *Francine and Hazel*.

Lynne left hospital nursing after thirteen years to go into massage therapy and other healing modalities, opening one of the first holistic centers for healing in 1995, in Brookfield, WI. Check out her website at <http://lynnecarolaustin.com>.



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