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I write about financial markets and the world of investing

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The Big Reveal About Trumponomics

US President Donald Trump (L) speaks during a NEC listening session with CEOs of small and community banks at the White House in Washington, DC, March 9, 2017. (JIM WATSON/AFP/Getty Images)

What is the one thing that everyone isn't discussing about the stock market, the economy, and the new Trump agenda?

Everyone is already discussing the fact that the stock market is going up. That may be due to the promise of massive tax cuts for multinational businesses, large businesses, small business, and even individuals. It may be due to the relaxation of regulations that are said to have been choking the economy and putting the reins on banks. It may be due to the reorganization of health care. It may be due to the idea that there is a $1 trillion infrastructure stimulus package in the works.

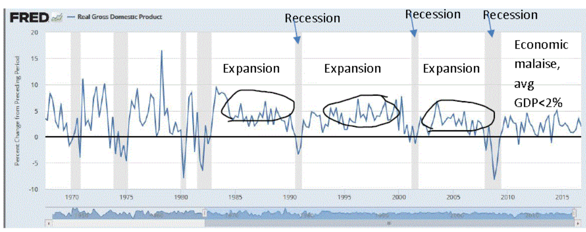
Whatever the reason, since the election, stock market investors have been enjoying a very nice rally.

But what is waiting in the wings?

For the past 8 years since the Great 2008 recession, the economy has been struggling along at less than 2% growth. No economist would classify that as a boom cycle. And there hasn't been any bust cycle either. Just the "little engine that could" type economy that chugs along at a tepid, ridiculously slow pace.

The only thing good about an economy that has no boom is that it also has no bust. How can there be contraction when there has been no expansion?

The Big Reveal is that significant market pullbacks come along with the possibility of 3%-4% economic boom expansion rates. Three percent plus economic expansion would be classified as the first expansion in the economy since 2005-2006. With expansions come contractions and recession.



Real Gross Domestic Product

With economic recession comes stock market pullbacks. During the malaise years of 2009 to 2016 there haven't been any significantly large pullbacks in the stock market. The most significant was summer 2011 when Greek bankruptcy fears and an S&P downgrade of the United States caused the market to drop about -17%. But other than that, no stock market pullbacks have exceeded -10%. The 2012 to 2014 period was marked by Federal Reserve Quantitative Easing (QE) (a.k.a. money printing) that had a significant calming effect on stocks and a depressing effect on bond yields. It's no surprise that precisely when the Fed stopped QE in Oct 2014 the market tumbled -10% in one month.

Get set for a new reality. A reality that looks a lot more like the past, prior to the 2008 Great Recession.

With the election of Trump, we are starting to experience expansion and boom times. Unfortunately, there will be investors that will be caught unprepared for the eventual contraction and bust. Such times are when investment managers have an opportunity to implement strategies that didn't even exist prior to 2007. Financial engineering has progressed just as internet and social media have progressed. Volatility can now be measured effectively and harnessed utilizing futures on VIX as well as options on futures on VIX. Loss-prevention techniques have been developed that were not possible before. These new techniques will come into play in the next year or two.

We can all enjoy the current boom times. With this new financial technology, we can also enjoy the bust times. Investment managers, pension funds, endowment funds, family offices that are unaware, uneducated, or even misguided about what is possible will find themselves underperforming dramatically. There is now no reason to ride an index fund to the very depths of the bottom of the recession (which during the last recession was down -50%) before experiencing recovery. New volatility technology allows investment managers to limit the downside by profiting from extreme volatility which results in starting the next boom cycle with greater assets under management, fewer losses, and better overall returns on investment.

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Randy Warren is CIO of Warren Financial. For more information on how to protect your investments from volatility visit WarrenFinancial.com and make sure to investigate our volatility strategies.

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