Insights and Observations: Second Quarter 2019

Total U.S. government debt is now more than $22 trillion, and state and local debt is estimated at another $3 trillion. (Note that these figures do not include unfunded liabilities and corporate debt.) Annual deficits are running in excess of $1 trillion annually … and could easily rise to $2 trillion during the next recession. At that pace, total debt should reach $50 trillion by the end of the next decade.

> **Most tax increase proposals would raise rates on "the rich." Using government data, I showed that a 25% increase in the top 10% of U.S. income earners (roughly those making $120,000+) would produce only $250 billion per year.**
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> **John Mauldin, Mauldin Economics – Advisor Perspectives 7/12/19**

Everyone knows that our government spending is dominated by entitlement programs. Any reductions to other *discretionary* spending areas will have relatively little impact on overall deficit levels. As noted above, there simply are not enough *wealthy* people to cover the shortfall. At some point, we will need to adopt consumption-based taxes or be forced to reduce entitlement spending.

You might recall that the technology heavy NASDAQ declined 36% from March 2000 to May 2000, only to gain back 35% over the next two months. Then from July 2000 through October 2002, the NASDAQ plunged 58 percent!

Of the 10 largest technology companies as of year-end 1999, only one (Microsoft) has outperformed the S&P 500 Index over the past 19 years. If investors held all 10 of those stocks from January 2000 to May of 2019, their total annualized return would have been *negative* by 1.1 percent. The S&P 500 Index had an annualized *positive* return of 5.3% over the same period.

Facebook, Amazon, Netflix, Microsoft, Apple, and Google (FANMAG stocks), declined on average by 21.3% in the fourth quarter of 2018, while the S&P 500 was down 13.52 percent. Most of those losses were recovered in this year. In May, the S&P 500 declined 6%, but FANMAG stocks declined nearly 15% for the month.

> **The FANMAG stocks' much larger decline illustrates the sensitivity of share prices to bad news when a stock is priced to near perfection … Expectations can keep prices at bubble levels for years until suddenly the bubble asset loses its magic and the market outlook switches dramatically … The volatility in the fourth quarter of 2018 – and in recent weeks – should serve as a strong reminder of the risk inherent in any investment strategy … Is the rebound so far in 2019 a chance for investors to exit prior to a larger drawdown, similar to the opportunity offered investors in dot-com stocks in May 2000? Of course, we don't have a crystal ball, but we would recommend not betting on the momentum continuing …**
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> **Rob Arnott, Research Affiliates – Advisor Perspectives 7/11/19**

The number of job openings in the U.S. now exceeds unemployed workers by the largest margin on record. There were 7.4 million jobs unfilled in the U.S. at the end of April. The number of Americans looking for a job in April dropped to 5.8 million from 6.2 million a month earlier.

New research suggests that happiness tends to increase along with income up to about $75,000 a year. The authors, Nobel Prize winning economist Daniel Kahneman and Angus Deaton, concluded that “high income buys life satisfaction but not happiness, and low income is associated both with low life evaluation and low emotional well-being.”

An update to the study suggests that the $75,000 figure would translate to about $122,000 if you live in Hawaii or about $66,000 if you live in Mississippi.

More recent research from the Spectrum group, a research consulting group focusing on the wealthy, concludes that having too much money may actually negatively impact happiness.

It’s been my experience that far too many investors continue to take large equity risks when they have already accumulated more than enough to be happy. Remember, it’s important to understand that once you have sufficient assets to live a comfortable lifestyle, the good things in life – the things that really bring happiness, like reading a book to your grandkids or taking a walk in the park with your spouse – are either free or relatively inexpensive.

Coming to that realization allows you to take less equity risk, which in turn allows you to sleep much better through the next inevitable bear market and helps you stay disciplined, adhering to your plan, and avoid panicked selling.

Larry Swedroe, BAM Alliance – Research Perspectives 5/27/19

About 20 years ago, Microsoft was contending with Intel Corp (microprocessors), Cisco Systems (communications gear), and General Electric (locomotives and turbines) for the distinction of being the world's most valuable company. Now, Microsoft is again on top of the market-value rankings … and Intel, Cisco, and GE combined are worth less than half of its value.

This signifies a profound shift in the economy in recent years. Productivity and economic growth increasingly flow not from equipment, buildings or computer hardware, but from instructions, processes, coding and data: in other words software.

Greg Ip – WSJ 5/29/19

Software investment grew 11% from the first quarter of 2018 through the first quarter of 2019. Investment in equipment grew less than 4%, while investment in infrastructure just one percent. It's probably not a coincidence that productivity growth picked up to 2.4% in the past year … the fastest increase since 2010.

According to the annual American Time Use Survey, employed women work about 7 hours and 20 minutes on average each workday. Men worked just under 8 hours each workday. The gap between the average workday for men and women is now the smallest on record. Consider the following statistics:

- About 48% of men work … down from 51% in 2003. The share of women has held steady at about 37% between those years.
- The share of workers who also take care of children has dropped to 22.2%, down from nearly 25% in 2003.
- Employed women spend about 3.75 hours each day relaxing or exercising.
- Employed men spend about 4.75 hours each day on leisure activities.
- Mothers, whether employed or not, spend about 3.5 hours a day engaged in leisure activities.

- Men, with kids at home and regardless of employment status, spend 4 hours a day in leisure activities.

Women are dealing with increasingly demanding employers and an expectation that they will put their time and devotion to their kids … These two things are impossible to accomplish at the same time … My understanding based on interviews that I've done with American women is they're giving up sleep, they're giving up leisure time, they're giving up exercise and they're giving up friendships.

Caitlyn Collins, Washington University – WSJ 6/19/19

According to the National Collegiate Athletic Association, only 2% of high-school athletes will receive college scholarships in their sport. That includes awards well short of a full scholarship.

In a recent survey by TD Ameritrade, forty percent of parents said they felt confident that their child would get an athletic scholarship. These parents said that they were willing to cut spending, go into debt, or delay retirement to fund their child's sport. Families with children who take part in elite teams spent on average $3,167 per player in 2018.

It's really a small fraction of students who get recruited to play in college, and with that, the percentage is even smaller of them getting the sort of full ride, athletic scholarship people dream of. They could be using that money to save for college, to be blunt.

Kathryn Randolph, Fastweb – WSJ 4/21/19

Retirement is seen as a time to stop strenuous and stressful work. It is also considered to offer the opportunity to be reinvigorated … following your passions and pursuing activities that enrich the mind and soul.

But retirees too often engage in unhealthy behaviors. They watch too much television, overeat, and drink excessive amounts of alcohol. They can become socially isolated and depressed. In fact, researchers are finding that health problems intensify after workers qualify for retirement benefits and abate after policies encouraging work are introduced.

Various policy changes could increase older workers' employment … By enabling more older-workers to stay on the job, these reforms could benefit companies facing shortages of skilled workers. But it could do more than that. It could also save lives.

Dr. Richard W. Johnson, Urban Institute – WSJ 4/21/19

Enrollment in colleges and universities is down for the seventh year in a row. According to the National Student Clearinghouse Research Center, national enrollment declined by 1.7%, or nearly 300,000 students.

Falling enrollment is creating winners and losers, with many small schools such as Green Mountain College in Vermont closing down. But nationwide, larger, more academically elite institutions are thriving.

Jake Holland – WSJ 5/30/19

Birthrates in the U.S. fell to a 32-year low last year. In fact, births have fallen in 10 of the last 11 years since peaking in 2007. Experts blame the decline on several trends, including teenagers and married women having fewer babies, lower Hispanic fertility rates, and the rise in woman obtaining college degrees. The decline in unplanned pregnancies has significantly influenced the trend.

It's really remarkable, not something that we've seen over the last century.
Kasey Buckles, University of Notre Dame – WSJ 5/15/19

The U.S. fertility rate fell to a record low of 1.7 … well below the 2.1 *replacement* level. According to estimates from the World Bank, the fertility rate in Japan is about 1.4, in Germany it is 1.6, and in Italy it is 1.3.

Only women ages 35-44 saw an increase in birthrates, while all other age groups saw declines or remained the same.

Interest rates change course only once or twice in a generation. In the early 80s, investors were looking back on 35 years of rising interest rates. Now when investors look into the rearview mirror, all they can see is 35 plus years of declining interest rates.

Many of us have lived through unprecedented extremes in interest rates. Back in the day, when U.S. Treasuries yielded 14% and inflation was at 5%, investors could get a fat 9% real return. That's difficult to imagine in today's marketplace, where investors now struggle to get a 0.5% real return on a 30-year Treasury.

Humans eat, sleep, and extrapolate. What we think we can foresee is often nothing more than what we have recently seen. More of the same is the sensible default prediction in politics, baseball, and interest rates alike … Lower and lower interest rates for ever and ever? It generally doesn't work that way.

James Grant – Barron's 6/7/19

International researchers concluded that people are more likely to return a lost wallet with money inside than a wallet that is empty of cash. The study (recently published in the journal Science) found that 40% of people returned wallets with no money … but 51% returned wallets with money inside. The pattern held in 38 of 40 countries where the study was conducted.

There's this emphasis that money is what drives human behavior, and this paper is a beautiful, large-scale demonstration that people's self-interest is really broader than just money.

Kurt Gray, University of North Carolina – WSJ 6/20/19