

Something to Think About



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COMMON CENTS

Obviously, I haven't gotten out a newsletter in a few weeks. I was physically out of the office on two of those Fridays, and last week? After getting about halfway through with Common Cents, I decided to actually read what I had written. I will make a long story short, and tell you I decided it best not to send it out; it wasn't worthy of anything other than wrapping fish. As it was very late in the day, I didn't have time to start and complete another.

There are no two ways about it: the biggest story in the world is the US Presidential election. While I have long maintained US Presidents receive either too much blame or too much credit for the economy under their watch, the buck has to stop somewhere. With that said, whoever inherits the White House in January will inherit an economy with arguably more headwinds than tailwinds, but one that doesn't appear to be falling apart either. The last two Presidents didn't have the same luxury, particularly Barack Obama. While we can debate how well he played the hand he was dealt until the cows come home, no one can deny he had some pretty bad cards.

The present two challengers? Well, Clinton certainly has a bigger laundry list of economic issues, by a long shot. So much so, I wish she would pare it down to a few larger issues, and really hammer home on them. Combined, I would say her platform is kind of as expected. There are some sparks of economic growth on the margins in her plan, and there don't appear to be any real death knell issues. However, combined, there isn't any: "FINALLY!"

In a lot of ways, I would consider it so many variations on a theme, a tweak here and a tweak there, and a lot of which won't see the light of day if the GOP maintains control of the House. She knows that, so why not make some hay with a few populist promises? Make corporations, the wealthy, and Wall Street pay their fair share? Oh, that plays extremely well with the disaffected and disenfranchised, but really? You think that type of thing stands a snowball's chance in a Republican-controlled House of Representatives.

Did I just make an analogy I didn't intend to make? No matter.

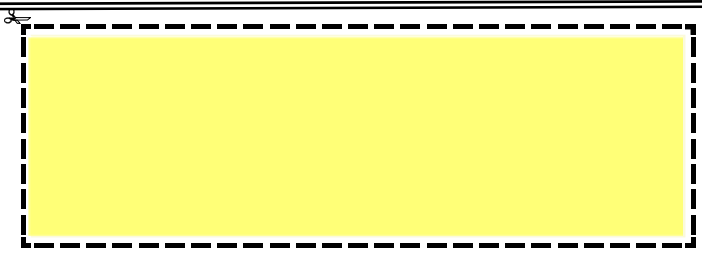
As for Trump, his recently announced plans to simplify the tax code and reduce (or eliminate) the corporate income tax would be much more beneficial for the long-term health of the US economy and overall wealth creation. I mean it isn't close. However, after looking at the electoral college map, I just think the Donald has an extremely difficult uphill battle. Then, there are his comments on trade, capital controls, and punishing US multinationals for producing in foreign countries, amongst other things. When you add it all up, I think there must be one character named TRUMP, and he is indeed a character, played by a number of different actors.

Writing as unbiased as I can, if gridlock is the probable case scenario, I will learn to live with it and love it. It matters less what the rules are, as long as they aren't constantly changing and evenly applied. Basically, if I know the definition of success, I can hope to achieve it. I can't if it is constantly changing.

That is all I will say about this, for now, as I think the longer-term problems are more societal than economic. You see, economic growth is simply an equation. We can continue to growth 2% until Domsday, provided the Top 25% grows 5% and the Next 25% grows 3%. Done, and it doesn't

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matter that the Bottom 50% don't grow at all. Heck, we can break it down in quartiles like this: Top = 6%; Second = 3%; Third = 0%, and Bottom 25% = -1%. It still equals 2%, and some variant of this will likely happen for foreseeable future. Those with significant marketable skills will continue to advance, and the living standards of those without will decline. Sad but true.

I would submit an 800 lb. gorilla in the room is the likelihood wages for unskilled labor in the global economy will converge over time, when adjusted for purchasing power parity. Put another way, there is no real reason for an unskilled, semi-literate worker in the US to make significantly more than the same worker in another market, assuming approximate levels of productivity. We should make more because just because we are Americans? While a nice thought for us, the rest of the world might not agree....and doesn't.

As an add on to this, I would suggest our society seems to be veering off into some weird idealism more than at any other time in my life. One of the more intense debate topics will be a free, or debt-free, college education. The thoughts behind this are: 1) too many of our young people are saddled with too much debt, which puts them behind the 8-ball when they should be building wealth and establishing credit, and; 2) a college degree is necessary for career success.

I can't argue with the former; it's completely accurate, bordering on criminal. The latter is patently false. While you can guess the answer to this question, what do the following people have in common? Thomas Edison, Steve Jobs, Bill Gates, Abraham Lincoln, Mark Zuckerberg, Ted Turner, Cornelius Vanderbilt, and Ralph Lauren (among others). That's right.

Now, the most economically efficient way of ridding our young people of debt is for fewer of them to get a college degree. That will drive down prices like nobody's business. It is all Economics 101. If the demand for something drops faster than the supply, what happens to the price? That's right, it goes down. Intuitively, what will happen to the demand for college IF Washington makes it "free"? Do you think it will go UP or DOWN? Unless something very strange happens, I would imagine it will go up. As such, what will happen to the price of it, regardless of whether the student is actually paying it? Someone will, namely taxpayers, as the money has to come from somewhere.

Further, universities will have NO incentive to keep costs down while demand goes UP and Washington fits the bill. That giant sucking sound will be the enormous amount of money the soon to be diploma mills will be sucking out of the rest of the economy. But will this dramatically improve the career prospects of the average diploma holder? Of course not. Really?

Again, it is supply and demand. What will happen to the value of a college diploma in the economy IF the supply of things shoots up? Particularly from the schools awarding the most? We will still have the same problem, relative inequality, but society will be fitting the bill as opposed to the student.

With this in mind, what if I were to tell you the Employment to Population Ratio of Gulf War Era veterans between the ages of 25-54 was 80.9% in 2015? Now, what if I told you it was 77.0% for non-veterans? This is for both genders, all ethnicities, and all levels of educational attainment. Would you or could you make an argument that military service

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is pretty good determining factor for employment? The data would certainly suggest that...so, why aren't we talking about things like the draft? That is if the goal is to provide better employment opportunities for young people in the future? Wouldn't military service be more beneficial than picking up the tab for an underperforming/indifferent student entering the workforce with an increasingly worthless diploma from a mill? The data would suggest there is merit to this argument, so why isn't compulsory military service and/or training on the table?

As for Trump, I am not sure if I have seen a direct response to the 800 lb. inequality gorilla. Perhaps it is the huge wall with Mexico that will supposedly protect unskilled and semiskilled jobs for the native born. However, if I have get up and go, and get up and leave some village in Chiapas, I am not going to let something like a wall stop me from coming to El Norte. Further, I haven't quite figured out how such a thing will really help the economy, and why Pena Nieto is going to agree to build and pay for it. Perhaps I just haven't read deep enough.

So...free education and huge walls? That is tasty bread for the masses. Neither will have the desired effect, whatever that may be.

For all hullabaloo over the election, the markets haven't recently seemed to notice, and for good reason: nothing has changed, and nothing likely will change dramatically moving forward. Investors appear to be expecting gridlock, and that is just fine with them. In truth, as I type this, that does seem to be the probable case scenario. I don't see how the Republicans can lose the majority in the House, and I don't see how they can occupy 1600 Pennsylvania Avenue. The Senate? The GOP has 24 seats up for reelection (out of 34), and currently holds an 8 seat majority. It will lose some seats, but probably nowhere near enough for the Democrats to run complete roughshod over the Senate, if even a majority. A split 50/50 is probably the easy bet right now, as the Democratic seats up for grabs are in some of the more left-leaning states.

Basically, nothing gets done, nothing. The economy is mediocre, but the US is still the best developed market for a positive return. Corporate earnings are the financial equivalent of a deviled ham sandwich, but they could be worse...yes, they could be worse. It seems those who want to work can find some kind of work, even if it isn't necessarily the work they want to work, and, yes, that was intentional. Real wages have crept up over the last year or so; this hasn't been meteoric, but at least they aren't going down.

In truth, when you look at everything we know and everything we expect to happen (with some measure of surety), there isn't any real reason for the markets to behave much differently than they have. Current conditions feel oddly like autopilot. It is kind of uncomfortable, as it makes you wonder when the "other shoe is going to drop," it really does.

However, if my other alternative is a sell-off, I will take uncomfortable autopilot 8 days out of the week. In the meantime, I will continue to sort through the issues.