WELLS TRECASO
FINANCIAL GROUP

Portfolio Talk

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"Note to salary setters: Pay your people the least possible and you'll get from them the same."

-Malcom Forbes

The economic recovery has finally filtered down to the masses with income increases greater than the rate of inflation. According to the Bureau of Labor Statistics the fourth quarter of 2018 yielded a wage and salary increase of 5% compared to the Consumer Price Index for All Urban Consumers (CPI-U) of 2.2% over the same time period.[1] This is good news given a true economic recovery cannot continue without participation by all. Many have argued that this recovery, starting in March 2009, has benefited the wealthy asset holders (equities, real estate, etc.) and not the wage earner. From the bottom of the markets I would agree. However, when you take a deeper dive it's not so much the case. Take for example the return of the S&P 500. If you take the return from March 2009 to March 2019 the return is exceptional, up approximately 275%![2] But when you look back to the top of the market in March 2000 the S&P 500 is up approximately 95%. Not that 95% is bad, but when you annualize the return it's only 3.56%...not nearly as impressive. Median Household Income [2] did not fare as well from January 2009 to June 2018, (latest data) up approximately 20%. However, going back to January 2000 Median Household Income was up 53%, or 2.27% annually.[3] Not that a differential of 1.3% annually is a good thing, it's just not as bad as some media scores would have you believe.

Income inequality is a real problem in our country that needs to be addressed. The middle class is shrinking due to the shifting of job opportunities. Union jobs once plentiful have left, going to emerging countries seeking lower employment costs. These were high paying jobs with great benefit packages. Jobs that were mainly in the manufacturing sector of the economy employed a significant portion of the middle class. As the "Globalization" effect occurred, these jobs began to fade away leaving these highly paid displaced

[1] News Release, Bureau of Labor Statistics; DTD Jan. 17, 2019
[2] S&P 500 Historical Prices by Month; www.multpl.com/s-p-500
[3] June 2018 Median Household Income; Seeking Alpha, Market Outlook

workers without broad based skills and few opportunities. Places like Youngstown, Flint, Detroit, Allentown, etc.…began to struggle and towns fell into disrepair as did their communities. Drug and alcohol addiction became rampant and a generation was lost! Getting back on track will take a monumental effort and the focus will be on the younger generation, giving them training and job skills to compete in today's economy. Kind of reminds us of the displaced white-collar middle manager of the 1980's when technology came into vogue. Productivity surged but the displaced worker never found his/her way back to the same level of employment. Those that did emerge did so by reinventing themselves.

I believe the solution will be multifaceted and will require unique strategies. Ray and Barb Dalio, through the Dalio Foundation, have teamed up with Connecticut State Government. The goal is to keep 22% of at-risk students from disengaging from education. Their belief is that the $900 million Connecticut spends on incarceration would decrease meaningfully by getting these kids to successfully complete high school and finding decent employment. The $100 million the Dalio Foundation donated was matched by the state and earmarked for education. Many believe public and private partnerships such as this is a step in the right direction. Judd Gregg, former Senator and Governor of New Hampshire, said recently that our politics have turned more toward a nation of envy vs. that of opportunity. We need to have our citizens believe in the potential each of us have and the possibilities in achieving great things! I believe with education and training many more doors will open for the disengaged and disenfranchised.

Update

Earnings season is upon us. Speculation is that we're headed for an "Earnings Recession". What that means is that coming out of a year that featured a boost from tax reform, earnings will either flat line or have negative growth compared to last year same quarter. The concern would be earnings staying on a negative trend. We believe earnings will rebound and this quarter is more of a "settling" process, digesting our Trade Negotiations with China and the European Union. It appears one of the potential speed bumps has been softened, that of the Federal Reserve's acting aggressively to normalize interest rates. Chairman Powell has backed away from his "3 more increases in 2019" to the possibility of no more rate increases! He further stated that decisions on rates would be "Data Dependent". So far, so good. We'll keep an eye on earnings and all that impact them. Recession worries seem to be pushed into 2020/21…We'll be watching closely!