Norman J. Politziner's
Financial Planning

Fourth Quarter 2021 www.politziner.com (732) 296-9355

# 7 Signs The Economy Is Doing Better Than People Think

Consumer sentiment is depressed, and business owner optimism declined by 18 points in the four months between August and November. Amid the Covid-weary, inflation-battered economy, here are 10 signs the economy is doing much better than most consumers and businesses think.

The U.S. Leading Economic Index (LEI) has soared well beyond heights previously reached in modern history in recent months, and it surged again in November. The index of leading economic indicators is at an all-time high, suggesting the current economic expansion will continue into 2022 and may even gain some momentum in December and into the first quarter of 2022.

Household net worth has surged on stock market and real estate gains, according to newly released data from the Federal Reserve Bank. The average annual growth rate is 5.8% in household net worth versus the c urrent reading, which has gone parabolic. Liquidity pumped up cash in Americans' checking and savings accounts from pandemic aid stocks and home prices have soared. "The 'wealth effect' is something real," according to economist Fritz Meyer. "And it is doing something that it hasn't done since the last bubbles in both the stock market and real estate. When household net worth goes higher, it stimulates higher spending, which stimulates higher stock prices."


The latest financial obligations ratio from the Fed shows the percent of monthly after-tax income that the average household pays for fixed monthly obligations, such as a mortgage, car payments, utilities, and real estate taxes, is near a record low. This suggests there's more left over from monthly after-tax income available to spend on discretionary purchases.

Retail sales, which account for 30% of U.S. economic activity, have skyrocketed since the pandemic first hit in March 2020. Retail sales have not returned to their pre-pandemic growth trend, they've soared well beyond. Retail sales consist mostly of tangible products, as opposed to services. This indicates people may be spending more on goods versus services than they do historically because of Covid-19.

The Institute of Supply

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## *It Ain't Easy To Play The Blues*

Every Friday morning, I play harmonica at the Monroe Senior Center. I am the sole survivor of the group I joined 15 years ago, and now a newer group of harmonica players, from beginners to more experienced, has come on board.

It is the only musical instrument played by blowing out and sucking in. It takes "five minutes to learn and five years to master." I began taking lessons almost 50 years ago and was floundering when my mom came over, picked up my harp, and started playing songs that I was struggling with. My response: fire my teacher and put my harp in the drawer.

About 10 years later, Jon Gindick came in from California with his three-day intensive harmonica class, and I jumped in. Forty years later, harmonica is still a work in progress, but I am functional enough to sit in and jam with some great musicians, play in a band, and help teach others how to bring music into their lives.

My harping experience contains many life lessons: if you want to get better, you have to practice; nothing is perfect; if you make the same mistake twice, call it jazz; and if your mother is better than you without taking a lesson, that's OK too. She was a better musician than I am anyway.

Here's to a musical 2022.

Norm

# A Framework For Investing For Life

Modern Portfolio Theory, or MPT, is a framework for investing. It provides part of the intellectual underpinning of our firm's approach to managing investments. So, it is important to explain it periodically.

Just as constructing the framework for a home is strategically designed by connecting one piece of wood with another, MPT provides a system for constructing a portfolio based on measurable dimensions of investments – history and quantitative characteristics.

Owning different kinds of investments is less risky than owning only one type of asset, and MPT is a system for diversifying across a wide range of assets based on their statistical characteristics.

Classifying investments based on their distinct characteristics – such as the aggregate value of a company's shares outstanding, profit growth, and share-price variance – imposes a quantitative discipline for selecting combinations of investments based on historical data. Investments revolve around a world that is always changing, however, and not enough statistical history of different kinds of investments exists to make investment predictions about the future with certainty. MPT is a way of managing that uncertainty.

Just as every stud and joist in a home has its own mathematical dimensions, investments have their own unique shape and characteristics. MPT organizes statistics that measure the characteristics of different kinds of investments used to construct a portfolio. It's a way of building a portfolio so that the return you expect over the long run is maximized for a given level of risk.

Just as a home can be built to your personal needs and preferences, so, too, can a portfolio be custom-built to suit your personal risk tolerance specifications. To be clear, cookie cutter portfolios is not what we do. Each portfolio can be tailored to an investor's preferences.

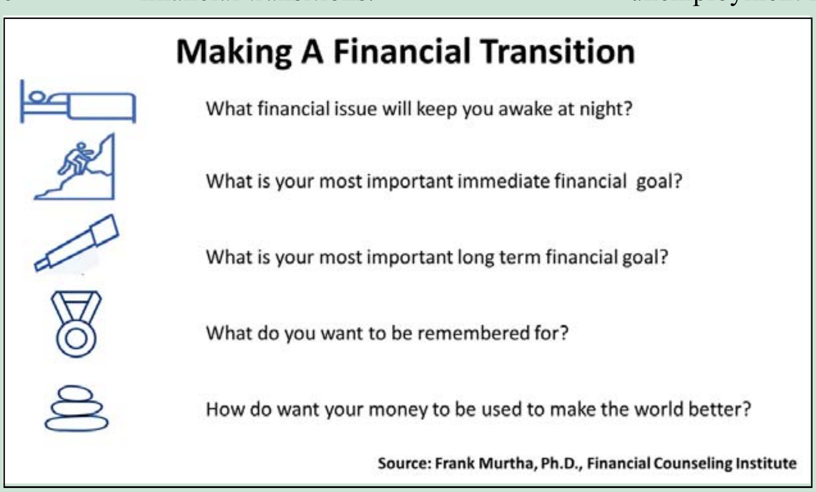
Economist Harry Markowitz introduced MPT in a 1952 essay. He was awarded a Nobel Memorial Prize in Economic Sciences in 1990. Thus, it took from 1952 to 1990 – 38 years – for Markowitz to be recognized by the Nobel committee. This provides insight into the how long it takes for knowledge to be accepted.

Over the last 70 years, the power of Modern Portfolio Theory has grown to be understood. It is now the framework for investing embraced by most institutional investors worldwide and it is now a foundational element in teaching finance at the world's best colleges and universities.

MPT is a starting point for constructing a quantitatively driven portfolio based on fundamental economics. Just as the laws of physics are relied upon for building a home, fundamental factors of economics are relied upon in constructing a portfolio using MPT. To receive a report on investment performance and current financial economic conditions, please contact us. ●

## Making A Financial Transition? Answer These Five Questions

To say current financial economic conditions are unprecedented understates things: The United States, the world's largest economy, by far, is transitioning economically from a once in a hundred-year public health crisis. Americans are also experiencing personal financial transitions, magnified by valleys and spikes in the economy as it recovers from the Coronavirus crisis. The economy is in transition and causing difficult personal financial transitions.




**An economy in transition.** The unemployment rate, at 6.1% in April, is far from the 3.5% achieved for months during the peak of the 2019 expansion. Meanwhile, the worst inflation threat in four decades is causing uncertainty in the stock market. In addition, the federal government spent about $5.5 trillion to inject

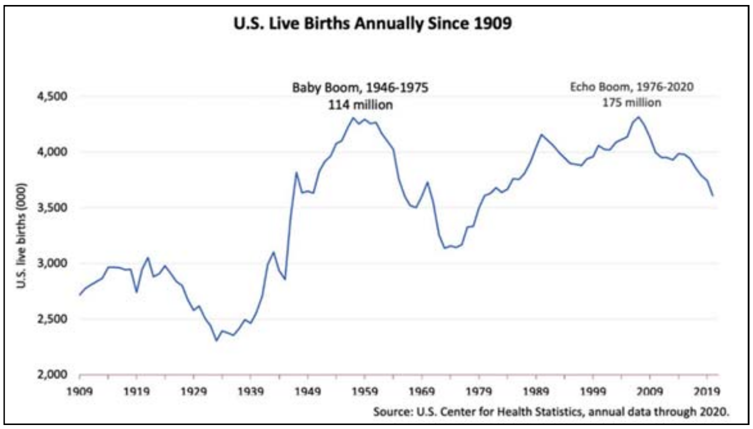
# Special Report: Long-Term U.S. Equity Investments And Demographics

Population trends of the United States versus other countries rarely make headlines in the financial press, but a population bust has been in the news this week.

According to a newly released Pew Research study of U.S. adults, 44% of non-parents ages 18 to 49 say it is "not too or not at all likely that they will have children someday," an increase of seven percentage points from the 37% who said the same in a 2018 survey. That sounds frightening, but is it?

Pew also reported that, unchanged since 2018, 74% of adults younger than 50 who are already parents say they are "unlikely to have more kids". To be clear, the same number of parents are not planning to have more children now versus pre-pandemic.

Moreover, though the pandemic may have caused a larger proportion of 18- to 49-year-olds to say they are not too or not-at-all likely to have children someday, the larger demographic trend in the decades ahead is very positive for the United States compared to other global economic powers. Here's why U.S. demographics are a highly favorable and influential factor in the forecast for U.S. equity investments for the long run.




The size of a nation's labor force is one of the two factors in the equation for calculating an economy's growth potential. Productivity growth plus growth in the working age population, combined, determine the growth potential of an economy. So, how will demographics boost the potential growth of the U.S. economy and U.S. equity investments in the years ahead?

Here's the answer: This chart shows the change in live births in the U.S. annually since 1909. It tells us that the demographic story of the U.S. now is driven largely by these two peaks -- the Baby Boom, which started after World War II, and the Echo Boom, which started in 1976 and encompasses Gen X, Gen Y millennials, and Gen Z millennials. Since 2008, the story has been somewhat gloomy. Growth in the U.S. working-age population has been declining. But look at the long-term forecast.

While the proportion of 18- to 49-year-olds saying it is "not too or not-at-all likely that they will have children someday," grew by seven percentage points, they are on the margins of a larger wave reverberating from the Baby Boom.

In the near-term, the number of baby boomers set to retire is peaking now through 2026. Then, growth of the labor force is expected to slow to a crawl through 2030. In the early 2030s, just a decade from now, the trend shifts, and the U.S. workforce is expected to begin to grow again, and steadily at that, through 2050.

Despite the growing proportion of adults less likely to have children, according to Pew Research, investors should be mindful of the favorable demographics expected to swell the ranks of the working age population in the U.S. at the same time as other global economic powers will be experiencing slowdowns in the rate of growth of their workforces.

By comparison, the economic growth rate for the United States in the decades ahead is going to look attractive to investors globally, because the other major economies that compete for investment dollars -- Europe, China, and Japan – are all now in the throes of declines in the size of their working age population.

As a result, the U.S. is likely to remain an attractive investment destination for the foreseeable future. The U.S. is widely expected to continue to benefit from a continued inflow of capital from investors worldwide -- a portion of which undoubtedly can be expected to flow into the stock market.

Math driving economic and investment growth is hard and is further complicated by the non-stop, 24/7, never-ending cycle of news and social media streaming to our smartphones. The information explosion, ironically, makes it easier to overlook the proverbial forest of evidence crucial to success of your investment plan. ●

cash into the pandemic-stricken economy and keep Americans in need from starving or financial ruin. Moreover, it is almost certain that another multi-trillion dollars in debt will be added to the balance sheet of the United States by the end of 2021 to fund much-needed infrastructure improvements.

**People in transition.** The unprecedented macroeconomic transition is causing unprecedented microeconomic transitions, personal upheaval. Companies are offering buyouts to employees. Home prices in suburbia have increased significantly, causing many to reconsider buying or selling homes. As the outsized boom resonates, some entrepreneurs are making fortunes, while others are losing everything.

If you or members of your family are buying or selling a home, planning to retire, taking a buyout, or making a financial transition, ask yourself these five questions:

1, What financial issues could keep you awake at night?

2. What is your most important immediate financial goal?

3. What is your most important long-term financial goal?

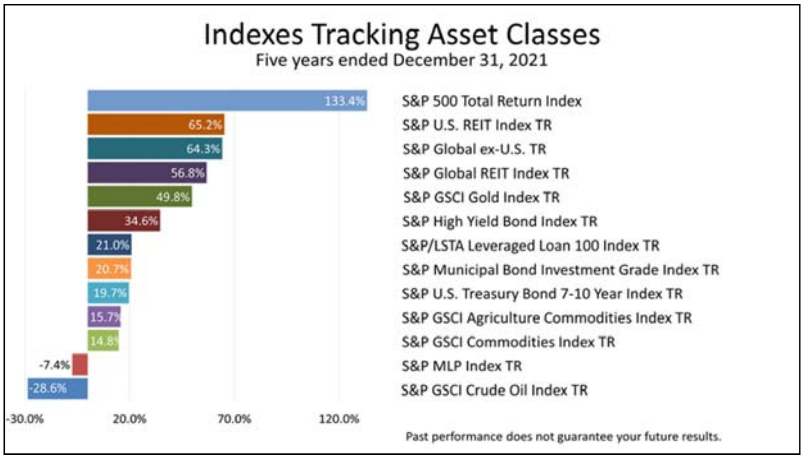
4. What do you want to be remembered for?

5. How do you want your money to be used to make the world better?

Feel free to contact us about your personal situation. ●

# Make This Financial Resolution For 2022

The U.S. stock market's 133% five-year return dominated this diverse group of 13 securities investments. None of the other asset classes came even close to the total return of the Standard & Poor's 500 stock index.




With another year passing, the financial media is naturally talking a lot about the spectacular returns on stocks and real estate, and there's a smattering of coverage about the big losers – investments in energy and commodities. The coverage will get talked about at business luncheons, cocktail parties, and investment seminars. We suggest resolving not to get caught up in the talk in 2022.

The spectacular returns of stocks are causing speculation – not just speculation in risky investments but speculation in the media that the stock market is in for a lackluster year in 2022 or even a loss. For example, *The Wall Street Journal's*, January 3, 2022, print edition, led with a story entitled, "Stocks Confront Rockier Course In 2022." Similarly, *The New York Times*, led its business section on Jan. 1, 2022, with the headline," The Big Uneasy." "Shares soared as interest rates stayed low and stimulus programs helped the economy," The Times reported. "But expected changes could make investors wary."


We suggest ignoring the speculation. The stock market is unpredictable. Covid, too, has been unpredictable. Inflation is higher than in decades. Federal Reserve policy just changed from dovish to hawkish on inflation, but interest rates have never been so low in U.S. history.

Despite the unprecedented crosscurrents, the stock market could go much higher in 2022. It also could go down. However, the economy is roaring and there is certainly no sign of a recession on the horizon.

If you rely on our advice, resolve in 2022 not to get caught up in the financial zeitgeist. ●

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### 7 Signs The Economy Is Doing Better

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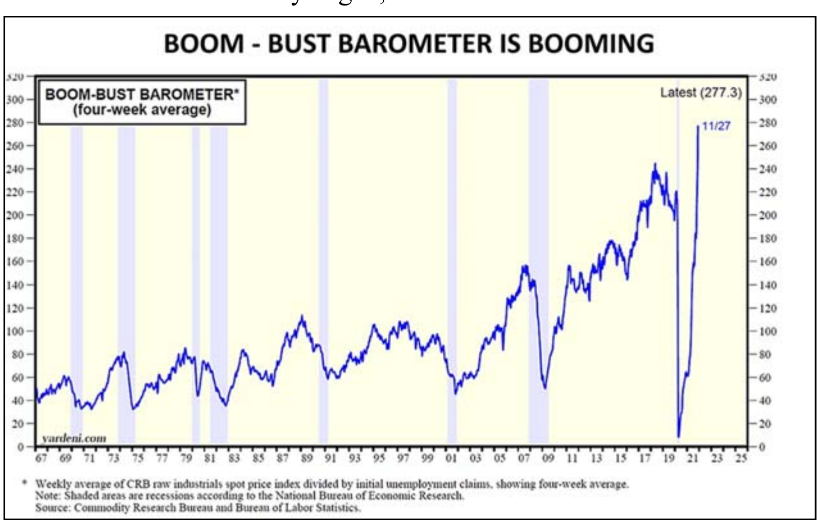
Management's survey of business conditions monthly at service-sector companies has soared to a record high. The service sector accounts for 89% of U.S. economic activity and 91% of non-farm jobs. A forward-looking component of this index, which measures the flow of new orders, was also at a record, at 69.7.

Commodity prices recently hit a record high while initial unemployment claims plunged, causing Yardeni Research's Boom-Bust Barometer to go parabolic. Shown here since 1966, the boom-bust barometer went bust when Covid hit the U.S. in February 2020 but in March 2020 when the recovery began, it soared and in recent months it's soared faster and higher than ever before!




Dr. Yardeni designed the Boom-Bust Barometer to predict economic slowdowns before they become recessions and for predicting expansions before they become booms. The index divides the price of a basket of commodities by the number of initial unemployment claims, and it has a good track record as a reliable predictive tool. It's current reading is consistent with expectations of a boom in the economy. ●

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