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WEALTH MANAGEMENT FOR A FLOURISHING RETIREMENT

Trade-War Update: New Tariffs

After months of relative quiet, the trade war between the U.S. and China has erupted again in a big way. The markets are the most immediate casualty, with the Dow plunging over 600 points on Monday, May 13, alone.[1]

In all likelihood, you're probably more focused on things like spring cleaning, your upcoming summer plans, and the end of Game of Thrones. My job in this letter is to briefly explain **what's going on, what matters, what doesn't,** and **why you can go back to focusing on those other things.**

So, here's what's going on:

Failed deals lead to new tariffs

You may have noticed that headlines about the trade war had been rather muted in 2019. That's because negotiators for both nations had been quietly working behind the scenes to come to an agreement on how to address the $375 billion trade deficit the U.S. has with China. The White House expressed optimism that a deal was close – until a sudden hardening of positions prompted both sides to retreat to their corners.

On Friday, May 10, President Trump raised the stakes by placing 25% tariffs on all Chinese imports that had previously been spared. Here's how the U.S. trade representative put it:

> *"[The President has]…ordered us to begin the process of raising tariffs on essentially all remaining imports from China, which are valued at approximately $300 billion."*[2]

Throughout this trade war, it has seemed like both countries are waiting for the other to blink first. Both are still waiting. For on Monday, May 13, China announced it would raise tariffs on $60 billion in U.S. goods, some up to as much as 25%.[3]

Why all this matters to the markets

You've heard, of course, of the principle of *cause and effect.* If one thing happens, something else is affected. Fail to brush your teeth and you get cavities. Leave meat out of the refrigerator too long and it will spoil. You get the idea.

Investors, analysts, money managers, and traders who participate in the markets on a daily basis make decisions based on cause and effect. How tariffs impact certain companies is a perfect example of this.

For instance, imagine a fictional American company called *Widgets n' Stuff,* or WNS for short. In order to make its widgets, WNS buys thingamajigs from China. But thanks to tariffs, the price of importing thingamajigs goes up.

Investors know this, and thanks to the principle of cause and effect, predict it will have a negative impact on *WNS's* finances. Maybe they'll have to raise prices on their own widgets to make up the difference. Maybe they'll have to produce fewer widgets. You get the idea. So, investors sell stock in *Widgets n' Stuff* because it no longer looks like an attractive investment.

Like them or not, tariffs act as a double-edged sword that affect companies and consumers on both sides of the Pacific. On the American side, China's tariffs can make it harder for U.S. companies to sell their goods to Chinese consumers. At the same time, American tariffs can make it harder for U.S.

companies to import the goods they need for their own products. Either way, prices go up, corporate finances suffer, and consumers are often the ones left to foot the bill.
That's why the markets care about the trade war.

But here's why all this *doesn't* matter to us – yet

The principle of *cause and effect* is important, but, my team and I rely more on another principle: **supply and demand**. You see, as investors, we rarely know what the long-term effects of something actually are. Too many investors, in fact, rely on pre-conceived narratives to *guess* at the effects – and guessing isn't really a viable strategy in life, is it?

The fact is that the markets have fallen after almost every round of tariffs, only to recover a few days later. So, because we can't really predict the long-term effects of this trade war, let's ignore the narratives and focus on what we *can* control. By using technical analysis, we can look at the various investments in your portfolio to determine whether **demand** is higher (meaning the price is likely to go up, trade war or not) or whether **supply** is higher (meaning prices are likely to trend down).

In short, we're not going to make decisions because of the trade war in and of itself. We'll continue making decisions by tracking *trends* – and trends are driven by many factors, not just what's in the news on a given day.

Hippocrates once wrote that, "To do nothing is sometimes the best remedy." For that reason, it's okay to go back to planning your summer vacation or betting which character will die next on Game of Thrones. In the meantime, my team and I will continue monitoring our client portfolios. If the dynamics of supply and demand change, we'll make decisions accordingly.

As always, please let me know if you have any questions or concerns.

-Steve Robbins, CFP®

Sources

[1] "Dow plunges 700 points after China retaliates with higher tariffs," *CNN Business,* May 13, 2019. https://www.cnn.com/2019/05/13/investing/dow-stocks-today/index.html

[2] "Trump Renews Trade War as China Talks End Without a Deal," *The NY Times,* May 10, 2019. https://www.nytimes.com/2019/05/10/us/politics/trump-china-trade.html?module=inline

[3] "After China Hits Back With Tariffs, Trump Says He'll Meet With Xi," *The Wall Street Journal,* May 13, 2019. https://www.wsj.com/articles/china-to-raise-tariffs-on-certain-u-s-imports-11557750380

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