WSWS Officer and Committee Report
2018 Summer Board Meeting – Denver, CO

Office or Committee Name: Finance Committee
Officer or Chairperson Name: Phil Banks
Date of Preparation (include year): July 19, 2018

Activities during the year:

Western Society of Weed Science
Statement of Financial Position
As of June 30, 2018

ASSETS
Current Assets
Checking/Savings

10000 · American Heritage Bank - Checking		28,057.77
10100 · American Heritage Bank - Money Market @0.3%		101,551.49
10200 · AHB -CD#3 – 5 yr @1.45%	matures 10/14/22	25,100.00
10300 · AHB CD#4 - 2 yr @ 0.7%	matures 10/14/18	25,175.00
10400 · AHB CD#5 - 3 yr @ 0.95%	matures 10/14/19	25,237.50
10500 · AHB CD#6 - 4 yr @1.2%	matures 10/14/20	25,300.00
10600 · AHB CD#7 - 5 yr @1.45%	matures 10/14/21	25,362.50
10700 · RBC Wealth Management		194,231.06
Total Checking/Savings		450,015.32
TOTAL ASSETS		**450,015.32**
Total Assets from June 30, 2017		**467,728.40**

Status of RBC Investments: From Stan Cooper on July 9, 2018
$193,206 12-31-2016 closing value
$201,516 12-31-2017 closing value
$+ 8,310 Net gain of 4.3%

$195,446 7-9-2018 current value (July 9, 2018)
$ - 6,070 unrealized loss (-3.01%) from 12-31-17

Current Asset Allocation:
16.33% Cash
17.73% Bonds
10,22% Global stock
16.47% Global managed futures
16.47% Global long/short
22.77% S&P 500 market hedge

The performance numbers are modest because the asset allocation is very defensive. To put this in some perspective, the DJIA, which is 100% stocks and has been extremely volatile so far this year, is only up 0.81% through yesterday, 7-9-18. At this time the only thing I might suggest would be to use approximately $25,000 of the available cash and buy a short term, say 6 months, bank C.D. The money market rate is currently 0.32% vs. approximately 2.00% for a 6-month C.D.
With the Fed committed to increasing interest rates and the stock markets being very overvalued I just don't think it is time to add to either of those markets.

He sent a couple of supporting documents to help make it clear that we need to be cautious for the near term. (below).

Recommendations for Board Action:
While this does not require Board Action, the Finance Committee recommends using some of our current available cash in the RBC account to buy a short-term CD and reassess when that matures. Also, we currently have a high amount ($101,551) in the AHB Money Market account at 0.3%. This is more than enough to cover operating expenses for a year. We should consider taking $25,000 to $50,000 and investing in one or two CDs (1yr or 2yr).

Budget Needs: any requested funds (and brief justification if not clear from above) should be provided here.

None.

Name of Person Preparing This Report: Phil Banks

Steve Blumenthal
On My Radar
July 6, 2018

Our collective bet and hope is that the aged and overvalued market soldiers on. Odds? I put them at less than 50-50. I'd feel a lot better if the Fed weren't pulling the punch bowl away from the global liquidity party, the strong dollar threatening all of that Emerging Market dollar denominated debt and of course the debt and pension cliff that's approaching here there and everywhere. Mostly, I'd feel better if our current starting conditions were one of low valuations and high expected future returns. Unfortunately, that's just not the case.

Valuations and What They Tell Us About Coming 7-, 10- and 12-Year Returns
Let's take a look at two popular valuation measures: the Shiller P/E and Median P/E (my favorite). You'll also find a dashboard-like summary of a number of other valuation measurements, most all of which reflect an expensively priced market. Then, let's take a look at what they tell us about coming 7-, 10- and 12-year returns.
Valuations

- **Shiller P/E CAPE (2nd highest reading in history, expect low forward returns)**

Chart | Table | FAQ

Share

Current Shiller PE Ratio: 32.74 +0.22 (0.66%)

11:15 am EDT, Fri Jul 6

Mean:	16.85	
Median:	16.15	
Min:	4.78	(Dec 1920)
Max:	44.19	(Dec 1999)

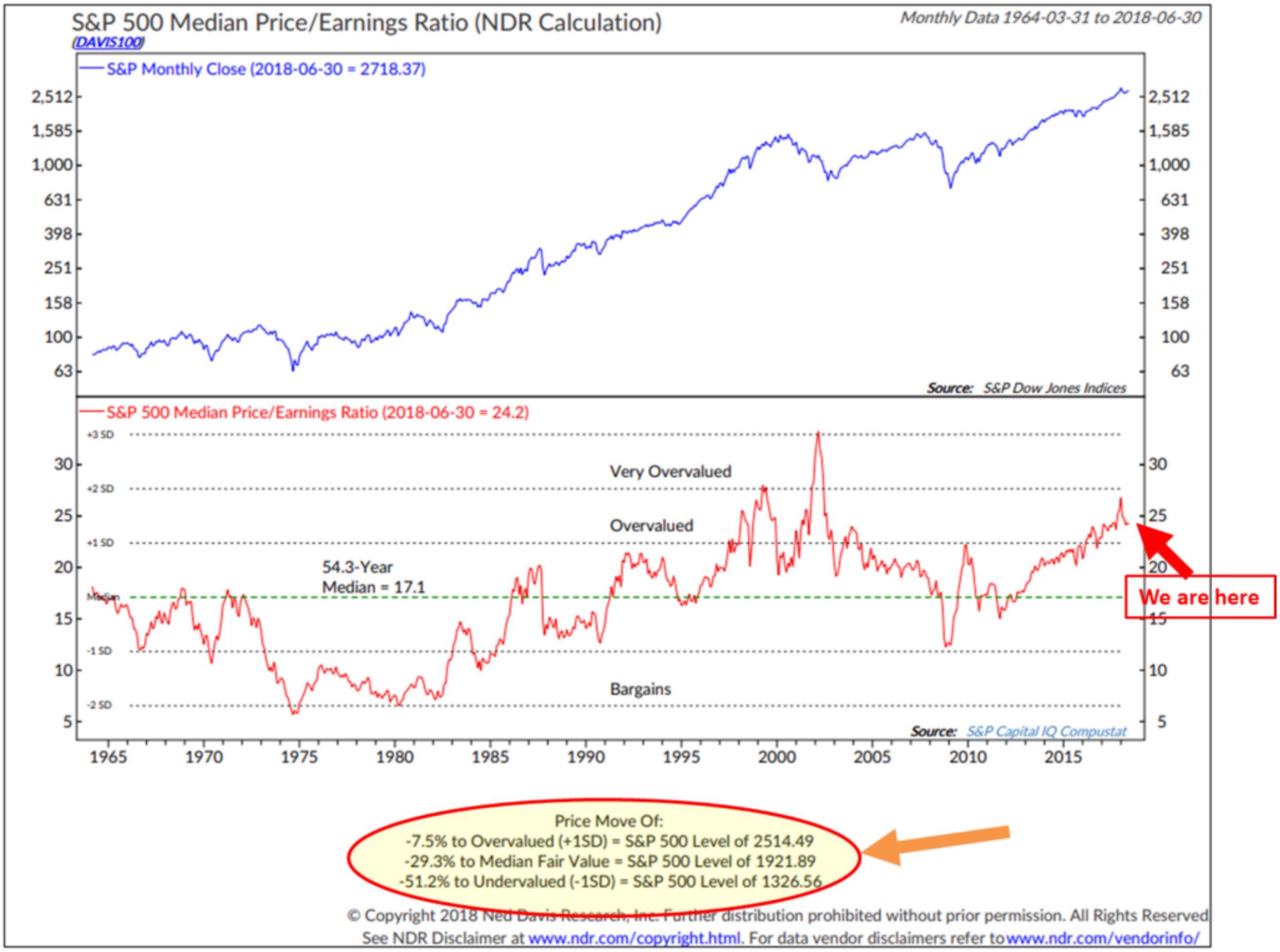
· **Median P/E**

What I like about the Median P/E is that a lot of company shenanigans are removed from the data. It simply looks at the P/E in the middle of the data set. For example, out of the stocks in the S&P 500 Index, median is the P/E reading of 250 stocks above it and 250 stocks below it. With that as a starting point, take a look at the following chart:

· The Median P/E is currently at 24.2.

· Higher than at the market peaks in 1966 and 2007 and second only to the late 1990's and 2000-2002 period.

· Also take a look at the data (yellow highlight/orange arrow bottom of the chart). Fair value, based on 54.3 years of Median P/E history puts the S&P 500 Index at 1921.89. The S&P 500 Index was at 2718.37 on June 30, 2018 and is 2660 today (July 6, 2018). **It will take a decline of 30% to get back to fair value. The market is very overvalued… Expensive hamburgers!**



Further, the middle section of the chart plots something called "Standard Deviation." In 1999, Median P/E was 2 standard deviations above the long-term median valuation trend line (the green dotted line – currently a reading of 17.1).

I like the way Ned Davis Research (NDR) frames out the downside risk to various levels (overvalued, fair value and undervalued). And we'll tie this together in the section below titled, "Expected Returns."

· **Summary of other valuation measures (green is good, red is bad)**

Factor	Most Recent Tile
Median Price to Earnings	Extremely Overvalued
Price to GAAP Earnings	Extremely Overvalued
Price to Shiller Earnings	Extremely Overvalued
Price to Cash-Adjusted Earnings	Moderately Overvalued
Price to Operating Earnings	Extremely Overvalued
Price to Forward Earnings	Extremely Overvalued
Price to 4Y Trailing & 1Y Forward Earnings	Moderately Overvalued
Price to 1Y Trailing & 1Y Forward Earnings	Moderately Overvalued
Price to Sales	Extremely Overvalued
Price to Book	Extremely Overvalued
Price to Cash Flow	Extremely Overvalued
Dividend Yield	Extremely Overvalued
Net Repurchase Yield	Moderately Undervalued
Net Payout Yield	Fairly Valued
Net Debt Reduction Yield	Moderately Undervalued
Shareholder Yield	Moderately Undervalued
Median Free Cash Flow to Enterprise Value	Fairly Valued
Free Cash Flow to Enterprise Value	Fairly Valued
Median EBIT to Enterprise Value	Extremely Overvalued
EBIT to Enterprise Value	Extremely Overvalued

Expected Returns

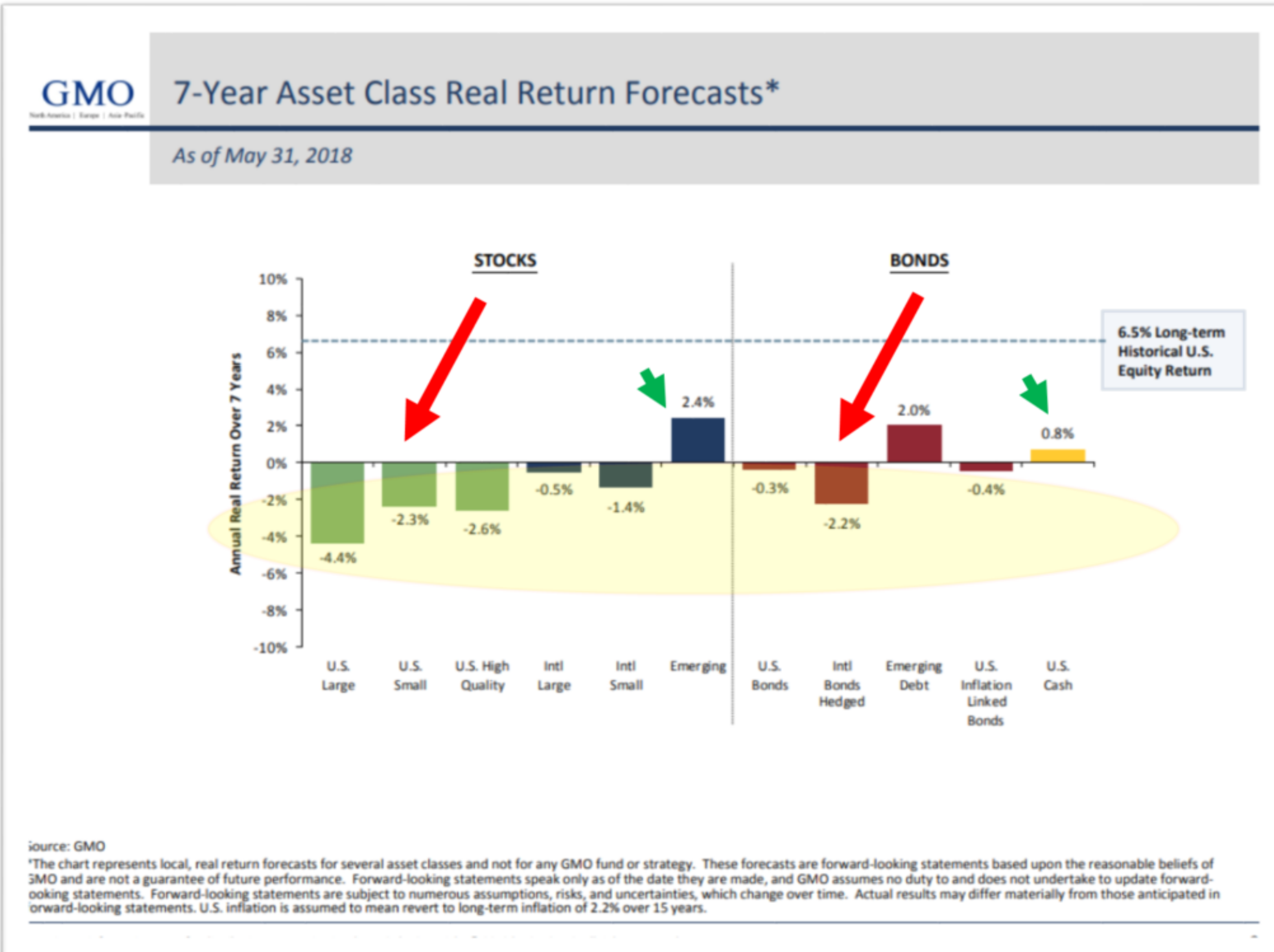
· **7-Year Returns**

One look at this chart and you're going to want to call it a day. It comes from Jeremy Grantham's shop, GMO. Jeremy is one of the all-time great value investors. The reason I review his 7-year forward return forecast each month is that the data history goes back years and his correlation of prediction to outcome has been extremely high.

Here is how you read the chart:

- Stocks on the left, bonds on the right.
- Yellow highlights the eight out of 11 asset classes expected to return less than 0%.
- Note the dotted line showing the 6.5% long-term real returns for equities.

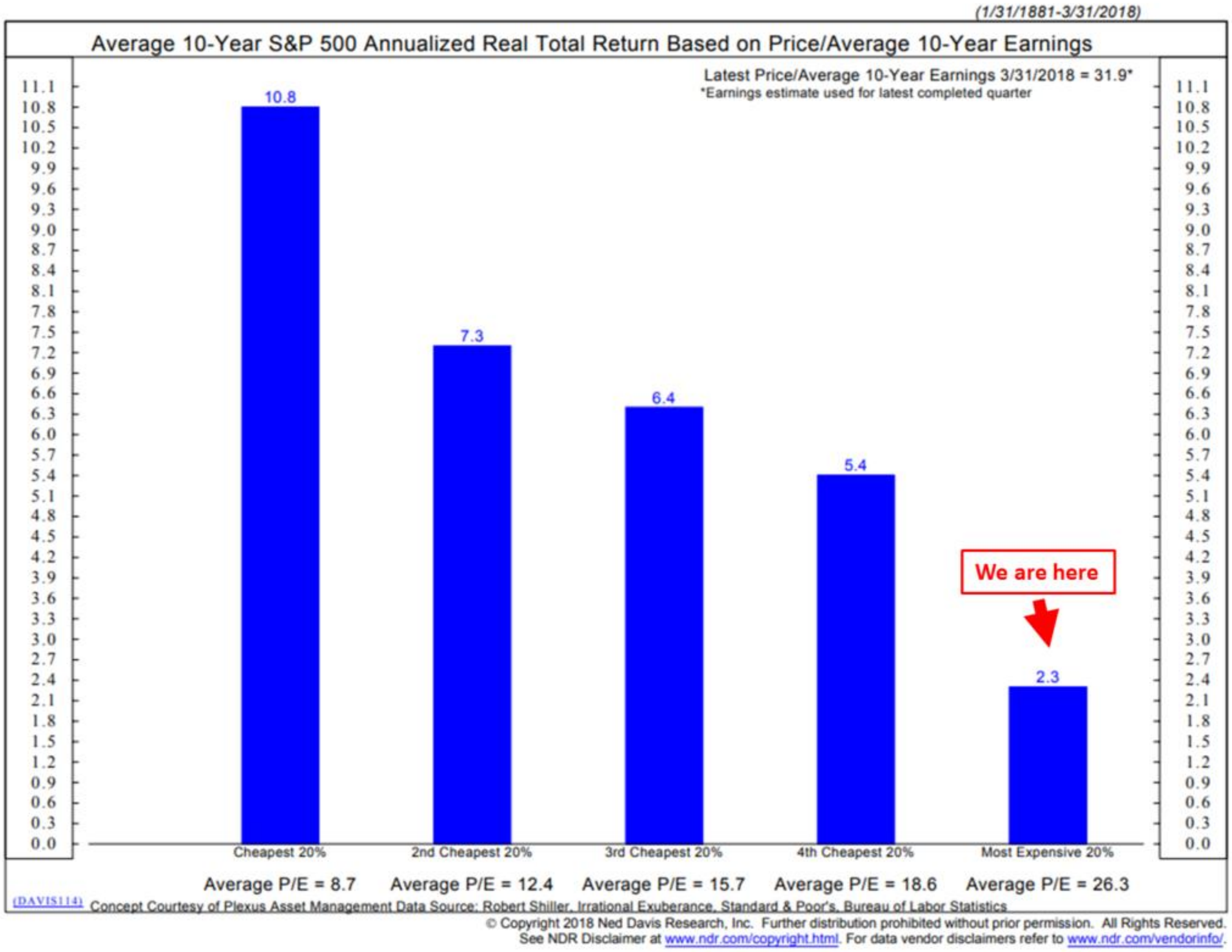
Bottom line: If you are a buy-and-hold investor, expect negative "real" (i.e., after inflation) returns over the coming seven years. Emerging market stocks, EM bonds and cash are expected to be the best asset class performers. Pension funds expecting to earn 7.5% are in trouble.



- **10-Year Returns**

What does the high P/E mean? NDR broke the equivalent to the Shiller P/E into five quintiles that ranged from "Cheapest 20%" of all P/E month-end readings (data back to 1881) to the "Most Expensive" 20% of all readings. Then they looked at what the subsequent actual 10-year real returns turned out to be (after inflation). You'll see that data shortly below.

Note the "We are here" arrow in the following chart. Based on Shiller P/E, the data is telling us to expect just 2.3% annualized real returns over the coming 10 years.



· **12-Year Returns**

John Hussman does some great work. Yes, I know he's had some fund performance challenges (he hedged too soon and missed some good upside), but that doesn't negate what he has to say, especially around his work on valuations.

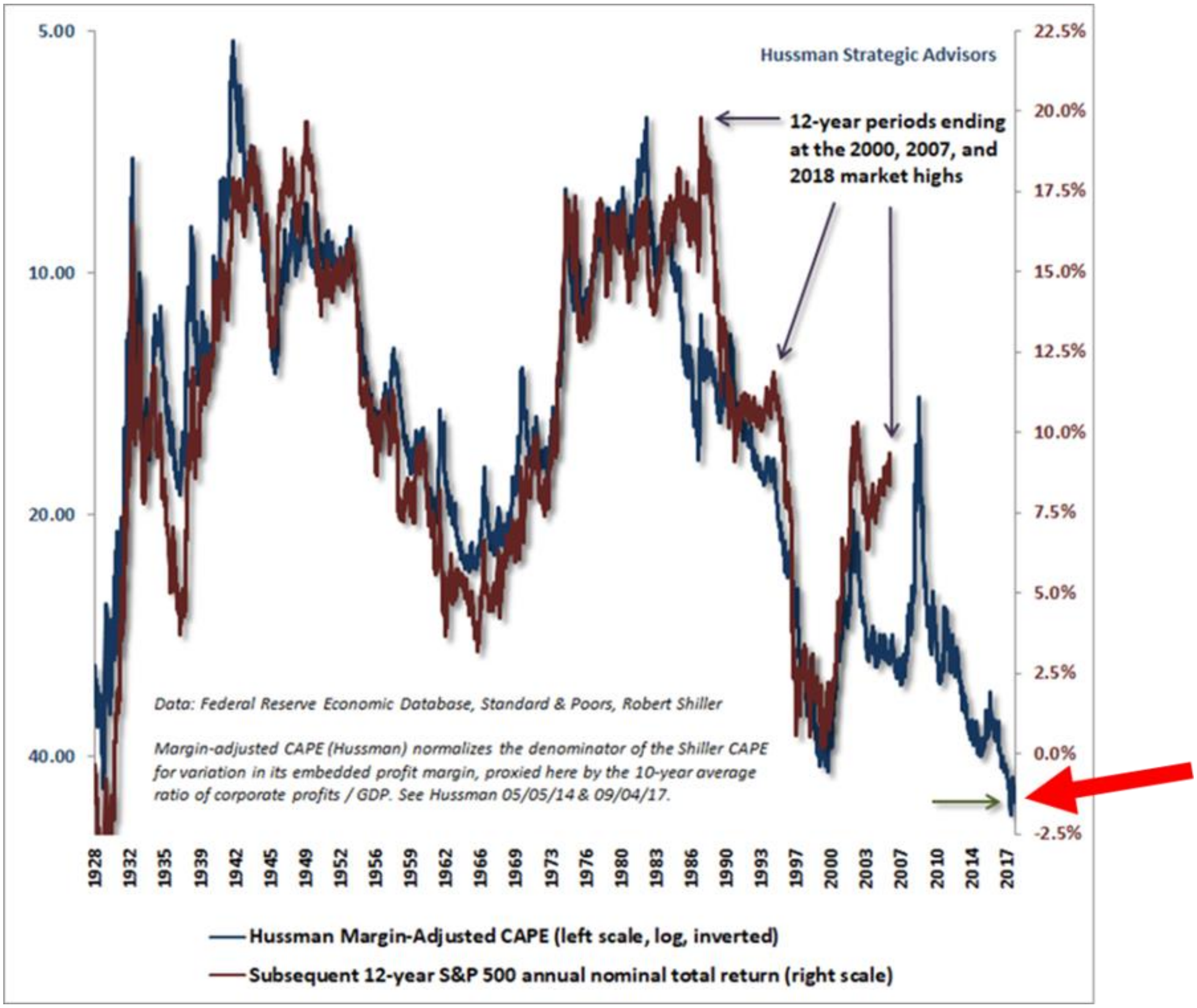
In the following graph, the red arrow points to the expected returns, based on Hussman's process, over the coming 12 years. **Bottom line: Expect negative annualized returns over the coming 12 years.**

Here is how to read the next chart:

· Focus on the maroon and blue lines. The blue line is the level of the Hussman Margin-Adjusted CAPE. (Left scale.) The maroon line plots the subsequent (actual) 12-year S&P 500 annual total return. (Right scale.)

· Try not to get lost in the financial lingo and simply note how closely they track each other. When valuations are lower, returns are higher. And *vice versa*…

· **Finally, the big red arrow shows us what the coming 12-year return outlook is. The last time it was this low was in the late 1920's. Enough said… stay risk minded and protect your downside…**



John Hussman on valuations and probable forward returns:

Valuations have a profound impact on 10-12 year market returns, and on potential losses over the completion of any market cycle, but have little impact on market outcomes over shorter segments of the market cycle.

This has clearly been true in recent years. A moment's thought should make it obvious that the stock market was only able to reach extremes like those of 1929, 2000, and today because valuations failed, for some portion of the market cycle, to collapse from less extreme levels. **So while valuations haven't "worked" in recent years, as is often the case during speculative periods, there's nothing in recent market behavior to suggest that the relationship between valuations and subsequent *full-cycle* market returns has changed at all. Investors who believe that valuations have somehow become irrelevant because they haven't "worked" in recent years simply don't understand how valuations actually work.**

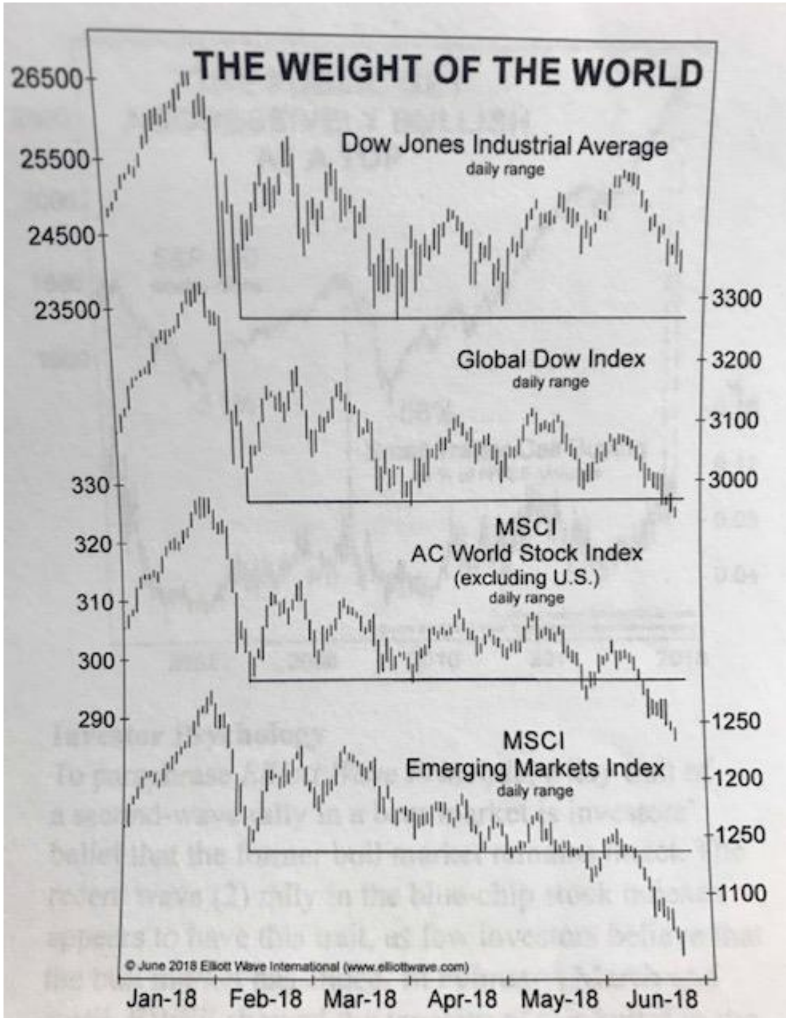
Before discussing the profile of risks facing investors at present, it will help to quickly review the central considerations of our investment discipline.

While valuations are the main drivers of long-term, full-cycle market outcomes, they often say very little about market outcomes over periods substantially shorter than 10-12 years. On shorter horizons, investor psychology matters more. How does one measure that? I've

frequently emphasized that when investors are inclined to speculate, they tend to be indiscriminate about it. So the uniformity or divergence of market internals across a broad range of securities tells us a great deal about whether investors are inclined toward speculation or risk-aversion.

Hussman's latest letter is entitled, "Mind the trap door." His conclusion is also worth sharing, *Because even steeply overvalued markets can continue higher provided that investors are inclined to speculate, a certain amount of flexibility is required in the way that we talk about market conditions. Presently, we observe a combination of extreme valuations and divergent market internals. This combination suggests that investors have shifted toward risk-aversion at a point where risk premiums are unusually low, and it opens up a trap door that has historically permitted very steep market losses, as we observed in 2000-2002 and 2007-2009.*
While I'm inclined to view the January market high as the bull market peak for this cycle, which would suggest that stocks are already in a bear market*, we also have to allow for the possibility that investors will again take the speculative bit in their teeth, which we would infer from the behavior of market internals. There's no assurance that stocks have entered a bear market, nor does our investment success require stocks to collapse.* ***It's just that in the presence of both extreme valuations and deteriorating market internals, investors had better allow for that possibility, and even its likelihood.***

Think of the market the way Warren Buffett thinks about hamburgers. When they are low in price you get a lot more for your money… "We in the Buffett family love hamburgers, when they go down in price we sing the hallelujah chorus, when they go up in price we weep." ***He thinks investors should think about stocks the same way.***



The chart above shows the performance of the U.S. stock market relative to rest of the world. The top two graphs depict the DJIA and the Global Dow, an index of 150 global stocks picked to represent world-wide leaders in all industries. The index includes all 30 of the DJIA stocks and the U.S. accounts for 42% of the index's total value. The third graph shows the MSCI AC World Stock Index, excluding U.S. shares, and the fourth graph shows the MSCI Emerging Markets Index. These graphs depict, in stark terms, just how weak global stocks are outside the United States. Each global index is below its February low, and the DJIA should soon join them.