Money Never Sleeps

The Newsletter for the Informed Investor

Wealth Management
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The Boomers' dilemma

(... and why Johnny Depp may be like so many others)

"The fundamental cause of the trouble is that in the modern world the stupid are cocksure while the intelligent are full of doubt."

– British philosopher Bertrand Russell (1872-1970)

I like to read. No, make that, I love to read. I read a lot, maybe too much sometimes, according to Sharon. And I read about everything: markets, politics, news, science, religion, music, sports, even the Hollywood gossip pages. The latter always intrigues me because the more I read them, the more I realize that Hollywood types, as elitist as they can be, are really no different than most people on the street. They are just as flawed as the rest of us, maybe more so in some cases.

That's why I've been following the financial woes of Johnny Depp. Now I've always liked Mr. Depp. I've heard he is gracious to fans, generous with friends, has made great movies, and on the side, for fun, plays in a rock & roll band filled with rock icons. Not bad eh?

But Mr. Depp has had one long-term partner and now has two ex-wives. He's lived a pretty lavish lifestyle which only confirms that old adage that the more money you make, the more likely you will overspend on luxuries.

Mr. Depp has been in a legal dispute with his former financial managers, alleging they cost him $40 million and caused his LA mansion to go into foreclosure, and he alleges they are responsible for a nearly $6 million tax bill he owes. In turn, his managers countersued, alleging a "selfish, reckless and irresponsible lifestyle" that cost Mr. Depp ... get this ... $2 million per month.

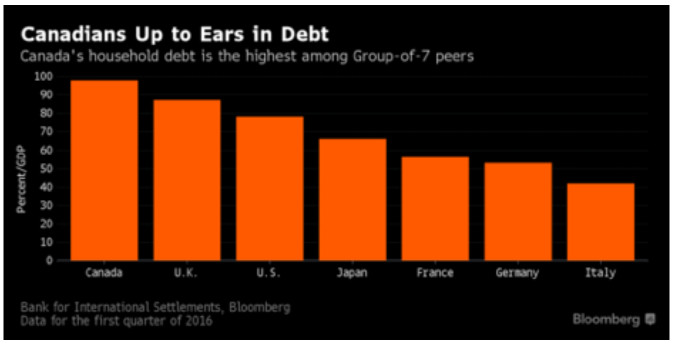
So it seems the guy who played the "Mad Hatter" in a movie, really lived a luxurious Mad Hatter lifestyle, including $75 million to buy and furnish 14 residences, a 45-acre

French Village, a collection of islands in the Bahamas, plus $18 million for a 150-foot yacht. Heck, have to admit must have had fun while it lasted!

But Mr. Depp's financial woes may be reflective of a much larger national problem in the USA and Canada. I saw the CEO of insurance giant Assurant on Bloomberg TV recently and made the comment:

"The reality is, half of Americans can't afford to write a $500 cheque."

This confirms a Canadian survey last fall by Postmedia news which found 39% were "overwhelmed" by their level of debt (up from just three years ago) and 50% were living "paycheck to paycheck." The average Canadian family debt load hit over $100,000 for the first time. And if a picture is worth a thousand words ...



So in other words, while most Canadians are just $200 a month away from being unable to handle their monthly costs (Financial Post September 28, 2016), and most Americans can't write a $500 cheque, they are more than willing to dish out $600 for a new cell phone (and often adding a "protection plan" on top in case they lose the phone or something happens to it).

In that same U.S. survey, only 4 out of 10 Americans had enough cash in the bank to cover a $500 expense. Another 21% said they'd cut back on expenses, and 11% said they'd turn to family or friends for the money.

When it comes to reducing spending, the first place consumers would cut expenses? Dining out, with 6 out of 10 respondents saying they'd eat out less. What is the last thing to face the chopping block? Yep ... their cell phone and mobile phone plans. So I guess that means that most people would rather go hungry than cut back on their cell phone?

The troublesome decline of the "middle class" has been going on for decades in both the U.S. and Canada. For the first time in four decades, America's middle class, long seen as the core locomotive for the nation's growth, has shrunk to less than 50% of the population.

The twin forces of globalization and technology advances have created a bigger gap between winners and losers in society. Middle class Americans are defined as households with an income range of $42,000 to $125,000, now at 49.9% of the nation's population (down from 61% in 1971) according to the Pew Research Centre. "Upper class" households are now 21% of the population (median income in 2014 was $176,600) and the bottom end is now 29% (from 25% in 1971). Those changing demographics are what Mr. Trump successfully tapped into to win the election.

The other problem is the number of students graduating from colleges and universities with degrees, and not being able to find decent jobs.

Source: extrafabulous

In 1993, most students graduated with $10,000 in debt, but by 2012 that amount had risen to over $30,000 (Institute for College Access and Success).

As well, fully 3 out of 4 Americans harbour financial regrets according to a recent Bankrate.com survey. The list of regrets is as follows:

America's biggest financial regrets (percentage who say this is their most significant financial regret)	
Not saving for retirement early enough	18%
Not saving enough for emergency expenses	13%
Taking on too much student loan debt	9%
Taking on too much credit card debt	9%
Not saving enough for your children's education	8%
Buying a bigger house than you could afford	3%

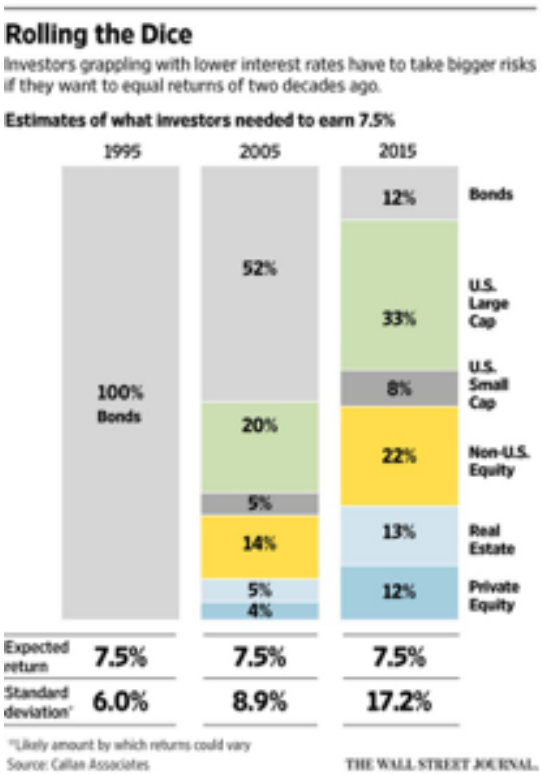
Source: Bankrate.com

So while not having started early enough may pose a problem for many, the other problems facing Boomers in retirement are two-fold:

1. Interest rates are at all-time lows, and while they may rise a bit, they will still remain at deep historical lows.
2. Boomers' life expectancy is rising.

Investors that are grappling with much lower interest rates and have to take on more risk to equal returns of two decades ago.

This is one of the most powerful illustrations I've seen in some time:



So to get a 7.5% return in 1995, an investor could have been 100% in bonds. Today, that same investor needs to be about 88% invested in equities, and accept almost three times the standard deviation to do it.

So if Mr. Depp's lavish lifestyle and lack of planning contributed to his financial woes, he may not be alone. Doesn't matter if you are an entertainer, or athlete or anyone reading this newsletter, you cannot spend money at the same pace of your best income years. Like Mr. Depp, much of the spending being done is due to "emotional spending," studies showing younger adults (67% of millennials) are more likely to overspend due to stress, excitement, sadness, escape real life, etc.

And it's never been easier to indulge oneself. Cheap rates, online shopping, sophisticated retail psychology, social networking, brand names, etc. have put a higher price on expressing one's identity through our clothes, gadgets, homes, etc.

Not to mention on the other side – rising health care costs, slowing real disposable incomes, perhaps rising inflation coming – can all have an impact.

On top of consumer debt, now government balance sheets are at their most stretched limits ever, while most corporation balance sheets are not in bad shape after being forced to "deleverage" during and after the 2008-09 Great Recession.

Not sure how this all plays out but we will continue to do our best to navigate portfolios in this new global economy, changing demographics, and historic interest rate environment.

Quotes

"Unfortunately, it is not in the power of government to make everyone more prosperous. Government can only raise the income of one person by taking the income from another."

German economist Hans Senuholz (1922-2007)

"Governments last as long as the undertaxed can defend them against the overtaxed."

American historian Bernard Berenson (1865-1959)

"I am so fast that last night I turned off the light switch and was in bed before the room was dark."

Boxing legend Muhammad Ali

Around the globe

Canada (Buy)

- Has managed a slight economic revival over past few months, thanks to mainly higher commodity prices
- Lower dollar will help exports – expected GDP for 2017 of 1.5%
- However, faces two new threats: U.S. policy changes and a dangerous domestic housing market
- Canadian banks accounted for 25% of all TSX earnings in 2016

U.S.A. (Strong Buy)

- Biggest question in entire global economy is how Trump era will play out
- U.S. dollar bull keeps rolling, but is it getting near an end?
- The Federal Reserve continues with plan to nudge rates higher
- Since U.S. election, the S&P 500 up over 12%, so may need a rest short term
- Expected 2017 GDP of 2.25% but could get over 3% if tax reform passes

Europe (Buy)

- Brexit is biggest question, followed by coming elections in France (April)
- British economy expected to grow at 1.75%, Eurozone the same

Asia (Neutral)

- China has long been an exporter of deflation to the world, but still remains the linchpin of global growth
- Japan finally growing but slowly (0.75% GDP)
- China/Taiwan/S. Korea at risk from U.S. trade protectionist policies

Emerging Markets (Avoid)

- Probably the best value of all global markets but just don't want all the geopolitical baggage that comes with them
- Venezuela in a collapse
- After five years of decelerating growth, seemed to have bottomed last year

Notes

Woe Ontario

- In 137 years, Ontario accumulated $139 billion dollars in debt.
- In the last 12 years, various Liberal Provincial Governments have accumulated $191 billion dollars in debt (and still rising)

Source: DebtClock.ca

Millennials (born roughly between 1981 and 2000)

- Graduate with an average debt of more than $28k.
- 55% are working full time, 17% part time.
- 31% are in a relationship (down from 52% in 1981).
- 42% live with their parents (up from 27% in 1981).

Source: Manulife Solutions Magazine, Spring 2016

A special welcome to all new clients who have joined us

Thank you especially to clients who have mentioned our name to people they know. As a sign of gratitude, four times a year we'll randomly select a client who has introduced our services to a friend for special acknowledgement via a nice dinner at one of the finer restaurants in London.

June K., our winner this quarter!

Please don't keep us a secret!

We are very happy and proud of the clients we serve in our practice and we are always open to serve more clients just like you. Should you be talking to someone who is unhappy with their current advisor, or would like a second opinion, we would be grateful if you passed on our numbers: 519-675-2011 or 1-800-265-5911. Thanks for keeping us in mind.

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