

Are We Heading Into a Recession?

The beginning of 2016 has been interesting. During the first three weeks of January, investors saw an 11% drawdown in the S&P 500 and the continuation of plummeting oil prices. This has many wondering if we are going into a recession. **The short answer is, no.** We are not. The fundamentals of our economy show no evidence of a coming recession. In fact, our economy continues to grow. Jobs are growing, and workers are generating more and we have more purchasing power. January actually showed an increase in retail sales exceeding expectations. So what is driving the market downward? Here's one piece of the puzzle: oil.

You have heard a lot of talk about oil recently. It used to be said that *rising* oil prices triggers a recession. However, now we are being told that *dropping* oil prices will trigger a recession. Why the difference in opinion? Well, for no apparent reason, the pendulum switched direction. Low oil prices have just as much of a positive impact as they do a negative impact on our economy. For companies whose profits are driven by selling oil to the consumer, the low oil prices are hurting them. For the average consumer, such as you and me, we think lower oil prices are great! We are getting a "raise"

every time we go to the gas pump to fill up. What do we tend to do with this extra money? We certainly do not save it, we spend it. This partially explains the increase in retail sales during the month of January. Our economy is growing, not declining.

Previously, the consensus was, "Just watch what the dollar does, and you'll know what the stock market is going to do." Once this proved no longer true, people looked to gold for an indication of what the stock market was going to do next. The indicator today is oil. "Just watch oil, and you'll know what the market is going to do." There is just one problem with these theories, they work until they no longer do.

It is the longing of investors to know exactly what the stock market is going to do in the future. It is this desire that drives people to seek out correlations in order to make predictions about the market. We have seen this behavior before, and we will see it again. It was not long ago when people were looking at the dollar and gold indicators and now we are onto oil. Yes, at the moment oil and the stock market follow



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each other closely, but no one can predict how long this trend is going to last.

The market downturn is a story about oil. It is not a story or an indication of the growth of our economy. There is no evidence of a coming recession based on the fundamentals of economics and historical data. Unfortunately, the stock market cannot be predicted just based on fundamentals of economics and historical data. Humans are emotional beings who make emotional decisions. Dropping oil prices might be scary to those who do not understand the big picture. The uncertainty of not looking at all the facts drives them to sell and get out, driving the market down. When the volatile market finds its equilibrium, we will most likely see the end to the current correlation. At Conservative Financial Solutions we pride ourselves on looking at the whole picture when it comes to the investments we select for our Clients. It is not very often you get recession level prices when there is no recession. Put your money to work. Don't run away from this opportunity.

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