Kenneth A. Gilpin CFP

Sound Investments Inc.

Third Quarter 2017

DJIA - 22405 S&P 500 - 2519

Markets: Steady Climb

Stocks rose amid a brighter picture for the global economy with better than expected corporate earnings. The S&P 500 index reached a record high during the quarter, despite increasing tensions with North Korea and the start of a particularly destructive hurricane season. For the three months ending Sept 30th, Emerging Markets were the clear winner up 7.4%, followed by European Stocks up 6.4%, and the S&P 500, up 4.5%. (See back of this page)

Information technology, energy and material stocks led markets higher. Banks and financial stocks also advanced on expectations for rising global interest rates. The consumer staples sector fell, weighted down by a sharp decline in shares of tobacco companies.

No News is Good News

The term "Goldilocks" is often used to describe an economy that's not too hot and not too cold or when conditions are just right. I thought we could look at three factors; the global economy, employment and inflation, to confirm the Goldilocks thesis in the next three paragraphs.

1.) For the first time in years, the world's major economies all appear to be be on the road to recovery. Roughly three-quarters of all countries are now in a growth mode. See the chart on the back of this page, "Global Stock Rally Spreading to all Corners of the World". Once the missing link in the global recovery story, the industrial sectors bounced back this year, powered by improvements in the U.S., France , Germany, U.K. and China. Increasing more demand and a gradual weakening of the dollar have acted as tailwinds for global manufacturing activity while consumer spending remains strong.

2.) The last quarter's employment report couldn't have been stronger with over 200,000 per month in job gains each month in total non-farm payroll jobs (compared to 183,000 expected), combined with a 4.3%, unemployment

Summary

The problem with the "Goldilocks" economy, where everything seems just right, is that no matter which way you turn, the outcome is most likely less desirable than what you already have. Inflation can't get much lower, employment can't get much stronger, and asset values are higher than they've ever been. In this type of idyllic environment, the old adage **"no news is good news"** seems to be the safest way forward. (see back of this page) But, there will always be **more news**, both good and bad.

We have a number of clients who started out 2 or 3 years ago with a portfolio of 60% stocks and 40% bonds, but with the increase in the stock market their ratio is now 75% stocks and 25% bonds. While we encourage clients to stick to the original plan most folks, are comfortable letting it ride.

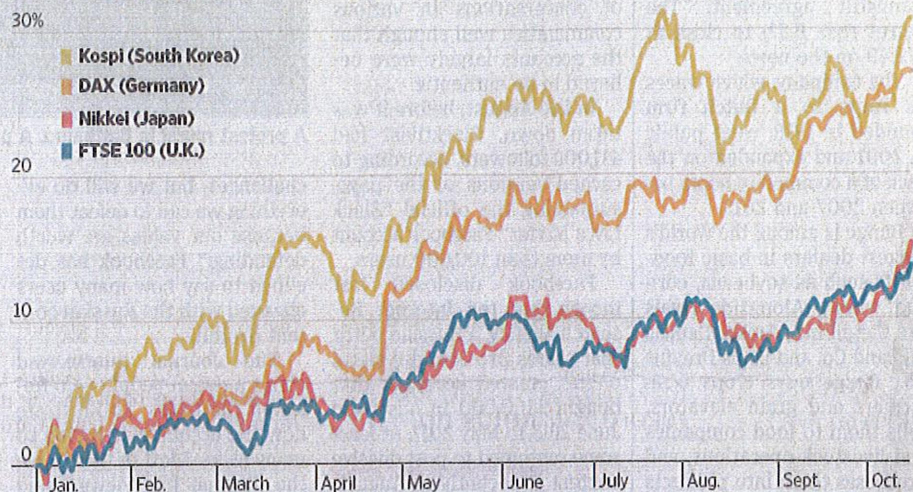
We subscribe to a number of investment letters such as Morningstar, Zach Investment Research and Vector Vest to name a few and feel we are well informed. However, no one knows the future, nor should we know. We are always vigilant in the event our market outlook changes. Please call anytime.

This investment letter is mailed quarterly to our clients and friends

Global Stock Rally Is Spreading to All Corners of the World

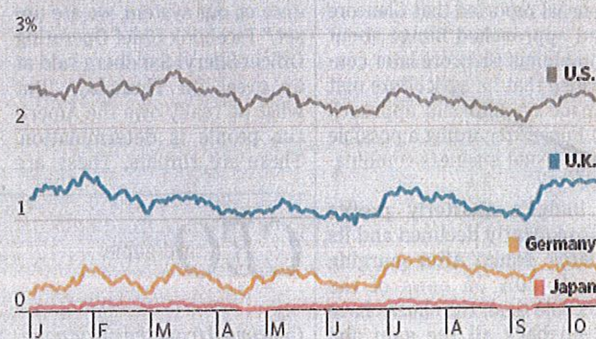
Several international benchmark stock indexes have climbed to multiyear highs, pushing the MSCI World Index to a record on Friday. Helping to fuel the gains: low government-bond yields that make stock investments look more attractive by comparison.

Performance, year to date



MSCI World Index, weekly

Yields on 10-year government bonds



Sources: FactSet (indexes); Tradeweb (yields for Germany, Japan and U.K.); Ryan ALM (Treasury yield)

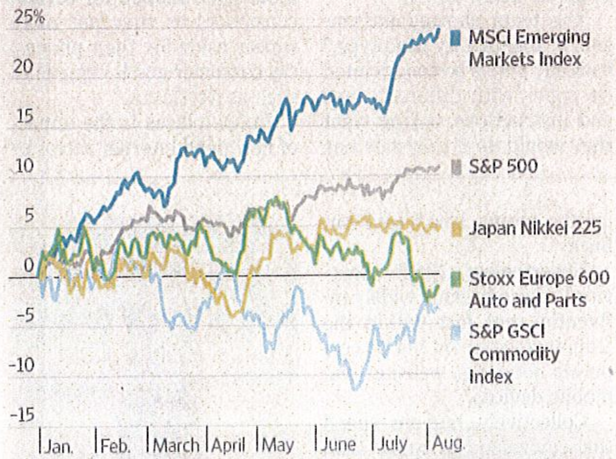
THE WALL STREET JOURNAL.

BOOM: With U.S. indexes at or near records, investors are heading to places with solid growth and where valuations are cheaper. B11

Ripple Effects

The dollar's slide this year has boosted U.S. exporters, emerging markets and commodities while hurting some foreign companies.

Index performance this year



Source: FactSet

THE WALL STREET JOURNAL.

rate, leaves little room for improvement. A plumber friend of mind is swamped with work and can't find anyone to help.

3.) Inflation is also low and didn't increase at all in Aug, after rising only 0.2% in July. The Consumer Price Index (CPI) has increased 1.6% during the past 12 months, a third less than the 2.7% annual growth rate it posted just six months ago. This puts the Federal Reserve in a difficult position. Should it raise rates to stave off potential inflation stoked by rising employment and escalating asset values, or leave rates unchanged since inflation appears to be under control? Higher interest rates would drive up borrowing costs, hurting the construction and automobile industries that rely heavily on debt to finance purchases.

The problem with the "Goldilocks" economy, where everything seems just right, is that no matter which way you turn, the outcome is most likely less desirable than what you already have. Inflation can't get much lower, employment can't get much stronger, and asset values are higher than they've ever been. In this type of idyllic environment, the old adage **"no news is good news"** seems to be the safest way forward. (see back of this page) But, there will always be **more news,** both good and bad.

So, What Could Go Wrong

The world is afloat with things that could wrong from North Korea, Trade Talks with Canada and Mexico, Russia and NATO conflict, Syria, Brexit, South China Sea plus a host other issues. We live in an era of peace and anticipate and expect that peaceful pressure will avert an all out war, as the costs are too high on all sides.

There has been a lot of discussion that the U.S. economic recovery, now in it's 89th month, is getting long on the tooth and is due for a slowdown. There are a multitude of issues, from stocks that are trading too high to possible changes in corporate taxes, inflation, higher interest rates, etc. It is hard to know, but as indicated above, a broading of steady growth beyond the U.S. gives us confidence that the global expansion is sustainable. (see article on back of this page) There is still a huge population of underinvested individuals and as long as they continue to buy on market dips, it's difficult for the market to decline very much. At this point, we feel confident that the markets will 'muddle through' and will be higher a year from now.

Conclusion

We have a number of clients who started out 2 or 3 years ago with a portfolio of 60% stocks and 40% bonds, but with the increase in the stock market their ratio is now 75% stocks and 25% bonds. While we encourage clients to stick to the original plan most folks, are comfortable letting it ride.

We subscribe to a number of investment letters such as Morningstar, Zach Investment Research and Vector Vest to name a few and feel we are well informed. However, no one knows the future, nor should we know. We are always vigilant in the event our market outlook changes. Please call anytime.

More Sunny Days Are Likely Ahead for the U.S. Economy

By Alan S. Blinder

Every op-ed should have a simple take-away, one that's easy for readers to remember. Here's mine: Economic expansions don't die of old age—they go on until something kills them.

As the current expansion approaches its 100th birthday (measured in months), many observers assume its days are numbered. The National Bureau of Economic Research, whose chronologies date to 1854, shows only two U.S. expansions that lasted longer than this one, which began in June 2009.

The great expansion of the 1960s went on for 106 months. We'll almost certainly beat that. But the granddaddy of them all was the remarkable 120-month expansion from 1991 to 2001. To top that, the economy would have to continue growing past June 2019—a very tall order.

The good news is that the end isn't nigh: Economic indicators suggest growth will continue for the foreseeable future. These signals aren't entirely reassuring, however, because recessions can't be predicted well in advance. But economists do understand how they begin and end.

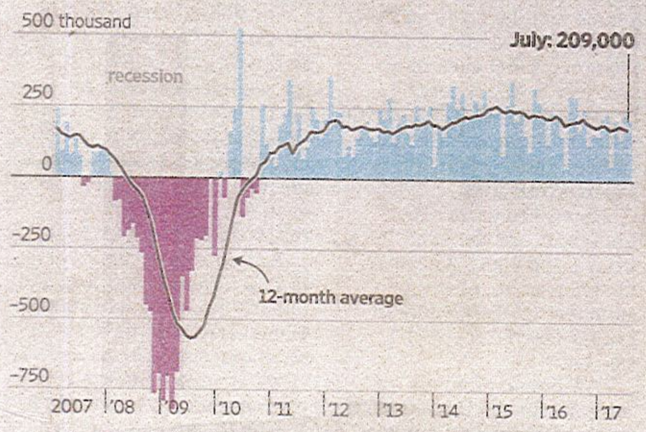
Aug 16 2017

THE WALL STREET JOURNAL.
PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

Steady Strength

employment RATE

Monthly change in nonfarm payrolls, seasonally adjusted



Source: Labor Department

THE WALL STREET JOURNAL.

Therein lies the better news: No serious threat is in sight.

The most common cause of U.S. recessions in the postwar era has been monetary tightening by the Federal Reserve as a means to fight inflation. If policy makers execute perfectly, they can engineer a "soft landing" from today's low interest rates. That's what the Fed did in 1994-95, when skillful monetary tightening led into a boom. More historical instances of Fed tightening, however, have been followed by recessions. In some cases central bankers actually sought that outcome, as when Paul Volcker sent interest rates skyrocketing to vanquish inflation in the 1980s. In others, they just goofed.

Will the Fed kill the current expansion? That seems unlikely. There's no inflation in sight. Janet Yellen and her colleagues are trying to extend the good times by raising interest rates as gradually as possible, ready to pull back if signs of a slowdown emerge. The Fed is fallible, obviously; it could make a mistake. But I doubt it would be a big one.

Other recessions have been caused by "oil shocks"—sharp increases in oil prices that hurt businesses and consumers. Big oil shocks preceded the world-wide recessions in 1973 and 1979, spurred by the Arab oil embargo and then the Iranian revolution.

Will an oil shock end the current expansion? Your guess is as good—or, more accurately, as worthless—as mine. Oil shocks are unpredictable.

That said, neither markets nor experts seem to expect one.

What about a financial ruction of some sort, such as a stock-market crash? Many of today's worry warts focus on the long and allegedly excessive run-up in stock prices since 2009. I won't enter the debate over whether stocks are overvalued, because no one can predict the market. But a far simpler point is germane: It takes one hell of a stock-market crash to cause a recession.

Economic expansions tend to go on until something kills them. Today, not many dangers lurk.

Recall the way the economy reacted when the tech bubble burst in 2000-02. The Standard & Poor's 500 fell by almost half, and some $9 trillion of wealth was wiped out. But the subsequent recession lasted only eight months and was so mild that annual data show no drop in real gross domestic product.

What about 1929? Didn't the Great Crash beget the Great Depression? Not quite. The stock collapse was one of many causes of the Depression—and by no means the most important. In their monumental "Monetary History of the United States," Milton Friedman and Anna Schwartz placed more blame on the Federal Reserve, which allowed the supplies of money and credit to contract violently. Ben Bernanke echoed that criticism while serving as a Fed governor in 2002, when he said at Friedman's 90th birthday party: "You're right, we did it. We're very sorry. But thanks to you, we won't do it again."

If any financial calamity does derail the current expansion, it will be more likely to emanate from the credit markets—as happened in both the Great Depression and the Great Recession. Fortunately, there are few signs of credit markets behaving badly, unlike in 2007. Households and businesses are less leveraged, banks hold a lot more capital, and financial regulations are much tougher. Those of us who lived through 2008 will never say "never." But if a credit volcano is rumbling beneath the surface, it's pretty quiet.

What's left on the worry list? Every once in a while, for reasons that become obvious only after the fact, something shakes consumer or business confidence, causing spending to plummet. When that happens, a recession is all but inevitable. Right now, Americans and companies are both feeling sunny. But as storm clouds gather over North Korea and investigations threaten the White House . . .

As I said, expansions don't die of old age—they go on until something kills them.

Mr. Blinder is a professor of economics and public affairs at Princeton University and a visiting fellow at the Brookings Institution. He was formerly vice chairman of the Federal Reserve.