



RAY'S CORNER

| Ray L. Lent *Chairman,
Portsmouth Financial Services*

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Economic and Market Commentary

The sun is setting, it's hot and dusty, and the dogs are barking their fool heads off. You ask yourself why you ever domesticated them in the first place, and then you see why. Instinctively, they start circling the sheep, keeping them from straying off in a manner you could never hope to duplicate. As the circle draws tighter and tighter, the sheep start heading into their pen, and you close the gate. Hard work, but in many ways it beats your old job—being a hunter gatherer.

Welcome to the new millennium, 8000 B.C.E., and the Neolithic revolution has begun. You're living in the Fertile Crescent, and an agricultural way of life is being discovered. Crops are being raised, cows and sheep are being domesticated, and the entire population of the planet is barely five million people. That's roughly the population of modern-day South Carolina. But you're a dreamer. You close your eyes and try to imagine what the world will be like 5,000 years in the future.

You open your eyes and society has now discovered how to make and fire clay bricks. City states start to emerge, palaces are built and Egypt's first dynasty is created by the joining of

the upper and lower kingdoms of Egypt. That new invention, the wheel, has thoroughly caught on. Boats are using sails, and the Mayans start their calendar. Life is good with all these modern inventions. The entire population of the planet has now grown to 14 million people, roughly the population of modern-day Pennsylvania. Once again, you close your eyes and try to imagine what the world of the future will look like.

The year now is 1000 B.C.E., give or take a few score. The Chou Dynasty is formed in China by Emperor Wu Wang, and the feudal system begins. Around the same time, Nebuchadnezzar begins his rule as King of Babylon. The kingdom of Kush in Nubia begins, the Israelites are defeated by the Philistines, and against all odds, the world has seen a population explosion since the last time you looked. The planet is now populated by 45 million people, roughly the population of modern-day California and Oregon. But as we know, it doesn't stop there.

History marches on and so do people. Another 3000 years finds us in the early 20th century. Man is learning to fly with the Wright brothers, he's perfecting his killing skills during World War I, and an obscure patent clerk in Switzerland publishes his theory of "Special Relativity." His name is Albert Einstein. The planet's population has grown some 35 times since last we checked, and by the beginning of the 20th century, we measured some 1.5 billion strong, roughly the population of modern-day China.

Trends Do Change

In case you've been wondering, the name for social scientists that study population trends is "demographers." (A useful nugget for the next awkward moment of silence you encounter at a cocktail party.) Back to the point. Demographers will tell us that human development, as measured by population growth, can be divided into three

very distinct periods. The earliest period was the longest and it saw very slow growth. Think about it: 30,000 years ago we were painting in caves drawing pictures of animals we killed with sharpened sticks.

It wasn't until what social anthropologists would call the modern age that the world population growth went ballistic. Rising standards of living and improved healthcare were largely responsible for the world's population to more than triple between 1800 and 1950. It's important to note that the growth occurred in spite of all wars, epidemics and famines of that period. It's equally important to recognize that the population growth did not occur evenly throughout the world. For example, between 1800 and 2000, the population of France roughly doubled while the US population increased 50 fold.

World population growth hit its peak in 1962 at just over 2% and has been declining ever since. A good thing, considering that, at that rate, the planet's population would double every 35 years. An unstable burden for planet Earth bringing back images of Charlton Heston's classic sci-fi thriller, "Soylent Green."

So Where Does That Leave Us Today

Today, the world's population stands at approximately 7.5 billion people, and it's estimated to grow to just over 11 billion people by the end of this century. Of today's 7.5 billion people, some 325 million live here in the United States. That means we represent a little more than 4% of the world's population.

Now what's quite remarkable is the fact that, although our country represents just a little more than 4% of the world's population, we produce roughly 22% of the nominal GDP. To insert some dollar signs into this statement, think of it this way: if you added up the cost of all the goods produced– all of the raw materials sold and all of the services provided around

the world in the course of a year, it would equal just under \$80 trillion. Of that \$80 trillion, we produced about \$18.5 trillion worth.

Let me digress for a moment. Remember last quarter's commentary focused on the "Race To 20," the country's fascination with the Dow breaking 20,000 and economists' concern about our national debt exceeding \$20 trillion. Well, since that writing, the Dow did break 20,000 during the "Trump Bump," and then proceeded to sell off during the "Trump Slump." Regrettably, equity markets in recent years have turned into entertainment, and the media is never at a loss for a catchy turn of phrase. Meanwhile, the debt clock keeps rolling forward, and by April 28th, Congress will either need to raise the debt ceiling or begin, as they did a few years ago, to start paying their bills in IOUs. Last time they did, Standard and Poor's lowered the US debt rating, and the market took a sharp decline before bouncing back several months later. Talk about shooting oneself in the foot.

The Table Is Set

Back to our narrative. So we now know the world is comprised of roughly 7.5 billion people. We know our puny population somehow manages to produce roughly 22% of all the world's goods and services, yet somehow we find ourselves going deeper and deeper into national debt. At the same time, we continue to see a widening chasm emerge between the ultra wealthy and ordinary people. So the question begs to be asked, where's the disconnect?

Economic growth and prosperity have fallen in recent decades for two principal reasons: slowdown in productivity growth and a slowdown in labor force growth (proportionate to the population, fewer people making fewer widgets). A couple of weeks back, the government revised GDP numbers for 2016 to

less than 2%. Historically speaking, for the past 50 years, we've averaged just under 3.5%. Let me put into perspective just how important these numbers are. Now if the GDP were growing at 3% and our population growing at 1%, our living standards would rise by 2%.

The difference between output and population growth depends on how fast technology is improving the economy's ability to make productive use of resources. In recent years, it's regrettable, but productivity growth has been falling and is now lower than it has been in the past. Turning this around is no easy matter.

On Second Thought

Last quarter, I shared with you, in the first of what was to be a two-part series, the fact that I had had the good fortune to have recently slept for several nights in a room down in Palm Springs that had been a favorite resting place for Albert Einstein. Although I had no reason (and you probably hadn't either) to think any of his genius had rubbed off on me by the experience, it was my intention to lay out to you the 10 most positive policy recommendations that I had whittled down from dozens of economists and elected leaders from both sides of the aisle that could lead to both market growth and economic expansion in this final part of the two-part series. Well, I changed my mind. The issues and challenges before us are way too important to address in an abridged greatest hits format. So with that in mind, I will share my thoughts with you in a more measured format rather than ask you to drink from a fire hose. Allow me to start with a topic literally torn from the headlines of this morning's paper that ties this all together:

“Trump orders changes on Visa’s action on H-1Bs. Seeks to put America first.”

The San Francisco Chronicle
Wednesday, April 19, 2017

Now we all agree that our country needs safe borders. We need to know who is coming in and out of our country and why. And for those “bad hombres,” we need the ability to keep them out. But when we look in the mirror, we recognize that we’re all here because, at one time or another, someone from our family tree took the heroic action of leaving the known behind and coming to what has become the United States of America. It doesn’t matter if you’re Cherokee, Cheyenne or Lakota Sioux (whose ancestors crossed the Bering Straits during the last Ice Age), or if you came from stock, like I do, of a Prussian cavalry officer sickened by the carnage and bloodshed of the Franco-Prussian War, our ancestors came in search of a better life.

Nothing’s Changed

At our core, Republican or Democrat, we all share this common DNA: America was built to be the city upon the hill that cannot be hidden. Don’t take my words for it. Look back in modern history. In 1961, President John F. Kennedy, addressing the general court of the state of Massachusetts, said:

“We must always consider that we shall be as a city upon a hill, the eyes of all people are upon us... and a government cannot be selected merely on the basis of color or creed or even party affiliation. Neither will competence and loyalty and stature, while essential to the utmost, suffice in times such as these. For those of whom much is given, much is required.”

Some 20 years later, on the eve of his election as 40th President of the United States, Ronald Reagan said:

“Americans in 1980 are every bit as committed to that vision of a shining city on a hill as were those long-ago settlers...

These visitors to that city on the Potomac do not come as black or white, red or yellow, they are not Jews or Christians, Conservatives or Liberals, Democrats or Republicans. They are Americans awed by what has gone before, proud of what for them is still a shining city on a hill.”

Let Me Bring It Home

So, if we make up nearly 4% of the world's population, and we produce over 20% of the world's goods and services, why are so many people's standard of living in peril and the national debt constantly going up? Furthermore, what can we do about it? One of the answer lies within the realm of “personal consumption.”

As a people, we consume 70% of everything we produce domestically. To put this in context, one needs to keep in mind that there's a big distinction between spending our money on things that last, known as durables, things like cars, furniture and appliances, and things that don't last, known as non-durables, like food, gas, drugs, etc.

Let me put this into historic perspective for you. In the not-too-distant past (say the 1950s and the 1960s), Americans consumed much less than they produced and imported, making them net exporters. (This is good.) Now we consume and import so much more than we once did so that we've become a net importer nation. (This is not so good.)

Additionally, today we spend a whole lot more on non-durable goods than we once did resulting in statistics like the average age of a car on the road today is more than nine years. That's older than any time in the past century except during World

War II, when we stopped making cars so we could make jeeps for the war effort.

Again, the answer lies in productivity. That means making better use of the resources available to us whether they be human or natural. The administration's recent efforts at addressing policy reform in the H-1B and H-1B1 eligibility requirements are not totally misguided. There have been numerous examples where American workers have been replaced by lower paid foreign workers, and that was certainly not the intent of the program.

io How Do We Change the Matrix

The focus for all of us should be heightened productivity with the goal of recapturing that 3.5% average rate of growth the country has enjoyed since World War II. To do so, we need to grow new businesses, ones that can find a market, execute, scale, learn, adjust and grow. These are the companies that can provide growth, enhance productivity and improve the standard of living of all Americans.

If thoughtful immigration reform can help us get there, we all win. Immigrants who graduate from a university with skills from a four-year degree program should get a green card along with their diploma and the opportunity to add to the American fabric rather than take their talents back home and not contribute to the US good. The same goes for immigrants who start a business that grows to more than five people on the payroll. None of us needs to look any further than our own family's background. Ambitious immigrants build growth businesses.

Growth businesses are exactly what America needs. None of our problems, be they deficits, unemployment, debts or defaults can be improved on without growth. Solid and

dependable growth. And to achieve that growth, we must be able to think both creatively and collaboratively or future generations will be hindered by small and biased thinking.

Everyone that knows me well knows that much of my time is spent on historical research and reading. Not too long ago, I came across an excerpt of an address that Abraham Lincoln made to Congress in 1862. This period was perhaps the nadir in American history, a time when the Union's fate was in jeopardy and the nation's morale was that of despair. With fortitude and determination, Lincoln said:

“The dogmas of the quiet past are inadequate to the stormy present. The occasion is piled high with difficulty, and we must rise with the occasion. As our case is new, so we must think anew, and act anew. We must disenthrall ourselves. And then we shall save our country.”

Inspiring words 150 years ago and no less inspiring today. Creativity and forward thinking have long been the hallmarks

of the American experience and need to remain so. It's by embracing those time-honored traditions that we can hope to improve the American condition.

Next up will be a discussion of tariffs, duties and protectionism. Anyone ever heard of Senator Smoot or Congressman Hawley? You will.

With Best Regards,

A handwritten signature in dark ink, appearing to read "Ray".

Ray Lent
RLL/dot
Enclosures



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