Basis Points – August 1, 2019

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Above the Fold

The Fed makes its expected cut… and markets move modestly lower — In its first rate cut since late 2008, the Federal Reserve gave investors and consumers a modest nudge to help keep a record expansion going. But as is customary, the Federal Open Market Committee (FOMC) didn't meet everyone's expectations and even backtracked a bit, removing language from previous statements that indicated more urgency to their actions.

They also acknowledged economic positives for balance saying that it "contemplates the future path of the target range of the federal funds rate, it will continue to monitor the implications of incoming information for the economic outlook and will act as appropriate to sustain the expansion, with a strong labor market and inflation near its symmetric 2% objective."

Put simply, the FOMC is tempering expectations, but generally doesn't hike or cut rates in a "one and done" method. The question now becomes will it be one, two or three more cuts before year's end. The probability for one more cut in 2019 is very high according to Fed Funds Futures, but chances for more are going to be hard to predict as this 180 in policy is already an abrupt move from a Fed that was in tightening mode early this year. Despite what was viewed by many as a slightly "hawkish rate cut," FOMC Chair Jerome Powell seemed to strike a modestly dovish tone in his press conference after the cut, making reference to how their policies are working and driving the turnaround in confidence and capital markets, even though other comments suggested a less accommodative tone.

Trade talks with China have been productive, but slow this week, with progression made in the area of agriculture and the agreement by both parties for another face-to-face meeting in September. But until this trade burden is lifted, the FOMC may be under increased pressure to sustain the expansion — and that could be a while.

What's Ahead

The ADP (Automatic Data Processing) jobs report of 156,000 topped estimates, and data from June was revised higher, raising the expectations slightly for the government's report due out early tomorrow, where economists are now looking for payroll growth of 165,000.

Three Things

1. *iDiapers Are Coming* – Despite a 32-year low in births and waning demand for diapers, the two giants in the space, Procter & Gamble (Pampers and Luvs), and Kimberly Clark (Huggies), are testing ultra-premium diapers made from plant-based materials and even a Google-assisted diaper system that tracks activity, sleep and potty events, all beamed directly to your smartphone.
2. *Hacker(s) Strike Again* – Capital One joins Marriott, Equifax, Target and many others as the target of a massive hack that compromised the data of over 106 million customers. The majority of the information appears to be names and addresses, but the sole suspect, 33-year-old software engineer Paige Thompson, did nab 140,000 Social Security numbers and 80,000 bank account numbers, as well as 1 million Canadian "social insurance" numbers.
3. *Domino's Drones?* – Changes are coming to the world's largest pizza chain. CEO Ritch Allison told the Wall Street Journal that instead of outsourcing delivery, Domino's will be investing in automation and even self-driving vehicles made by Ford. "Dom," the company's digital assistant, will be taking more of your orders and driven by big data, Dom will also be shaping any menu changes. The good news is that while robots may help prep and get pies boxed up, they will not replace live pizza makers.

Did You Know?

Over the weekend, 16-year-old Kyle "Bugha" Giersdorf won $3 million after taking first-place in the Fortnite World Cup Finals in New York City. Giersdorf is likely to amass even more earnings as marketing deals roll in, but the Pottsgrove, Pennsylvania native, who's now of driving age, doesn't plan to splurge on a fancy car or a posh, new pad for his family. "All I want," he said (according to the BBC), "is a new desk and maybe a desk for my trophy."

While our kids may admire his video game skills, I think it's safe to say that his intentions on saving and building wealth for the future should impress us all the most.

Following in the footsteps of Warren Buffett, the late John Bogle and other “slow and steady” investors, Kyle could be making the best decision of his life outside of playing Fortnite for six hours a day to train.

Here’s why:

Let’s assume Kyle clears roughly $2 million after-tax and immediately deposits his money into a growth stock fund. With his notoriety, he will likely have marketing and promotional deals over the next few years which, conservatively, are likely to net him another $1 million — and that’s assuming he doesn’t participate or win any more tournaments (which is unlikely). That money will also be deposited into the same plan.

Kids who game at Kyle’s level can also stream their gameplay out to thousands of other gamers who want to watch them via a service called Twitch. The most popular gamers on Twitch can easily earn $400,000 or more per month! But again, let’s assume conservatively that Kyle might earn $10,000 per month until the age of 24, which is considered “old” in the gaming world, at which point he might choose to retire.

Figuring on just 8% annual interest, compounded daily, Kyle will have amassed $7,038,199.56 before he turns 25.

Even if he quit the gaming world altogether before his 25th birthday, his fortune could reasonably allow him to pull 3% annually in income, more than $211,000 in his early years, and still grow his very healthy nest egg well for many years to come. It goes without saying that Kyle will need a detailed plan for protecting, investing and budgeting his money, but he’s already made the right first step in what looks like a very bright financial future.