Insights and Observations: Fourth Quarter 2022

Married couples have four times as much wealth as unmarried couples who live together. Combining assets may be one of the reasons.

Research from Cornell University and the University of Colorado at Boulder suggests that couples who combine checking, investing, and credit card accounts are happier over the long term. Pooling resources leads to a greater feeling of accountability and also helps to achieve certain milestones, such as buying a home and saving for retirement.

According to a survey by CreditCards.com, 43% of couples said they have only joint bank accounts, while 34% have a mix of joint and separate accounts. Finances were kept entirely separate by 23% of the respondents.

All couples hitch their fortunes together. Only some choose to also pool their finances. It might not seem as pressing a question as when to meet the parents or whether to start a family, but deciding to move your money in together can have a big impact on future wealth.

Julia Carpenter – WSJ 12/5/22

In 2012, Facebook acquired Instagram, and the iPhone 5 helped to usher in the selfie era. Research shows that depression rates surged around 2013 for Generation Z children, usually defined as those born between 1997 and 2012.

Consider some of the observations from social psychologist Jonathan Haidt in a WSJ interview published on December 30, 2022:

- When you look at Americans born after 1995, what you find is that they have extraordinarily high rates of anxiety, depression, self-harm, suicide and fragility. There has never been a generation this depressed, anxious and fragile.
- Social media and selfies hit a generation that had led an overprotected childhood, in which the age at which children were allowed outside on their own by parents had risen from the norm of previous generations, 7 or 8, to between 10 and 12.
- That meant that the first social-media generation was one of “weakened kids” who “hadn’t practiced the skills of adulthood in a low-stakes environment” with other children.
- In the physical world we have more than a hundred years of making things safe for children … such as car seats and fences around pools … By contrast, life went onto phone-based apps 10 years ago, and the protections we have for children are zero, absolutely zero.

Academic research suggests that small-cap stocks should outperform their larger counterparts. Since smaller companies are riskier, the higher returns are simply considered to be compensation for the extra risk. Over the past decade, however, large-cap stocks have annualized returns that are three full percentage points higher than small-caps.

Small-cap stocks, as measured by the Russell 2000 index, are selling for approximately 20 times earnings, which is close to their long-term average. About 33% of the index currently includes companies with negative earnings, up from 20% ten years ago. If you take out the unprofitable companies, the price/earnings ratio drops to about 12 … verses the long-term average of 15.

Now, there's a lively debate over whether the small-cap effect is dead, just hibernating, or if it truly existed to begin with. We can leave that one to the academics. Our interest here is simply whether small-caps are unusually cheap now. They are, although it might not appear so at a glance, depending on where you look.

Jack Hough – Barron's 12/2/22

Economic historians generally agree that financial crises occur roughly once every 10 years. While we are still dealing with Covid-19 issues, most of us are also survivors of the 2000 technology crash and the 2008-2009 Great Recession.

Before the Great Recession, the national debt was less than $10 trillion, and the Federal Reserve's balance sheet was only about $900 billion. The national debt now stands at more than $31 trillion, while the Fed's balance sheet includes $8.6 trillion of Treasury debt and mortgage-backed securities.

> **These are staggering amounts that will make it difficult to deal successfully with the next financial crisis. And the next financial crisis is inevitable … If the U.S. is to weather the next economic crisis, budgetary prudence and restraint are required today.**
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> **Howard B. Adler, Author - WSJ 12/21/22**

Remember, the U.S. government does not account for its liabilities in the same manner as corporate America. For example, over the next 75 years, Social Security, Medicare, Medicaid and other such programs are expected to deliver a net budget shortfall of $71 trillion. Added to our currently stated national debt of more than $31 trillion, that means the U.S. has an actual total debt balance in excess of $100 trillion.

The debt ceiling should be modified to include total obligations, and the Treasury should begin explicitly keeping track of how much Washington really owes. Perhaps transparency will open congressional eyes. At the very least, it should alert voters to the frightening scope of federal largess so that we can hold Congress's big spenders and benefit granters accountable.

Vince Kolber, Chairman of RESIDCO – WSJ 12/20/22

The National Bureau of Economic Research (NBER) recently concluded that China's government subsidies for business generate no material positive effects. The researchers found that subsidies are often given to favored groups to stabilize employment or support declining industries.

At the aggregate level, subsidies seem to be allocated to less productive firms, and the relative productivity of firms' receiving these subsidies appears to decline further after disbursement.

Branstetter/Li/Ren, NBER – WSJ 12/14/22

In a related study, the above authors noted that "innovation promotion subsidies" that went to such favored industries as electric vehicles and computer chips, saw little evidence of productively improvement or increases in R&D expenditures, patenting, and profitability.

> **Some of this will sound familiar to readers who recall the U.S. fretting about Japan's government-led growth model in the 1980s … We know how that turned out. China is a formidable economic competitor, but the key to its success is the energy and ingenuity of its people, not central planning and state subsidies. The strength of the U.S. system is free-market competition and a rule of law that allows innovation and the private allocation of capital.**
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> **The Editorial Board – WSJ 12/14/22**

With businesses turning to remote or hybrid workplace strategies, office building values are on the decline. According to Green Street, a real-estate analytics firm, average quality office buildings have lost about 25% of their value since the beginning of the pandemic.

The sharp decline in office building values is likely to become a growing problem for the budgets of cities, schools and other jurisdictions that depend heavily on property taxes from these building owners.

Peter Grant – WSJ 12/13/22

U.S. scientists have been able to generate the first net energy gain from a controlled nuclear fusion reaction. Fusion's input is hydrogen, the most abundant element in the universe.

Today's nuclear plants utilize fission reactions that involve splitting atoms and result in radioactive waste. Fusion combines atoms … and could potentially provide unlimited clean energy with no hazardous waste.

What the experiment proved is that scientists can recreate the physical reactions in stars. But scaling the technology and making it commercially viable by most scientists' accounts will likely take another few decades.

The Editorial Board – WSJ 12/13/22

In 2021, the Japan Center for Economic Research expected China's nominal GDP to exceed that of the U.S. by 2029. That is no longer the case. The Japanese think tank now believes U.S. GDP will remain well ahead of China's by as far out as 2035.

The U.S. – China "decoupling" could limit the Chinese economy's access to advanced technologies. A declining working age population will also weigh heavily on China's economic growth.

> **Notably, much of this is self-inflicted … The "decoupling" from Western technology is a backlash against the intellectual property theft, spying and political bullying that have marked the Xi regime.**
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> **The Editorial Board – WSJ 12/19/22**

Most of us are aware of the *rule of thumb*, which suggests retirees spend no more than 4% of their savings each year. With market valuations at *nose-bleed levels*, Morningstar researchers actually lowered their spending target to 3.3% for 2022. The target has just been increased to 3.8% for 2023, to reflect declining market values.

Let's do the math: If you had $1 million in savings last year, Morningstar recommended spending $33,000 annually. But, let's say your portfolio value now stands at $850,000. No problem, because Morningstar currently suggests you spend 3.8% of the balance, or $32,300. So, your *dollar* target is practically the same even after a 15% portfolio decline. How's that for making lemonade out of lemons!

Daniel G. Corrigan, CPA/PFS, CFP®