THE MAINSTREET ECONOMY REPORT

"A monthly survey of community bank CEO's"

June 2019

Buy Low, Sell High, or Buy High, and Sell Higher: Which Is the Best Stock Buying Strategy?

In his book, How to Make Money in Stocks, William J. O'Neil argues that, "What seems too high and risky to the majority generally goes higher, and what seems low and cheap generally goes lower." Is this a basis for profitable investing?

First, what makes a stock cheap or expensive? The most commonly used metric is the stock price of the target company for each $1.00 of earnings of the same company. That is, how much do you have to pay for each dollar of earnings? For example, three years ago, June 2016, the median stock price to one dollar of earnings, referred to as the Price/Earnings (P/E) ratio of the Dow 30 stocks was 18.1. That is, of the 27 Dow 30 stocks with valid earnings data in June 2016, the mid-point P/E ratio was UnitedHealth Group (UNH) with a P/E of 18.1.

Of the 13 companies more pricey than UNH, the most expensive was Verizon (VZ) with a price of $74.80 for every dollar of earnings. Of the 13 low cost companies, the least costly was JP Morgan (JPM) with a price of $14.60 per dollar of earnings.

But more importantly, how did each group perform in terms of the growth in price adjusted for dividends and stock splits? The accompanying table summarizes the performance for the last three years.

Table 1: Value of $1,000 invested in Dow's expensive versus cheap stocks, 2016-19

	Value of $1,000 invested June 2016 (includes dividends) to:			
	January 2017	June 2017	June 2018	June 2019
13 pricey stocks (more expensive than median)	$1,026	$1,074	$1,050	$1,293
13 stocks (cheaper than median)	$1,009	$1,077	$1,375	$1,455

Note: Only 27 of Dow 30 stocks had valid (positive) earnings June 2016 quarter. Dow 30 are large, publicly owned companies based in U.S. meant to reflect market performance.

Two potential limitations of applying the analysis in table 1 to the broader U.S. stock markets. First, it is based on the Dow 30 stocks and the time period June 2016 to June 2019. However, data in Table 1 support the hypothesis that buying high and selling higher works better the shorter the time period. For longer, time periods, returns are higher for a buy low and sell high strategy.

MAINSTREET RESULTS

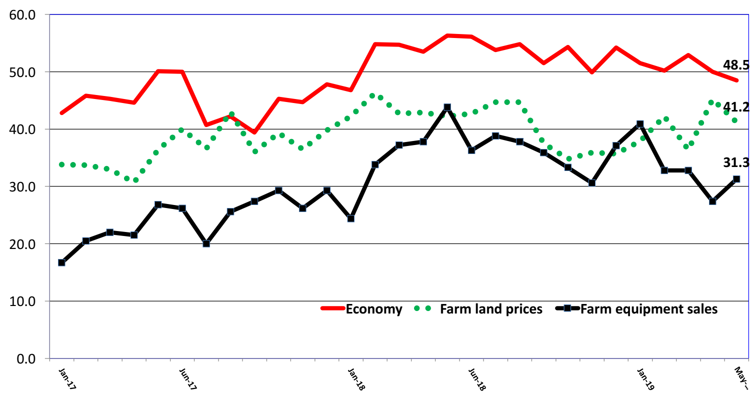
Rural Mainstreet Index Slumps Below Growth Neutral: Farm Loan Defaults Expected to Double from 2017 Rates

May Survey Results at a Glance:

- For the first time since November, the overall, or Rural Mainstreet Index (RMI) fell below growth neutral.
- Bank CEOs project that the percentage of farm loan defaults over the next 12 months will double the default rates for 2017.

Table 1: The Mainstreet Economy	May 2018	Apr 2019	May 2019
Area Economic Index	56.3	50.0	48.5
Loan volume	74.3	81.3	79.7
Checking deposits	43.9	50.0	42.4
Certificate of deposits	40.9	50.1	51.5
Farm land prices	42.2	45.2	41.2
Farm equipment area sales	43.8	27.4	31.3
Home sales	62.1	59.4	63.2
Hiring in the area	56.0	59.7	61.8
Retail Business	46.9	48.4	44.1

Rural Mainstreet, Economic Indicators, Jan. 2017 – May 2019
(50.0 = growth neutral)



- In reaction to weak farm income, almost two-thirds of bankers have increased collateral for farm loans.
- More than one in four bankers report rejecting a higher percentage of farm loans due to declining farm income.
- The economic confidence index dropped to its lowest level in almost two years.

The Creighton University Rural Mainstreet Index (RMI) for May slumped below growth neutral for the month. According to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy, the RMI for May indicated negative growth for the month for region, after five months of growth.

Overall: The overall index slipped to 48.5 from 50.0 in April. This is the first time since November of last year that the index has fallen below growth neutral. The index ranges between 0 and 100 with 50.0 representing growth neutral, and an RMI below the growth neutral threshold. 50.0 indicating negative growth for the month.

"The trade tensions and tariffs are hammering the farming economy. Grain farmers throughout the region continue to experience losses produced by trade issues and plentiful global supplies. On the other hand, the expanding U.S. domestic economy is supporting livestock producers in the region. For May, according to bankers, the negatives far outweighed the positives.

According to Lonnie Clark, President of the State Bank of Chandler in Chandler, Minn. "The current low farm commodity prices are a negative to farmers."

Farming and ranching: The farmland and ranchland-price index for May sank to 41.2 from April's 45.2. This is the 66th straight month the index has remained below growth neutral 50.0.

The May farm equipment-sales index increased to 31.3 from April's 27.4. This marks the 69th straight month that the reading has fallen below growth neutral 50.0.

As stated by Jim Eckert, president of Anchor State Bank in Anchor, Illinois, "Our area has been very wet, although not as wet as some areas I saw in Indiana last weekend. Very little farm work has been done here and when it dries a bit, farmers will be forced to plan in less than optimum field conditions (mud it in)."

Bankers were asked to project the growth in farm loan defaults for the next 12 months. Over average, bankers expect farm loan defaults to climb by 10.9 percent over the next twelve months. This is more than double the estimated rate of growth just two years ago.

In reaction to higher default rates, almost two-thirds, or 61.8 percent of bankers, increased collateral requirements, and more than four of ten, or 41.2 percent, rejected a higher percentage of farm loan applications.

Banking: Borrowing by farmers for May remained very strong as the borrowing index slipped to 79.7 from April's record high 81.3, a record high. The checking-deposit index slumped to 42.4 from April's 50.0, while the index for certificates of deposit and other savings instruments rose to 51.5 from 50.1 in April.

Hiring: The employment gauge climbed to a very strong 61.8 from April's healthy 59.4. Despite weak farm commodity prices and farm income, Rural Mainstreet businesses continue to hire at a solid pace. Over the past 12 months, the Rural Mainstreet economy added jobs at a 0.2 percent pace compared to a higher 0.4 percent for urban areas of the same 10 states.

As a result of a shortage of workers, 70.6 percent of bankers reported that the shortage of qualified workers was having a negative impact on economic growth in their area. While this is quite high, it is down from last year at this time when 78.3 percent of bank CEOs indicated that finding and hiring qualified workers was restraining economic growth.

Confidence: The confidence index, which reflects bank CEO expectations for the economy six months out, plummeted to 38.2 from April's 50.0, indicating a very pessimistic economic outlook among bankers.

March floods, tariffs, trade tensions, and anemic farm income negatively influenced the economic outlook of bank CEOs.

Home and retail sales: The home-sales index increased to a healthy 63.2 from 59.4 in April. The retail sales index for May fell to 44.1 from 48.4 in April.

Each month, community bank presidents and CEOs in nonurban agriculturally and energy-dependent portions of a 10-state area are surveyed regarding current economic conditions in their communities and their projected economic outlooks six months down the road. Bankers from Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wyoming are included.

This survey represents an early snapshot of the economy of rural agriculturally and energy-dependent portions of the nation. The Rural Mainstreet Index (RMI) is a unique index covering 10 regional states, focusing on approximately 200 rural communities with an average population of 1,300. It gives the most current real-time analysis of the rural economy. Goss and Bill McQuillan, former chairman of the Independent Community Banks of America, created the monthly economic survey in 2005.

MAIN$TREET ON YOUR $TREET

COLORADO
Colorado's Rural Mainstreet Index for May fell to 49.6 from 51.6 in April. The farmland and ranchland-price index sank to 41.3 from April's 45.6. Colorado's hiring index for May declined to 61.3 from April's 61.6.

ILLINOIS
The May RMI for Illinois slumped to 46.3 from 44.2 in April. The farmland-price index fell to 40.5 from April's 43.6. The state's new-hiring index expanded to 52.7 from last month's 41.9.

IOWA
The May RMI for Iowa declined to 46.5 from 51.5 in April. Iowa's farmland-price index climbed to 47.2 from April's 44.4. Iowa's new-hiring index for May improved to 53.1 from 50.3 in April.

KANSAS
The Kansas RMI for May climbed to 48.9 from April's 47.6. The state's farmland-price index sank to 40.7 from 44.5 in April. The new-hiring index for Kansas advanced to 54.4 from 51.1 in April.

MINNESOTA
The May RMI for Minnesota climbed to 52.3 from April's 49.1. Minnesota's farmland-price index fell to 41.2 from 44.9 in April. The new-hiring index for May expanded to 60.6 from April's 55.0.

MISSOURI
The May RMI for Missouri fell to 43.3 from 44.6 in April. The farmland-price index for the state sank to 39.7 from April's 43.7. Missouri's new-hiring index for May increased to 44.7 from April's 43.1.

NEBRASKA
The Nebraska RMI for May slipped to 45.9 from 47.9 in April. The state's farmland-price index sank to 40.4 from last month's 44.6. Nebraska's new-hiring index declined to 51.5 from April's 51.8.

NORTH DAKOTA
The North Dakota RMI for declined to 51.0 from April's 55.0. The state's farmland-price index dropped to 41.7 from 46.5 in April. The state's new-hiring index declined to 65.2 from 70.7 in April.

SOUTH DAKOTA
The May RMI for South Dakota remained above growth neutral, but fell to 50.2 from April's 51.3. The state's farmland-price index decreased to 41.5 from April's 45.5. South Dakota's new-hiring index advanced to 63.0 from 60.8 in April.

WYOMING
The May RMI for Wyoming fell to 50.7 from April's 55.9.The May farmland and ranchland-price index declined to 41.6 from April's 45.7. Wyoming's new-hiring index expanded to 64.3 from 63.4 in April.

THE BULLISH NEWS

- The U.S. trade deficit decreased to $50.8 billion in April as both exports and imports fell (this may be a warning economic signal).

- The nation's unemployment rate remained at a 50-year low of 3.6.

THE BEARISH NEWS

- U.S. employers added only 75,000 jobs in May. This is far below the 223,000 average for 2018.
- Average hourly wages in May rose by 3.1% from one year earlier. Growth has waned
- National home prices rose 3.7% annually in March, down from 3.9% in February, according to the S&P CoreLogic Case-Shiller home price index. This is the weakest value in 7 years.

WHAT TO WATCH

- **Jobs numbers for June:** The U.S. Bureau of Labor Statistics (BLS) will release its jobs report for the month of June on July 5. Job gains of less than 50,000 will be a bearish signal for the U.S. economy.
- **Case-Shiller Home Price Index for April:** Released by S&P Corelogic on June 25. Year-over-year price growth below 3.5% will be another bearish signal for the housing market.
- **10-Year U.S. Treasury bond yields:** Currently 2.135% (immediate value at https://finance.yahoo.com). A move and hold below 2.0% is a real warning of rising economic risks and slower economic growth.

STATISTIC OF THE MONTH

•58,936. According to a January 2019 survey, there are 58,936 homeless people in Los Angeles County. There are 297 counties in Iowa, Kansas and Nebraska. If the LA homeless all moved to Arthur County in Nebraska, its population ranking would move from 297 to 24.

THE OUTLOOK

FROM GOSS:

- I expect **Annualized GDP growth of 1.9% for Q2, 2019. **Year-over-year increase in U.S. housing prices (Case-Shiller) to fall below 3.5% next month (and to continue to drop). **The Federal Reserve to leave short-term interest rates unchanged at their June 19 meeting, but to reduce short-term rates by ¼ % (25 basis points) on July 31.

OTHER FORECASTS:

National Association of Business Economics (NABE). JUN SUMMARY "Despite a number of mixed economic reports, NABE Outlook Survey panelists believe the U.S. economy will continue to expand," said NABE President Kevin Swift, CBE, chief economist, American Chemistry Council. "The consensus forecast calls for real GDP growth to slow from 2.9% in 2018 to 2.6% in 2019, and then to 2.1% in 2020. While the panel has turned slightly more optimistic about the outlook since the previous survey, 60% of panelists still view risks to the outlook as tilted to the downside." "Increased trade protectionism is considered the primary downside risk to growth by a majority of respondents, followed by financial market strains and a global growth slowdown," added Survey Chair Gregory Daco, chief U.S. economist, Oxford Economics. "Recession risks are perceived to be low in the near term, but to rise rapidly in 2020. Panelists put the odds of a recession starting in 2019 at 15%, climbing to 60% by the end of 2020. While a small majority of panelists anticipates the next Fed move will be a rate hike, the median forecast does not reflect any rate increases until the third quarter of 2020, and a majority of panelists believes weakness in the real economy would be the primary factor driving a rate cut."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

California has sunk more than $400 million into methane digesters to capture cow flatulence in the state. California Governor Newsom wants to spend another $35 million to bag bovine belches and farts within its borders. Two biofuel producers, Maas Energy Works and Texas-based California Bioenergy have captured 90% of the subsidies. Not surprisingly, California lost 55 dairy farms in 2018.

BANKER READING ROOM

"ICBA Policy Resolution: Relief from Crushing Regulatory Burden." Positions: *Community banks need regulatory relief to support the financial needs of their customers, serve their communities, and contribute to their local economies. *ICBA's new regulatory platform, "Community Focus 2020: The Community Bank Agenda for Expanding Economic Opportunity." contains targeted measures that would build upon the success of 2018's landmark legislation, S. 2155, by rolling back onerous rules and providing additional regulatory relief for community banks. *ICBA urges Congress and the regulatory agencies to continue to expand and refine a tiered regulatory and supervisory system that recognizes the significant differences between community banks and large, complex institutions in terms of the risks they pose to consumers and to the financial system. *To preserve their original purpose, thresholds for regulatory accommodations and exemptions based on asset size and transaction volume should be continually reviewed and adjusted upward as community banks consolidate and the average asset size of banks increases. Read More at: . https://tinyurl.com/y3z5poux

FOLLOW ERNIE

Follow Ernie Goss on Twitter www.twitter.com/erniegoss

For historical data and forecasts, visit our website at: http://www.creighton.edu/instituteforeconomicinquiry/economicoutlook/

For ongoing commentary on recent economic developments, visit our blog at: www.economictrends.blogspot.com