

With a combined 50+ years of experience, 2X Wealth Group is committed to educating and empowering investors. We firmly believe financial literacy helps people make better decisions.

Chaos

As Lenin famously said, "there are decades where nothing happens and weeks where decades happen." We find ourselves in the thick of chaos, with daily political announcements and stock market gyrations. We anticipated volatility, but we got more than we bargained for.

We work hard at fighting confirmation bias. In this blog, we attempt to understand different points of view and explain the steps we have taken in the current environment.

Few would argue that the U.S. was on an unsustainable fiscal path with unabated growth in our national debt, now standing at \$36 trillion. Our debt continued to grow regardless of economic environment or political party in charge. Something had to be done.

Other countries have elected right-of-center leaders who represent a rejection of past government policies that ultimately proved to be regressive – good for people with money and who own the means of production but ultimately harmful for the average guy. Voters chose President Trump thinking he would look out for the average citizen by bringing jobs back to America, reducing inflation and bringing down our deficits.

Supporters of Trump's agenda believe his actions are necessary to achieve his long-term goals, even if they cause some pain in the process. Detractors point to market dislocations, inability for CEOs to plan, and the negative effects on government workers' lives and the people who rely on our aid, such as USAID and Medicaid recipients. Even supporters have a problem with the chaos that has ensued and lack of compassion.

How Did We Get Here?

The decline of manufacturing jobs in America largely began in 2001 when we supported China's entry into the World Trade Organization. At the time, free trade was lauded by the Bush administration and supported by both Democrats and Republicans. China fixed their currency, subsidized their industries, and took advantage of their low labor costs to produce cheap goods. Both U.S. companies and American consumers benefited from lower prices. Few considered the negative effects on the American industrial base and our workforce.

Quantitative easing, implemented by the Federal Reserve during and after the financial crisis in 2008- 2009 also had unintended consequences. While terrific for wealthy people who owned equities, it restrained our industrial base and workforce. Why would a company build a new plant if it could issue bonds, institute a share repurchase program and boost earnings per share? Riskless financial engineering became commonplace, and the average wage earner, who only had a savings account, was left behind.

Subsidies for electric vehicles, wind and solar power were instituted to confront a changing climate. Unfortunately, these new technologies place an undue burden on those that can least afford them. The right, many of whom agree that these policies are laudable, point out that countries who rely on wind and solar pay more for electricity than those that don't.

The right argue that we have paid for Europe's social programs with our military security guarantees and unequal tariff amounts. President Trump's tariffs are a tool to achieve both his economic and non-economic goals – such as reciprocal trade agreements, a slowdown in migrant crossings, or a significant drop in the importation of narcotics into the country.

A History Lesson...

Trump's return to protectionism shows that America is in need of a refresher course on our economic history. The passage of the Smoot-Hawley tariffs in 1930 and the subsequent retaliatory tariffs by other countries were widely blamed for the Great Depression, although it was really the tariffs in conjunction with restrictive monetary policy that worsened the downturn. We can only hope the Federal Reserve will keep it's eye on the ball.

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We believe, regardless of the motivation or one's political views, the policies the Trump administration are pursuing are fraught with risk. While Trump sees his back and forth on policy including tariffs as a negotiation, we are left with more questions than answers. We can only imagine how difficult it must be to run a company and to try to plan for an uncertain future. The consumer who may lose their job can't help but pull back on spending and a lower stock market affects wealthy consumers' spending habits. Uncertainty is bad for markets, and the current market is no exception. So, while we truly hope our leaders are successful economically, we must take a more cautious approach for our investors. To that end, we have raised cash levels, added investments outside the U.S., continued to underweight technology and cut consumer discretionary exposure. We are watching and we have dry powder if circumstances change, either with lower stock prices or economic success.

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