

## Something to Think About



OAKWORTH  
CAPITAL BANK

COMMON CENTS

The other night, I dreamt a massive meteor hit the earth. Since I typically dream in comedy and am not prone to worrying during waking hours, this was both a departure from the norm and somewhat disconcerting. After all, not much good will come out of a cube with 1 mile edges hurtling into the earth from deep space at what could only be described as a very rapid rate of speed.

Perhaps my dream had something to do with recent articles I have read about some really cool developments in astronomy. Maybe it had something to do with the wall of worry over the North Koreans, and others. It very well could be my subconscious is deeply discouraged by what passes for leadership these days, at all levels of society. You know, it is likely an amalgam of numerous peccadillos in the transom of my mind. I have no idea, and I suppose it really doesn't matter.

After all, the sun will rise in the East tomorrow.

If it doesn't, the effect to my personal well-being of being hurtled forward at 1,392.26/kilometers per hour while I slept will take care of any temporal worries I might have had. Huh? Well, Birmingham is at 33.5207 degrees latitude, and the speed of the rotation of the earth where I live is equal to  $\cos(33.5207)$  times 1,670/kilometers per hour (which is the speed of rotation at the equator). For the sun to not rise in the East, the earth would have to stop revolving. Voila.

When you really think about it, we live in some extraordinary times for mankind, particularly here in the United States. It has been within recent generations people were primarily concerned with having enough food to eat, clean water to drink, and a safe place to put their head at night. While this is still true for many in the world today, we have largely met, and exceeded, these primary needs for human survival throughout much of the world. This leaves us with things to worry about which the Founding Fathers of this country wouldn't have been able to comprehend.

Granted, some of these contemporary challenges are troubling, but others aren't.

On Monday, I wrote a quick note to our client advisors about the upcoming week, and what could move the markets one way or the other. Since the economic releases were/are largely secondary or telegraphed, I posited Janet Yellen's testimony to the Congress this week was likely the only meaningful event for investors. As I type this morning, this seems to be the case.

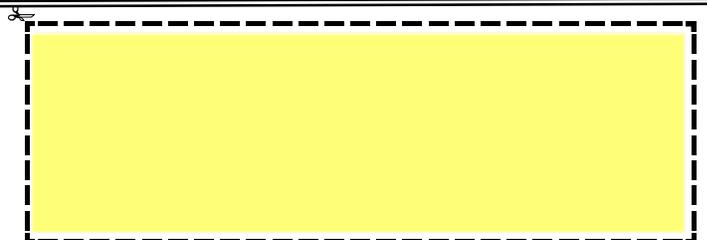
While they shouldn't have been, folks have been worried the Federal Reserve intended to remove the vast stores of excess potential liquidity in the markets more quickly than would be, um, prudent. If this was worrying me, I wasn't aware of it. The reason is pretty simple: the voting members of the Federal Open Market Committee aren't morons. Far from it.

Further, the very bureaucratic and regulatory nature of the Federal Reserve all but ensures it doesn't behave in a rash manner. To that end, I have yet to meet a regulator or auditor, at any level of authority, who has told me: "what in the heck are you waiting for, an engraved invitation? Just do it, and deal with the consequences later. Come on man, time and money are a wasting."

Shoot, if the powers that be want us to use four separate individuals to mail a check from a client account, I strongly doubt the central monetary authority of the world's largest and most dynamic economy is going to say: "\$1 trillion...poof, up in smoke, no more and done." Four people to mail a check? That's right. One to print it out. Two to sign it, and another to physically mail it. No, I

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am not kidding.

So, when the markets started rallying on Wednesday during and after Yellen's comments, I had a pretty good idea the academic bureaucrat in Janet Yellen was talking, as opposed to her brash, impetuous alter-ego. In truth, I doubt the latter personality even exists, but I will be willing to pay a few bucks to meet her if she did. Regardless, I didn't have to read the transcript, as I probably could have written her comments about the partial unwinding of the quantitative easing programs for her.

However, it was her comments about opioid use in the US which kind of surprised me. Clearly, I would imagine the question to her on the topic from Sen. Donnelly had something to do with a recent Goldman Sachs report on the issue. Consider these paragraphs from a Bloomberg article on, and related to, the exchange:

“An unprecedented opioid epidemic is raging across American communities, and Federal Reserve Chair Janet Yellen told a congressional committee that it has economic implications alongside its clear social costs.

“I do think it is related to declining labor force participation among prime-age workers,” Yellen said of the opioid epidemic while answering questions during testimony before the Senate Banking Committee on Thursday. “I don't know if it's causal or if it's a symptom of long-running economic maladies that have affected these communities and particularly affected workers who have seen their job opportunities decline.”

Yellen's comments come as overdose deaths are surging across the country. The opioid epidemic is the legacy of a major increase in painkiller prescriptions during the late 1990s, though it has transitioned to illicit drugs including heroin and fentanyl in recent years.

Employers often cite it as a workforce readiness issue and its footprint spans age and socioeconomic demographics, though it has hit working- and middle-class communities in Appalachia and the Northeast especially hard.”

Personally, I thought it kind of strange for the head of the world's most meaningful central bank to be discussing opiate use, but weirder things have happened. Then, coincidentally, I watched a PBS program about the history of 19<sup>th</sup> Century China on Thursday evening, which I had 'taped.' If you know even a little about China's history, you can imagine it covered the Opium Wars in some detail.

At the start of the 19<sup>th</sup> Century, historians estimate the Qing Empire's share of global GDP was roughly one-third. European countries tried to tap into that wealth, but found their ships going to China were largely empty and ones coming home were stuffed with things like tea, silk, spices, and porcelains. In truth, the Chinese were largely self-sufficient at the time, or presumed to be so. What could they possibly need from the Europeans? Well, the British found something in its colonial empire which seemed to fit the bill: opium.

Make no mistake about it, the British didn't take kindly to opiate use in its home islands, but trade is trade, and an imbalance of trade was anathema to economic prosperity in mercantilist thought. So, grow in Burma and India, and export the stuff to China. Soon, the Chinese couldn't export enough goods, and started exporting silver...such was the demand for opium. This led to social upheaval, like the Taiping Rebellion, and a general disintegration of societal structure. As a result of this, the corrupt powers that be in Beijing, which means simply Northern Capital, at worst tried to turn back the hands of time to former Confucian glory days with disastrous results. At best, they were slow to adapt, negligently so by failing to deal very real societal problems caused by, arguably, globalization.

By the end of the 19<sup>th</sup> Century, China's share of global GDP had shrunk to roughly 9% while its population had grown in spite of itself. As a result, China was a significantly poorer country in relative and per capita terms than it had been a scant 100 years previous. Soon, it collapsed altogether, culminating in what historians will call an even more disastrous century, if they haven't already. To that end, by 1950, experts estimate China's inflation adjusted economic output had

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only grown 7.2% over the previous 130 years. That works out to be a disastrous 0.05% annualized rate of growth.

While the Chinese made a lot of colossal errors in decision making during the 19<sup>th</sup> and 20<sup>th</sup> Centuries, like the Great Leap Forward and the Great Proletarian Cultural Revolution, it would be fair to say China's political stagnation and corruption, an imbalance of trade, and a marked increase in societal drug addiction predicated a two century decline.

Scary that, at the least the comparison.

So, it was/is with some measure of concern I hear the Chairwoman of the Federal Reserve discussing drug addiction and its negative implication for the US economy, let alone society. The world has seen this played out in the past. While it is still very early to say "this too will happen," I am quite certain political partisanship and intransigence are not the cure for what ails us, both societally and economically. Further, we worry with things that may or may not be, when real problems are playing out close to our homes, things that are traditionally un-American like the lack of hope and economic opportunity.

Hey, I didn't come up with that. Even Janet Yellen said as much this week.

As a result, as I have long maintained, the problems in the US are more societal than they are economic moving forward. We will not suffer the same economic fate as China did in the 19<sup>th</sup> and 20<sup>th</sup> Centuries, since our economy is more adaptive to change than that of the Qing back in the day. However, our growth will be extremely uneven in socio-economic terms.

While this has been the case for some decades, the trajectory of the disparity will steepen even more significantly over the next decade. The reason has nothing to do with the Federal Reserve reducing its balance sheet, let alone any future quarter-point increases in the overnight lending target. It has nothing to do with Jim Comey, the Russians, Bernie Sanders' wife, or the President's son. Nope.

It has EVERYTHING to do with the ongoing very sharp acceleration in technology which has made vast stores of American workers ill-prepared for a very demanding, post-Industrial, knowledge based 21<sup>st</sup> Century global economy. To that end, after reading numerous articles, watching umpteen programs, and sitting through any number of presentations I will give you a word: fungible. If that word is a little too nerdy for you, just hum a little Pink Floyd to get the meaning: "all in all you're just another...."

You know, after writing and reading this newsletter, perhaps I do worry more than I think I do. Perhaps I just worry about stuff that gets lost in the shuffle, that which has faded into the backgrounds of supposedly meaningful discourse....more out of political necessity than relevance, at least the political necessity of politicians.

Admittedly, this is pretty depressing stuff, but we still have time to fix our problems or at least attempt to fix them. Let's find some common ground, and start with education, taxation, and regulations and work from there. After all, anything man has created man can either destroy or fix.

This is much unlike massive meteors hitting the earth. THAT we can't really control, so we shouldn't worry about them, even if they do make for extremely cool, vividly, and ultimately unsettling dreams.

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