



“2018: We Wouldn’t be Surprised if . . .”

As John Kenneth Galbraith said “The function of economic forecasting is to make astrology respectable.” Nevertheless, we think it’s helpful to consider a few plausible scenarios that might play out on the 2018 economic landscape.

- **The Markets Could Gallop Through 2018:** 2018 could look very much like 2017. We’re almost at full employment, wages might start growing, the economy is solid, consumer confidence (The Conference Board) is at its highest level since December 2000, and even expensive markets (P/E ratio) often spend years above their long term averages.
- **Lots of Noise but no Inflection Points:** The Fed will hike rates (slowly), North Korea will still be a dangerous global provocateur, government investigations will yield troubling results, partisanship will continue unabated, and there will be more revelations about harassment. All of this is likely, yet we see nothing right now that portends some major shift in the markets or economy.
- **We will still be Wary of the Next Downturn:** Things could be boringly similar to 2017, but we’ll do our best to keep clients on their toes and ready for the financial and emotional hit that a major downturn will bring. It’s coming. We just can’t pinpoint it, and many investors will react as if they’ll never survive such a thing. You *will* survive, downturns have all proven temporary.
- **Government Shakeups, Shakedowns, and Policy:** The legislative and executive branches of our government can do better, and this is not unique to the current administration. It can be aggravating to watch, but hating the government is not an investment strategy. We’ll continue to find the kernels of truth in the discourse and stay on track. There will be ample investment opportunities.
- **A Trend Emerges:** Millennials (age 21-36) are the largest generation in the U.S., and now outnumber baby boomers (age 52-70). They’re highly educated, they buy online, paying down debt is their number one priority (“Millennials and Money”, a Facebook study), they believe in causes and accountability in government, and they question the status quo. In 2018 they will influence elections as never before, and will have a greater and greater impact shaping the global economy. We should not be dismissive of them.
- **Corporate Tax Reform Could Help:** A significantly lower tax rate for corporations, and one-time break on repatriated profits held in overseas banks may well result in a little bit of a wage bump for workers and more capital spending. Perhaps more significantly it will boost corporate earnings per share and reduce

P/E ratios (thought to be lofty right now) by as much as 15% (Goldman Sachs). This would tend to support a continued run in the markets.

- **You'll Hear even more *Ordure* in the News:** It's exceedingly difficult to find unbiased news, and people complicate this by tending to seek news that agrees with beliefs they already hold. We can't control the media, but we can surely control what we choose to read, view, and listen to. Try to challenge yourself to seek balanced viewpoints, to listen . . . and ultimately to learn, in spite of it all.
- **At Some Point it's Gonna Hurt:** While 28 of the last 37 years have been positive for the equity markets, 12 of those (1/3) had *intra-year declines in excess of 17%*, and the average decline has been 14.1% (FactSet, J.P. Morgan). It is probable (not guaranteed) that 2018 will see a drop of at least 10% (we've had 6 drops in excess of this in the last 9 years). So, hang on, history tells us it won't last.
- **Election Time 2018 will be Wacky:** It could be crazier than 2016. Republicans will want to hold onto their majorities, and Democrats will point out every chink in their armor to cut into those majorities. It will be ugly and nasty, and the markets may tremble. The stock market seems to have embraced the Republican agenda of fewer regulations, and lower taxes . . . so any advancement by the Democrats might cause a short term (we believe) swoon.

We may be right on these simple forecasts. We may be wrong. What we do know is there is no substitute for perseverance.

2018 is unlikely to throw something at us that we can't handle or would cause us to alter the courses we've designed for clients. If you get anxious or have a friend who is getting the "willies," give us a call. We'll get you through it.

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