

Time to Invest Smarter

Written by Rob Copeland
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Over the past couple of weeks, there's been a lot of talk about the trade war with China, stock market volatility, and the possibility of a recession.

In this blog we'll look at what's behind all the headlines, and how you might respond as an investor. The spoiler is this: There's no need to panic, but it's increasingly necessary to be thoughtful and selective in choosing stocks.

Here's some of the backstory. A day after the Federal Reserve's July 31 announcement that it was cutting interest rates for the first time since 2008, President Trump announced additional new tariffs on a huge range of imported goods from China.

Within a few days, China let its currency, the yuan, fall to its lowest value since 2008. That prompted the U.S. Treasury Department to label China a "currency manipulator." Market watchers are concerned about the effect on stocks of the trade war and of a possible currency war. And they point to recession indicators such as the "inverted yield curve."

A recession, which could create a significant market impact, is no sure thing however. Jobless claims are very low, wage growth is decent, and corporate earnings are still pretty good as well. If a recession does end up occurring, I believe it will be a mild one, because the economy hasn't seen the type of distortions that led to the dot-com and housing busts. For that reason, a bear market also seems unlikely.

Still, the stock market is likely to be very volatile for the foreseeable future, and certain types of companies will be hurt by the trade war with China. Those facing pressure include big-box retail companies: Because of tariffs, they'll have to jack up prices or accept lower profits. Agricultural and tech companies will probably suffer as well, for similar reasons.

On the other hand, selected financial technology firms like PayPal and payment processors Discover and American Express are worth a look. With incomes on the rise, travel and leisure companies, as well as airlines, could also be good bets.

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There's always a way to make money in stock market, whether it's a roaring bull market or a grinding bear market -- or anything in between. What's going on right now is that the broad, easy gains that investors collected in the first several years of the recovery are gone. Going forward, you'll have to dig into the research to find companies that are poised to do well. If you'd like to talk about your investments, don't hesitate to give us a call.