KEEN ON
RETIREMENT

Is an Election Year Recession on the Horizon?

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Bill Keen: Hello everyone. Bill here. I wanted to take a moment to introduce our podcast today. We have another special treat in that we are releasing the audio portion of a recent market update webinar conducted by managing director and chief investment officer of Keen Wealth Advisors, Matt Wilson. Now Matt takes a look back at what happened in 2019 in the markets and the economy. Even more importantly he takes a look ahead at what might be in store for the remainder of 2020.

He specifically talks about the markets, the potential for a recession, the strength of the consumer and where we're headed overall in this election year. We talk a lot in our episodes about understanding how to separate the news from the noise. There's a lot of noise out there. Matt does a wonderful job in providing you the information that we think you should be looking at if indeed you do have an interest to try and stay up with what's happening in the markets and the economy on your own.

Now this information is on the keenonretirement.com website in webinar form meaning that if you go there you can watch this presentation and see all of the slides that Matt so deliberately puts together and walks through. He also has his video of himself playing as he speaks which is a nice touch and he has a couple of props this time. He has a hat that I won't tell you what it says. You'll have to watch to see and he also has a couple of other fun things as well that he walks through there.

I might also mention if you're one of the listeners of our podcast here that has just subscribed through iTunes or Spotify or one of those channels and you would like to get our weekly alert that has the show notes page attached, go to keenonretirement.com and sign up for the newsletter and our show notes, blogs, and podcasts there. We typically send one out every Thursday morning, very early in the morning and we hope that folks are finding those valuable.

I do think that watching the webinar is the best way to consume this information because of the graphs and charts that Matt walks through, but if you choose to just listen to this podcast I do think you will garner some wonderful bits of information as well. Remember we always say that the investments are just the engine to someone's total plan. The financial planning, having a plan, being thoughtful, being intentional, making sure that the investment portfolio is then structured in a way to support that financial plan is always what's most important. It's always the why behind what we're doing when we're helping people manage their investments.

Now with that in mind, I hope you enjoy this episode.

Matt Wilson: I want to just welcome everyone. Great day here in Kansas City. I will get started here in just a few moments as everyone enters the webinar. A few items I always like to cover about us at Keen Wealth, we are a registered investment advisory firm. We are a fiduciary focusing on retirement planning for our clients and really that transition from working to retired to independent and not retired, not dependent on that job anymore.

We focus in that and part of that along with all the financial planning which we do a lot of webinars on also is the investment side of things as well which we'll cover today. Now we have a lot of great resources for you. In addition to these webinars, we also have a great blog and podcast found at keenonretirement.com. I know many of you subscribe, but if not go check that out, hit the subscribe button and get plugged in because so many ... We have so many resources out there, a lot of different things going on such as some recent podcasts and articles we've had regarding the Secure Act and we will do some additional webinars regarding that as well.

You also find replays of some of our past webinars there. In addition to the blog and podcast on the website, we also have a book that our founder and CEO Mr. Bill Keen wrote called Keen on Retirement: Engineering the Second Half of Your Life and it's a great book, had a ton of success, phenomenal reviews on Amazon. I encourage everyone to check it out. Many folks have already received copies. If you'd actually like a signed copy let us know, a personalized copy. We'll actually send one out, maybe even if you have a family member, a colleague, coworker that you'd like to receive a copy as well, just shoot us their contact info and we'll send them a copy to them on your behalf. That's our offer to everyone. Please put that in an email to us. You can send it at info@keenwealthadvisors.com or to any of our personal email addresses as well.

I'm going to cover what's going on in the current market environment. We've got a lot of different things happening on what's happening here in the overall market. We've got so many different things happening when it comes to the upcoming election in addition to just recent market performance. We have the China Trade Deal and what have you so no shortage of things to talk about. There always is things to talk about. As I mentioned, the media, financial media isn't designed just to be boring they definitely want to keep our attention and come up with new and better things to talk about. We're going to talk about the stock market, the changes of a recession, where we are headed in towards the end of the year and how the health of the consumer is doing.

One of the things that I like to talk about is just recent headlines and this was Barron's Magazine and I've actually got ... I subscribe to that so I've got the real version of it too and this is the article also posted online about Dow 30,000. I don't understand quite the title here. Five years ahead of schedule. I don't know who hosts the schedule when it comes to Dow 30,000, but someone has a schedule somewhere I guess and when we are supposed to hit that. According to Barron's, we're ahead of schedule. They mentioned it won't stop there. What's funny about that though is it won't ever stop. We go back 20 years and it was all about Dow getting through 10,000. Well now we're at Dow 30,000.

I actually did some math recently and I've asked people this before because I always find the answers unique when it comes to this. If you think about over the next 20 years, where do we think the Dow Jones will be? Today, we're at 30,000. Where will it be 20 years from now? Well if the Dow hits 50,000 in 20 years that's less than a 3% rate of return, pretty crazy to think about, 50,000 on the Dow and those numbers get so big that it's hard to visualize, hard to imagine where they'll be. If the Dow just earns 7% a year for the next 20 years, it'd be over 116,000 on the Dow.

The numbers will always get bigger. It becomes less and less about the number and more about the percentage return. Dow 30,000, yes it's a milestone, but again it's less and less about that Dow 30,000 number. One interesting thing we have here at the firm, so I ordered these Dow 30,000 hats, hopefully everyone can see that. I give them out. When people have birthdays, I give them out as gifts, so I ordered them back in December of 2018 and it was the day after Christmas. That was actually during the midst of a nearly 20% correction here in the overall market and I was confident that the markets would rebound and we'd hit Dow 30,000. Now we're not quite there yet, we're a little shy of that, but definitely headed in that direction.

We have those Dow 30,000 hats hanging around our office. They're not a very popular item. People aren't wearing them around too much or out and about but a fun little thing that we do here, but Dow 30,000. What is driving all of this stuff? Well right now we have accommodative Fed, so the Fed is doing what they can to sustain the expansion. We had a truce with China in the trade deal. Now not necessarily a very significant deal, but definitely had some signatures and some movements towards getting a trade deal done and on to phase II now, 2020 earnings that is in the front burner now. I mean we got through 2019. I'll talk about earnings here.

Then also we are in a lower inflationary environment which can lead to higher valuations. That's what's higher fee ratios means we can sustain higher prices for the stocks even if earnings aren't quite as high as they've been in the past, so I'll talk about that. Here is a graphic of the market. This is going back to 2017 and really the end of 2017, beginning of 2018 and really what this is showing is it is showing all the moves the Fed has made since that time. I have this highlighted here, restrictive versus accommodative and in 2018, the Fed was raising rates. They were signaling that we're a long way from neutral. That's what Jerome Powell said at that time meaning he was planning on continuing to raise rates. They felt the market and the economy could handle it.

Market told him otherwise and continued to trade lower all the way down into the end of December of 2018. Now since then Fed reversed course basically just in January, said rates will be on hold and they have cut rates since then and lead to higher prices. Now that isn't the only thing leading to higher prices.

I mean we also have earnings growth and revenue growth and GDP growth and everything else that is supporting this, but what the Fed is doing also helping to support the expansion. They're not trying to tighten the screws so to speak and slow things down any faster than they need to be. Because one of the Feds mandates is to make sure inflation is under control and inflation maintains. It has not been run away by any means and that was one of the big concerns coming out of the great recession of '08, '09 with all of the activities the Fed was doing that that would lead to hyperinflation and that just never panned out.

They're committed to just keeping things status quo for the time being. Now when we look forward here and we look at a longer term graphic here of the stock market going back to 1957. I just talked about some of the recent headlines regarding the Fed and what's happening in China and everything else. Well this is not new. The market does this thing we call climb the wall of worry. It's always going through these crises and it will continue going through crises going forward. What I've done is I plotted the S&P 500 here and then I've got this red line here which is just a trend line. It is 6.9% compounded.

Just to show you where stock prices are relative to this trend line and so back in the late 90s we had stock prices significantly higher than that trend line. It maintained itself all the way up to '08, '09 where then when we saw stock prices much lower and currently today we are just right there on the line, just maybe a little bit above it. Prices by all measures aren't necessarily getting ahead of themselves. We look at valuations. I'll talk about earnings. Yeah, maybe earnings could be picking up a little bit, but they aren't getting out of whack in a historical context.

When I talk about earnings, the reason we focus on that so much is because stock prices follow earnings. This red line this is earnings of the S&P 500. You can see the graphic there. Then at the top we've got projections for 2020 and 2021. The black line is the price of the S&P 500. You'll see that it does, it follows earnings. There's periods where prices are well ahead of earnings. Again like I just mentioned late 90s versus other periods where prices are lagging earnings in catching back up.

One of the things that we're monitoring closely right now is prices are getting ahead of earnings. Earnings for 2019 were flat. It started to come down in Q3, picked back up a little bit in Q4 to Q4 is not quite out yet completely but the expectations for about flat earnings for 2019. That's coming off a large increase in earnings in 2018. The projection is earnings to pick back up in 2020 and 2021. That's something we want to see. We want to see earnings pick back up because if we start to see prices continue to advance higher and earnings go down to sideways, well now we're forming a gap between prices and earnings and that's not a good sign.

Now that doesn't mean an immediate crisis, but the longer that sustains itself without earnings picking back up, the worse the correction usually is to get things back into alignment. I mean again like late 90s you can see we saw prices just continue to move higher, much quicker than earnings could support it and then we had prices come all the way back down. Again that took ... You can see here all the way from '96 up until 2002 so it took quite some time for that bubble to form and correct itself, so it's not an immediate concern, but it is definitely something on our radar screen currently.

Now again projections are for earnings to pick back up so we'll monitor that closely. As I mentioned, stock prices follow earnings. Earnings they follow GDP very closely. Here I've got nominal GDP, so this is this black line. My cursor is going over it. Nominal GDP so that's all the goods and services we produce here in the US, but that's before inflation is stripped out. Any time we talk about GDP, usually talking about real GDP and that's after inflation is stripped out. Well nominal GDP, the reason we use this one when we look at historical sales figures is because sales we don't convert for inflation. We want to keep the conversions the same, so if we're looking at historical sales and revenue figures that don't have inflation stripped out of it we're going to use a nominal number so that we can have a regular comparison that isn't looking at two different factors.

The red line is sales which is also revenue here in the US for the S&P 500. You can see it follows GDP very closely as GDP continues to move forward we also have revenue and sales moving forward. That's why the expectation is for earnings to pick back up because we also have an economy that's continuing to grow and expand which should in turn lead to higher sales and revenues figure. The whole equation when it comes to sales is sales minus cost of goods sold, give us our profit. That's where earnings come from. Earnings come out of profit, so as long as sales are increasing which is one of the inputs, we expect higher profit.

Now there's a bunch of things that could be happening minus when we look at the expenses which could eat into the profit, but the companies can control that to an extent to make sure that they are profitable. That's what we saw in 2019. Revenue was growing, but we had expenses growing a little bit faster than revenue which is what was eating up most of the profit and a lot of the expenses are associated with employment costs, wage costs, compensation costs, benefits went up. That's stripping out some of the margins, some of the profit margins some of the companies have which is okay. That's expected to happen from time to time.

When we look back, let me go back here. We look at this GDP figure and we look at sales, so as I mentioned stock prices follow earnings. Earnings follow GDP. Well what drives GDP? Well GDP is driven by the consumer and so if we are expected to see a decline in GDP like we did here in '08, '09 we'd see some deterioration in the consumer. The reason we're concerned about these declines, these recessions, is because that's when major drops in the market that lasts for a long periods of time happen. The recession there's always talk of a recession. Whether it's because the financial media gets a lot of people to tune in when they're talking about recession or the fact that it just feels like someone smarter than us telling us that there's a recession on the horizon and we're all just oblivious to it, but there is no shortage of recession calls.

I've looked at data going back the last 10 years and if you looked at some of the prominent people that were calling for recessions, I mean it's pretty mind blowing to see what they said and had you listened to them and you moved money out of stocks into bonds what your performance, how much lower it would have been because you listened to somebody really more so out of fear than it was out of reality. That's why I do this because I really want to help people understand what's going on and how to separate the news from the noise when it comes to the economic data and to the stock market.

Where are we? Well the economy, again this according to Jerome Powell in a good spot. We have 2.1% year over year GDP growth which is just slightly under what we've had over the last 10 years which was 2.3% and that's going at Q3, so we'll see where things are going forward. A lot of the weakness though in the last six months have been regarding manufacturing and exports, which makes sense considering the issues that we had with China and the trade deal and all the pending around that. There was a lot of weakness around that. Since then manufacturing has rebounded and actually gone from a contraction now back into expansion. That is something that just reversed itself in January. Consumer spending, government spending still very strong. Then consumers are still in great shape. There has not been anything change when it comes to the consumer standpoint. Things look very good from them.

Small businesses still doing very well. Sentiment is very good. The Leading Economic Index is still showing signs of expansion. There's a little bit of weakness regarding manufacturing, but everything else still showing expansion. All of that leads to a good outlook for the economy. When I talk about the fear of recession and why I talk about recession so much and why recessions get so much attention it's because again that's when we have the major drops in the market and it's not only major drops but drops that last a long time. They take a long time to play out and then they take a long time to recover.

This is going back and looking at the biggest market corrections that we've had since The Great Depression. You can see some of the data here. We've got how long the market was considered a bear market and what the drop was. You can see very big drops, some larger than others. Then how long it took for the bear market to play out. Again, very long. The average down 42% and then 22 months within this bear market. Definitely something that is not fun to go through. Now we know they'll happen, so let's not be oblivious to them going forward, but let's just make sure that we're prepared for them ahead of time. That's the best thing that we can do.

Where are we headed and what are the odds of something like this happening in the next six to 12 months? It's what all this data really is focusing on. Now one thing you'll notice is okay what caused the bear market. Recession was pretty evident in most of them. Then we had some commodity spikes, aggressive Fed tightening causing other ones, extreme valuation that you'll see a lot of them. There's many things happening that are combined to create this bear market. Well right now we don't really have a lot of these signs happening. There's not a spike in commodities. Fed has become very accommodative. Valuations are not extreme. Now we might say they're a little elevated, but definitely not extreme.

One thing I highlighted here is you look at these bear markets and the ones that didn't happen during recession they also recovered so much faster. The recession causes the extended bear market. The non recessionary issues recover very quickly and this is essentially what we had happen in Q4 2018. It didn't quite hit down 20% so it wasn't officially a correction, according to whoever is making these definitions up. We were maybe down 19.8 or whatever so it doesn't show up in any of the data when we look at these charts, but it recovered very quickly just like these other previous market corrections.

The playbook when we look historically speaking remains intact. Now this is the Leading Economic Index. This is 10 leading indicators that help us identify where the economy is going. They've always had a drop. The Leading Economic Index always started to trend lower prior to every recession. Some shorter than others. On average about 13 months, when we look at all of the different recessions. You'll see there's definitely some false signals that happen from time to time when we look historically speaking. This is where we're at currently. Market is leading economic indicators are showing a little bit of weakness, but a lot of that is around the manufacturing sector and actually data from the conference board which pushes, publishes this even ... This is what they said. The report said this.

The LEI is now declined for the last five months. Its six month growth rate turned slightly more negative in the final quarter of 2019 with the manufacturing indicators pointing to continued weakness in the sector. However financial conditions and consumers outlook for the economy remain positive which should support growth of about 2% through early 2020. When they talk about growth, they're talking about GDP growth, so even they aren't waving the red flag saying, "Hey this is the start of it. Get ready for a recession." They're saying, "Yes there are some weakness, some of the indicators are ... They're especially manufacturing weaker than others, but when we look at the consumer and the items that they drive very strong and definitely supports a future economic growth."

This was published in January for December. The January data I know the manufacturing data has turned positive and we will see this updated towards the end of February for January and I expect to see an increase in the LEI back in the positive direction after seeing that. Stock prices are driven by earnings. Earnings are driven by GDP. GDP is driven by the consumer. That's the equation. When it comes to the GDP we have consumption, plus business investment, plus government spending, plus our trade. That's our add exports minus our imports. That's what this equation stands for. When you look at the components GDP nearly 70% is consumption and that is what we as individuals spend our money on. It's all the goods and services that we spend money on every single day.

Business investment and that's what businesses spend their money on. You can see that's a much smaller percentage. Then we have government spending 17%. We add those three together that's more than 100% so the remainder here the trade balance that subtracts from GDP and it's because we import more than we export. That takes away. When we talk about the China and the trade war that's really where it's impacted primarily. Now of course there's some business spending that gets impacted because there's supply chains and everything else. That's the big component where the trade issues are materialized.

Consumers drive spending here in the US. If we're going to try and figure out well what are the odds of a recession. We need to look at the consumer and how healthy is the consumer and what's the job market look like because if the consumer is doing well, then we expect this number to continue to do well. If the consumers aren't doing well, yeah they're not going to spend as much money because one they don't have it. They may have credit, but credit only goes so far before you have to start paying it back. There's a big focus on the consumer here when we look at really the future of stock prices here in the US.

How is the consumer doing? Well best way to measure that is the jobs market. We have full employment here in the United States and there's continued strength in the new jobs. More jobs keep getting added every single month. Record job openings which is good. That's actually bringing in more participants into the job market. The participation rate is continuing to improve. Projections have been that the participation rate would actually go down because of all the baby boomers that are retiring and not being replaced by the younger generation. The reality is two things are happening. One, more baby boomers are working than projections anticipated so those over age 65 continue to participate in the economy. Then also the millennials those 18 to 25 that cohort continues to work and increase the participation rate, so again looking good on both fronts.

There's not a lot of slack remaining meaning there's not a lot of people that can get pulled in. I mean there's still some out there and what that means is people who aren't currently looking for a job either because their prospects aren't good or they just don't want to work or they don't think the wages are high enough. Well the wages are finally getting high enough and the prospects are looking good enough that it's pulling in most available workers in the workforce. There's not a lot of extra room that can make up the difference.

Then of course we have the strong relative job formation and the forecast of US growth long term. Consumer looks very good, very strong. Income looks good. Wages are going up which bodes well for the economy. This is a couple of different things. This red line is the number of jobs that are added. You can see anytime it's above this grayish line here it's above zero and we've been above zero since 2010 and added new jobs for basically a decade now. Continuing to have that new job formation and then the black line is the unemployment rate. February actually just came out and it's at 3.6% versus 3.5 which isn't a major change. It's because more people are looking for jobs than were hired so that increases the unemployment rate just a little bit.

As we see more job formation, we see that unemployment rate continue to come down. We're not seeing ... We would start to see ... If the economy is getting weak one we'd start to see layoffs versus jobs created, so we'd see negative numbers here and we'd see an increase in the unemployment rate as well. Not only is this benefiting college graduates. It's benefiting so many areas of the economy. This again is from the Fed and they go through and they have these events throughout the country. They call them Fed Listens Events where they just meet with, kind of have town hall meetings so to speak and common themes they've heard is that the expansion is now benefiting low and middle income communities to a degree that it's not been felt for many years.

The data confirms this too. I mean if you look at by ... When we break out unemployment rate and we break it out by race and ethnicity you can see all of them are trending lower. The unemployment rate continues to decrease for everybody and also by education levels, same thing. You've got the unemployment rate continuing to drop lower and lower as this expansion continues so, so many more people are participating in the expansion and earning higher wages too. I mean that's another thing. I mean as the unemployment rates comes down, wages go up. That's traditional supply and demand when you have your ... Think back to your economics class and you look at all of your graphs, supply and demand as supply increases, or demand increases, supply increases and vice versa.

Well we've got as the unemployment rate has come down that's increased demand for workers which well if we're going to attract more workers we have to pay higher wages so we're seeing as unemployment rate comes down wages are going up and it's right near that long-term average. I mean wage growth we're sitting around 3.5 to 3% depending on the month and long-term average is about 4 so we're getting close to that and that's not uncommon. You can go back and look at historical periods when we've had economic expansions. We've had wage growth really start to slow down when unemployment rate is rising. Then when unemployment rate finally bottomed and started to improve we had wage growth go back up.

We're very similar situation as we've been in the past. It just may not feel like it. The media may not focus on the historical perspective, but again this is working just like it has in the past. Now one of the first signs of layoffs will always show up in this, what's called the Initial Jobless Claims. I show this graphic all the time. It's my favorite chart because it always precedes recessions. We will always see spikes in initial jobless claims prior to recessions. I've actually highlighted them. I mean these gray bars on this graph those are all recessions here in the US. You can see before every single one of them we were bottomed in the unemployment, in the initial jobless claims and we saw it spike higher prior to the recessions.

Now some recessions we have a lot of lead time and others very quick, but it always increases. It's because again the economy here is driven by consumption. It's not business spending. It's not government spending. Consumption is the big factor. As long as we have jobs here in US, then the economy continues to improve. When we start to lose those jobs, when businesses start to be fearful of their outlook and they say, "Hey you know what outlook doesn't look good. We're going to start cutting overhead," and they start laying off people, we'll see that in this data. This initial jobless claims will start to increase and it's because people are just getting laid off. It updates every single week. They're filing for unemployment. Then that always precedes a recession.

Right now, no signs of it. I mean this number is getting very low and we might see it just go sideways for a while. It may not go much lower. There's always little spikes from time to time. Typically, those are around natural disasters where we have periods of the market or the economy that are laid off for a short period or there's strikes, government strikes what have you and that always shows up a little bit in the data. Those little spikes we're less concerned about. It's more about the sustained spikes higher.

Then we couple that with all the Leading Economic Index data in addition to the earnings data that's how we can come up with the framework and say, "Okay this isn't just a false signal. This is real. We have so many red flags that we have to take action and get defensive."Now not to say that everyone needs to be all gung ho in the market and the economy because all of the data looks good. Definitely within your realm of risk tolerance and everything else but there isn't anything in the data to tell us that we're just about to fall off a cliff here in the US economy.

Where do we go from here? This is a sentiment indicator. It's the fear and greed index. It gives us an idea of the emotion driving the markets currently right now at a 57. This was as of Friday's close. Definitely on the greed side but just barely, not extreme by any means but go back a month ago we were more so on the extreme side and that was just markets kept advancing higher and higher and higher, didn't have much of any type of sell off, what have you. We did have one last week so that's where the fear gauge definitely dropped down a little bit into the fear side, not significant though. On a short-term basis, sentiments okay. It's not signaling that there's a little bit froth in the market that needs to get out of it current, so sentiment looks good.

Then from a seasonality perspective, so this is where we go back and we look at well how has the market performed from basically February 10th going through the next week, the next month and the next three months. We call this a seasonal tailwind. We are in very good seasonal period. Now that doesn't mean there won't volatility or it won't maybe not quite live up to these expectations but historically speaking this period over the next three months going out to May has been a strong one and so very bullish on the equity markets based on the seasonal perspective.

Now over here on the right hand side, what I've done is we've got our friends over at Bespoke they're a research provider that we subscribe to and they just recently came out with a report about the Manufacturing Index. What had happened over the past five months, we had manufacturing contract. It was contracting over that period and then finally in January it flipped into the expansionary phase. They went back and they looked at all of the historical periods where at least five months or longer manufacturing was contracting and then all of the sudden improved. What was the performance over the next week, month, three months, six month and year?

I highlighted the year. I like to look at a little bit farther than those shorter term indicators and the median return one year after a rebound in the manufacturing data is 10.65%. Now we compare that to well what are all of the periods? Well all the periods median is 9.9 so it's not significantly higher, but it coincides with everything else that we're looking at. We've got an economy that's continuing to grow and expand. We've got manufacturing showing signs of life. We have all these positive things happening so we would expect these to work out as they have in the past and 80% of the time it's been positive.

Now when you look back at the times it's been negative, well you'll see '08 well this is when we were in the midst of a recession. Same thing in '02. I mean '02 not quite a recession, but we were coming out of a recession. Then that was right after the Twin Towers came down. Then not long after that we had Enron and Worldcom and then Arthur Andersen helped them cook the books, so market was very weak. Economy was okay, but market very weak at that time and that was definitely reflected in the data. 1980s coming out of a recession, same in the 50s so a lot of these negative periods that didn't rebound were actually because of recessions.

You can look back here 2016, this has happened before. This isn't the first time. We had a manufacturing slowdown and then the market improved and moved higher. Excuse me. Our outlook still remains positive. This coincides with what I shared at our breakfast in December. Things look good. We have the election that's always a big talking point. There's still a lot of characters involved in the recession ... I'm sorry in the election. On the Republican side, Trump running. The odds of him winning continue to improve. Here's what this is? This is from Election Betting Odds website I like to follow when it comes to this because people are wagering money on the election. It's less about what they want to happen. It's really what they think is going to happen.

This data will change a lot, so it's something that you take with a little bit of a grain of salt, but something to pay attention to because as we get closer and closer and as the field starts to narrow down especially on the Democratic side we'll see a lot more strengths when it comes to this. Sanders has definitely picked up steam over the last few months. Same with Bloomberg where really Biden and Warren have fallen down significantly and Mayor Pete's picked up too. Now that's on the Democratic party so that's the chances of them being the nominee. Then when it comes here in the middle this is the one we want to focus on the chance of winning the presidency, so Trump just shy of 60% with Sanders then next in line at 16.1.

Right now, odds very high in Trump's favor. Historically speaking, when we have a strong economy the incumbent does win. I mean it's very rare for the incumbent to lose when we have such a strong economy. Now we have the impeachment stuff behind us as well his odds of winning have actually been increasing throughout that whole process. It looks like that's where we're at today. Again, as we get closer, this data will change and we'll have more and more insight into the election and what we'll see. Markets historically too will react if they think the incumbent is going to lose. Again, historically when the incumbent loses markets about 90 days prior to the election started to go down and showed some weakness, so we'll keep a close eye on that. Markets tend to have the ability to help us identify maybe a change when it comes to that. That's where things are looking at currently.

Market would prefer Trump to win. They do like his business focused policy, same with Congress. I mean it's primarily the policies won't change significantly in the election if Trump wins. That's the expectation at least from the market and the market would prefer that relative to a change. Just because another candidate wins, let's say Trump loses and another candidate wins, it doesn't necessarily mean that their policies are going to be implemented instantaneously day one. A lot of the major changes when it comes to tax code and healthcare and everything else it has to go through Congress and it takes a lot of time for those things to go through and be vetted and voted on. Even a changing in president isn't going to just immediately signal a good or bad change in the market.

Really a lot of different factors go into that. Well just to keep a ... Tie a bow on this, one thing we've got is we've got markets continuing to move higher and it's because the economy is continuing to just chug along. Consumers are doing great, great shape, balance sheets are great, not overly leveraged, they're not taking on a bunch of debt. Things are really looking good from the consumer standpoint which again bodes well for GDP which then in turn increases earnings which in turn increases stock prices. Now earnings are flat in 2019, but we are expected to see them increase in 2020. We'll watch that closely because that can help us identify if things are getting a little ahead of themselves. If earnings continue to increase and ... I'm sorry if prices continue to increase and earnings maintain their flat nature that's a warning sign. Again, not an immediate hey we need to really rein in everything, but more so just something to keep our eye on.

The big focus with all of my talks around all this is about separating the news from the noise. I mean really let's focus on what needs to be focused on. I mean the market has such a good ... It basically wants to prove as many people are wrong as possible. Anytime people are on TV, they're trying to predict where things are going or they're going to give you a stock price on the Dow or the S&P 500, yes I mean I always take that with a grain of salt. I mean it is one thing to have a projection and outlook, but no one knows for sure and what we do know is that historically this is what the economic machine, this is how it works. It doesn't have to be more complicated than that. Yeah, everyone wants to throw these little darts. Here's this. Well what about this or what about that? Those will always happen. The issues we don't know what's actually going to cause the problem, but the issues don't. The market does not care about them unless we have a weak economy. That's the big issue.

As long as the economy is strong, it's basically shrugs everything off. Yeah, they'll be things that are more important than other, but if that doesn't ... Whatever that problem is if that doesn't take out the economy and we continue to have improvement in jobs and wages and what have you we expect the market to move higher. Years will always be different. Last year market was up. Stock prices up, very good in 2019 and that's when earnings were flat, but it was because expectations into 2020 were continuing to improve and show signs of life.

With that I know I didn't mention anything about questions, but what I encourage people to do just send me a note. Send any questions, email them to me that way me and our team we can research whatever it is. A lot of times we can just shoot you a note right back, but if we need to do further research to identify what it is and really answer that question for you we will. Again, feel free to let us know if there's any questions, concerns, anything that you've got.

I mean we've got a plan when it comes to this. If we start to see things materialize, we'll definitely be making adjustments within the portfolios and we'll be talking to you about those adjustments and what to expect but right now, you know right now everything is going to maintain status quo. Of course that's different for everybody. Your allocation is unique, how much we have in stocks and bonds, and distribution levels and everything else. Again that's all unique to everybody, but our recommendations are let's maintain course and keep moving forward. Again, I appreciate everyone being on here and want to just encourage you, feel free any questions you've got. We love answering them. That helps us too to even identify things to talk about when it comes to webinars because I want to make these as relevant for you as possible.

I focus on the things that I think are important, but sometimes there's other things that people want us to talk about. If you have any suggestions, future webinars, whether it's related to the market or other financial planning topics, shoot me an email or send anyone on the team an email and we will definitely put that in our queue and put that in for consideration. Again thank you all for attending and have a great rest of your day, rest of the week. We'll be back with you in just a few months with the next quarterly update. Thank you very much.