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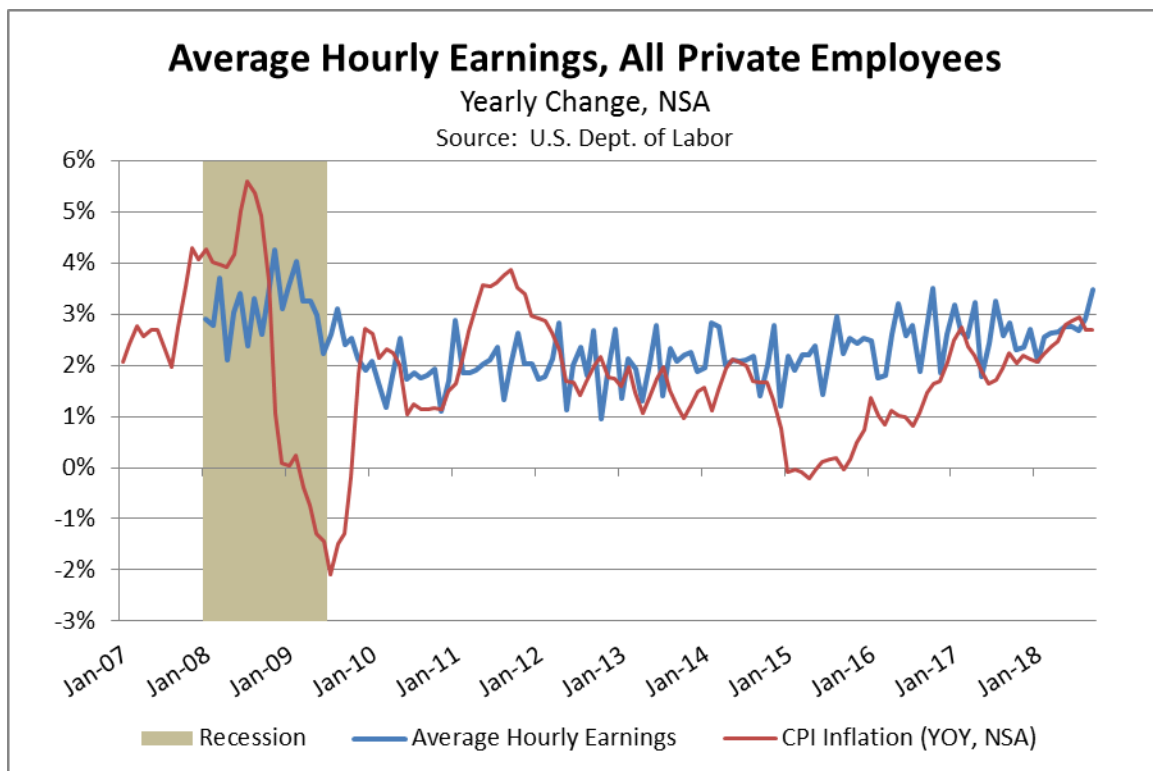
Proactive Investment Management & Financial Planning

Economic Chart of the Week October 10, 2018

We continue to feel good about today's strong economy, but our regular readers know we're also wary of the way robust demand has boosted inflation risks. Rising output has used up a lot of spare production capacity, and inventories of available resources are dwindling. Perhaps most important, the September employment report last week showed unemployment has plunged to a nearly 50-year low.

The problem with extremely low unemployment is that it makes it much harder to find, hire, and retain workers. In this situation, many companies are forced to bid up wage rates. In fact, the data shows average hourly earnings jumped to \$27.24 in September, up a full 3.5% from September 2017 (using non-seasonally adjusted figures). As reflected in this week's chart, the year-over-year increase in September has only been matched one time since the end of the 2008-2009 recession. If hourly earnings continue to show annual increases of that magnitude, and if businesses can't boost worker productivity enough to offset the rise, we think things could soon start to look like the period of elevated inflation before the recession. In order to put a brake on these inflation risks, the policymakers at the Federal Reserve have indicated they intend to continue boosting interest rates well into 2019, and we have no reason to doubt them. Unfortunately, market indicators suggest many other investors are only now starting to believe in a future of much higher interest rates. As the market action this week reminds us, those investors could suddenly adjust their portfolios in a disruptive way, so we're glad that we've been ahead of the game and have already started cutting risk across our various strategies.

Patrick Fearon, CFA
Chief Investment Officer



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