



## August News: North Korea, Politics, & Rates

Market News (<https://dreamwork.financial/category/market-news/>)

Research (<https://dreamwork.financial/category/research/>)

Published August 10, 2017

### North Korea, Healthcare, and “no news is good news”

Since the last newsletter, the lack of major financial news has been good news. This has been a good thing for a market that continues to melt higher, hitting records on all of the major indices (<https://goo.gl/UsVKD8>). However, political risk has been growing very recently, due to North Korea and failure to pass healthcare reform. The gridlock in congress has been increasing fears that tax reform may not be as easy as once planned. This may point to trouble on the horizon.

One financial event that did occur was the much-anticipated **June .25% rate hike** (<https://seekingalpha.com/article/4081708-june-fomc-announcement-rate-hike-balance-sheet-plans>), which the markets took in stride. After that hike, central bankers and analysts are anticipating only one more hike (possibly December). Fed Chairman, Janet Yellen, has hinted at trying to taper the balance sheet as early as September, which will be another event to keep an eye on.

## Amazon acquires Whole Foods

Amazon acquired Whole Foods, which put the whole retail market on notice. Grocery stores and food delivery companies were hit the hardest but there was blood shed across even the strongest of brick-and-mortar names as investors fear the worst.

(<http://money.cnn.com/2017/06/16/investing/walmart-target-stocks-plunge-whole-foods-amazon/index.html>)

## North Korea and the US engage in saber rattling

As of late, it seems the nice run of “no news” may be over. North Korean tensions are hitting a boiling point. **Reports have surfaced** (<https://goo.gl/qZL2hP>) that they are capable of putting nuclear weapons on missiles that can hit the United States. Following this news, Pres. Trump unleashed his strongest message to date, which North Korea immediately disobeyed.

This news is nothing new and the markets appear to be shrugging it off with neither index responding with much of a reaction. However, we did some **some rotation into “safe haven” investments** (<https://www.cnbc.com/amp/2017/08/09/art-cashin-safe-haven-rush-will-signal-north-korea-escalation.html>), such as gold, bonds and the Swiss Franc. To me, it seems like most investors are treating North Korea as “the boy who cried wolf.” Hopefully, this brings the rest of the world together in unity against them, potentially strengthening our relationship with China. But, it should be noted that this will undoubtedly add additional headline risk as this story isn’t like to go ahead anytime soon.

## Healthcare failure – Congress Gridlocked

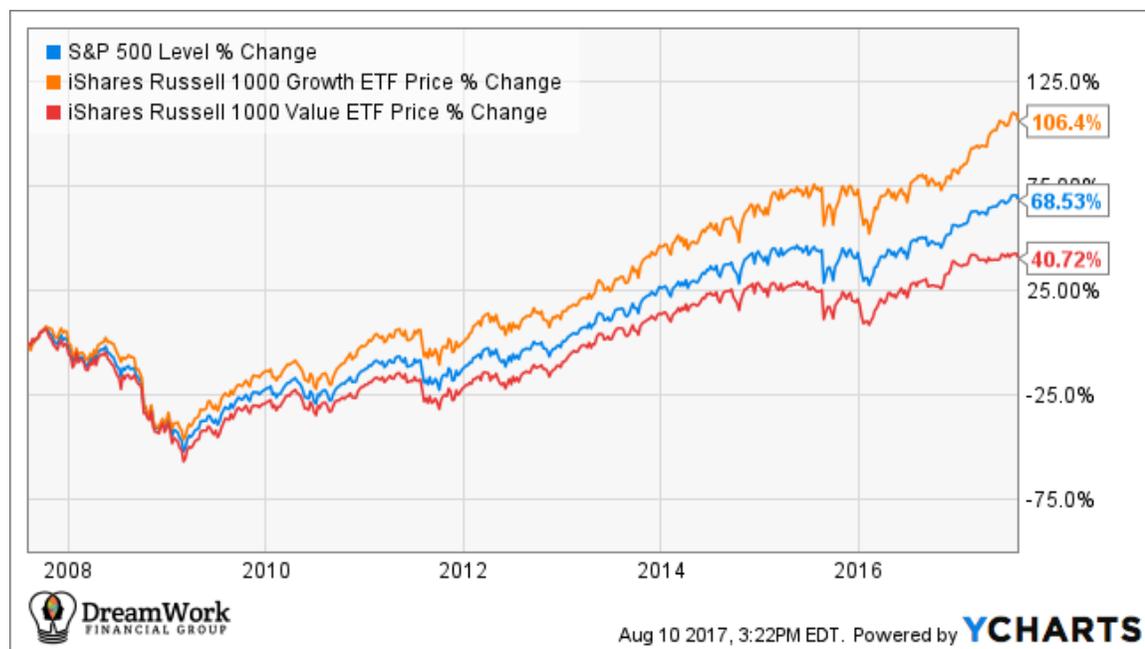
The political landscape also continues to be a focal point for markets. Republicans have tried to repeal the healthcare to no avail. This continues to not only take away time from putting together a tax reform bill but also gives the markets reasons to be **pessimistic in a tax bill ever getting signed** (<https://goo.gl/5kebn5>). If that isn’t enough political uncertainty, we also have all the “firings” of Trump staffers (<https://www.businessinsider.com/who-has-trump-fired-so-far-james-comey-sean-spicer-michael-flynn-2017-7/#james-comey-6>) to remind too frequently.

# Russia Sanctioned

Looking overseas, Russia was handed sanctions for their involvement in the U.S. elections. And, they don't appear to be taking too kindly to that. Disparaging relations with Russia could lead to some **greater long-term implications for the market** (<https://www.cnn.com/2017/07/30/politics/russia-sanctions-donald-trump/index.html>). Especially during this time where it seems a lot of countries may be opening up to deal with them.

## Final Thoughts

Aside from political events, we are in the heart of earnings season where we should get an idea of how much longer this rally could last. To date, the last leg of **this rally has been carried** (<https://www.reuters.com/article/us-usa-stocks-weekahead-idUSKBN18T330>) by just a few of the megacap tech names (GOOG, AMZN, NFLX, AAPL, MSFT, FB). For this rally to last, I really want to see more of a rotation from growth to value. Financials and energy have missed out on this and are seriously lagging tech. I personally don't see a healthy rally built on a few companies in one sector leading for a long time. In my opinion, we need some of the boring value stocks to start participating, and possibly taking over as new leadership, for these indexes to continue to hit new records.



Another reason for caution is the **historically low level of the VIX** (<https://www.cnbc.com/2017/07/25/heres-what-happened-the-last-time-the-vix-traded-this-low.html>), or "Fear Index" that was trading around 10 for the first time since 2007 (as of early August). While there are statistical reasons why this level may not have been a reason to worry, recent events have caused the VIX to jump almost 50%, further

supporting our thesis. Valuations are high in a rising rate environment and the amount of skeptics in the market is getting fewer by the day. I would be lying if I said my “horse sense” wasn’t kicking in and telling me to be cautious. It definitely feels that the market is underestimating the likelihood that there could be a “black swan event”, or something that may happen which defies logic. Something like that could really take us by surprise.



While rallies can build over longer periods of time, corrections are often sharp and swift. It’s hard for me to ignore the fact that we are 8 years into a rally that may be showing its age. This seems like a great opportunity to start getting more defensive, if you haven’t done so already. If you are unsure of what to do, **contact us** (<https://dreamwork.financial/contact/>). For a limited time, we are offering a financial review for new clients at no cost. We would be honored by the opportunity to help with your wealth management strategy. Stay tuned as we continue to navigate these unique market conditions.

To learn more about DreamWork Financial Group and our Fee-Only Wealth Management model, **visit our website and schedule a meeting** (<https://dreamwork.financial/contact/>) with our Chief Financial Strategist, Clint Kirby and be sure to **sign up for our free monthly newsletter** (<https://dreamwork.financial/what-is-spector/#newsletter-opt>). Also, be sure to check out our archived newsletters (<https://dreamwork.financial/category/market-news/>), **bold predictions** (<https://dreamwork.financial/category/bold-predictions/>) and other articles in our knowledge base (<https://dreamwork.financial/educate-yourself-market-analysis-trading-strategies-and-401k-education/>).

Warm Regards,

**Clint Kirby (<https://dreamwork.financial/meet-clint-kirby/>) – Chief Financial Strategist  
DreamWork Financial Group (/)**

---

Clint Kirby, DreamWork Financial Group, is a registered investment adviser. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and, unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial adviser and/or tax professional before implementing any strategy discussed herein. Past performance is not indicative of future performance.