Financial Wanderings

May 2018

A masterful examination of the previous month's financial events, written by Brad Blackburn, CFP ®

(and made even awesomer by Andrea Dickerson)

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Where's the wage growth?

The April jobs report was just about perfect. We added 164,000 jobs, which is the perfect blend of not too little, but not too much. Even better, President Trump's "phony" unemployment rate fell to 3.9%.

The only conceivable way to complain about the report is that wage growth is still stubbornly low. In some ways, that's actually a good thing, because it will help keep inflation low, which will please the markets. However, strong wage growth is a sign that economic growth is trickling down to working people. In a perfect world, workers from all over America would be getting big raises, and then taking those raises and buying more stuff from businesses. Those businesses would become more profitable, and then give out more big raises… That's how it's supposed to work.

However, there are many reasons wage growth hasn't been strong – and they aren't all bad. For example, one of the simplest reasons is that many baby boomers are retiring and taking their high-paying jobs with them. When a business replaces an older, more experienced worker with a younger, less experienced worker - the pay is typically less. That's not a sign of any fixable economic weakness, it's just the demographics of America.

Another factor is that wage growth doesn't take into account other kinds of compensation. More businesses are paying bonuses, and offering matching 401K plans, and paying higher medical benefits. None of those things are included in the "official" wage growth numbers.

However, the biggest reason wage growth has been so low is just a reality of our modern world. When a worker becomes too expensive, there's often a new technology or a foreign worker eagerly waiting to replace them. There's no doubt that keeps American wages down. However, it also keeps our prices low. In a very real way, we've traded away higher wages in return for lower prices. When you look at it like that, it doesn't seem as bad.

For all those reasons, it might not be realistic to expect wage growth to grow as fast as it has in recent decades. While that's not exactly good news, it's not exactly bad news either.

Why is everyone mad at technology companies?

After years of being the darlings of the investment world, technology companies are finding themselves in hot water from all sides. Whether it's privacy concerns, or monopoly claims, or Facebook's role in the 2016 election, or Trump's complaints that Amazon is taking advantage of the US Postal Service… our technology giants aren't quite as popular anymore.

To some degree, this is inevitable. Anytime a company is as big and dominant as Amazon, Google & Facebook, there's going to be a backlash. However, this particular backlash poses a real risk to how those companies make so much money.

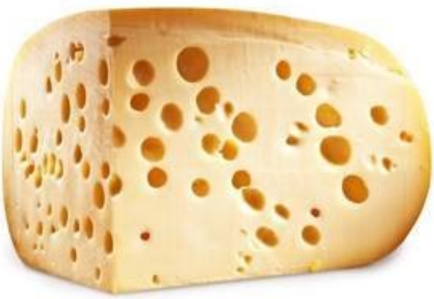
The internet is an advertisers dream. Consider the days when TV and billboard ads dominated. The only thing that TV knew about you was that you were watching a certain show, and the billboard only knew that you were driving on a particular street. On the other hand, Facebook, Google and Amazon might know you better than you know yourself. Every click, Google search, and Facebook "like" paints a wonderfully full picture for an advertiser. Judging by the ads I see on the internet and social media, they clearly know what makes me tick.

However, that previously unimaginable advertising power is likely to be eroded in the future. As consumers demand more privacy, and technology companies track less personal information about us, their advertising will be less targeted and effective. But so far, investors don't seem to care, and all three companies are still making gobs of money. It will be interesting to see what happens in the future.

There are two ways to grow an economy

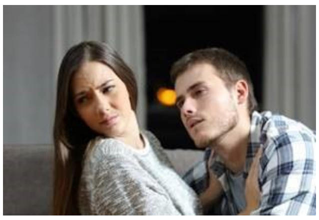
President Trump recently made a surprisingly accurate statement on immigration when he said: "We do need people coming into our country." On that point, he's absolutely right. In fact, if your goal is to create a bigger economic pie, there are only two ways to do that: More people, or more productivity.

A simple way to think about productivity is to consider digging a hole. If you dig with your hands, it might take you all day. If you use a shovel, it might only take 30 minutes. If you bring in an excavator, it might only take 10 seconds. That's productivity: Through innovation & investment, the same job gets easier over time – which means a lot more holes can be dug.



Unfortunately, productivity has been stubbornly low in recent years. In fact, it's been so low that many economists wonder if we're measuring it wrong – or if it's even possible to measure it in today's hi-tech world. After all, how do you calculate how many extra holes a smartphone helps you dig?

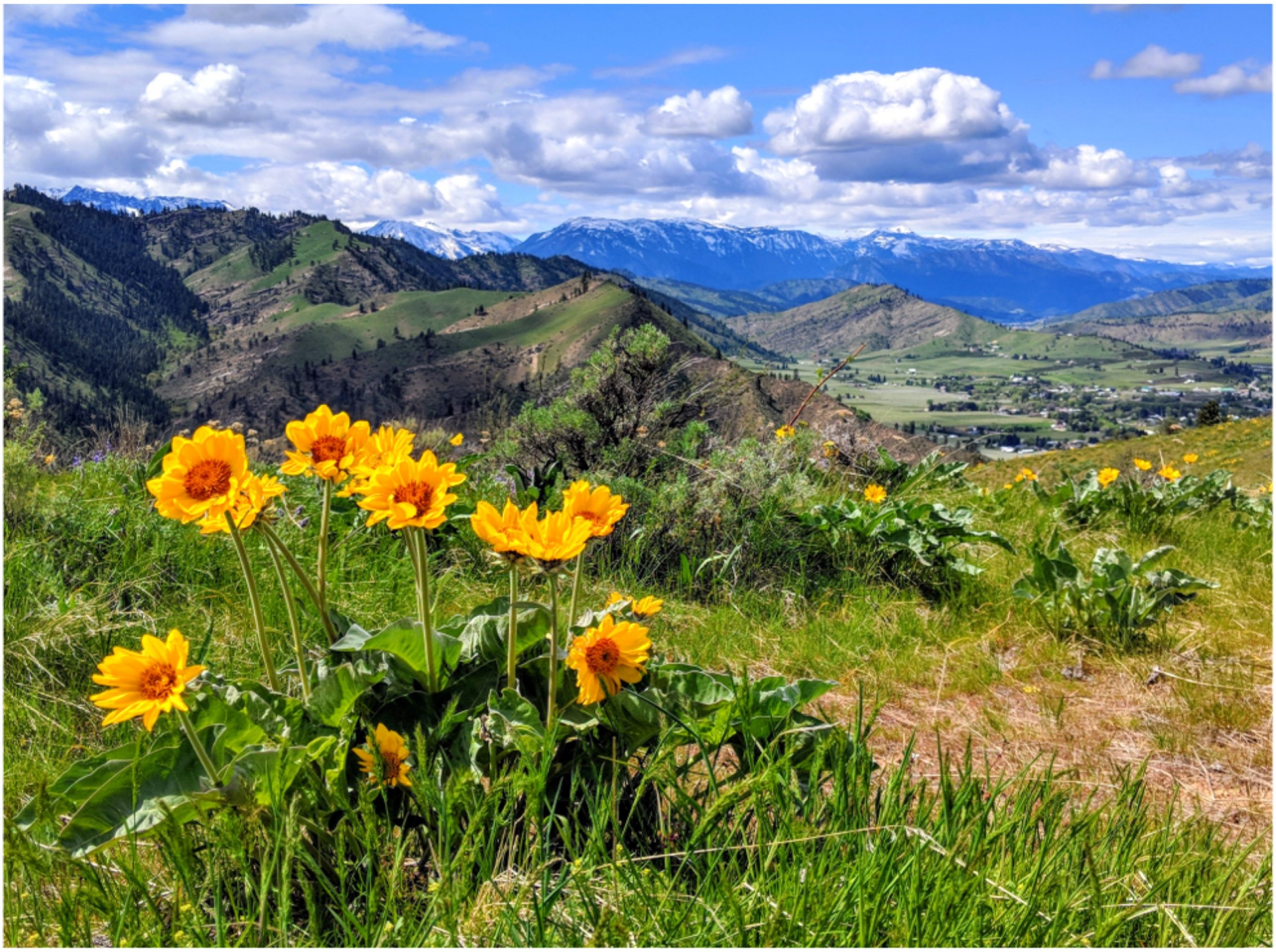
The other way to grow an economy is through population growth. If there are more people to run excavators, then more holes can be dug. That means one of two things: Lots of babies, or lots of immigrants. Here's the problem: America isn't having a lot of babies.



According to the National Center for Health Statistics, the US birth rate hit an all-time low in 2016. Therefore, Trump's point is a very important one: If you are pro-economic growth, you should be pro-immigration. (Yes, legal immigration)

Probably a mountain or a lake

Spring in Cashmere



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