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CLIENT BULLETIN

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➢ *Debt Drama*

It seems that every couple of years we hear about the US federal government "reaching the debt ceiling"; a potential "government shutdown"; and the often-threatened though unlikely "default on the government debt." It is important to understand that these three events are very different animals:

- ***Reaching the Debt Ceiling***

This is not an earthshaking event. In fact, it has occurred 75 times over the past 50+ years. It happened again this past March as the federal government's debt closed in on the $20 trillion ceiling and you probably didn't even notice. Since March the government, unable to borrow, has limped along using tax receipts and money from accounts it does not need immediately.

- ***Government Shutdown***

The nonpartisan Congressional Budget Office estimates that by the end of September the stop-gap measures being used by Congress will run out and the government will need to start borrowing again. Unless the president and Congress agree to raise the debt ceiling, a government shutdown may occur. Not a whole lot changes when there is a government shutdown because most of their finances are on autopilot. Taxes are still collected (darn it) and payments to US treasury bondholders – which are the highest priority for whatever funds the government does have - are still made. The military still operates and checks for Social Security, Medicare, Medicaid, food stamps and other entitlements still get churned out. "Nonessential" government workers are temporarily laid off but usually get paid back for the time they didn't come to work and government vendors who temporarily don't get paid usually get their money eventually.

- ***Defaulting on the Debt***

This would be serious. It involves the government not having enough revenue to pay interest to treasury bond holders, thereby "defaulting on the debt." If the president and Congress get to this point, the interest rate the government would have to pay to borrow in the future would immediately skyrocket in order to entice investors to lend money to an entity that had missed payments. These higher interest rates would decimate the government's finances going forward. You will hear the term "defaulting on the debt" thrown around in the next month but it isn't going to happen. The most likely course is that after some serious political wrangling, the debt limit will be raised before too much damage is done.

➢ *These are the Good Old Days*

In June 2017, there were **5.224** million Americans who had their employment end either by quitting, being laid off or getting discharged from work. At the same time, there were **5.356** million Americans who were hired into new jobs. In addition to the 5.356 million Americans who were hired, there are still **6.163** million job openings that have yet to be filled, a record high for a statistic tracked since December 2000 (Source: Department of Labor).

➢ *Better Things to Come*

Last month we reported the depressing statistic that ***52%*** of US households headed by someone at least 55 years old (baby boomers) had ***no money*** saved in any pre-tax defined contribution account, e.g. a 401(k) or IRA. It seems that their younger cohorts are getting the message. A recent report from Bank of America Merrill Lynch revealed that 82% of Millennials and 77% of Generation Xers are contributing to their 401(k) plans. Employers are simplifying retirement plan enrollment with features like auto-enrollment and auto-increase of contributions. The study reported that 97% of employees who are automatically enrolled in a retirement plan stick with their participation.

➢ *80 is the new 60*

In 1930, five years before Social Security legislation was passed, the average life expectancy of US citizens was 59.7 years. That meant the math worked out favorably for a program designed to pay workers continuing income after retirement at age 65. The number of people who could statistically expect to live long enough to actually collect was limited – only 6% of people were older than 65 at the time. Fast forward to today when average life expectancy has increased by over 20 years and couple that with a future longevity dividend from technological and medical science advances and you can see why a 35 or 40-year retirement phase is not an outlying event. Social Security and Medicare have not kept up with the times.

➢ *Say What?*

A research paper I read recently contained the following analysis of the stock market's recent performance: ***"Cross asset correlations have collapsed. Diminishing global macro tail risks have reduced the dominance of the beta–oriented 'risk on/risk off' trade as a source of return."*** I bear no shame in admitting that I have no idea what any of this means. It seems that complex statements like this are meant to confer upon the writer a sense of intellectual superiority in an attempt to give them job security under the guise of "expert" status. Many readers, unfortunately, incorrectly associate complexity with sophistication.

➢ *KISS*

Simplifying a financial situation, on the other hand, doesn't make for a compelling sales pitch. No one brags about simplifying their investment strategy to their peers and people incorrectly assume simple means simplistic. Investing, however, is not Olympic diving – you aren't awarded points for degree of difficulty. Having a disciplined strategy in place that guides you to make high quality investment management decisions even during turbulent times is what makes a difference in generating long-term, real life investment returns.