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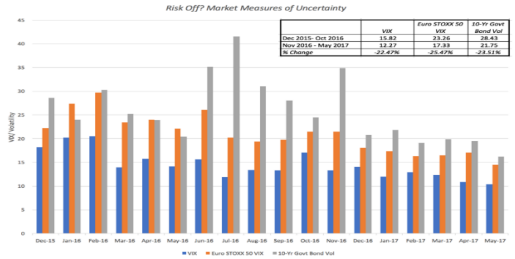
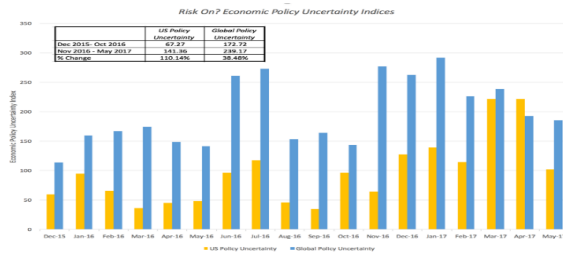
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Jun. 20, 2017 **OBSERVATIONS ON THE MARKET** No. 312
By Greg Denewiler, CFA

It's called the GAP. It is the space between where you are and what you see out in front of you, otherwise known as the horizon. We all need to see a future in front of us; we want something to look forward to. The horizon can be a great motivator if you aspire to create something that is currently only a vision. The interesting thing about the horizon is that you never get there. If you begin a journey to reach the horizon, each new day brings frustration since the horizon keeps moving beyond wherever you are. However, if you reflect and measure yourself on where you have come from, there is progress, and you have accomplished something. So, it all comes down to how you measure progress - what you have already reached or something that you will never reach. This is not a lesson in happiness or psychology 101, it is a theory as to why the stock market is doing so well when everything else appears to be so screwed up.

The two charts below illustrate what everybody already knows. The first one represents economic policy uncertainty. The second chart measures stock market uncertainty using a volatility measure known as the VIX. Lower volatility translates into less market uncertainty due to raising prices. Both charts cover the period of December 2015 to May 2017 (the charts have been reduced so the labels are unreadable). Economic policy uncertainty is higher than it was in 2015 while the stock market uncertainty is lower. You may ask; how can this be?



The people in the media are masters at convincing you that the horizon is something that never looks good. We have so many problems that it is amazing we are still alive. It is essential that you watch or listen so that at least you will know the color of the truck that is about to hit you the next time you cross the street. The interesting thing is that you always seem to make it to the other side.

Politicians have turned the fuzzy horizon into an art form. If the Republicans are in charge the Democrats spend all their time convincing us our horizon never looked worse. When the Democrats are in charge, you probably get the point. With all this competition for our horizon, it ALWAYS looks bleak if you let someone else define your horizon.

Since our access to media is now continuous, and almost anybody can become an expert, it appears that things have deteriorated to a level we have never seen before. The problem is that nobody looks back to where we were and how far we have come, because that doesn't sell. With all the technology that exists, it seems there would be accountability, but there isn't. A few points that haven't been on the front page. Household net worth as a percentage of disposable personal income is at a 65 year high. Household debt service payments as a percentage of disposable personal income is at a 35 year low. Consumers have recovered. Corporate earnings are expected to reach all-time highs this quarter, and projections are for a strong finish to the year. This is not to suggest it is all sunshine and rainbows as far as the eye can see. There are always storm clouds building somewhere. However, it is highly likely you will make it across the next street you cross.