ECONOMY

Deadline for employee-retention incentives looming

Think Strategically:
Arguments of Theory vs. Reality

Bull Market to Continue Even With Trade Wars; PRMA, Synergi: Retain Employees From Disaster Tax Relief Act

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The Markets: 1,107-point loss creates arguments of theory vs. reality

This past week, most U.S. stocks felt the impact from increased concerns over the tightening of monetary policy by the Federal Reserve Bank and its stance that interest-rate increases are necessary to stave off inflation. In addition, with tensions increasing over the ongoing U.S.-China trade wars, the view from the International Monetary Fund, is a reduction in its growth expectations for the current year and 2019. The week resulted in the third-largest one-day point drop in history, plummeting 831.83 points, with other large one-day drops including several instances during the 2008 financial crisis and the day following the Sept. 11, 2011, terrorism attacks. So, to put it bluntly, we are on a historic list that no market wants to be on.

The Dow Jones Industrial Average stood at 25,339.99, or a loss of 1,107.06 for the week, and decreases the year-to-date (YTD) return from 7.00 percent to 2.50 percent. The S&P 500 closed at 2,767.13, or a loss of 118.44 for the week, and a YTD return that is down to 3.50 percent. The Nasdaq closed at 7,496.89, or a loss of 291.56 for the week and a YTD return that is down to 8.6 percent. The 10-year Treasury yield was down to 3.16 percent. Another factor adding uncertainty to investors is the increasing number of companies that have issued profit warnings as a direct result of the current trade environment. The most notable was Ford Motor Co., which reported President Donald Trump's tariffs had cost the company $1 billion in profits, which may force the company to reduce its global workforce by 12 percent, having an impact on 24,000 jobs, as a direct result of the trade wars. With its stock down nearly 30 percent for the year, Ford is desperately looking for ways to reduce costs through a planned restructuring of $25.5 billion. It appears this does not look anywhere close to what most imagined when they heard "Make America Great Again."

However, after analyzing the markets for the past 25 years, we believe it is essential for most investors to understand our Arguments of Theory vs. Practice.

Theories vs. Realities: Recent market volatility

Theory 1: The market lost 1,107.06 in a week; it must have erased most investors gains, and it must be time to get out.

Reality One: Even though the stock market was impacted and the words "Market Crash" were in the headlines, in reality, the market is just 5.7 percent below its all-time high. This is hardly the widespread destruction published in the news. As you can note, the U.S. market is still in positive territory for 2018, not to mention that it has averaged 10.2 percent growth over the past year.

Theory 2: The current stock sell-off is a clear sign the investment climate has turned negative and more downturns are coming.

Reality Two: The general rule when Bull Markets come to an end is that they usually initially experience declines of 5 percent, then 10 percent and, oftentimes, even with these declines, some markets continue to rise. Since the bull market began more than a decade ago, we have seen declines, however there has been no fundamental flaw present to keep it from rebounding, thus creating significant buying opportunities for most investors. A central review point is the fact that every time the U.S. was growing at 2 percent or more, the market increased by 92 percent, with returns averaging 15 percent or more.

Theory 3: The Federal Reserve Bank has increased rates too fast, and it is affecting the stock market and economic growth.

Reality Three: Even though raising interest rates have been one cause of the current volatility that it is affecting investor sentiment, we do not agree the Fed is irrational in its actions with interest rates. The critical argument to support this perception is the fact that inflation is being kept in check. However, investors must be ready to experience more volatility, which gradually creates the opportunity to rebalance portfolios with higher-rate bonds.

As we review our long list of market concerns, we must acknowledge that the risks have grown along with global growth reductions, trade and tariff standoffs, to which we must add the midterm elections and Federal Reserve Bank's continued tightening of monetary policy. In our view, the bull market shall continue, and we now know much better the risks involved.

We have analyzed the opportunities to enhance and rebalance investors' portfolios with a demonstrated value of proper diversification and, in our view, there are increased opportunities to capitalize on the current environment.

If you examine the top-50-largest losers for the past week, you will note several companies that have solid fundamentals, which could potentially be great buying opportunities for investors. Among them are Key Energy (KEG), PNC Financial (PNC), Kemper Insurance (KMPR), Itaú Unibanco (ITUB), Triple-S Management (GTS) and First Bancorp (FBP). For a full list, write to me, and we will gladly share it.

Final Word: PRMA to seek benefits from Disaster Tax Relief Act

On Sept. 29, 2018, U.S. Congress approved the Disaster Tax Relief & Airport & Airway Extension Act of 2017 to provide tax incentives to taxpayers impacted by hurricanes Harvey, Irma and Maria. The law applies to all employers in Puerto Rico. The plan established the parameters for business that were affected and nonoperational after the hurricanes.

This week, Puerto Rico Manufacturers Association (PRMA) President Rodrigo Masses announced a strategic alliance with Synergi Partners to ensure its members and all Puerto Rico corporations seek the most possible from the employee retention law.

The benefit can be significant because it includes $1,920 per each qualified employee, and it has been reported that the Puerto Rico Treasury Department has distributed more than $277 million in benefits. The PRMA's Masses stated: "While this figure seems large, it is only a fraction of what remains available and, with the expiration date of Dec. 31, 2018 fast approaching to request the benefit, the PRMA is making every effort to ensure every employer requests the benefits."

The PRMA estimates more than 75 percent of employers in Puerto Rico have not made the request and, for this reason, established this alliance to reach the most employers. For the past 20 years, Synergi Partners has been an industry leader with its hiring credits and tax incentives. The company specializes in helping employers take advantage of available federal stimulus incentives.

As an example, a small business with 25 employees could obtain up to $48,000 in benefits, which will grow depending on the number of employees in the company.

To obtain more information, reach out to the Puerto Rico Manufacturers Association at www.prma.com or call 787-641-4455.

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