***April 2018***

***TRADE WAR FEARS:***

*Warren Buffet once said the two most important days in the stock market are****the day you buy and the day you sell****.   Words to live by, especially in the turbulent markets we are now experiencing. One year ago, I wrote a newsletter asking if you are a****trader or an investor?****If you are an investor in the stock market, the market volatility we are experiencing now does not matter, you are investing for the long term. An investor takes advantage of dollar cost averaging opportunities, and long term capital gains tax rates on investment gains.*

*Why are stocks falling in value? On a typical trading day, less than one half of one percent of stocks change hands.  Which means****over ninety nine percent of stocks are not traded****.  The traders, who are not investors like you and me, are pricing the stocks through their bids and offers. I believe markets are efficient, meaning that everything we know about a given company is priced into the stock price. But remember the two emotions****traders act on, fear and greed.****Trading on emotions can create inefficiencies in financial markets resulting in large price swings and market volatility. Many of the big swings in the markets lately are on very low volume days.  This is good news as****most investors are holding their ground****and not selling into a volatile market.*

***The current fear****in the markets is the possibility of a****trade war****with China.  I think this fear is overstated, we import over 500 billion dollars of goods from China, whereas our exports to China are just 130 billion dollars worth of goods.  This represents less than 1 percent of our gross domestic product.  Our GDP is growing at 2%-3% annually, so if we stopped trading with China altogether the loss to GDP would be overcome in less than 6 months.****China has much more to lose than we do****.*

*Less dependence on imports, like steel from China, or other commodities is good.  If you are old enough to remember the Saudi oil embargo from the 1970's you should agree.  Now, 45 years later****the US is the largest oil producer in the world,****thanks to American ingenuity such as horizontal drilling and fracking.*

***The outlook for US equities is strong.****Unemployment is at multi year lows while the labor participation rate is at historically normal levels.  Gross Domestic Product is growing at close to 3% annually and inflation is low, a true "goldilocks economy."****The recent correction in stock prices and record corporate profits have made stocks cheaper relative to earnings,****which presents buying opportunities for investors.*

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