



POLITICAL RHETORIC VERSUS RECESSION

Do the financial markets have your undivided attention? Are you proactively reading every email, newsletter, and streaming news to determine if the economy is heading into a recession? Did the recent pullback in the market remind you of the last downturn beginning December 2007 to June 2009? When the Dow Jones Industrial lost 800 points in one day posting the worst percentage drop of the year while the S&P 500 lost 3 percent – did you feel a sense of urgency to call your wealth manager or sell all your investments and transition into cash reserves? If the answer is “YES” that would be a reasonable response for most investors find it difficult to digest all the economic data – fake or not.

A plethora of information hit Wall Street this month, mainly the unresolved issues between the United States and China regarding trade tariffs, unrest in Hong Kong, 2020 presidential elections, an inverted yield curve, the Federal Reserve’s projected interest rate cuts and a slowing of the global economy. What does it mean for the future performance of the capital market?

Many investors sold their equity positions and poured the proceeds into fixed income instruments to protect their principal. Unfortunately, the significant amount of cash going into government bonds caused the yield on the 10-year Treasury to dip below the return on a 2-year note. We have not seen an inverted yield curve since 2007, and historically such movement signals a recession is inevitable. Some people became paralyzed by such dampening news and are holding significant cash balances waiting to get a signal when to buy back into the market. Do you remember the last recessionary season? What did you do to protect your assets from the market corrections? Did you sell all your equity positions and transition into fixed-income vehicles? If so, you missed out on the extended bull market by waiting on the sidelines too long. The equity market has been clawing back throughout this tumultuous period of increased volatility. The significant selloff came as a result of too much economic data to digest and the fear of overall collapse within and across all asset classes. Wrong? Remember, the market does not move in tandem; therefore, the number one rule to minimize risk is diversification.

Why does the term recession upset investors that they begin to panic and make irrational decisions about their future? The answer is that most people forget about their long-term goals and reactive simply by fear and emotions. Does that mean you should panic and pull your money out of the stock market? The answer is **NO!** **VZD Capital** gradually rebalances into various sectors of the market that will withstand the current market conditions. Such as – utilities, consumer staples, health care, and energy sectors. While investors were looking for a clear signal from the Federal Reserve Chairman Jerome Powell to support further rate cuts, he did not give a definite answer to calm their nerves. While everyone's crystal ball is working overtime, the speculation of a future recession is running high, but no one knows for sure. However, we believe another interest rate cut will occur at the end of September 2019. Therefore, we are purchasing preferred stocks at a discount, which is below the \$25 par value.

Let us review the positive catalysts that play a role with the overall success of the economy. Under Trump's leadership, the gross domestic product (GDP) is growing at a three percent-plus rate, and the unemployment rate is near a 50-year low. The stock market has seen an unbelievable year until the last few weeks with the sudden downturn fueled by the possibility of a permanent breakdown in communication with China. President Trump's re-election rides on his ability to artificially stimulate the economy by putting more money into the consumer's pocket. If he can get that done, then that would keep him in "good standing" with his supporters. However, if the consumer is burden with the cost of the China tariffs, then a more profound decline in the stock market due to international rifts, than the outcome may not be favorable for him. Next, he needs to come up with an action plan and roadmap to address the rising national deficit. If he can get such outstanding factors address than we might be able to avoid a recession a little longer. In essence, we are playing a "wait and see" game regarding the future of the economy due to so many unknown factors and the level of uncertainty. As a seasoned wealth manager, we realize the market goes through cycles, and we continue to monitor all accounts based on the unique circumstance of each client. Remember, VZD does not believe in a "one-size-fits-all" approach.

Ethel is having surgery on her mouth on Friday, August 29, 2019, but will be back in the swing by Tuesday, September 3, 2019. However, she will be available to respond to your email and will have a staff member available to answer your calls. Thank you in advance for your continued support of **VZD Capital Management, LLC**, where "clients come first" always.

We welcome and appreciate the referrals coming from our existing family members. Your trust and confidence in us is much appreciated.

With Gratitude,

Ethel, Nikisha, and Michelle