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VERIPAX VIEWPOINTS

VERIPAX WEALTH MANAGEMENT

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The Wimpy Generation

To just get the obvious out of the way: I'm getting old. Now that that's done, I can cite the famous quote from the Popeye character Wimpy, "I would gladly pay you Tuesday for a hamburger today." Apparently, the Popeye comic strip never included a Tuesday. That line first appeared in the Popeye comic strip in 1934, and although I'm not *that* old, I still remember it from watching cartoons as a kid. I was born in the last year of the Baby Boomer generation, so when I say this, I'm including myself. My generation is the Wimpy Generation, as we have fully and enthusiastically embraced the notion that we will gladly have someone in the future pay for whatever we can consume today.

What's the Problem?

Here are a couple of interesting data points.

U.S. National Debt……………………………………$21.97 trillion
Annual Budget Deficit………………………………$865 billion
Personal Debt per Citizen…………………………$59,293
Total Debt (Gov't+Personal) per Family……$856,614
Average Savings per Family………………………***$11,607***
U.S. Unfunded Liabilities…………………………..$122 trillion
Unfunded Liability per Taxpayer………………$999,811

These are a bunch of big numbers (except for the Savings one), but do they really mean anything? They've been huge for years and the economy hasn't crashed. In fact, deficit spending by the government usually helps the stock market, at least in the short run, and our economy is based on consumption. "GDP" can be thought of as the nation's income, and the current debt is about 104% of GDP. A lot of people have a mortgage that's bigger than their annual income, so that's not so bad. The government does need to borrow money in order to pay interest on its debt, which creates a debt spiral that can't continue forever, but it doesn't mean the economy will get crushed under the weight of its debt tomorrow or next year. However,

as the economist Herbert Stein once said, "if something cannot go on forever, it will stop."

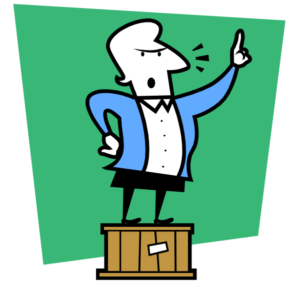
Consuming the Future Now

Debt that pays for itself is typically not an issue. This would be debt used to expand a business, for example. Even a mortgage is not considered "consumer debt" because it is used to buy real estate, which is an enduring asset. In the last decade the amount of money that Americans owe hasn't changed much, but the nature of the debt has changed a lot. Mortgage debt was a big contributor to the Financial Crisis, and that has improved. At the same time, consumer debt (car loans, credit cards, student loans) has taken off. Consumer debt essentially moves future consumption into the present, which means, at some point, it won't be available in the future. Is this an issue? It absolutely is.

Why Does It Matter?

The U.S. economy is based on ever-increasing consumption. Bigger TV's, cooler cars, newer iPhones, the latest gadget you didn't know you needed and realize you didn't need after it breaks. By driving up consumer and government debt, the Baby Boomer and Gen X (1965-1979) generations have moved more consumption from their kids and grandkids to the present than any generation. This will change the equation of the economy. It has to. We don't know when or what the tipping point will be, but we do know we are accelerating to the point where consumption will have to slow down due to financial physics. In the meantime, we'll gladly pay Tuesday for what we use today, and hope Tuesday never comes.

Something to think about:



"Debt, we've learned, is the match that lights the fire of every crisis.

Andrew Ross Sorkin

"The future ain't what it used to be."

Yogi Berra

Market Comments

January was a great month for the market. The skies are clear and it's safe to go back into the water. Was December the "crash" so many economists have been predicting? No. It was a glitch that was probably caused by a number of factors, but an economic slowdown was not one of them. It's always important to keep in mind that the stock market is not the economy. Uncertainty about global trade relationships, the government shutdown, and probably some tax-loss selling to offset gains in technology stocks were all likely contributors to the jostling in December. However, corporations are still getting some benefit from tax reforms, and as a result, corporate stock buybacks are still going strong. This provides an underlying stability to the market, which is what we saw in January.

The big stock drop in December was fairly significant from an investment performance standpoint because it happened in December. Wait…why does it matter whether a stock market drop happens in December or, say, May? It doesn't except for the fact that, for no rational reason, we tend to focus on performance from January to January. It's pretty common to ask how an investment or a portfolio did "last year," even though January-to-January performance is no more relevant than June-to-June performance. Because the stock market drop happened in December, many investing strategies that normally recover fairly quickly after a drop ended up not recovering until January, and that means their 2018 performance didn't look very good. Again, it doesn't matter, but it does have an emotional impact.

Another significant milestone will occur next month that will likely mislead investors into all kinds of bad decisions. February and early March was a horrible time for the stock market back in 2009. So what? That was 10 years ago, but that's exactly why it's significant. Many investors look at a fund's 10-year track record to determine its "long-term performance," and for most funds, their 10-year track records will continue to get better up until March 9, which is when the bottom of the financial crisis was hit. The funds that lost the most money but then recovered with the market will have outstanding 10-year track records. Funds that held up well during the financial crisis and have continued to experience steady performance since then will look crappy by comparison. I pulled up a typical mutual fund (American Funds Fundamental Investors Fund) and compared the 10-year performance to the Catalyst Millburn Hedge Strategy Fund. American Funds beats the Catalyst fund by an average annual rate of more than 7%. Back up the starting point by 2 years, though, and the Catalyst fund wins by 1% per year. This is because the American Funds fund dropped over 31% during the financial crisis, and the Catalyst fund gained 5%. Which one do you think will hold up better in the next downturn?