



NEWS OF THE MONTH

Sound Income Strategies Newsletter, December 2019

November 2019

Index	YTD	Month
DOW	+3.72%	+ 20.25%
S&P500	+3.40%	+ 25.29%
NASDAQ	+4.50%	+ 30.60%
Barclays	-0.04%	+8.49%

10-Yr Treasury yield was 1.73% at the end of October and 1.78% at the end of November

Markets

The stock market enjoyed fairly steady growth in November, with all the major indexes hitting multiple new record highs. Investor optimism was fueled mainly by the possibility that a partial trade deal between the U.S. and China might still be approved by the end of the year.* Investors were likely also encouraged by the fact that both long- and short-term interest rates seem to have stabilized. The yield on the 10-Year Treasury Rate is holding at around 1.75 to 1.8%, and the Federal Reserve has taken a break from lowering short-term rates after cutting their benchmark to a range of 1.5 to 1.75% in October. It was the Fed's third rate cut this year, and it helped correct our inverted yield curve, which occurs when long-term rates fall below short-term rates.

Ultimately, though, these hopeful economic signs don't diminish the many negative influences that had been keeping the stock market in a nervous holding pattern since January 2018. While a trade deal would be good, it hasn't happened yet, and the trade war has already had damaging impacts on many sectors of the economy, and been blamed for a decline in business investment. While GDP growth held steady at a decent 2.1% in the third quarter, that was down from 3.1% in the first quarter, and a far cry from the Trump Administration's original goal of 3-4%.** More significantly, while many corporations have beaten expectations on the earnings side, fewer have even met expectations on the revenue side—which is what matters most. Remember, too, that the International Monetary Fund recently warned that the global economy is in a synchronized slowdown and likely headed toward recession.***

In the end, some analysts agree that Wall Street's latest big rally has all the earmarks of a classic blow-off top.**** That's a period of relatively steady market growth that occurs in spite of mixed economic news and recessionary warning signs, and is sometimes followed by a steep sustained drop. A blow-off top represents a good example of why the bond market is often said to be smarter than the stock market. How so? With the yield on the 10-Year Treasury holding at

around 1.75 to 1.8%, that certainly doesn't reflect the kind of economic growth we'd need to justify a booming stock market. The two markets are in disagreement because the bond market is guided by logic while the stock market is driven by emotion and animal spirits. I submit that everyday investors looking to protect their money would be wise to take their lead from the bond market in this situation and ask themselves: is Wall Street's latest rally really logical?

Portfolio Transactions:

When managing your portfolio at SIS, we look for one of four possible "enhancement" trades while reviewing securities and possible transactions. Income generation is our primary goal for our clients, and we consider the following four portfolio enhancements before transacting: current yield, yield to worst (minimum projected annualized total return), interest rate risk, and default risk. The intents of these transactions are categorized as follows:

- **Pay Me Now – Enhancing current yield**
- **Pay Me Later – Enhancing yield to worst**
- **Cover My Assets I. – Managing interest rate risk**
- **Cover My Assets II. – Managing default risk**

We evaluate the transactions by determining whether they meet one, two, three, or all four enhancements. A baseball analogy for this: SINGLES, DOUBLES, TRIPLES, and HOME RUNS.

There were no swaps in November.

*"U.S. Stocks End at All-Time Highs," *MarketWatch*, Nov. 26, 2019

***countryeconomy.com*

***"The World Economy: Synchronized Slowdown, Precarious Outlook," *IMFblog.com*, Oct. 15, 2019

****"Why Dow 28,000 Could Mark That Blow-Off Top Bears Have Been Predicting," *MarketWatch*, Nov. 23

Note: The above trades were recent block trades and do not reflect all trades done on an individual specific basis. Sound Income Strategies, LLC is a registered investment advisor. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and, unless otherwise stated, are not guaranteed. Past performance is not an indication of future results. Be sure to first consult with a qualified financial advisor or tax professional about your specific financial situation before implementing any strategy discussed herein.

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