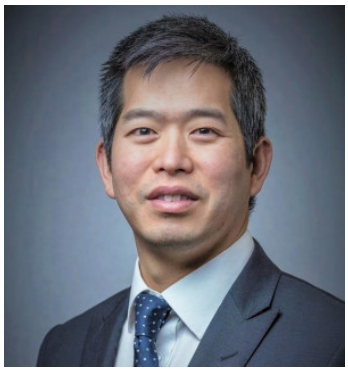
The Advisor



About Your Advisor

Paul Yoon is dedicated to providing meaningful and high quality financial advisory services to retirees and business owners. Mr. Yoon has both securities and insurance licenses. He is a contributor for the Forbes magazine and frequently conducts seminars at College of the Canyons.

Newsletter Courtesy of: YOON

PROTECT | PRESERVE | GROW

Stocks Reaching Fresh All-Time Highs

The Spring of this year saw the decade-long mark of the longest running bull market in U.S. history. On March 9, the S & P 500 celebrated the 10-year anniversary since the index hit a low in 2009. By October 9, the index had hit 2,919.40, a 330 percent increase over 10 years.

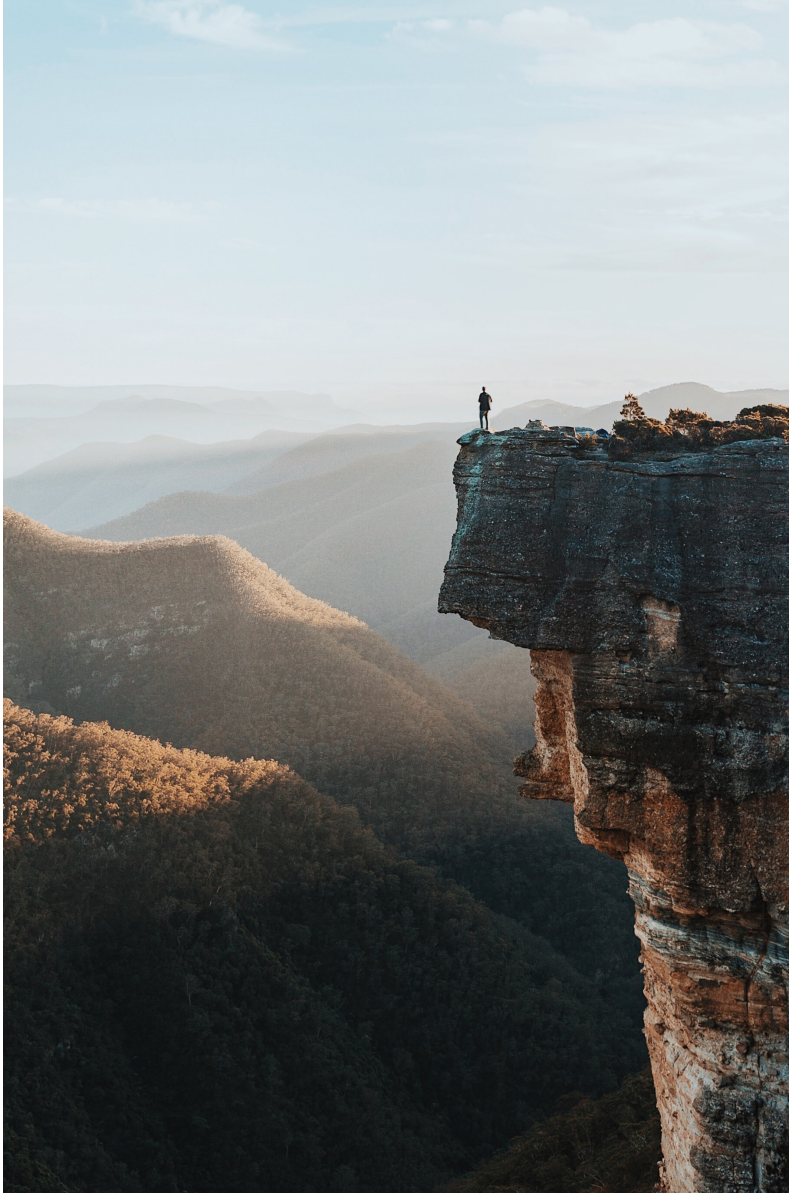
By November 15, the Dow had crossed a new milestone by passing the 28000 mark. That trend continued with equities closing at all-time highs for two consecutive days on November 25 and 26.

Good corporate earnings and some favorable actions by the Fed and good economic numbers have been enough to spur on the long rally that has seen record after record broken.

Also, there have been signs of hope in U.S.- China trade negotiations. This may be tempered more recently by a bill passed in the Congress supporting the pro-Democracy protestors in Hong Kong and condemning the actions of the Communist Chinese government.

The Hong Kong Human Rights and Democracy Act is a bill that imposes sanctions on those responsible for human rights violations. The bill first passed the Senate and then the House and the bill is awaiting signing by the president.

Despite this, just a hint that a deal had been reached was enough to continue the rally with a remark from Chinese officials that their negotiators had reached consensus on some important points.



The Long Rally

Investors have seen a number of pull-backs and a continuance of volatility, but the gradual climb of the S & P 500 index has been steady and impressive. On January 2 of this year, the index stood at 2,510.03. Tuesday, November 26 saw a close at 3,140.52.

The S & P is up more than 25 percent year-to-date and the Dow Industrials is up more than 20 percent this year. The Russell 2000 Index is also up more than 20 percent since the beginning of the year.

During just the brief time period from late October through late November, the Dow and S & P 500 were both up more than 4 percent and the Nasdaq was ahead more than 5 percent.

Ratification of the USMCA is another inducement that provides some hope for the market and would be a boost to the economy and expected to create jobs.

The direction of the thinking of the Federal Reserve is also more welcome to Wall Street at this point and any rate cuts would be welcome news.

The Fed saw modest expansion in the economy in October through mid-November, with their "Beige Book" prediction anticipating some continued growth into the new year.

While there have been experts who have suggested that the long rally has run its course, and that was very evident this last December, they have been proven wrong. The market has been unscathed by many geopolitical events and Fed actions and has rebounded time after time.

During the Fall, and later portion of the year, the market has been mostly up in previous years. If that remains the case this year, 2019 will be another banner year for equities after a rally that has stunned many of the pundits.

Vildana Hajric/Claire Ballentine, "U.S. Stocks Rise to Record Highs; Treasuries Rally: Markets Wrap," (2019, November 26), Yahoo Finance, Bloomberg

Fred Imbert, "Stocks rise for a fourth day in a row, hit record highs," (2019, November 27), CNBC, US Markets

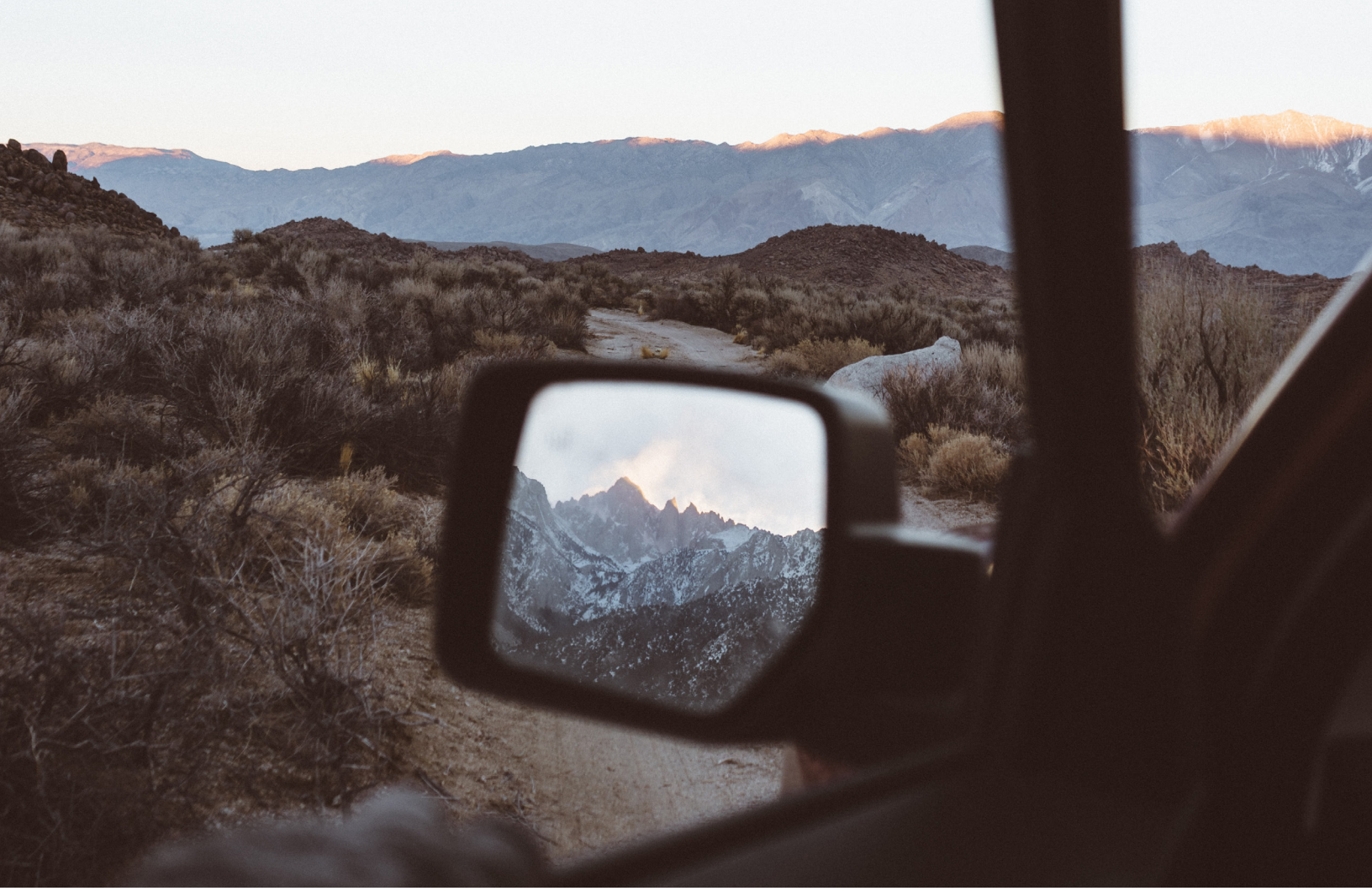
The Federal Reserve Cut rates 25 Basis Points This Year

In 1969, the Rolling Stones released the song "You Can't Always Get What You Want."

The stock market would be happy to get additional interest rate cuts, but the Federal Reserve may not comply. Unfortunately for investors, the Fed doesn't make policy simply to stimulate the market. They have a bigger economy to think about.

It is those broader concerns that drive the Fed's monetary policy and it was just that larger concern that caused the Fed chairman to reverse course and cut rates.

In October, the Fed cut the federal funds rate by 25 basis points. It was the third rate cut this year. This brought the federal funds rate down to a range of 1.5 to 1.75 percent. These rate cuts were the first since 2008. They reflected a slowing global economy and the uncertainty that has resulted from trade tensions and tariffs. The Fed referred to these rate cuts as a "mid-cycle adjustment."



With a slight slowdown in GDP from the second to the third quarter, the Fed was seen as taking a pre-emptive course of action to induce consumers to spend more and business to invest.

This followed a series of four rate hikes in 2018.

A Reversal in Strategy

A year ago, the Fed's intention was to raise the federal funds rate to 3 percent from its 2.25 percent rate. The Fed was also working on reducing the size of its bond holdings. This had been the result of quantitative easing. The plan turned out to be the wrong direction at the time and the Fed's chairman realized that they would have to change their course of monetary policy.

The Fed will return to buying billions of dollars of U.S. Treasury bills, but it won't be quantitative easing this time around. This time it will be to "maintain an appropriate level of reserves," according to the Fed's Chairman Jerome Powell. This resulted in an increase in the costs associated with overnight bank funding.

For investors, easing up on monetary policy is a win and this approach is favored by the markets and a help to the larger economy. Some even suggest that the economy is more connected to the stock market, based on the net worth of U.S. households. This represents a change in thinking.

The lower rates also make the market look more attractive as alternative investments offer little return.

And, for consumers, the rate cuts have helped the housing market. Although mortgages are most closely tied to the 10-year Treasury yield, a reduction in the federal funds rate still has an impact. This helps new home buyers as well as those who are refinancing.

The other winners are those who have variable-rate credit cards. Those rates are tied to the prime rate and the prime rate is tied to the federal funds rate.

On the losing side are savings account holders who have seen the already low rates on these accounts drop even more.

For now, the Fed says they are continuing to monitor the economy. They did not indicate an inclination to make an additional rate cut when they meet in December. This could change if they perceive any slow-down in the economy or encroaching inflation.

James Royal, "Winners and losers from t5he Fed's third straight rate cut," (2019, October 30), Bankrate, Federal Reserve

Danielle DiMartino-Booth, "Can the Fed Slowly Deflate the Credit Bubble?," (2019, November 27), Bloomberg.com, Bloomberg Opinion, Markets

Randall W. Forsyth, "The Fed Is Going to Buy Bonds Again. It's Not a Stimulus Effort," (2019, October 8), Barron's, Economy and Policy

Paul Davidson, "Fed lowers rates again but hints it may be done cutting in the near-term," (2019, October 30), USA Today, Money

About the Author

K Richard Douglas has worked in the financial services industry for 26 years, with an additional 10 writing about financial and economic topics. He's a former series 9, 10, and 26 registered principal and series 6, 7, and 63 registered representative. Richard has held many financial service industry designations, especially in the retirement planning and compliance mechanism areas.