

**2019 and beyond:**  
**A personal look into the future  
of global financial markets,  
and how to cope with the  
coming era.**

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# Possible themes for 2019 and beyond:

- The astonishing ten year bull market, driven by the Federal Reserve and stock buybacks.
- Social, political, and financial market surprises and upheaval. We are in a culture war.
- An economic slowdown is likely. A recession is possible but less likely.
- The Federal Reserve is likely to raise interest rates mildly, if at all.
- Bond markets will struggle to break even, unless a recession drives interest rates down. Long term, bonds should outperform cash, substantially.
- At some point international equities should outperform U.S. equities. Several insightful organizations expect outperformance in the coming decade.
- U.S. stock markets may surprise with volatility, and deliver single-digit gains in 2019.
- Long term, stock market mutual funds should continue to deliver superior returns to cash or bonds.
- Diversified cautious investing in mutual funds continues to be a superior long term wealth growing strategy.

# Our astonishing ten year bull market!

## Investment Growth

02-28-2009 to 02-28-2019

Currency  
USD

Initial Value: \$10,000



Investment	Cumulative Return %	Annualized Return %	Amount at End of Period \$
1 BlackRock Health Sciences Opps Inv A (USD, SHSAX)	431.88	18.19	53,188.27
2 Nationwide Ziegler NYSEArcaTech100 A (USD, NWJCX)	499.52	19.61	59,951.72
3 Vanguard 500 Index Investor (USD, VFINX)	361.35	16.52	46,135.08
4 Vanguard Short-Term Investment-Grade Inv (USD, VFSTX)	39.86	3.41	13,985.57
5 Vanguard Wellesley® Income Inv (USD, VWINX)	148.27	9.52	24,827.48

### Performance Disclosure

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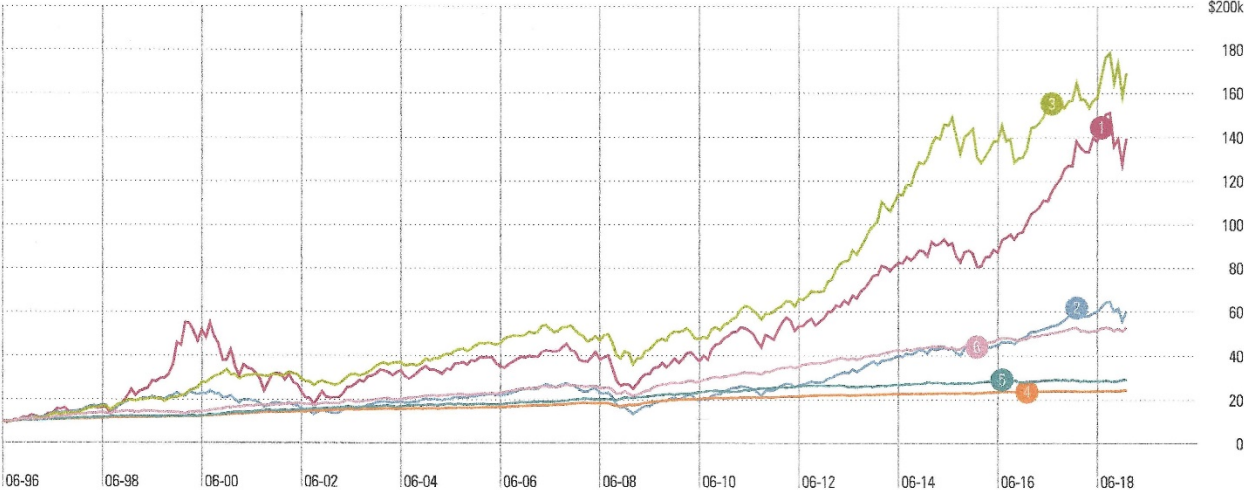
# Long Term Investing has been very very successful and emotionally challenging! Check out Vanguard Wellesley!

## Investment Growth

06-30-1996 to 01-31-2019

Currency  
USD

Initial Value: \$10,000



Investment	Cumulative Return %	Annualized Return %	Amount at End of Period \$
1 Nationwide Ziegler NYSEArcaTech100 A (USD, NWJCX)	1,295.84	12.38	139,584.32
2 Vanguard 500 Index Investor (USD, VFINX)	503.93	8.29	60,393.48
3 Vanguard Health Care Inv (USD, VGHGX)	1,592.35	13.34	169,234.89
4 Vanguard Short-Term Investment-Grade Inv (USD, VFSTX)	144.94	4.05	24,494.01
5 Vanguard Total Bond Market Index Inv (USD, VBMPX)	194.34	4.90	29,434.18
6 Vanguard Wellesley® Income Inv (USD, VWINX)	429.04	7.66	52,903.57

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# What made this happen?

It's complex!

The effects of globalization. (“The China Price”)

The rise of technology increased efficiency. (Price pressure was downwards)

Energy and commodities became cheaper and more efficient.

The Federal Reserve Central Bank always intervened (“The Fed Put”)

Governments, corporations, and individuals borrowed a lot!

Corporations bought back shares.

# And now the downsides...

- The effects of globalization. (“The China Price”) also means that American industry was hollowed out and totalitarian China became ascendant. We now compete with the world. Louis Vuitton?
- The rise of technology increased efficiency. (Price pressure was downwards) also means the dark web, a tsunami of garbage news, vast criminality, the rise of hate, erosion of privacy, and job destruction. Been to a mall lately?
- Energy and commodities became cheaper and more efficient. also means pollution, pay reductions, environmental damage, global warming. Would you like a plastic straw with that drink?
- The Federal Reserve Central Bank always intervened (“The Fed Put”) also means that retirees dependent upon interest rates were flattened, and speculation flourished. Wealth inequality. Salinas is 70+% renters.
- Governments, corporations, and individuals borrowed a lot! Which means that we’re living in a sea of debt and some won’t be able to pay it back. What happens then?
- Corporations bought back shares also means that wealth inequality evolved even further and gains were overstated.

Now we know where the crazy politicians find their votes....

# Some realities in this era of chaos and change:

It's a bare-knuckles street brawl.

Education and mindful lifestyle is key.

Mostly lasting wealth is about **successful living**.

Most **news is useless**, because media's job is to entertain.

**Most volatility doesn't matter.**

**Patience and a long term focus are essential.**

**Courage is essential.**

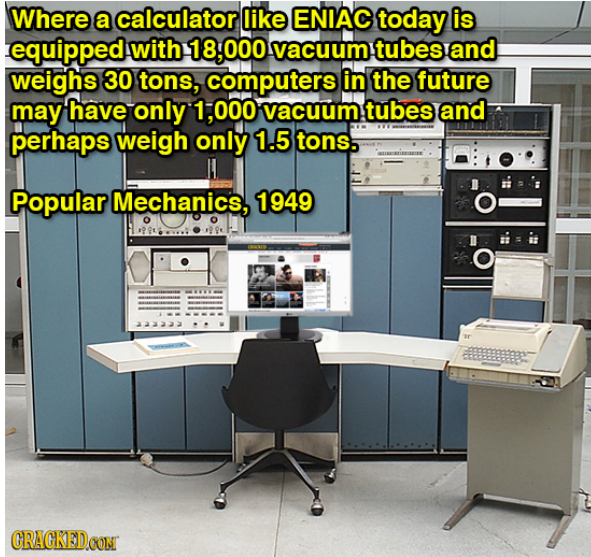
**Scams abound.**

**Political investing works rarely.**

**Debt is poison. Maybe.**

**2019 is a short time horizon, and we need to focus on the long term.**

Predictions and information flow in the past were often flawed. 2019 isn't doing much better so far.



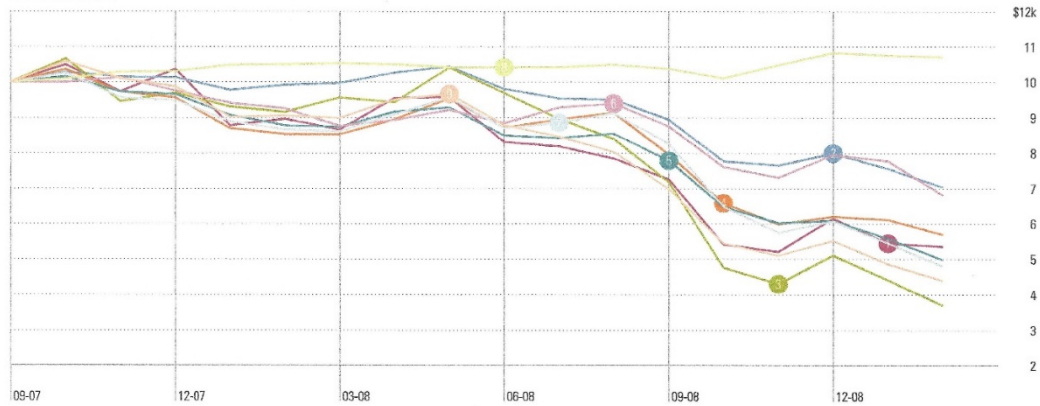
# What we fear in the financial markets. (Only it might be worse!)

## Investment Growth

09-30-2007 to 02-28-2009

Currency  
USD

Initial Value: \$10,000



Investment	Cumulative Return %	Annualized Return %	Amount at End of Period \$
1 China Fund Inc (USD, CHN)	-46.48	-35.68	5,351.66
2 First Eagle Global A (USD, SGENX)	-29.64	-21.98	7,035.64
3 Mexico Fund (USD, MXF)	-63.03	-50.46	3,697.33
4 Nationwide Ziegler NYSEArcaTech100 A (USD, NWJCX)	-43.10	-32.84	5,689.90
5 Vanguard 500 Index Investor (USD, VFINX)	-50.20	-38.86	4,980.49
6 Vanguard Health Care Inv (USD, VGHGX)	-31.85	-23.72	6,814.51
7 Vanguard Small Cap Index Inv (USD, NAESX)	-52.03	-40.46	4,797.39
8 Vanguard Total Bond Market Index Inv (USD, VBIMFX)	7.08	4.94	10,707.58
9 Vanguard Total Intl Stock Index Inv (USD, VGTSSX)	-56.05	-44.03	4,394.80

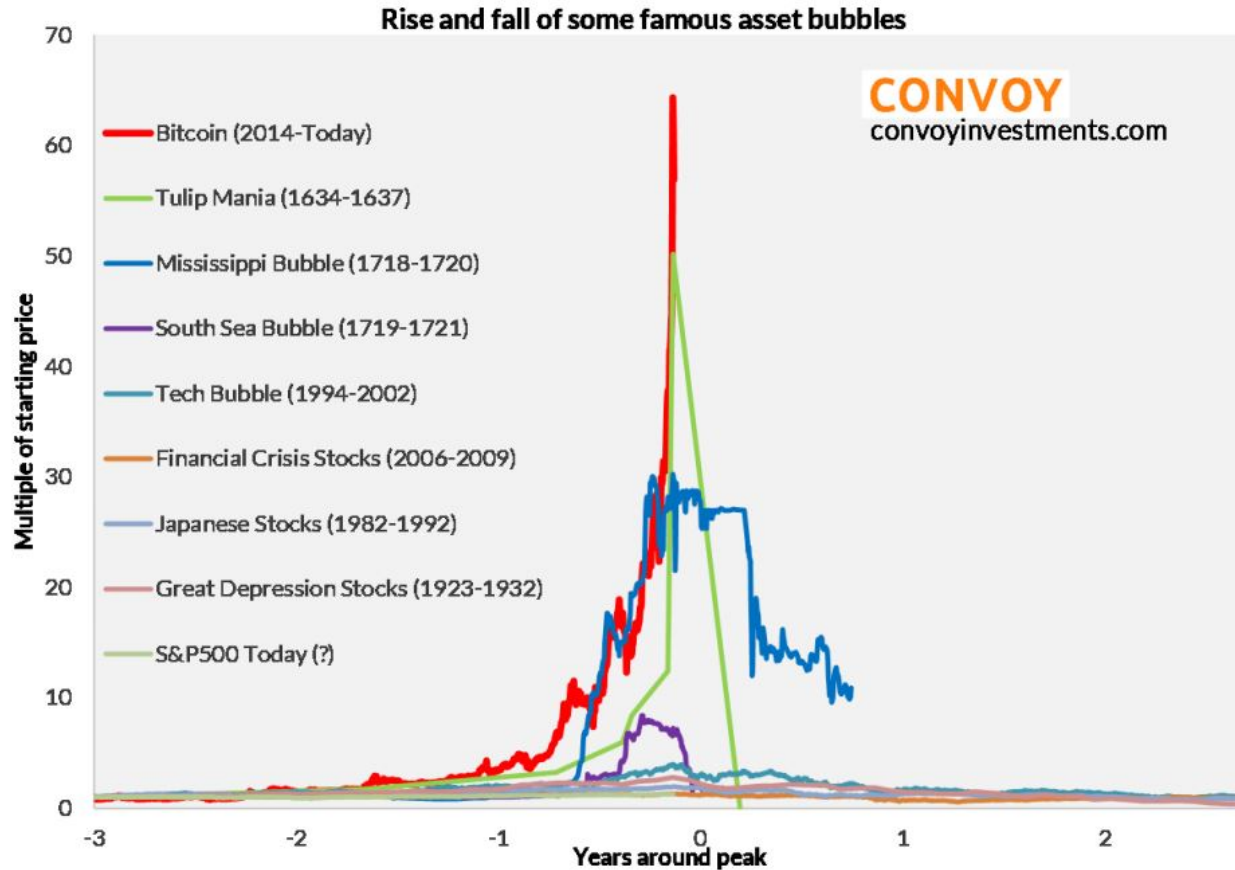
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# “Why not time the markets?” Because it’s futile.



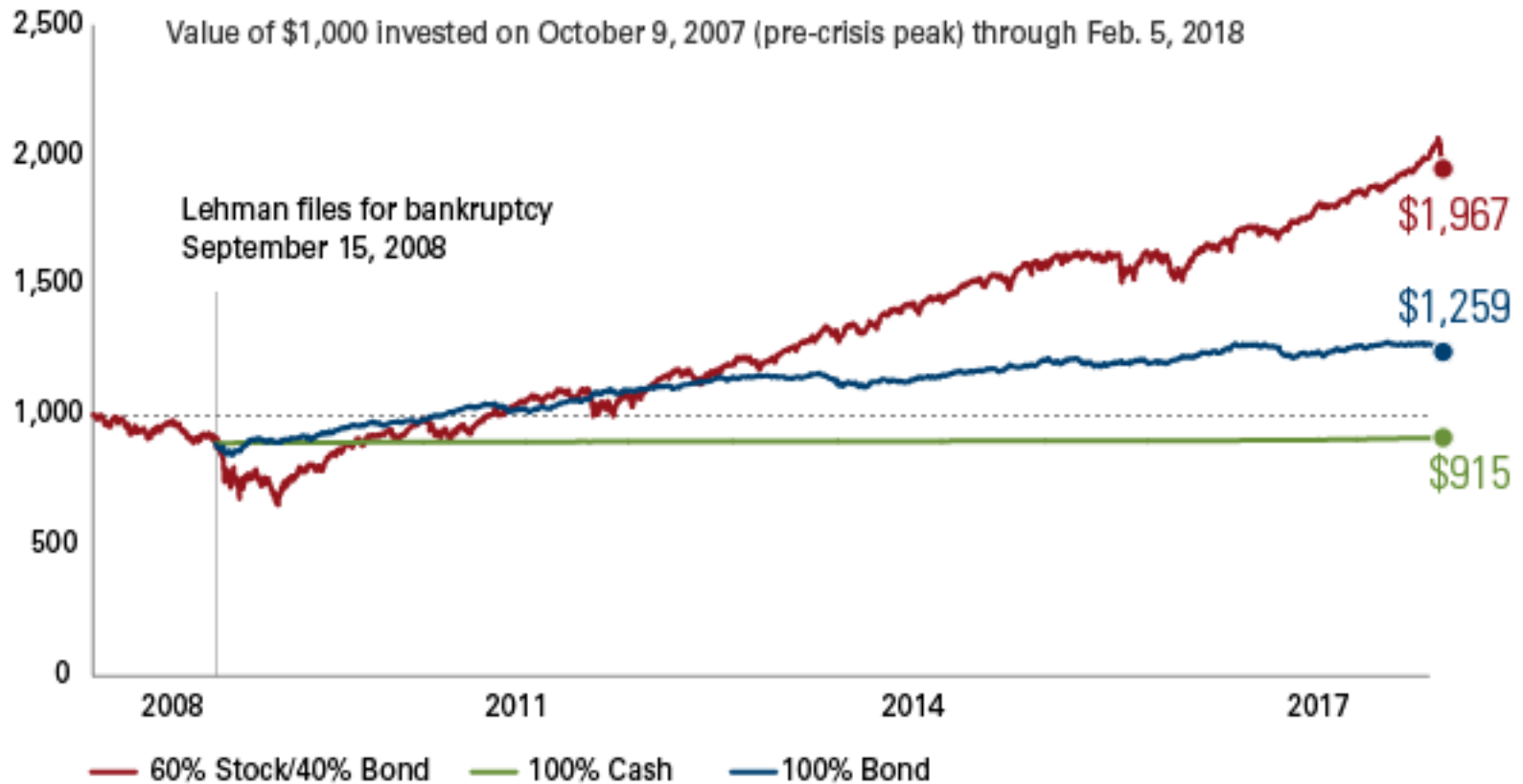
# Bitcoin gets the 2018 prize for crazy



Source: Elliot Wave International, Yale SOM, St. Louis FRED, GlobalFin, and Convoy analysis



Conservative, diversified, patient, long term, liquid investing works. In other words you don't have to be genius. You just have to save and live conservatively.



# Be cautious about...



- The government will save you...
- You should hate this person...
- A great apocalypse will happen
- The stock market will...(we don't really know, but history suggests.)
- You need to buy this to be safe (gold, annuities)
- You need to give me information...

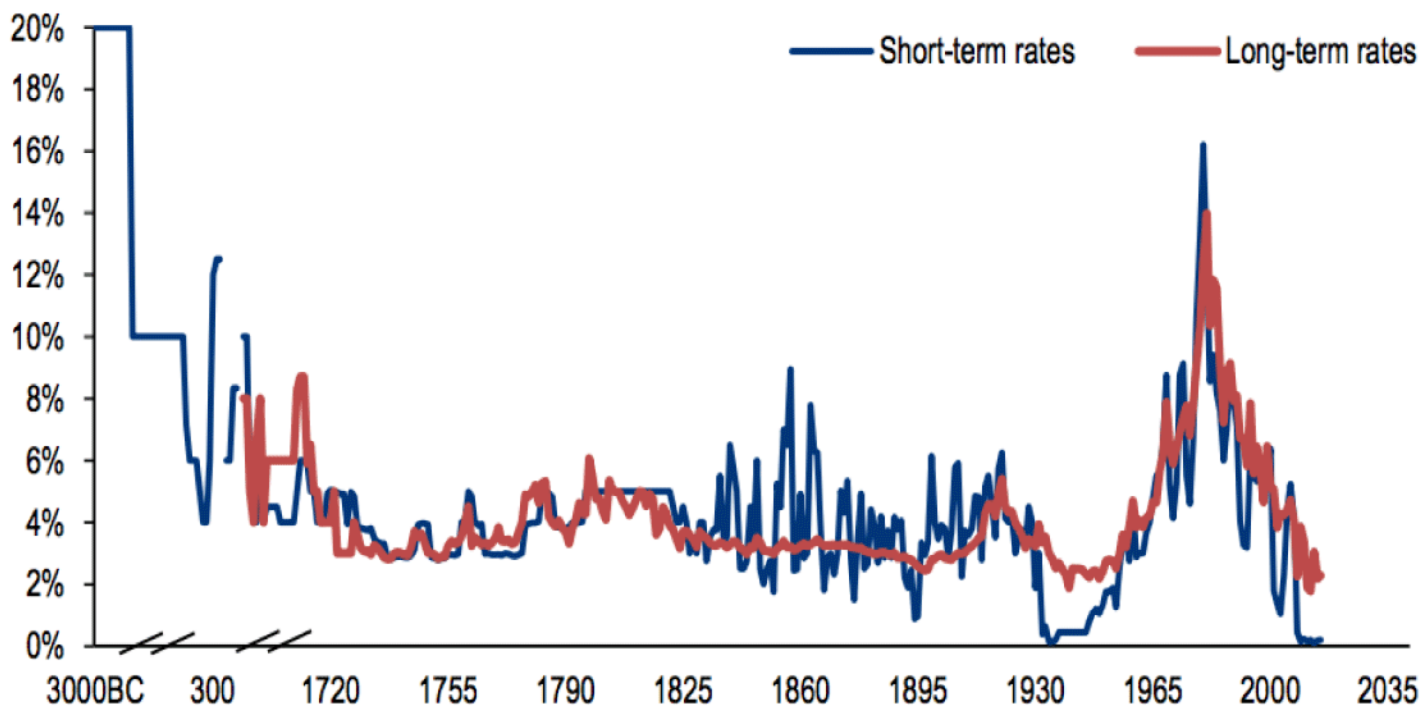
## **What we DO know: long term investing continues to be very successful.**

- Owning outperforms lending.
- Owning is often higher risk.
- Owning includes years of underperformance.
- Diversification seems to work.
- There is no magic bullet. Most new ideas are scams.
- Time, discipline, and consistency.

A 2019 theme: Interest rates were at 5,000 year lows!  
Now they are slightly higher as the Federal Reserve tightens.

Markets  Chart of the Day

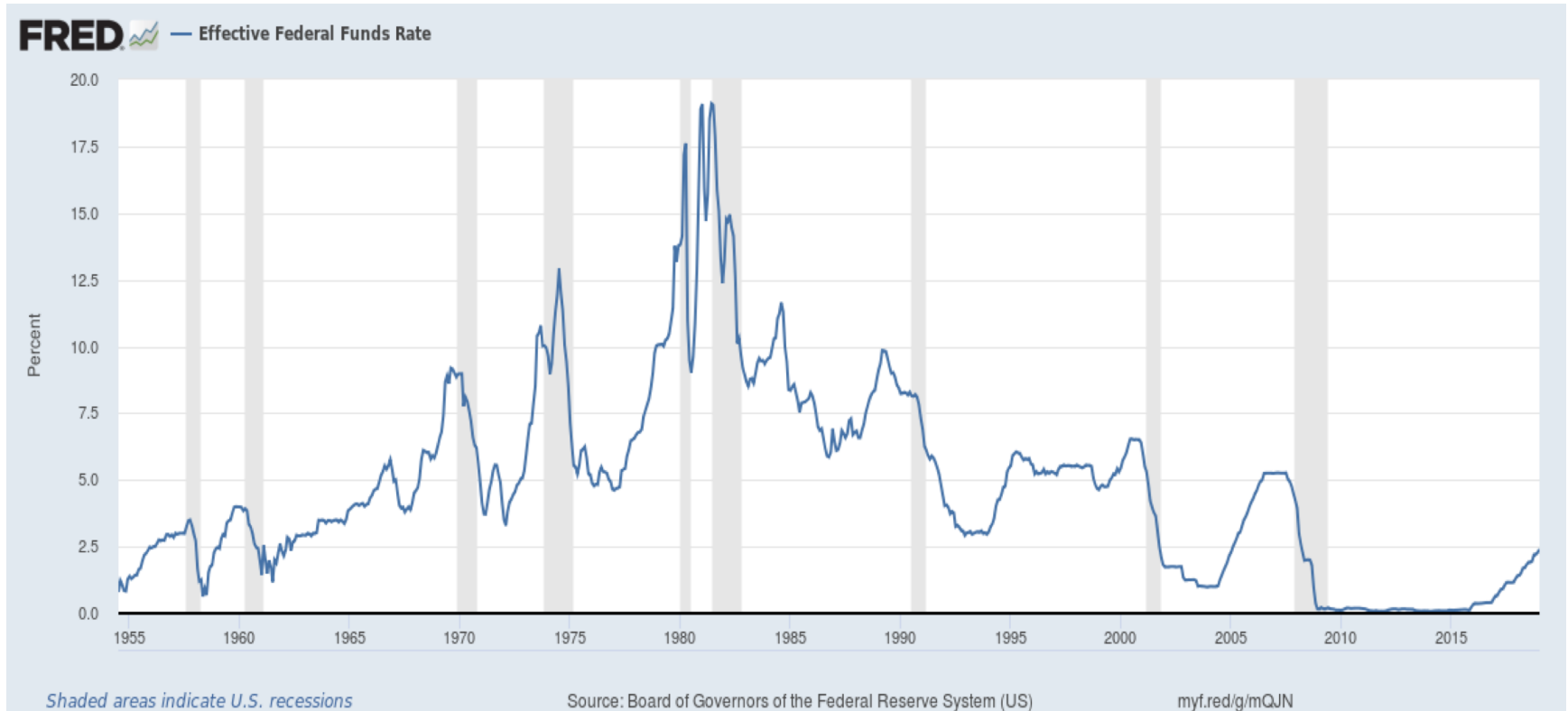
**Chart 1: Still the lowest interest rates in 5000 years!**



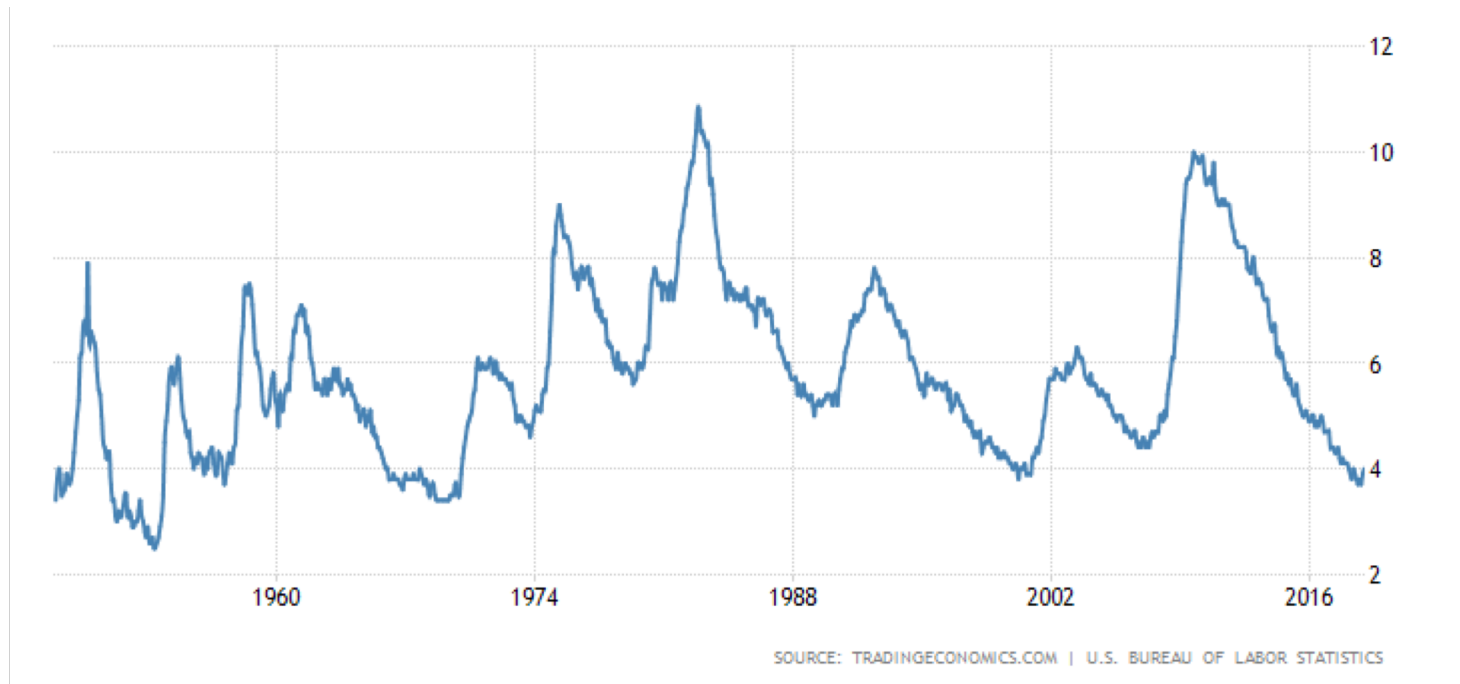
Sources: Bank of England, Global Financial Data, Homer and Sylla "A History of Interest Rates"

Note: the intervals on the x-axis change through time up to 1700. From 1700 onwards they are annual intervals. Full methodology available upon request

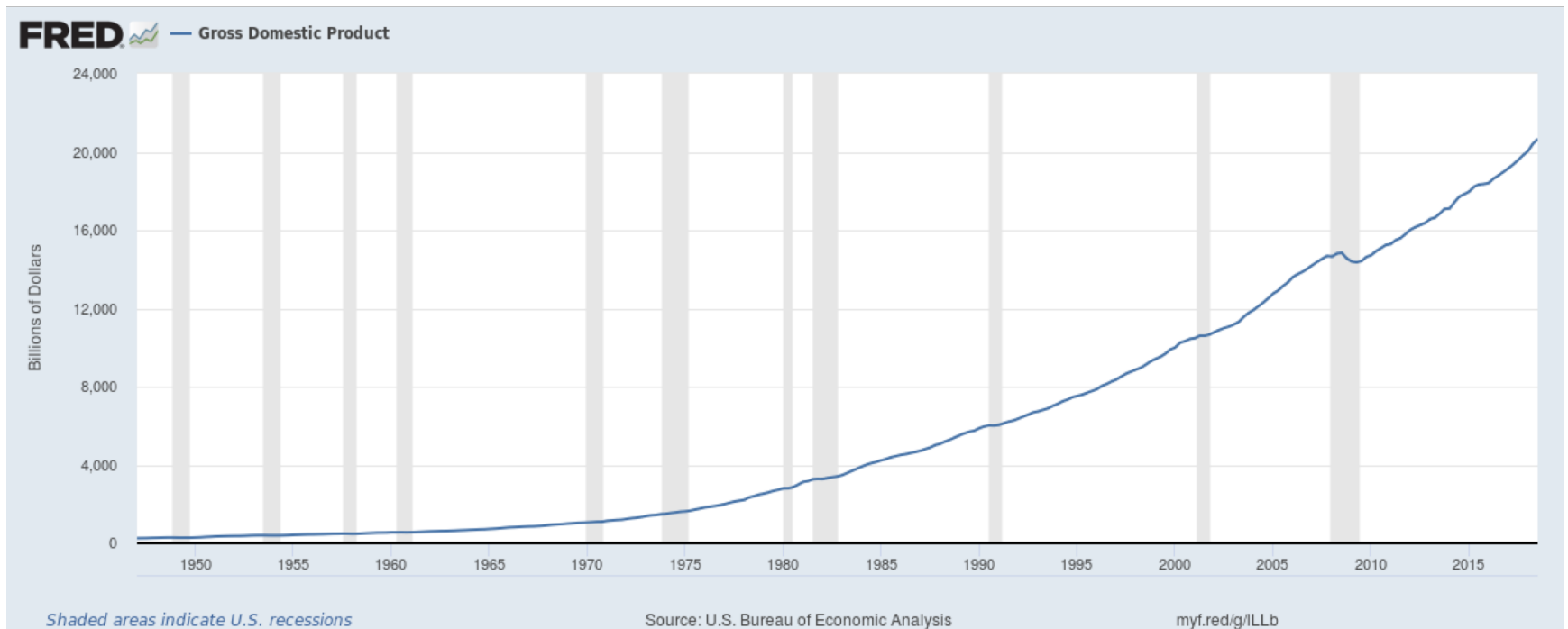
The Federal Reserve has raising interest rates very gently...and the financial markets are coping.



# The U.S. economy continues to thrive! The unemployment rate is at historic lows

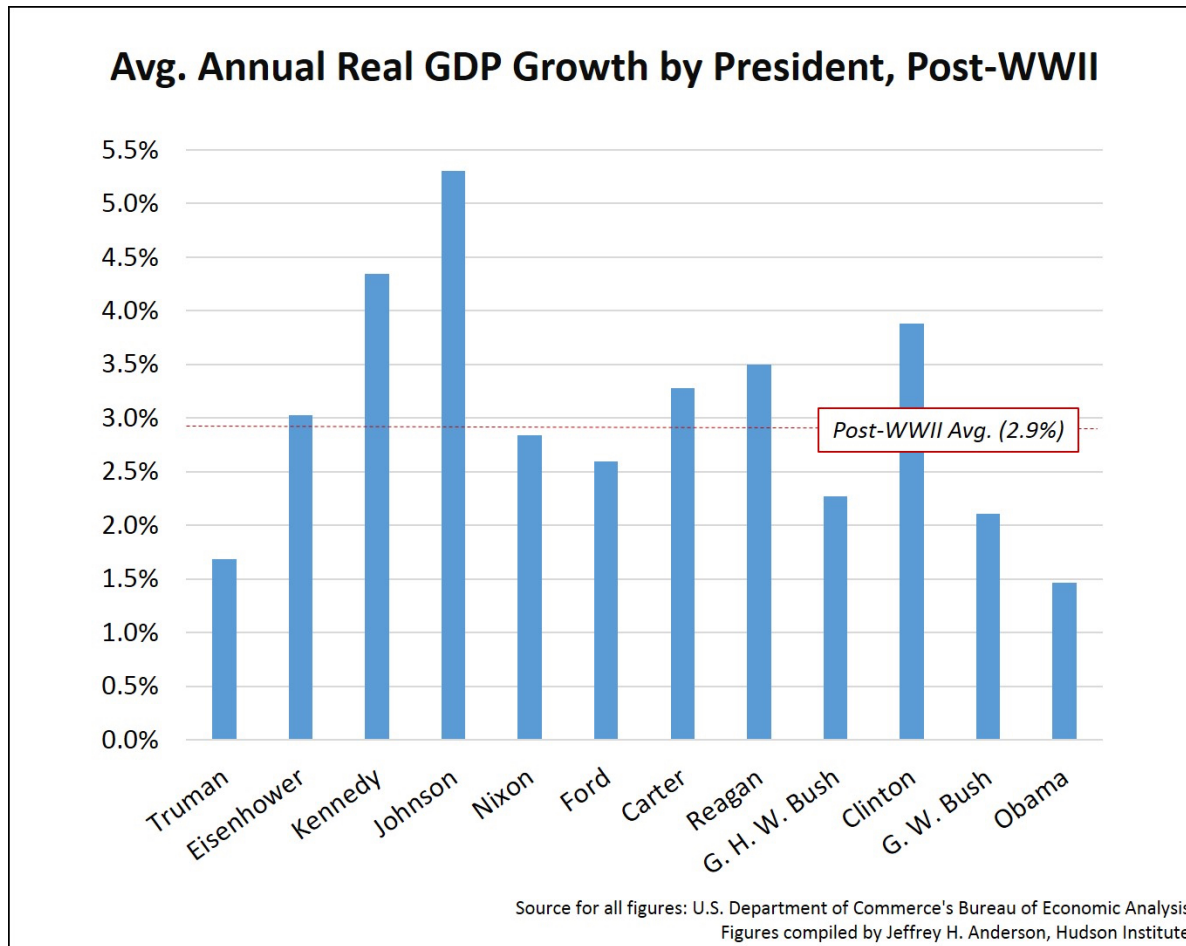


# The economy continues to grow





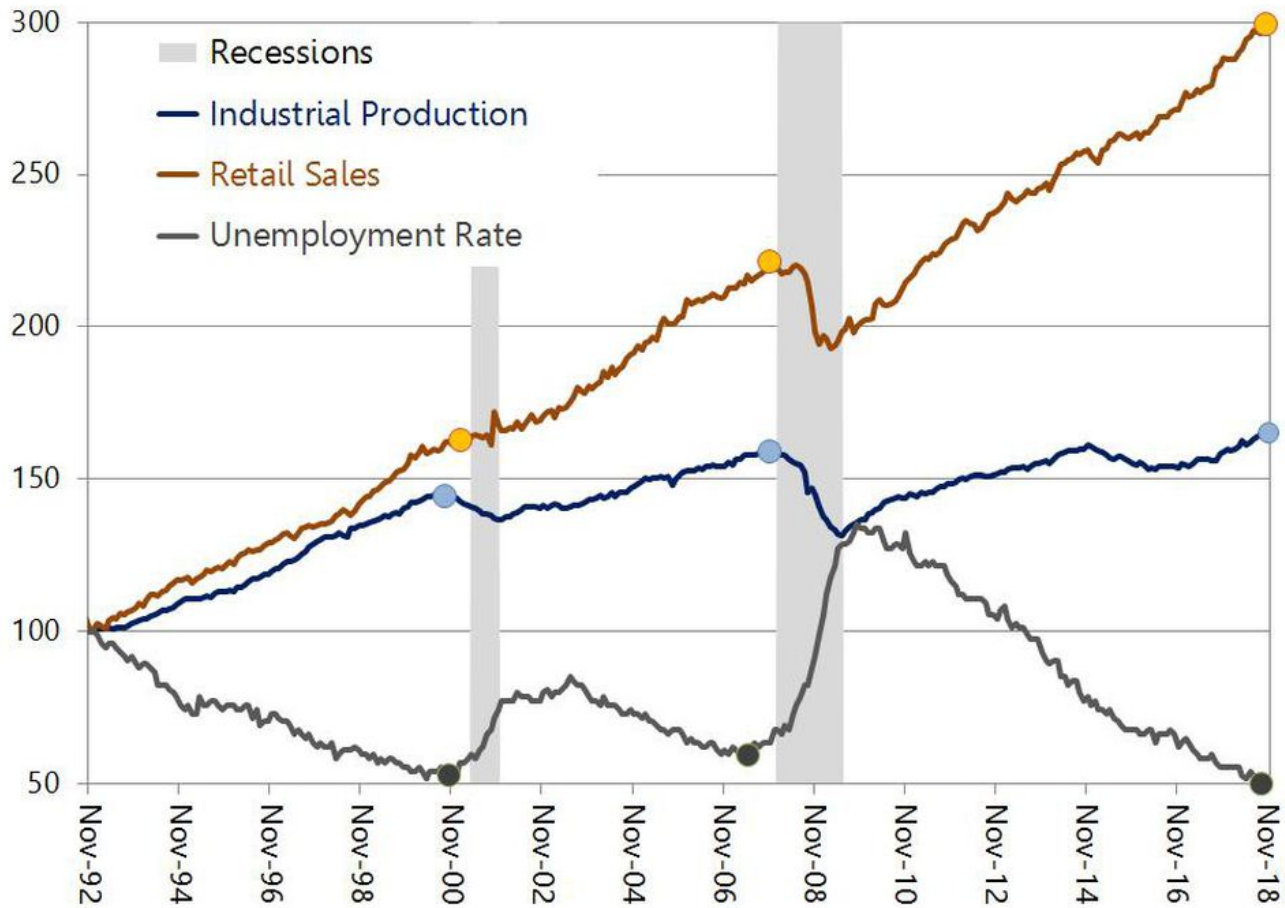
It's probably less about presidents or politics and more about people and demographics. Americans are about 4.4% of the world's population!



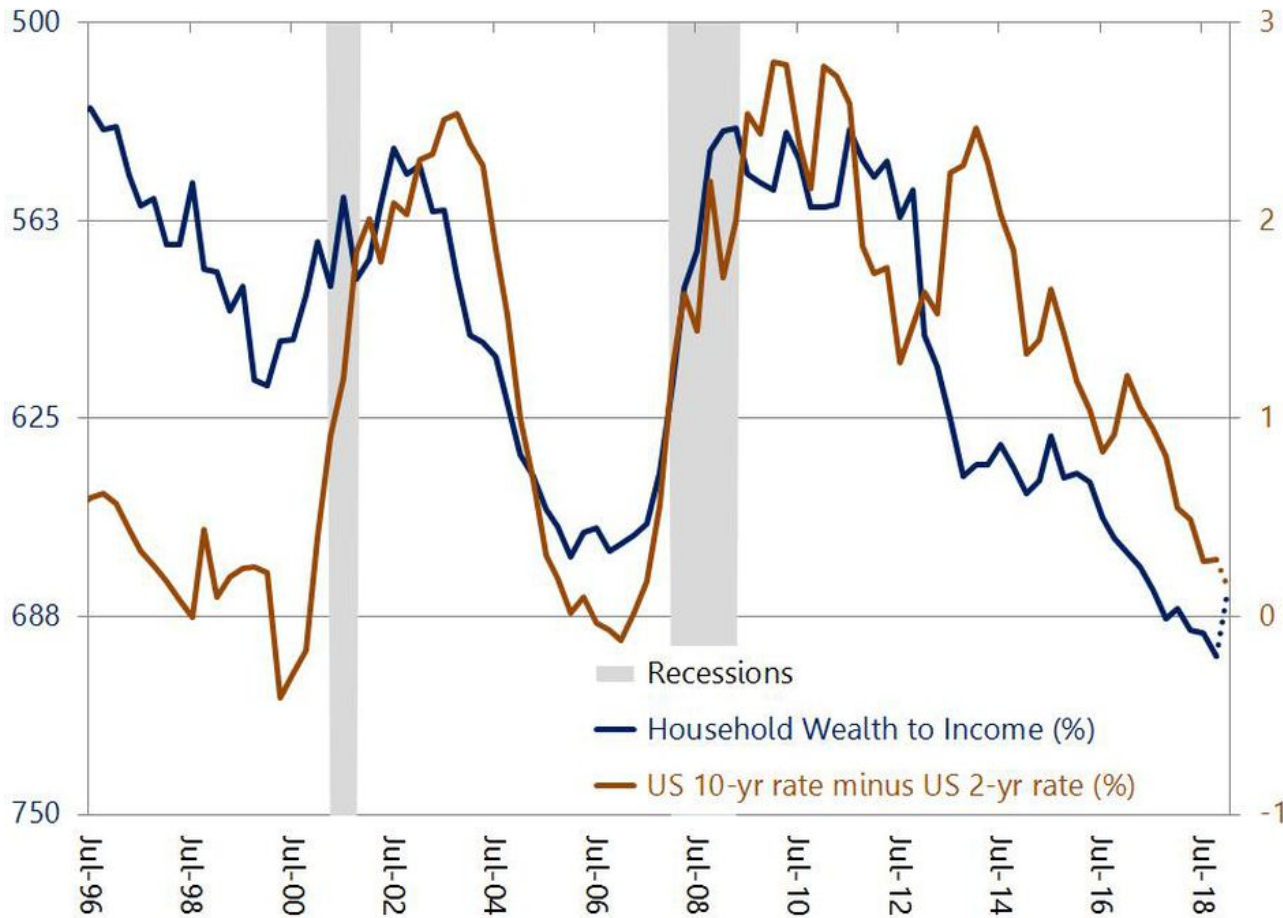
# Signs of challenges in 2019

- Political unrest.
- Trade wars.
- Debt levels.
- The media has worked us into a frenzy.

# We know indicators peak before slowdowns.

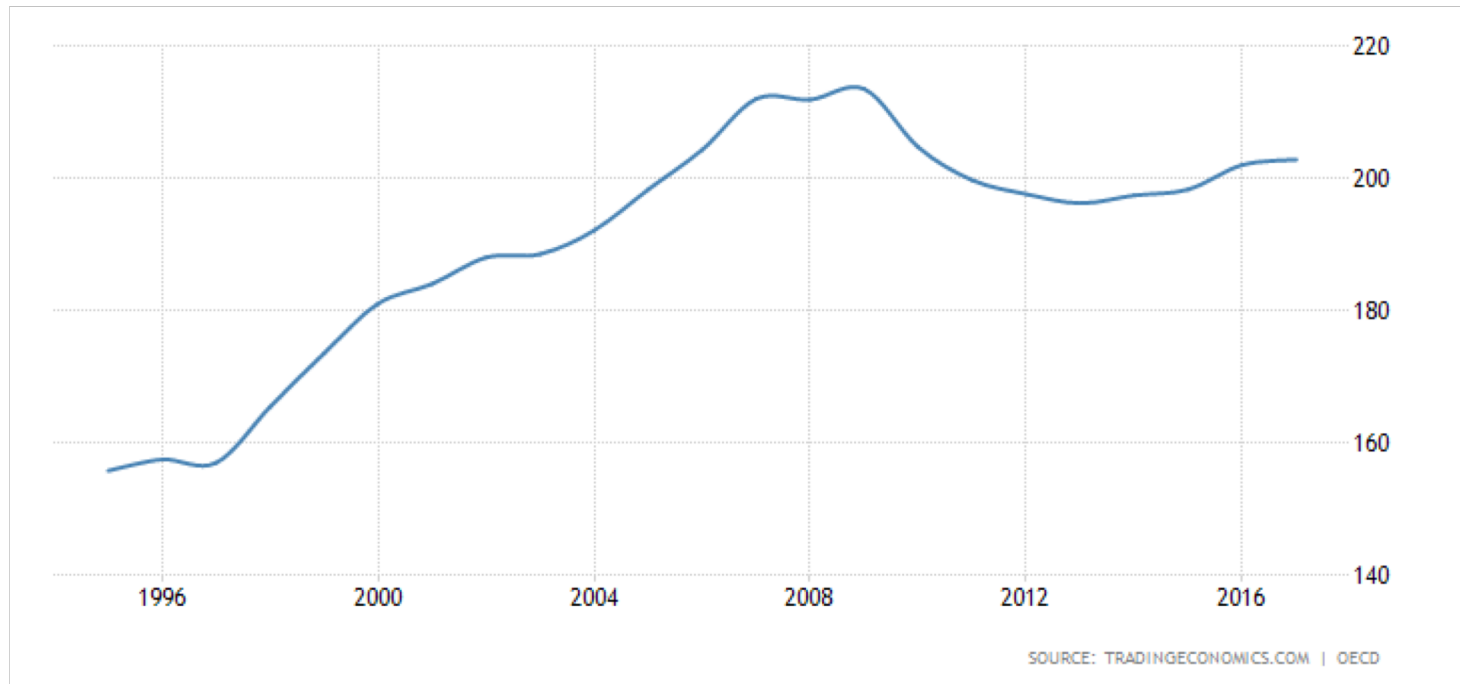


Another indicator: “The main driver of financial well-being of U.S. households today is wealth, not income.” Raul Elizalde. And yield curves are flattening ominously.





# United States Private Debt to GDP

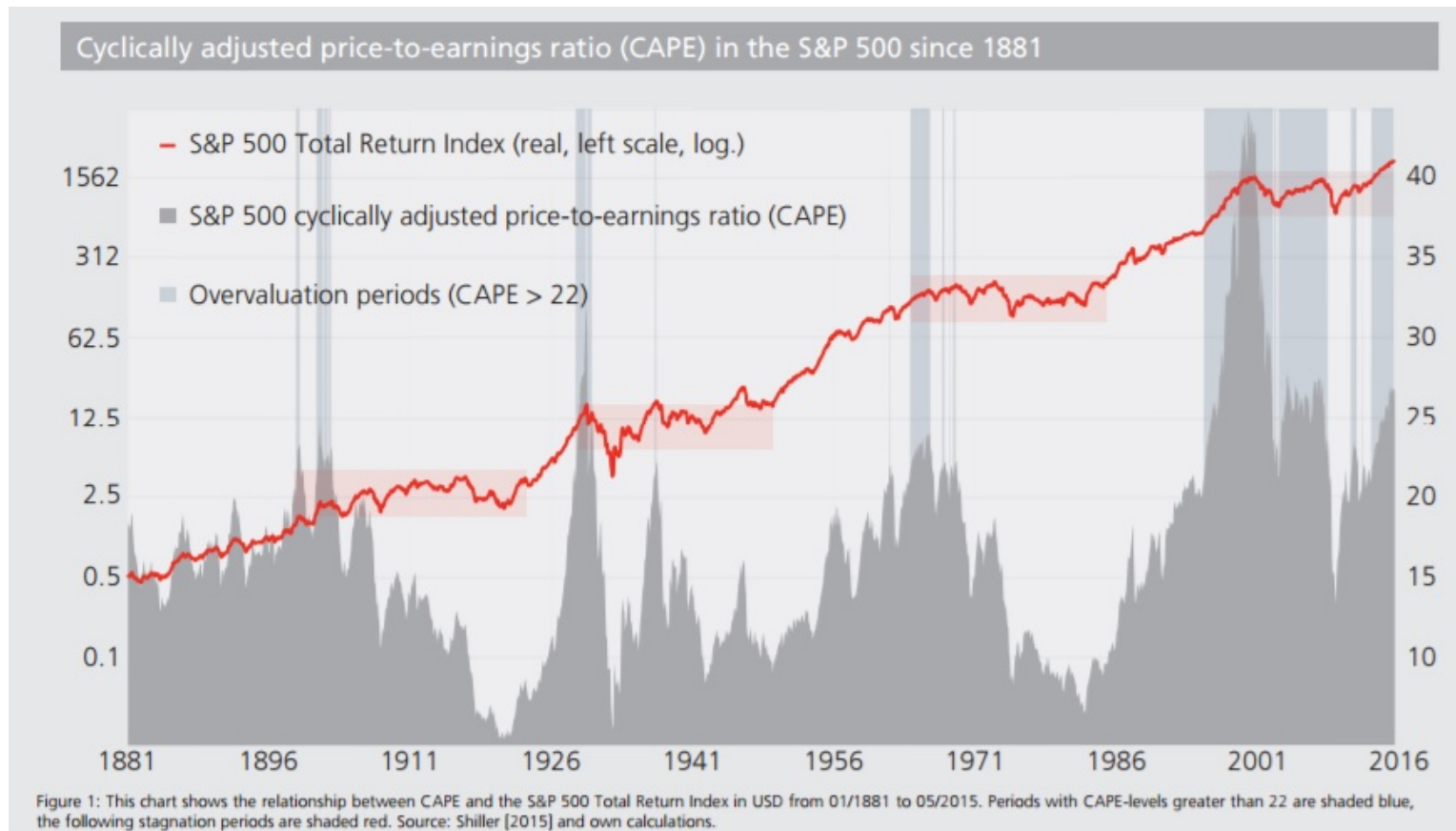


# The bottom line for 2019 economic expectations

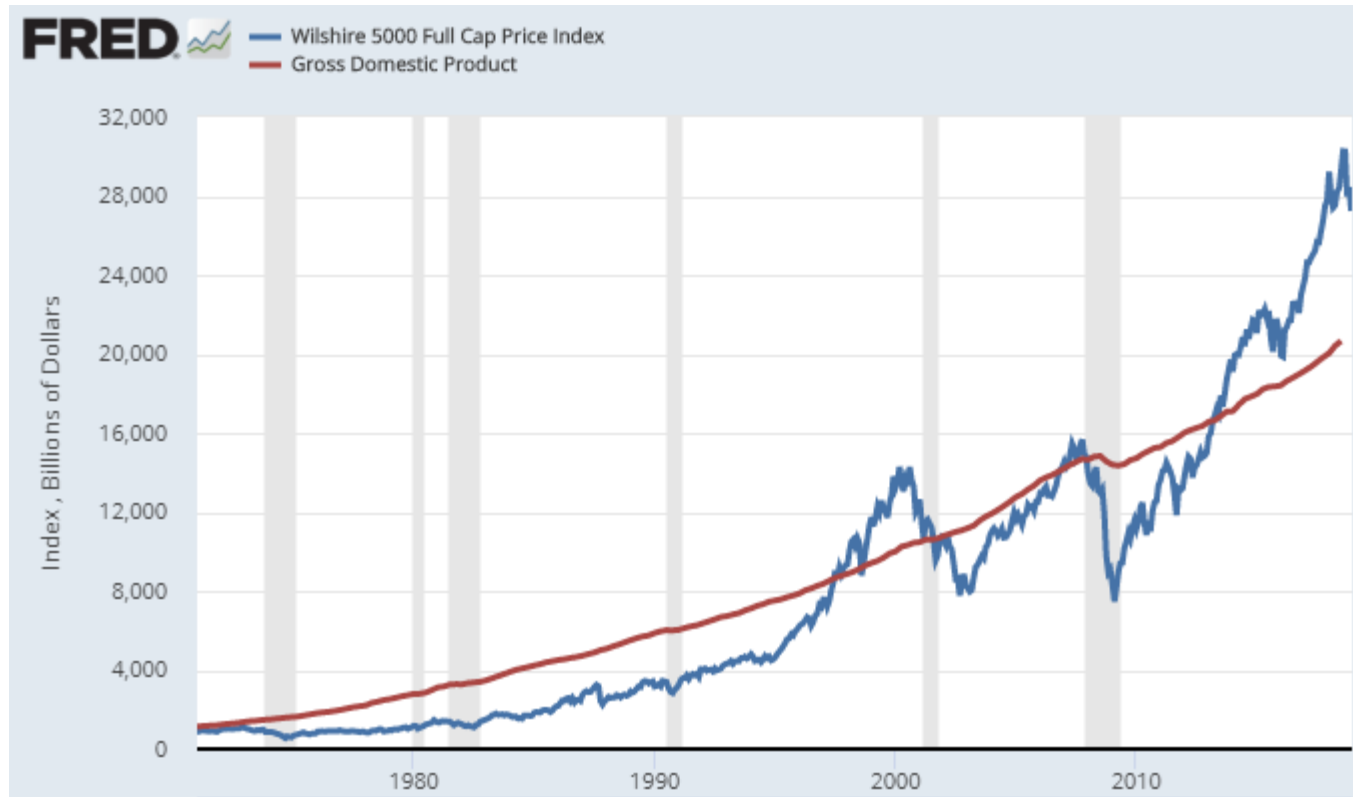
- The average economic expansion since 1950 has lasted about six years. This has lasted about ten years.
- Politics is a wildcard.
- Slowdown is most likely.
- Recession signs are emerging but ephemeral.
- But what about the financial markets?



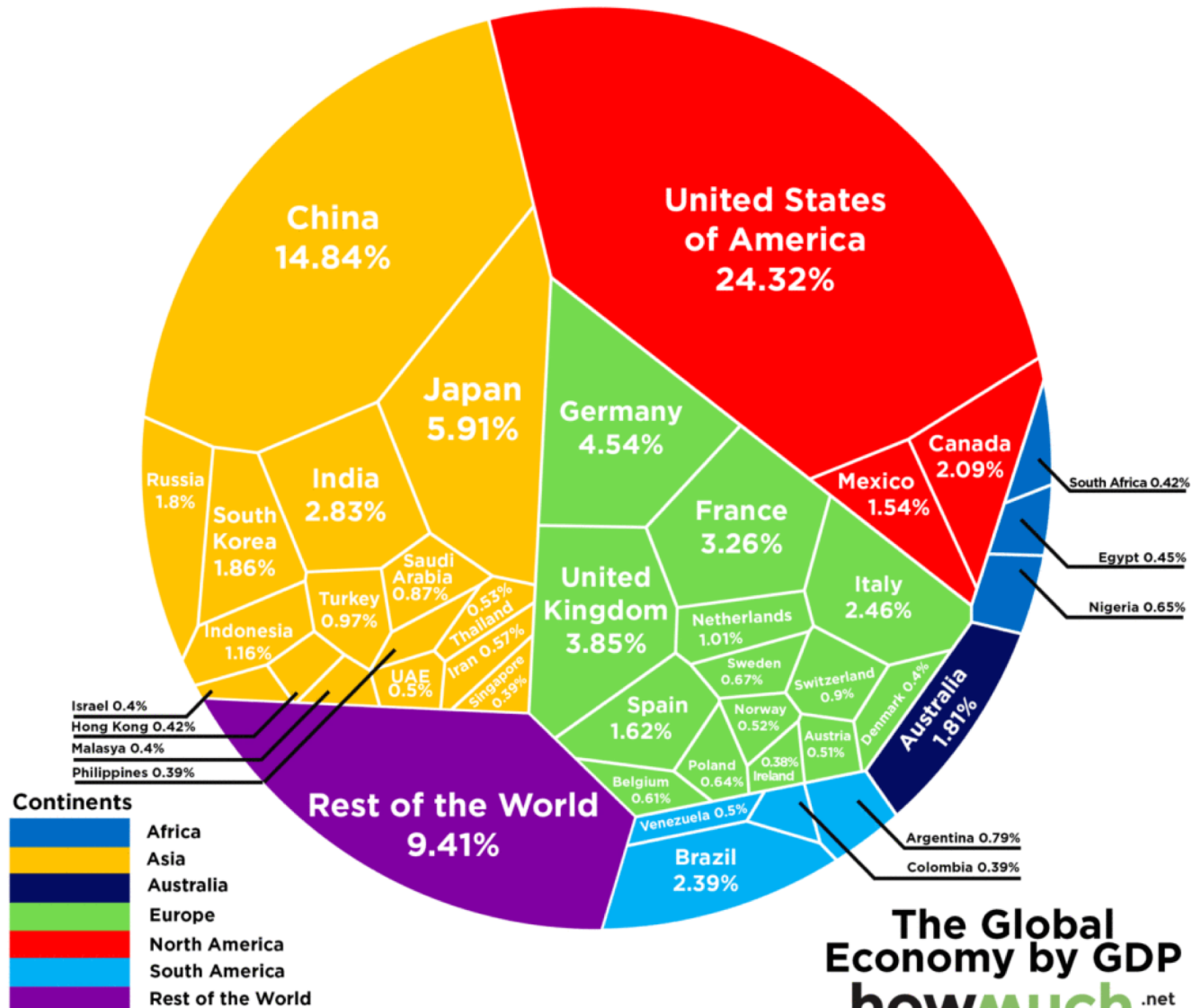
# In the stock market, CAPE valuations remain high but maintaining. Probably skewed by interest rates! Graph by Lynn Alden



# Here's another way to look at stock market valuations.



If we want to invest in cheaper markets, where do we look? It's a big world. The combined economy of Asia is already bigger than the US.



Sources: World Development Indicators database, World Bank, 1 February 2017

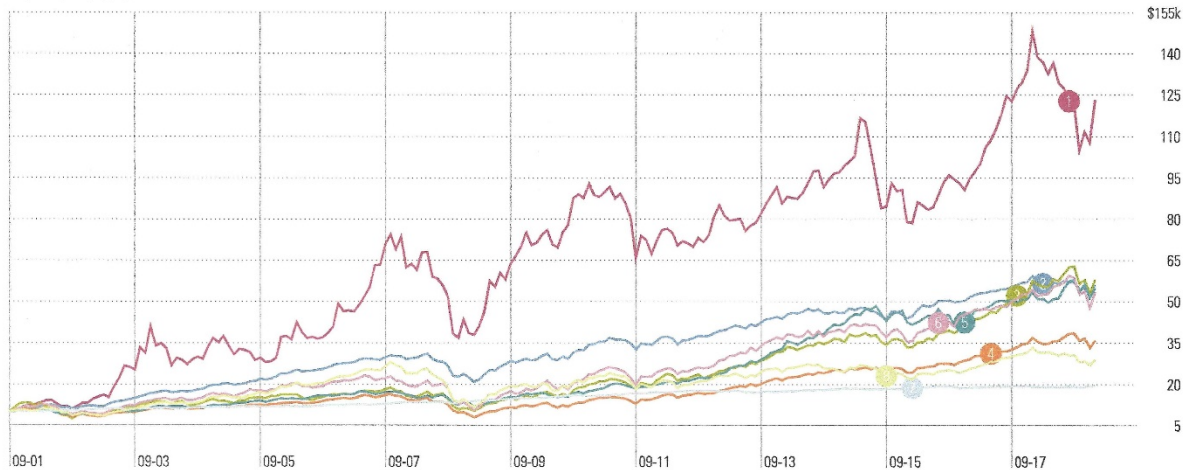
# Wait a minute...one year is a short time horizon. What has outperformed in the long term?

## Investment Growth

09-30-2001 to 01-31-2019

Currency  
USD

Initial Value: \$10,000



Investment	Cumulative Return %	Annualized Return %	Amount at End of Period \$
1 China Fund Inc (USD, CHN)	1,132.34	15.59	123,233.58
2 First Eagle Global A (USD, SGENX)	460.63	10.46	56,062.86
3 Nationwide Ziegler NYSEArcaTech100 A (USD, NWJCX)	479.76	10.67	57,976.34
4 Vanguard 500 Index Investor (USD, VFINX)	280.63	7.68	36,062.94
5 Vanguard Health Care Inv (USD, VGHGX)	449.57	10.33	54,957.26
6 Vanguard Small Cap Index Inv (USD, NAESX)	434.21	10.15	53,420.69
7 Vanguard Total Bond Market Index Inv (USD, VBVMFX)	95.72	3.98	19,671.67
8 Vanguard Total Intl Stock Index Inv (USD, VGTSX)	191.62	6.37	29,161.79

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But China is opaque, totalitarian, and VERY RISKY!  
 Most people can't stand this kind of pressure and uncertainty even if they think they can beforehand.

## Investment Growth

09-30-2007 to 02-28-2009

Currency  
USD

Initial Value: \$10,000



Investment	Cumulative Return %	Annualized Return %	Amount at End of Period \$
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# Expectations

- Vanguard and other financial institutions expect approximately 4% returns in the US stock markets in the coming decade and 7%+ in international markets.
- By buying in corrections we will attempt to do better. This will take courage.

# *What will I do in 2019?*

1. My attitude: I'm savoring life frugally but I expect hardship. I'm armoring up cyber/physically/emotionally. I'm alert for scams. I'm saving anyway.
2. I have a positive long term attitude: In the face of uncertainty, I remain diversified, courageous, and patient. I'm focusing on the long term. The first paragraph of the Book of James.
3. Mental and physical fitness and health are key, since we are under attack.
4. Fostering cultural education and lifting up children are core behaviors.
5. Because of uncertainty about the direction of interest rates, I'm letting asset allocation funds handle the longer bonds. I'm gradually moving bond mutual funds to shorter durations. I'm also avoiding debt where possible.
6. I am a long term stock market bull: I will buy in solid downturns.
7. I'm a tax opportunist: If there are losses, I weed the garden.
8. I'm a financial globalist: I'm gradually accumulating solid internationals on dollar strength, which is right now.
9. I'm staying very diversified in anticipation of chaos. I'm a cautious patient contrarian. Call me a turtle.
10. Whenever possible I'm attempting to model courage, ethics, calmness, and grace.