Integer Wealth Advisors Group, LLC

Advise, Guide and Protect

Third Quarter 2019 Market Commentary

We start every market commentary by highlighting an observation from our previous commentary. Here is what we said last quarter regarding the markets:

During the past six months President Trump has been acting in the role of Mr. Miyagi by threatening to put tariffs on and take tariffs off. We are not sure if China's President Xi, is Daniel (we don't think so), but the analogy is just too good to pass up. Toss in Mexico and Canada for good measure and the day-to-day movements of the markets have taken their cues from this "tariffs on, tariffs off" strategy.

That observation was pretty much on the mark when discussing the performance of the markets and trade. If the tariffs were off, the markets went up, if the tariffs were on, the market went down. How investors didn't jump out of windows is a simple testament to long-term investing. Nothing can highlight that more than this most recent period of "tariffs on, tariffs off" negotiations between two super-powers. And we are not out of the woods yet since they are planning to meet in October. Who knows if that will still be in effect when we release this Commentary!

One thing we can know for certain is that despite the tariffs, the United States economy is still going strong. We will see that shortly later in the Commentary with a series of graphs complements of the U.S. Bureau of Labor Statistics. In virtually all economic categories we are seeking impressive numbers, be it in productivity, unemployment or job creation. We think it is a testament to fundamental economic principles that have unleashed this productive time in our economy. Lower taxes, low inflation, reasonable regulations and the unleashing of productivity increase consumer confidence which feeds the cycle. At some point the cycle will turn, but for now the economy supports the level of the stock market.

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DOMESTIC EQUITY STATISTICS

Index	3rd Quarter 2019
S&P Small Cap	-0.58%
S&P Technology Sector	2.97%
Dow Jones Average	1.19%
S&P 500 Index	1.19%

(Period Ending 9/30/2019. Source: S&P Dow Jones Price Weighted Indices)

SECTOR	PERCENTAGE WEIGHT	3rd QUARTER 2019 RETURNS
S&P 500		1.19%
Energy	4.5%	-7.25%
Materials	2.7%	-0.68%
Industrials	9.3%	0.49%
Consumer Discretionary	10.1%	0.18%
Consumer Staples	7.6%	5.36%
Health Care	13.7%	-2.71%
Financials	12.9%	1.44%
Info. Technology	21.9%	2.97%
Communication Services	10.4%	1.84%
Utilities	3.6%	8.4%
Real Estate	3.2%	6.88%

Source: Standard and Poor's (www.spindices.com), price returns as of 9/30/2019.

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Style Return Box for the Third Quarter 2019

	VALUE	CORE	GROWTH
LARGE	2.18%	1.19%	0.34%
MID	-0.06%	-0.52%	-0.97%
SMALL	0.99%	-0.58%	-2.15%

Source: Standard and Poor's (www.spindices.com), price returns.

Domestic Markets

Continuing the Strong Performance for The Moment

Continuing along the theme introduced at the beginning of the commentary, we are impressed more with the resilience of the markets to negative news. Recall that last month the largest oil refinery in the world in Saudi Arabia was struck by cruise missiles launched from Iran. Thanks to a robust energy complex here in the United States, one that has been unleashed by burdensome regulations, the oil markets were barely impacted by 5% of the world's oil supply being interrupted. The price per barrel of oil "jumped" $5 on the news.

Compare that response to one that would have occurred 10 or 15 years ago, and the price jump could have been in the hundreds of dollars. And that incident, occurring one or two decades ago could have drawn us into a regional conflict over oil. Today, that is no longer the case despite sending troops to the area, but only to defend an ally in the area, not to take over oil fields. The domestic markets are strong enough to absorb external short-term issues such as a disruption to oil supplies. Certainly, something like a military conflict changes those dynamics, but what used to be a shock to the system like oil, does not have the same impact.

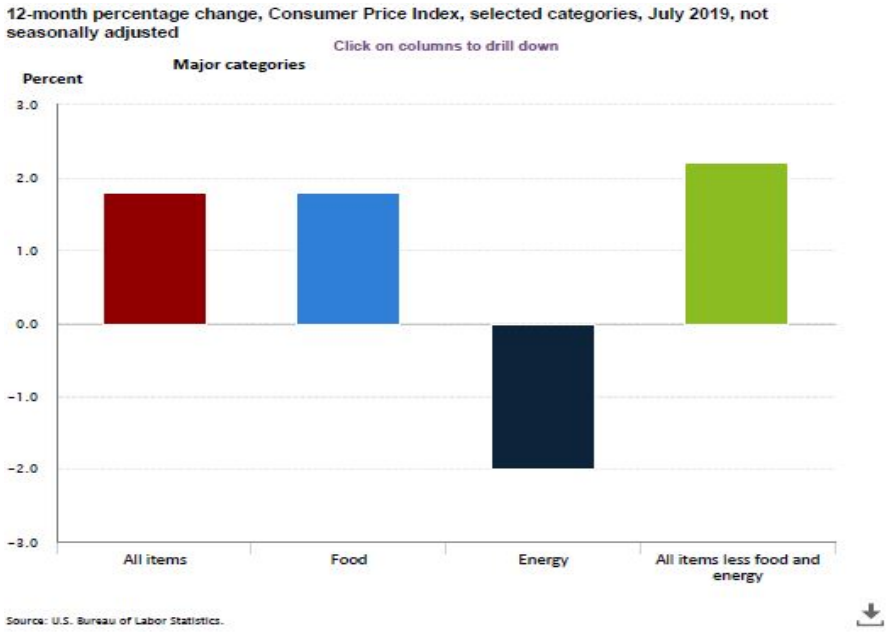
This does not mean the domestic markets are immune to economic downturns. Eventually, eleven years after the Financial Crisis, it is normal to expect some

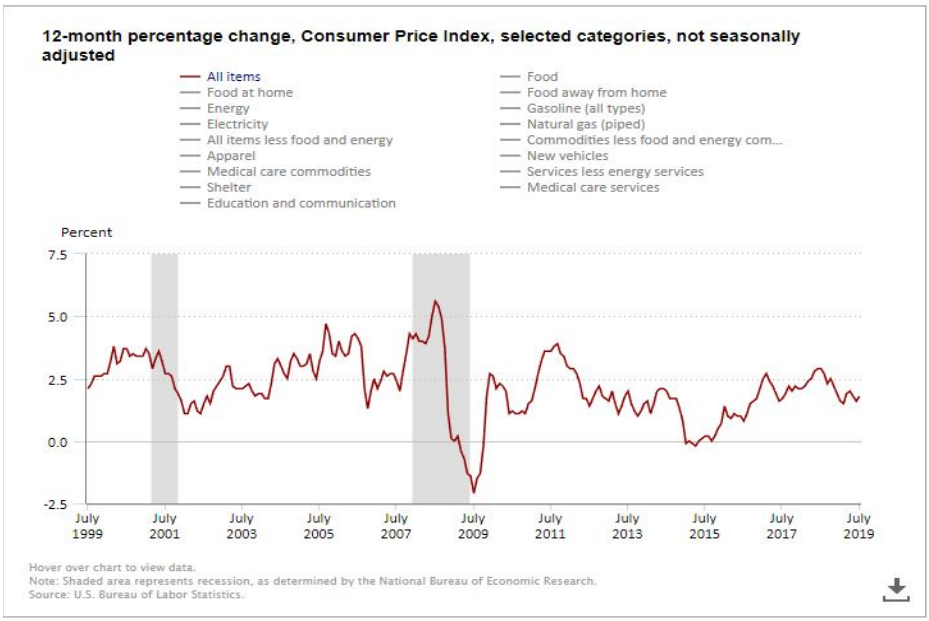
slowdown in the markets. Hiring will eventually slow and when that starts in earnest, you can expect a recession to be close. We are keeping an eye on the Consumer Sentiment and the JOLTS reports which will provide some preview of future activities. The Federal deficit is always something to keep in mind as runaway deficit spending has to be reined in. In the near future, we will be spending a significant chunk of our treasury to service that debt. Turning back to employment, and not at all being political, we do need qualified immigrants to this country to help fill all the jobs that are currently going begging.

We have even experienced temporary pullbacks in the marketplace due to expectations of a slow down or a bungled Federal Reserve messaging. Or the "tariffs on, tariffs off" approach for negotiating a new trade deal with China. There will always be something to worry about in the short-term. It is how we position for the long run that really matters.

Recall the fourth quarter of 2018 and the 20% drop from the October highs of last year? The Dow dropped over 5,000 points in three months, generally enough to send investors into hibernation. Fortunately, those that did not lose their nerve were rewarded as the Fed found the correct messaging and investors realized some great names were in the "bargain bin".

Finally, consider the next series of charts as some "positive proof" that this economy is not over-heating and the stock market is not necessarily racing ahead of itself. To begin with, consumer prices are stable as we see from the chart below. Inflation is barely at the Fed's target of 2% which is why employment is a key factor surrounding inflation. More workers producing more economic value that spreads wealth around generates demand which pushes up prices.





Next, it's hard to argue with the next three charts of civilian unemployment. We could have provided additional charts broken out by age and race, but those figures are well-known. The economy is providing opportunities for everyone and as we said previously, we will need qualified immigrants to help fill the void. And even if you are currently out of work, the duration of that unemployment is much less than during the financial crisis.

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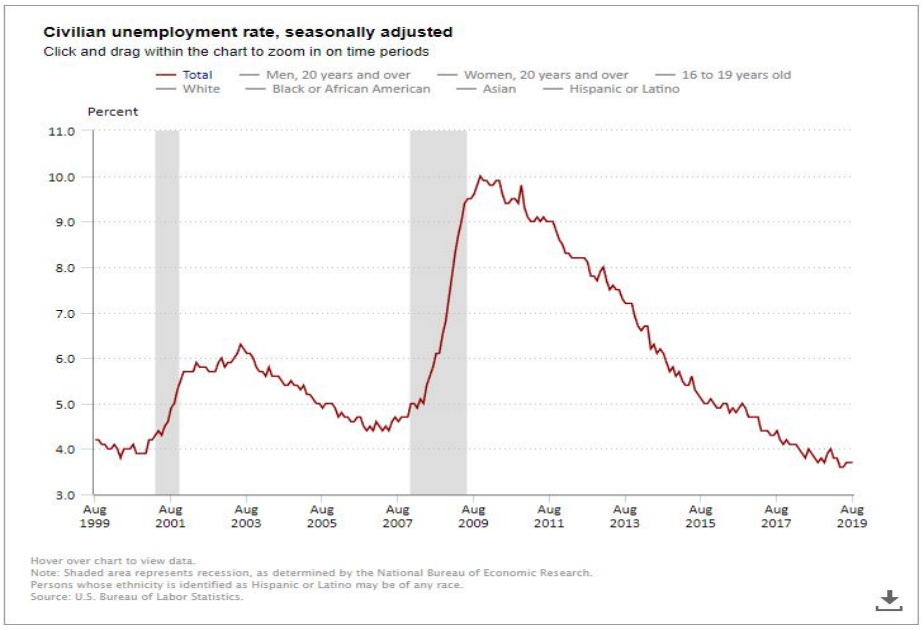

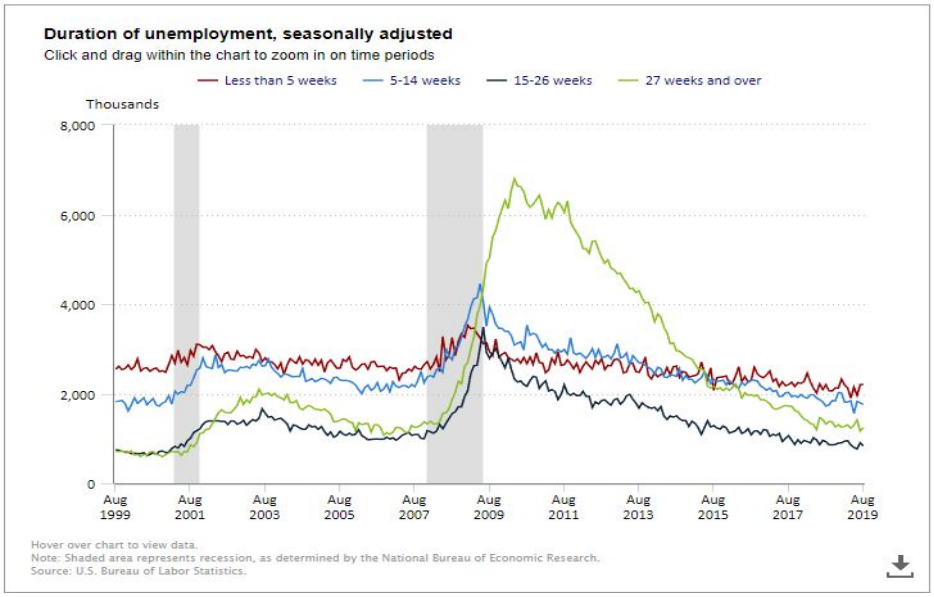

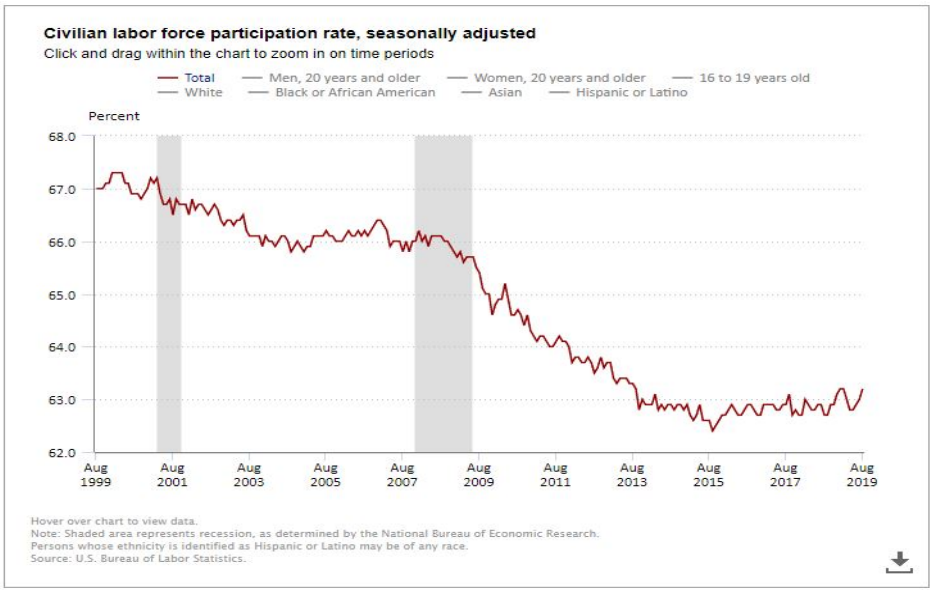

International Markets

Less of the Same

We have been hard on the international markets and who can blame us. Brexit, negative interest rates, political unrest, high unemployment, high taxes and low rates of population replacement do not necessarily add up to favorable business conditions. That is not to say all is bad, and maybe some countries are taking a page from the United States playbook to help jump start their economies.

Consider India, for example. India's government announced in September that they were cutting domestic tax rates on corporations from 30% to 22% for income retroactive to April 1, 2019. The effective rate, including all additional levies, will be 25.2%. The average corporate tax rate in Asia is 23%, placing India behind Hong Kong, Singapore, Thailand and Vietnam for lowest tax on corporate profits.
To further stimulate their economy, new companies formed from October 1st of 2019 will be taxed at a 15% tax rate.

On the flipside this tax rate cut will increase the deficit, as do most tax cuts do initially. However, considering what the tax rate cut has done to spur the economy

here in the USA, India is probably expecting to make up the difference in lost revenue through a boost in productivity, investment and employment. Perhaps this is a turning point for international economies, we will stay tuned.

As we have said in the past, the purpose of investing some of a portfolio in the international markets is precisely for this reason. You simply never know when governments and their economists are going to "see the light" that investments flow to those areas where capital is treated well. So, it is a rationale expectation that India's economy and stock market might just lead the way for a revival in international markets.

Fixed Income

The Roller Coaster of the Year Award

In a phrase? Inverted Yield Curve. That's all you needed to know about the fixed income world over the past 3 or 4 months. An inverted yield curve occurs when the 2 year Treasury yield is higher than the 10 year Treasury yield. This occurs when investors are buying "safety" in the form of longer dated yields and their actions push down yields. Since the Federal Reserve has more control over shorter rates via their ability to raise and lower the discount rate charged to member banks, investors who pile into bonds are sending a signal that they see something amiss in the equity markets. The general betting money has been that an inverted yield curve is a signal of a recession. An inversion does not predict the length or severity of a downturn, and there is still some question as to how long the inversion must last.

Regardless of the argument about the predictive powers of an inverted yield curve, there is something we can all agree on (at least the majority can), and that is lower interest rates mean cheaper housing for many. With a 30-year mortgage now (at the time of this writing), trending at 3.38% many want-to-be-homeowners have a real shot at the American Dream. When that occurs, the cycle continues because a new home purchase means a lot of trips to Home Depot and Lowes.

The flip side of the low rates is that for those dependent on a steady stream of fixed income, that stream is now more like a trickle. This is the ugly underbelly of low rates. Retirees, foundations, endowments and even insurance companies that need a steady flow of income, are now forced to adjust their calculations about owning certain debt instruments. Hence the big rise in the price of lower quality debt as investors chase the yield train. This leads to our final topic below.

Summary
TINA: There is No Alternative

There is a lot to be said for the strength of the economy and the resilience of the stock market to external shocks. Investors today understand, perhaps better than in the past, that markets ebb and flow. The losing trade is to try and time the markets, while the winning trade is to organize a well-diversified portfolio of quality investments and disregarding the news of the day. The economic power that we are witnessing in the United States today is a function of good economic policies that are tried-and-true. Economic power is unleashed when entrepreneurs are given the opportunity to invest capital and to retain a larger portion of that capital if successful. Give an entrepreneur a level-playing field, low taxes for success and a reasonable regulatory environment and simply step back and watch the transformation.

For investors, the acronym of the moment is "TINA" – there is no alternative" to owning stocks at this moment in time. Consider that the 10-year yield is (at this writing) 1.75%. The S&P 500 dividend yield is 1.87%. Who would exchange their money for a 1.75% yield for 10-years with no growth? Certainly, you could "split the baby" and own some bonds for pure safety of principal, but we would not recommend a 10-year ownership period. Meanwhile, you could invest in the S&P 500, earn a 1.87% dividend, and expect, over the next 10-years to see your money grow at a reasonable 5-6% average rate of return.

Expressed another way. Factor in inflation and the 10-year Treasury bond is a losing proposition while the S&P 500 gives you better odds that your capital will not only be

worth the original investment but will be worth more at the end of the period. This is "TINA" for you, at this moment, and it will not change until interest rates for super safe Treasuries begin to get back to the 3% range. At that point the calculus is a bit better for investors.

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