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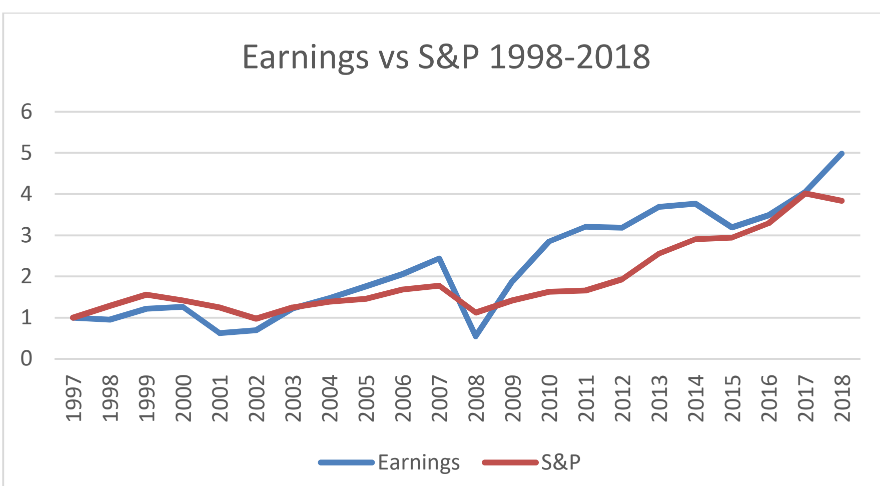
Archer 2019 First Quarter Update and Outlook:

How high can we go? When is the top? Are we going to pull back? All of these are great questions and deserving of an answer: Much Higher. There will be many tops. Yes, we will pull back at some point. Now, on a more serious note, I want to discuss the rest of 2019 and the bigger theme of the market and why this market could literally double from this point. Yes, I said double. The question is how long will it take to double?

If you follow these updates, we were spot on when we said the downturn in December was a great time to invest and we could easily see double digit returns from the end of the year. Through the first quarter of 2019, we have made up nearly all of the Q4 2018 losses and are now higher from the start of 2018 by our anticipated 2018 performance of 6%, plus another few percent.

You can see from the graph below since 1997 (and we could extrapolate this much further), earnings and the S&P 500 resemble each other and right now there is a gap between the two which may close as the stock market moves higher. As earnings continue to move higher by an expected 7%, the market should move higher by similar amounts. Although we have gained 13.6% this year through March 31, we gave up over 4% in the stock market last year as earnings increased. We think the increase in earnings will tack on another 3-5% in returns for the rest of 2019.



Let's get back to why the stock market could literally double. You and I would expect this to happen, but the better question is when and how long will it take? What will drive this market higher? To understand why this could happen, we need to understand earnings. Earnings have increased at an annual rate of 7.3% from a peak year of earnings to another peak year from 1950 through 2018. At this rate, earnings would be somewhere around $255 by 2025 and $366 by 2035. These numbers would put the S&P 500 at 4080 in 2025 which is again about a 7% increase per year at a 16 Price/Earnings multiple. The problem with peaks in the stock market is they usually reach a multiple of 25 when they peak before the market falls back. We are not anywhere close to this scenario right now, but if we did get to a 25 multiple on $255 of earnings, the stock market would more than double from this point in 2025.

In the table below, I have listed the last six generations and included data such as the population at its peak in millions. The columns on the right of the table show the size of the population at peak buying power and the associated year. The Depression Years included 1930, the inflation and oil crisis years/Vietnam included 1974, and the dot com bust in 1999. Some might argue that we are at a peak in 2018. There is one curious point about The GenX age group - It is the first generation where population actually has decreased at its peak from the previous generation. This reduces buying power in the market and we believe is one of the real culprits behind slower growth worldwide.

***Generation* ?**	Years of Birth		Avg. Age	Population at Peak buying power (yr)	
Greatest Generation	1910	1927	**92.9**	43.2	1930
Silent Generation	1928	1945	**78.5**	44.1	1974
Baby Boomers	1946	1964	**61.3**	79.5	1999
Gen X	1965	1980	**44.5**	65.8	2018
Millennials	1981	2000	**26.5**	95.8	2038
Generation Z	2001	2018	**8.3**	96.2	2060

If we look at the millennial population's peak buying power, it will be 2038. So as these 95 million Millennials leave their parent's basements and have families, buy houses, phones etc. the market is likely to follow suit and grow in a similar capacity. This will continue to fuel this 7% growth rate and possibly much more through 2038. It is very possible the market doubles if not triples by this time.

There is still plenty of fuel for this market to deliver higher returns. The pessimistic takes on the tax cuts of 2018 are still prevelant with the media saying we are growing slowly. Frankly, earnings growth was high *because* of the tax cuts. Now, we are growing at a much slower pace than when they were enacted, but still growing. April 5th data showed payrolls rose 196,000 in March and average hourly earnings are up 3.2% in the last year, higher than the 2.8% gain last year. The Fed has awoken and appears that they will not raise rates in 2019. Also, new unemployment claims fell to 202,000, the lowest figure since 1969. This data does not support a recession. Claims usually start to rise before a recession and there are no indicators of this currently. Auto sales are up, we have solid news in the Manufacturing report, and GDP is rising again at a 2% estimate which is up from the .2% estimate a month ago. Does this mean the economy is expanding at a rapid pace? NO. But these are not recession numbers. There are some who are now calling for the Fed to cut rates in 2019. I think the economy will continue to move along at a slow pace and the Fed will start to think of an actual rise in rates by the end of 2019, just in time for the political rhetoric to heat up for the next election.

Lastly, the Advance Decline line that we discuss frequently is still intact and hitting new highs. When this turns, it often tells of a coming decline in the market and it is currently still in an uptrend.

Looking Ahead:

The markets may be subdued for the rest of 2019 and returning another 3-5% is our expectation at this level. This is still likely higher than the bond market. However, this is a good reason to be diversified in your investments. As we stated in the very first chart, the stock market often coincides with earnings and earnings continue to climb. We do not see this outlook changing.

The inversion of the yield curve is something we are also paying attention to as the bond market is often a better economic indicator than the stock market. However, the inverted yield curve has predicted 50 recessions over the last 9 actual recessions so there are better indicators. Even if this is preceding a recession, the market may still move higher by 15% before falling 10%.

Regards,

The Archer Team