



## Basis Points – September 25, 2018

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### Above the Fold

- With its upcoming release of its new line of smartphones, Apple is changing the way it schedules release dates, in order to increase profits. With last year's new product release, the highest priced model, the iPhoneX, hit the market six weeks after Apple began offering two other new but less expensive phones. But this year, Apple has prioritized production of its two priciest OLED models, the iPhone XS and iPhone XS Max, whose prices start at \$1,000. Both hit stores last Friday, and will be followed five weeks later by Apple's cheaper new offering, the XR. Customers who are in a rush to get a new iPhone will have to purchase the much higher priced models for now.
- The yield on the 10-year government bond has rallied in the last two weeks, rising to 3.08 percent. While some have noted that Chinese government demand for U.S. government bonds has lessened lately, the reason for the rise in yield probably has more to do with the end date for the corporate pension plan contribution tax reduction from the tax reform bill passed last year. If corporations made contributions to their pension plans before September 15 of this year, they would be able to deduct the contributions at the old 35 percent corporate tax rate, and not the new 21 percent rate. This lower rate would save companies considerable money, so many companies have taken advantage of the program to shore up their underfunded pensions. New cash contributed to pension plans needs to be invested somewhere, and frequently it goes to short-term government bonds, so demand for the 10-year was strong through September 15. Now that the deadline has passed, there is less demand for short-term bonds, so the price falls and yield rises, as it has the past two weeks.

### Three Things

- While it is true that wage growth has moved up at a very sluggish rate since the financial crisis 10 years ago, U.S. employers are boosting benefits, including bonuses

and vacation time, at a faster pace than hourly wages and salaries. Raising perks and giving one-time bonuses gives employers more flexibility to dial back that compensation if the economy weakens significantly. The cost of benefits for private-sector employers rose 3 percent in June from a year earlier, while the cost of wages and salaries advanced only 2.7 percent, the Labor Department said last Tuesday. The benefit gain was driven by a nearly 12 percent increase in bonuses and other forms of supplemental pay. Paid leave, including vacation time, rose 4 percent in June from a year earlier. The trend extends a long-running shift in compensation toward benefits and bonuses and away from baseline salaries.

- A strong source of demand for stocks could be temporarily halted in the weeks ahead. As each financial quarter draws to a close, companies are restricted from purchasing their own shares in the open market in the one month prior to releasing their quarterly earnings information. October will be a big earnings release month, so 86 percent of S&P 500 companies will be restricted from further stock buybacks by October 5, so the large gush of share buybacks that we have seen in the first two months of the quarter will slow to a trickle for a few weeks.
- The *Wall Street Journal* reports that the number of people around the globe living in extreme poverty has fallen below 750 million for the first time since the World Bank began collecting global statistics in 1990, which is a decline of more than 1 billion people in the past 25 years. The World Bank said the extreme poverty rate had dropped to 10 percent as of 2015, and they estimate that the decline has continued over the past three years. The term “extreme poverty” is categorized as living on less than about \$694 a year. The sum, which is based off measures of poverty determined by many low-income countries, is the amount it takes to afford minimal basic needs. Where the poorest people are has shifted geographically recently. In 1990, nearly 1 billion of those in extreme poverty were in East Asia, but decades of rapid economic development in China and other East Asian economies has brought that figure down to 47 million, a decline to a 2 percent poverty rate from 62 percent. Sub-Saharan Africa has made less progress, as its poverty rate has fallen to 41 percent from 54 percent since 1990.

## Did You Know

I have been watching a group of web videos lately called *MasterClass*, which I would highly recommend. It is a video series in which an expert of a particular subject or craft teaches what he or she knows about their life’s work, in 10- to 12-hour lessons. Subjects include Malcolm Gladwell teaching writing. Martin Scorsese on directing. Steve Martin on comedy. James Patterson teaching fiction writing, etc. They are all very good, but one of the most fascinating classes is taught by an astronaut that I had never heard of, Chris Hadfield. Chris was the first Canadian astronaut to walk in space. Chris also flew on two Space Shuttle missions and served as commander of the International Space Station. He said something that was very interesting:

“The common portrayal of astronauts in the movies is that they are arrogant, thrill-seeking, fearless and swashbuckling. In reality, we are nothing like that. Astronauts don’t like adrenaline running through their veins. They don’t want to be thrilled by what’s happening. They don’t want to be overwhelmed by the journey. We want to be calm, cold, calculating, highly aware and competent. We prepare for every possible situation, so that we are not surprised by anything. We want to fly with people who have practiced endlessly and are prepared for any stress that may arise. You don’t want someone up there who is reckless and supercharged, shouting, ‘Hey, watch this!’ Space flight is not supposed to be exciting. If it is thrilling, then you are doing it wrong. Landing is exciting, as only then do you know if you were fully prepared, and successful in meeting every challenge.”

This quote made me immediately think about investing and wealth management. While many new investors want their investments to be exciting to follow on a daily basis, a thoughtful, diversified long-term wealth management plan is not supposed to be a riveting creation. A well-diversified plan is not meant to provide daily entertainment. A wealth plan is not supposed to be exciting. Like space travel, a wealth plan is created and maintained by experienced folks who have seen it all, so are ready for any situation that occurs. People who will not panic if the financial markets go haywire temporarily. A team that is calm and highly competent in a crisis. And people who can stay disciplined to the plan, and who can keep the investor focused on the plan, no matter what happens in the markets. Only upon “landing” in retirement or at some other predetermined goal does the investor feel the excitement of knowing that their financial future is well taken care of. If a portfolio or wealth plan is a thrill-ride every day, then you are doing it wrong.