Where We've Been and Where We're Going – The Midyear Edition

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski:	Hey everybody, welcome back to another episode of Keen on Retirement. I'm your co-host Steve Sanduski, and we are here to talk about how to thrive before and during your retirement years. And joining me as always is Bill Keen and Matt Wilson. Guys, we are in the thick of summer. How are things down in Kansas City?
Bill Keen:	We are Steve. We're enjoying this summer down in Kansas City here. How about you up in Milwaukee?
Steve Sanduski:	Definitely, yeah. We've had the occasional warm day. We've been over 90 I think just a small number of times, but for the most part we're still in the mid-70s or so, so a little cool.
Bill Keen:	Well rub it in on us down here because we've had some sweltering heat Steve.
Steve Sanduski:	Yeah, very good.
Bill Keen:	But it hasn't stopped me from getting out in the morning and doing my morning ... Well I call it runs, Matt would call it walks probably based on the time, but it still hasn't stopped me from getting out and doing my morning exercise routines Steve.
Steve Sanduski:	Good, well sweating is good.
Bill Keen:	That's right. And hopefully it's not sweating because of the market activity.
Steve Sanduski:	Right, well so far so good, in fact Bill that's a good lead-in for what we want to talk about today. So we are just past the halfway mark in the year, and so we

thought this would be a good time to take a look at what happened here in the first six months of the year and see how that may be setting us up here for the second half of 2018. So, Matt, how are things with you today? Anything that you want to be sharing with us here before we jump into the first half review?

Matt Wilson: Yeah, every year on July 1, I get reminded of an interesting deal that happened in Major League Baseball, and the reason is because there is a baseball player who's been retired for quite some time, who still gets paid by his former team. Have either of you heard this story?

Steve Sanduski: Yeah, I think I know where you're going with this.

Bill Keen: Yeah, no I'm not sure.

Matt Wilson: So, one of the players for the New York Mets, former player for the New York Mets, his name is Bobby Bonilla, every July 1 he gets paid almost 1.2 million dollars by the New York Mets, and he will continue to get paid this amount of money through the year 2035.

Bill Keen: Oh goodness. Correct me, did you say retired?

Matt Wilson: He is retired. He's 53 years old right now.

Bill Keen: 53, still receiving this Capital?

Matt Wilson: He is, yeah.

Bill Keen: Okay.

Matt Wilson: The reason I bring this up is because there's some interesting dynamics, especially in our financial services space that kind of play into some of the thought process around why the Mets made this deal. So a little background, in the year 2000 the Mets owed Bonilla 5.9 million dollars on the remaining portion of his contract and they didn't want him anymore, so Bobby and his agent, they agreed to a deal with the Mets, they said, "Okay, you can defer this 5.9 million dollars at an 8% interest rate and start making payments to Bobby in the year 2011." You might think about that, okay that seems like a pretty good deal for Bobby Bonilla.

Bill Keen: Okay, all right, and he's hoping the Mets will still be around that his contract still had the money to pay it I guess.

Matt Wilson: He's betting on that. So far I don't know how many teams have gone bankrupt in the Major League Baseball but-

Bill Keen: Well after this tax law that passed maybe the New Yorkers might not be as strong these days.

Matt Wilson: Sure, now here's the interesting part. So why would the Mets make that deal? So you might ask, "Okay, well I could see why Bobby Bonilla would want that, but why would the Mets make that deal?" Well the owner of the Mets, the Wilpons, they were heavily invested with Bernie Madoff. And in the year 2000 their accounts were making, fictitiously of course, 12 to 15% a year. So they're just doing the math, "Well hey if we're going to pay Bobby Bonilla 8%, and we're making 12 to 15, we're ahead on this deal."

Bill Keen: Yeah, but it was the Madoff returns they were counting on huh?

Matt Wilson: That is right. So what happened of course-

Bill Keen: Interesting.

Matt Wilson: ... in 2008 the whole Madoff scheme got uncovered. And I remember reading about the Wilpons and what happened and possibly them losing the Mets because of this. They had a lot of money invested with him. And then that was the first I ever heard about Bobby Bonilla's deal and why it might not pay out because of this whole situation with Bernie Madoff.

Bill Keen: See, I wasn't so off base earlier when I said it might not pay out later was I?

Matt Wilson: That's right.

Bill Keen: Okay.

Matt Wilson: Every July 1 this gets brought up especially in the baseball world, just because it's interesting that you're having a player who's not even on the team but he's still on the payroll and will continue to be for quite some time, but just the fact that it was connected to Madoff, and Madoff was part of the reason why they structured this deal, was because of those fictitious returns. And so the takeaway is one, if it sounds too good to be true it probably is. 12 to 15% every single year is unheard of in the investment world. And two, understanding how those returns happen, and how do we get to where we're at today, which kind of leads us into our topic today is where are we at today in the market and returns and what's our outlook going forward?

Steve Sanduski: Can I make a couple of observations here on that?

Matt Wilson: Of course.

Steve Sanduski: So maybe another additional thing is a bird in the hand is worth two in the bush that old saying, where instead of deferring for such a long time he could have taken it immediately maybe invested it in a different way. And then second, did he make this deal in 2000 but he deferred the first payment until 2011? Is that what you said?

Matt Wilson: That's correct.

Steve Sanduski: Okay, now what's interesting about that, a number of things, but one is he must have been thinking about his retirement because in 2011 he was probably maybe 44 or 45.

Matt Wilson: Mm-hmm (affirmative).

Steve Sanduski: And then at that point he was going to start receiving this 1.2 million or whatever the number was for 20-some years to cover kind of the bulk of his 45 to close to age 70, he's going to be getting this good income which if he saves some of that then he'll obviously be set for life and he probably may have been anyway. But anyway, so that was potentially some good long-term thinking.

Matt Wilson: Mm-hmm (affirmative).

Steve Sanduski: That he was really planning for his later years in life to make sure that he's got this income coming in.

Matt Wilson: Yeah, it is. Just kind of reading up on this story, his agent had an insurance background and so that was part of the commentary on why it was structured the way it was structured because the agent understood these types of contracts and how to guarantee some income around it. But interesting enough I read an article. Now this was published by ESPN in 2016, and it did say, "Now where is Bobby Bonilla? And how much has he received? And where would he be had he invested the money?"

And so this is what they came up with, that if he took the 5.9 million dollars in the year 2000 and invested it in a 60% stock portfolio, 40% bond portfolio, so very common balanced portfolio. His 5.9 by the end of 2015 mind you, so this is looking back a few years, would have been worth 16.5 million. So to your point Steve, he would have been ahead at this point had he invested the money.

Steve Sanduski: Yeah, a lot of what-ifs here.

Bill Keen: Right.

Matt Wilson: It's interesting. We have the benefit of hindsight.

Steve Sanduski: We do.

Bill Keen: And I'm sure Mr. Bonilla since he learned about the Mets falling on hard times with the Madoff getting caught up in that, I'm sure he's reduced the amount that they pay him, right? He's let them off the hook, kind of absorb some of that bad investment they made, right?

Matt Wilson: I don't know about that one.

Bill Keen: Okay, all right. I was being-

Steve Sanduski: We should probably reach out to Mr. Bonilla and see if we can get him on the podcast.

Bill Keen: Yeah, absolutely.

Matt Wilson: And he did make an intelligent tax move. He doesn't live in New York anymore, he lives in Florida, so he doesn't have to pay any state income tax on the 1.2 million that he receives, so kudos to Mr. Bonilla for making that tax move.

Bill Keen: Very good.

Steve Sanduski: All right, well great. Let's talk about what's happened here in the first half of 2018.

Bill Keen: And Steve before we go into that I just want to make a quick statement in that we talk a lot on the program about not getting caught up in the headlines. We ask our listeners to really be conscious of the fact that the media is out there to try to get you to click on things, to buy advertising, they're pushing things at you constantly, almost all of it is negatively biased to incite fear and so we specifically don't do that on our program. We try to bring facts.

We try to bring perspective to our program. If you're going to look at certain things, if you feel compelled to want to know what's happening in the economy, let's at least talk about the things that we think you should be watching. We think the things that actually matter, and that's why we like to do these episodes once or twice a year Steve.

Steve Sanduski: Excellent, so Matt what are you thinking here?

Matt Wilson: This year has been interesting to say the least. We started off in basically the equity markets and the stock markets in January, just gangbusters. For the month of January the market was up as measured by essentially the Dow and the S&P 500, the US market was up almost 6% in the month of January. Not long after that we had some volatility pick up and we had a 10% correction in the US markets, and then since then the markets have been essentially going sideways.

And the question is okay, well why do we have a flat market? And then what's the expectation going forward? Because any time we start to experience volatility in the stock market, the media as Bill mentioned is always going to focus on the negative. I mean they're going to focus on the negative no matter what, but especially when we have volatility. It's, "CNBC marketing crisis," whatever the headline is that day. If the Dow is down a couple of hundred points, there's a marketing crisis alert on CNBC.

Bill Keen: And there's a clock ticking down to the next disaster, something along those lines.

Matt Wilson: It is, and it makes you feel that you need to be doing something for one-

Bill Keen: Yeah, we talk about this market being sideways and I think this is common sense, even if you weren't a financial professional following the markets and even looking at the last hundred years or 150 years of history. I think that even common sense to a layperson would say if something just goes straight up and never takes a breather that can start to make you nervous. It would make me nervous. I mean this 10% pullback that we had was absolutely healthy. It was welcomed. It was a backing and filling. It allowed for some of the earnings to potentially catch up with some of the stock prices.

It was completely normal and expected, and in fact we don't make these big market predictions around short term time frames, but Matt you said in our meeting that we had in December of '17, which is out there online it's one of the podcasts, that we did expect volatility to pick up this year and we were prepared for that, didn't you?

Matt Wilson: Yeah, we did. I mean '17, that was the abnormal year. Every single month the stock market was higher which has never happened before, and there was the second lowest year of volatility on record.

Bill Keen: You mean that we can't continue that? Ad infinitum Matt.

Matt Wilson: I mean anything is possible, but historically that's never happened. Always the question we have to ask ourselves, okay we're halfway through the year, market is essentially flat ... Now that's measured by the Dow and the S&P which we'll talk about other asset classes because that isn't the case in other asset classes, but then where do we go from here? Is the market going to go higher? Is it going to stay flat or is it going to go lower? I mean that's-

Bill Keen: I say one of those three.

Matt Wilson: And you know that's the only option, those three and-

Bill Keen: Steve, do you agree with that?

Steve Sanduski: I would say yes. It'll do all three at different points in time.

Matt Wilson: And so we're always trying to ask ourselves, "Okay, well what are the scenarios that'll happen in all three of those?" But as investors we're concerned about major market moves to the downside. Those are things that we get scared of, and that's when we make emotional decisions around our investments, and that's why we talk about that a lot, because we know it's going to happen at some point. There's always going to be a market correction.

Bill Keen: But Matt I think you say, "We get scared of." Are you referring to us as professionals get scared of it or are you referring to basically the general public and clients and that context?

Matt Wilson: Yeah, so we as investor, so just investors in general. I mean because yes the contrarian view is we want to have lower prices because then now we can invest at lower prices. Now that is the absolute correct view, but when those happen, the odds of making an emotional decision which impacts us in a negative way is much higher.

Bill Keen: Yes.

Matt Wilson: So that's why we're aware of it and we talk about it a lot, and you have to be prepared for them going into it too. So I mean that's why we talk about the planning and understanding what someone's risk tolerance is and what emotionally they can withstand when it comes to volatility because everyone is different when it comes to this I'm using this framework to talk about recessions, because major market moves to the downside have all been around recessions.

So where are we in the economic cycle? That will help us determine what's the risk of a recession, and these flat markets, this volatility makes us think, "Oh gosh, this bull market that's been going on since 2009 maybe it's running out of steam, and maybe we're due for a big pullback." And we have as investors too, hindsight bias or recency bias, where whatever just happened recently we think is going to happen again. So there's talks of bubbles, what bubble is going to burst? And why the market's going to go down 50% like it did in 2008-2009.

So we like to just let's put the facts out there. Let's put some data around what's happening in the economy, which can support the stock market and higher stock prices. So right now, when we look at the economy and we look at the stock market we measure in a couple of different ways. So the stock market primarily, we measure by earnings, because stock prices are a function of earnings, and going back to the existence of the stock market, stock market has always followed earnings, so are our earnings growing or are they contracting?

Well we just had in Q2 we had Q1 earnings reports come out, and the year-over-year earnings growth, 25%, year-over-year earnings growth, and the projections are continued to be in that double-digit growth range. So stock earnings, corporate earnings are continued to grow and expand, so that's a very strong positive.

Bill Keen: It's good news.

Matt Wilson: Very strong positive, and we're experiencing that right now. To your point to earlier Bill about why these pull backs can be okay, because last year market went up significantly, US market did, and a lot of it was driven by earnings, but earnings were up about 10% last year. So stock prices got a little bit ahead of themselves when compared to corporate earnings. Now while we're having the market go sideways we're seeing corporate earnings continuing to increase and we saw stock prices come down a little bit which actually closes that gap between stock prices and earnings, which sets a very good base for higher stock prices.

What would be disconcerting is if we saw stock prices continuing to grow and expand higher but corporate earnings continuing to contract. That was the recipe for the sell-off in year 2000, so when the tech bubble burst a lot of that was driven because stock prices got way ahead of themselves compared to what earnings were, and there really wasn't a lot of earnings especially in the tech stocks back then, so prices had to come down a long way to get back in line with where earnings were.

Bill Keen: Thinking about that timeframe, remember the Nasdaq I think hit somewhere around 5200 or so at the high, somewhere close to that, and then receded 80%, and has recently here in the last year finally gotten back through its all-time high. What was it? Maybe a year ago or so, the Nasdaq finally got back, is that right? Am I close?

Steve Sanduski: Something along those lines.

Matt Wilson: I believe it was a couple years back, but essentially it was 15 years.

Bill Keen: Yes, so hey another great example of why not to have all your assets in one security or one sector of the market.

Matt Wilson: Yeah... I was actually reading some reports on that recently, the market cap from essentially for the biggest stocks from the last four years from '96 through '99 or through 2000, I mean it was just crazy what happened with the tech stocks back then. And it was irregardless of earnings, that was the scary part. Like right now earnings are phenomenal. So if earnings weren't phenomenal and we were seeing higher stock prices that's just a red flag. It doesn't mean do something, it's just something we take note of.

Bill Keen: That's right, and not to go back all the way there but when you talk about it it makes me recall what it was like being a financial adviser back in those days in the early 2000s and remembering that tech bubble bursting, and then play it out a little bit longer you have the Towers come down in late 2001, and then you've got Arthur Andersen and helping-

Matt Wilson: Enron.

Bill Keen: ... Enron lie about their books. And talk about a time frame where I would suggest all of our listeners remember going through that. And here's the key, they remember going through it and they remember coming out of it, and they

	remember that things righted, as long as you didn't have all your money in one stock. Gosh forbid all of it in Enron, it never righted. All of it diversified and no emotional mistakes were made. People were able to go through that, go through the turbulence and come out the other side and back on the road again, and can look back now and say, "Wow, look where we were then, and look where we are now." Again, I always say that it builds confidence in what we can do in the future, even through some of the most difficult times.
Matt Wilson:	Yeah, the power of diversification. I mean the tech sector back then got hit very hard but other sectors not so much, and so that's why you have to be diversified and that's what's happening even today. I mean right now as I mentioned the Dow and the S&P essentially flat for the year, but small cap stocks are up, and mid-cap stocks are up for the year, commodities are up for the year, bonds are-
Bill Keen:	I saw corn-
Matt Wilson:	Bonds were down a little bit.
Bill Keen:	Bonds were down a little. Corn's up and wheat I think.
Matt Wilson:	Yeah, those are all increasing in price, which I'm sure everyone feels the pain at the grocery store when they purchase those goods.
Bill Keen:	We're not going to rotate our portfolios over into wheat and corn are we Matt, 100%?
Matt Wilson:	Not at this time.
Bill Keen:	Okay, because I saw a newsletter recently that said that could be a possibility.
Matt Wilson:	It sure could at some point.
Bill Keen:	We want to make clear that's not ... We're joking there.
Matt Wilson:	And we have exposure to commodities in a diversified portfolio. So we have a basket, a segment that is dedicated to those but it's definitely not an outright holding in the ... You're not going to get a bunch of wheat showing up at your house on accident.
Bill Keen:	Perfect.
Matt Wilson:	But looking at asset classes, so being diversified is the key, and it's getting rid of the risk of owning one individual stock or even overexposed to one sector. But earnings are good, so that's a checkbox in the favor of higher stock prices, because earnings are good, and they're projected to be good and we have a

significant tailwind that will continue to help earnings when it comes to lower tax rates for both corporations and individuals, because individuals too ... So consumers here in the United States are doing extremely well, and that's the other factor that we measure, so is corporate America doing well as measured by earnings? And then is the economy doing well as measured by how healthy the consumer is? Or how good is an individual or is a family doing here in the US?

So, we've had phenomenal job growth since the Great Recession in 2009. Right now, the unemployment rate ... So as of the time of this recording its 3.8% and they will come out with another unemployment rate before this goes live, so it could adjust a little bit, but it's 3.8% is the unemployment rate as measured by the Department of Labor. But here's the kicker, we are at the lowest level ever for initial jobless claims, and as any of you have watched my year-end outlook or was at the live event, that is one of the best indicators for the health of the economy is the initial jobless claims, and that is when people first get laid off and start filing for unemployment.

So it is a very forward-looking, very early indicator on, is corporate America feeling confident about the future? Because if they weren't they'd be reducing overhead, they'd be laying off employees and people would be filing for unemployment, and that comes out every single week, so it is very up-to-date. And what anyone wants to say, there's going to be very little spin that any government or any government agency can do on that number because people that get laid off are going to file for unemployment. We're at the lowest level ever.

So people are not getting laid off. We're adding more jobs than ever and people aren't getting laid off, so I mean the job market looks good. And I've seen projections that we might even get below 3%.

Steve Sanduski: And Matt to that point, didn't I just read something here recently where for the first time in our record-keeping history, that there are more jobs available that are jobs for hire than there are people looking for jobs?

Matt Wilson: That's correct. Interesting.

Bill Keen: For the first time ever.

Matt Wilson: First time ever, we have more requests, more demand for workers than we actually have workers. So-

Bill Keen: It takes a second to let that sink in, doesn't it? Because-

Matt Wilson: I mean can you think of a better situation for the US economy to be in? I mean it's-

Steve Sanduski: Sounds like we all need to get a second job to keep the economy growing.

Matt Wilson: I mean that's the thing. I mean we've got to fill these jobs or we've got to find a solution to it. And this is one of the arguments of why robotics and some of these other things aren't necessarily a bad thing. We've got to replace our workforce and we've got to make sure that our workforce doesn't become obsolete, and if we can have some of this technology improve our workforce and help us fill in some of these gaps, that's a good thing long term.

Steve Sanduski: Yeah, and that's such an important point Matt, because I know there's a lot of people out there that are worried about technology and robots taking away human jobs, and this is an example. I mean we've heard people talking about that for actually many years, maybe it's been more prominent in recent years, but it's been an issue that's been around for a long time, but here we are in 2018, we've got more job openings than we have people to fill those jobs, it's just amazing.

Matt Wilson: Well to your point, having technology replace the workforce, that has always been a concern. I actually saw an article, this was written at the turn-of-the-century, and you know what the concern was?

Bill Keen: Wait, which turn?

Matt Wilson: 1800s.

Bill Keen: Okay, that's what I want to clarify.

Matt Wilson: And it was about all the farming equipment that's going to be replacing all the farmers. I mean as humans I don't think we'll ever probably get around that concerned because that was a concern back then, as we transition, as economies grow and expand, and markets change, and consumer demands change, I mean it's always got to change.

Bill Keen: Right, and it's so tempting to try to solve problems in a linear fashion with what exists today and we know that the growth of the economy is going to be based around things that haven't been invented yet and human ingenuity, and thank goodness that's the case. And I wanted to throw a couple of more stats out there too with respect to this point. A lot of folks say, "Yeah well, is the data skewed on those jobs?" And there was a couple of age groups that had been chronic under-performers, and so of the, call it north of 2.5 million jobs that were added over the last year, just over a million of those workers were between 25 and 34, so essentially millennials, and then over a million jobs were added for folks that were the over 55 age bracket as well.

I'm going to throw this next piece of information at you, or question because I think I might have found something that you need to comment on because now the question is how much are these folks actually making? Because we've heard lots of talk about wage growth being so stagnant. So it's great everybody is employed, but are they making less money now Matt? Or how's that playing out?

Matt Wilson: Yeah, I mean wage growth hasn't been robust throughout this recovery, but it is starting to pick up. So over the last year, wages have increased nearly 3%, and that is measured by the private sector which covers about 82% of workers, and that's the largest advance since 2009, so 2.7%. Now you might think, "Okay, that doesn't sound super exciting." I mean historically the number is usually closer to four, so it's definitely not at our historical levels, but it is increasing, and the trend has been positive.

Now here's another way to think about wage growth. We have the baby boomers continuing to retire, and when people retire generally they're at their peak earnings, is that fair enough? So you've got a very large segment of the workforce retiring. So those people are getting replaced by millennials.

Bill Keen: Yeah, lower earning-

Matt Wilson: That's right.

Bill Keen: ... entry into the workforce.

Matt Wilson: So the wage growth data I think is getting skewed by the number of retirees that we have. So I think the number is not as concerning as some people would like to make it believe, because we've got a large group of people retiring, peak earnings, being replaced by folks with a lot lower earnings.

Bill Keen: Right, absolutely. Well there's another thing to this as well, when we talk about wages because we want to understand how strong the consumer is because we are a consumer driven economy and ultimately will they be spending money, which drives our economy. And I saw a number here recently that the Federal Reserve just put out, and that is that ... This will blow you away Steve, if your mind can even comprehend this. Total household wealth across the country right now exceeds 100 trillion dollars.

Steve Sanduski: 100 trillion?

Bill Keen: 100 trillion dollars. We talk a lot about us having a 20 trillion-dollar economy, GDP wise on an annual basis, but we don't look at what the total household wealth is very often or it's not battered around in the media, 100 trillion dollars for total household wealth across the US.

Steve Sanduski: Well I would just like 1% of that.

Matt Wilson: All right.

Bill Keen: Oh, Steve's negotiating something here.

Matt Wilson: Yeah.

Bill Keen: I'm sorry Steve, we don't have the power to make that happen.

Steve Sanduski: Okay.

Matt Wilson: Yeah, institute attacks.

Bill Keen: But the fine work that you're doing in our capitalistic economy is making a difference, and so your fair share is coming your way.

Steve Sanduski: Okay, thank you Bill.

Bill Keen: But what happens when our economy and the consumers are in those types of positions, will they feel good about their positions? And they should because personal balance sheets have strengthened, and consumer sentiment index is pretty high right now, isn't it Matt?

Matt Wilson: Mm-hmm (affirmative).

Bill Keen: And when people feel good about that, and they're in those as long as they don't rack up a bunch of debt they buy things and it's healthy.

Matt Wilson: They do, they buy. They consume in the retail sector. They consume automobiles. They consume houses. I mean and all of those things are looking great. I mean retail has been interesting because we have two types of retail, we have online retail and we have bricks and mortar. Bricks and mortar are struggling a little bit compared to the online retailers, but still retail sales continuing to grow. We've got auto sales both light auto and trucks looking great. We also have housing performing extremely well. Housing is another great segment of the market that we pay close attention to, and it's still new housing permits, new housing starts still climbing out of the recession from '08, '09.

An antidote, just something with the auto and light truck sales, there's a friend of mine that I was speaking to who builds vacuum trucks, and so they build these-

Bill Keen: Vacuum trucks, what are they used for?

Matt Wilson: Well some of them are used for porta-potties.

Bill Keen: Oh okay.

Matt Wilson: And they're also used in the airplane world with fueling. And he told me that they cannot order engines for their trucks anymore because the manufacturers of these engines are sold out of all of them through February of 2019.

Bill Keen: That's good news. That's a great indicator isn't it?

Matt Wilson: It is. I mean for his space maybe good and bad. I mean it tells you hey, there a lot of demand for them, but at the same time they can't keep up with demand, which goes back into our more jobs open for number of workers. I mean it's just we've got a very robust economy. Everything is kind of hitting on all cylinders that's why we're seeing inflation starting to creep up, which is okay, that's a good thing, we just don't want it to get out of hand. Fed is raising rates, one, to prevent inflation from getting out of hand, and which is another good sign because they're signaling that the economy strong, and when the economy is strong it can support higher rates. And they're projected to raise rates a couple more times this year, and maybe another three to four times in 2019.

And so all of these things are looking very, very good right now. So again the question is, "Okay, well why is the market flat right now?" Well part of it is I believe because the market did get a little bit ahead of itself last year, earnings are now catching up to it, setting up a phenomenal base I think for the second half this year. And as much as we don't like to make short-term market call so to speak, I really do believe that we will see all-time highs hit on the Dow Jones and the S&P before the end of the year. I think we've got everything in place for that to happen.

Steve Sanduski: Well Matt that sounds great, now is there anything that could possibly put a kink in that scenario that you can see that might possibly happen at this point?

Matt Wilson: There is, so we could start to see one of the things that eventually will happen, so I don't know the timing for sure but eventually this economy is going to stall and start to contract-

Bill Keen: We're late in the business cycle right?

Matt Wilson: We are, and people like to use baseball terms, back to our story up front. What inning are we in? I mean maybe we're in the seventh, eighth inning of this, and here's the other thing, baseball games do go into extra innings so-

Bill Keen: I was just going to say that. It's a tie, yeah.

Matt Wilson: ... it doesn't mean it's over yet. Things can last a lot longer than anyone projects. And this recovery since '09 was very slow to begin with, and now it's starting to pick up steam and so maybe we're starting to see a little bit robust growth here in the economy, and this maybe could last for another couple of more years, so what could derail that? Well of course we have shocks that we just can't project, so is there a terrorist type of attack? Is there something that's just completely off the radar that no one is seeing?

Now the other factor that we're looking at is this yield curve. So the yield curve is the difference between the two-year government bond and the 10-year government bond. And in a normal healthy interest rate environment, you get higher interest for the length of bond you own so-

Bill Keen: Makes sense.

Matt Wilson: ... a two-year bond pays you less interest than a 10-year bond, and a 10-year bond pays you less interest than a 30-year bond, that all makes sense. Well what we're having is we're seeing a lot of demand for the longer-term bonds, less demand for the shorter-term bonds, and we're starting to see ... It hasn't happened yet, but we're starting to see what's called an inversion. So you get paid more interest on shorter term bonds than the longer term bonds.

Bill Keen: Right, we saw that in the '70s with the inversion there. I think you mentioned it in a seminar recently or somewhere that you could get 18 or 19% on money market, but the 30-year treasuries were only paying 13% that's-

Matt Wilson: Only paying 13.

Bill Keen: Only paying 13. That was an extreme example of that inversion you talk about.

Matt Wilson: It was and everyone remembers that too, that was investing back then. And so when that happens the yield curve inversion has been a very reliable predictor of an oncoming recession. It just hasn't been very good in terms of the timing. So when the two-year yield gets higher than the 10-year yield, it does signal that a certain point we will have a recession but it usually means that it's at least a year and up to two years out from when that happens. So right now the spread between those two is about 30 basis points, so that is 0.3%, so very, very close to inverting but it hasn't happened yet. And when that does happen, it doesn't just mean okay, recession's started or the recession's going to start in three months or six months.

What it does mean is we're looking out for another 12 to 24 months and there could be the beginning of another recession. Mind you, not all recessions are created equal. The last one, '08, '09, very deep and hard hitting across all sectors. The one before that, in 2000 through '02, it actually wasn't that bad of a recession, it was just the stock market was so overvalued on the tech side that the market had a bad performance during that period but from a recession standpoint actually it wasn't that bad.

Bill Keen: Right, when you had the Towers coming down and you had Enron and those things too did not help.

Matt Wilson: Yeah.

Bill Keen: Yeah, right.

Steve Sanduski: One other thing I might add here Matt is a possible, I call it a policy error, meaning like the Federal Reserve, what if they end up raising interest rates too far, too fast? That might be an issue. The tariffs that were seen happening right now, what if those end up getting out of hand and people don't back down and that ends up causing potential problems, so those might be a couple things to also be looking out for as well.

Matt Wilson: That's true. I mean there's those kind of outside the market dynamics that could impact your corporate earnings. Right now we have a tax cut, but tariffs are now essentially another type of tax that could impact certain companies for sure, and then specific sectors, then you've got those other dynamics when it comes to what's happening overseas too. I mean European markets and European economies still kind of struggling and muddling along, and those do have some impact on us, not a significant impact but they do have some impact on us. There's a lot of different factors that we pay close attention to when it comes to where the investments are allocated and how to think about what we're doing on a daily basis with the individual choices that we have in front of us.

Steve Sanduski: Well guys it's clear from my perspective that you really have your finger on the pulse of what's happening here, and that you guys are really looking at a lot of different factors and issues and identifying both the things that are happening right now as well as identifying some of these leading type indicators that may give us some signals of what might be happening down the road. So it's good to see that we're in good hands here with the type of things that you folks are monitoring.

So as we start wrapping up here, any final thoughts from either one of you?

Bill Keen: Over the course of an investing lifetime, we and our clients and anyone that invests will have to deal with the market cycles. They will have to deal with, every so often a recession coming. They will have to deal with some downturns, and we say that the price of the long-term advance in the equity markets is having to every so often go through temporary downturns, and that's okay because in the equity markets that is the price for the long-term return. We talked in prior episodes that most of our clients that we work with are able to retire today because they were long-term participants in the capital markets. So most of the folks we work with have perspective about how this works, and they understand about the temporary declines, and the cycles.

And finally, I think that the one shield that we have is to understand and have perspective about these things, and to have a financial plan in place that accounts for the downturns. So that doesn't just use an Excel spreadsheet with a fixed rate interest, and thinking that the world happens in a straight line, because we know that it doesn't, but having a plan in place where we've accounted for all the things that we can control, and that we look at the things, the uncertainties, coming at us, and that we have a portfolio design that can get us through whatever comes at us, whether that's today, next year, two years, what have you, and that's the key for us.

So making sure that our clients and the folks that we come in contact with have really thought through the asset allocations that will get them to their destination. They have enough money outside of the equity markets so that it will get them through the next downturn based on what they're spending and what they need that portfolio to produce for them, and it's so they can rest at night. They can sleep well at night saying, "Look, we've thought this through. We've pre-committed. We know what's happening. Our advisors have advised us. They've given us perspective and we know we're in a place that we can get through whatever comes at us." That's the key takeaway from the information that we talked about today.

Yes, it's important to know and pay attention to these things, but taking one step back, what's the practical application for someone navigating up to retirement or someone in retirement? And it's having that plan in place, and having a portfolio that they believe in. They know why it's there. They know why we're doing what we're doing, and what will happen as we move forward, that's the key to it.

Steve Sanduski: All right. Well thank you guys. And all of you listening if you'd like to learn more you can always reach out to us at keenonretirement.com, that's K-E-E-N-onretirement.com. And we would love to hear from you if you have any questions you can go to the website there and just fill out the form and ask your questions and we'd love to hear from you. So guys thank you, enjoy the next few weeks here, and until the next conversation I appreciate it, and enjoy the summer.

Bill Keen: All right Steve thank you. We'll talk to you again soon.