

June 2019

Overview

RANDOM GLEANINGS

Think that **global growth** is on the wane? It's a big world out there and most of its 7.5 billion people live in growth areas where people are moving up to middle-class status. Consensus Economics predicts that the 12% of India's population in that category will jump to 80% by 2030. If even in the ballpark, that means hundreds of millions more buyers of stuff in India alone. Roll GDP Tide, roll.

There is a unique **map of the U.S.** making the rounds that overlays on each state a foreign country with roughly the equivalent GDP to that state. For example, the UK fits on California, South Korea on New York and Holland on Illinois. In Canada's case, our economy equates to Texas. Does that put our economic status in perspective? Given Canada's physical size, maybe everything really is bigger in Texas.

One area of growth in Texas is production of shale oil and the services required by oil workers. Outside of expensive stylists in high-rent districts like LA and New York, barbers at **Headlines Barber Shop** in Pecos, Texas, are perhaps the highest paid in America. Customers form long lines for a \$40 haircut, resulting in daily income for a barber of \$700 or so. Hair-raising money.

If you are looking for a different experience for little Johnny this summer, how about a **YouTube camp**? To ease your mind, this is not a camp for viewing videos. No, this is where kids learn to shoot videos and edit them in a way to attract a following and eventually make gazillions of dollars. If this future in exchange for US\$1,000 or so a week sounds enticing, sign up today. Warning: Past performance is no guarantee of future results.

What's in a name? If it's **Khaleesi** it might not be at all what was expected when parents chose it for their sweet baby girl. It is all *Game of Thrones*' fault. Last season a main character, Khaleesi (Queen), was considered a female role model, strong and fair, and this induced many new parents, naturally, to name a daughter after her. This season she turned into a monster of death and destruction, thus removing said naming reason. Moral: Choose the name carefully and maybe not from a TV show.

At the other end of the age spectrum is the topic of **funeral music** and the new-age choices being made there. A recent survey of UK funeral directors finds there are no longer any hymns present on the top-10 list of music requests. Really. Instead, the list includes the optimistic *We'll Meet Again*, the angelic *Wind Beneath My Wings* and the sadly realistic *Time to Say Goodbye*. Number one, ironically, is Sinatra's anthem to individuality, *My Way*. A sign of the times.

The **Netflix** phenomenon continues apace with high-quality productions and increasing competition. It might surprise you to learn, though, that the most popular shows on Netflix are not those big productions but rather the tried, true (and old) sitcoms like *The Office* and *Friends*. A further surprise, at least to us, is that *Friends* started fully 25 years ago. What's old, it seems, really is new again.

Some even more amazing news about **Friends** is the money involved today. According to USA Today, when the show ended in 2004 the main actors (then paid \$1 million each per episode) retained residual rights that now pay them \$20 million each per year. Each. A retirement plan most people would be happy with.

There is lots of news reported about **student debt** in the U.S. and the burden it places on graduates as they wend their way through life. There is a new financial instrument that might lessen that burden somewhat called an ISA (Income Share Agreement). An investor provides education funds to a student who agrees to return a share of future employment income (e.g. 7%) for some stated period (e.g. 8 years). The devil is in the details, of course, and there is a caution that comes to mind: The ISA might provide a lunch box but there is no free lunch.

THE LEARNING CORNER

What is a unicorn?

First of all, we aren't looking for the mythical one-horned creatures that go back thousands of years and remain popular toy items today. No, we are talking about the financial world and the very real corporate creatures that dwell therein. That world births many corporate start-ups, including some that don't get beyond the early stage, others that stagnate or fail later and some that thrive and grow to become very successful businesses. It is this latter category, often aided and abetted by venture-capital funding, that provides the hunting grounds for unicorns. In investment terms, unicorns are companies that reach the lofty \$1 billion private valuation level and the unusual moniker apparently comes from the notion that such companies are pretty rare. At least they used to be.

Today, there are over 300 privately held companies that meet the standard, many of them in the technology area, with ownership in the hands of a combination of original principals and private-equity investors (the unicorn hunters). Some of the larger unicorns will be taken public via the Initial Public Offering (IPO) route, while others will stay private for longer which has been the trend lately. Former unicorns that are now in the public market include names like Facebook, Uber, Pinterest and Spotify. Some possibly familiar names in the current category include Ant Financial (the biggest at \$150 billion, an affiliate of Alibaba), Airbnb, SpaceX (Elon Musk), Instacart (grocery delivery) and DoorDash (restaurant delivery). Time will tell how many of these unicorns will graduate to the public market, which ones will remain private and, sadly, which will be the unfortunate ones that simply fade away.



CHARTING OUR TIMES

Everyone is no doubt well aware of the trade conflict going on between China and the United States. While it appeared that a deal was near earlier this year, that hope deteriorated with various charges and counter charges related to the absence of ‘good faith’ bargaining. The impact on economic activity is one concern coming out of this impasse (see The Big Picture) but another has centered around what China might do with its large holdings of U.S. government debt. The worry was that China might dump its holdings, thus forcing interest rates up and impacting both currency levels and economic growth prospects.

The attached chart moderates this concern in two ways. The first, the yellow bars measuring the change in China’s holdings on the left scale, shows that since its voracious buying spree ended around 2011, China has had a relatively neutral influence in the market, with purchases of securities balanced off by sales, and yet interest rates continued to decline. Second, in part because of this 8-year pause and in part because other buyers have taken China’s place as U.S. debt levels rose, the black line measuring China’s share of U.S. debt on the right scale has been falling. China’s share has dropped from a sizeable and possibly worrisome level near 16% all the way to a much less impactful 8%. This picture presents a lower risk situation than many believe.

IN THE OFFICE



On May 25th our Olivia Frederick became Olivia Gwynne when she married the love of her life, Rhys Gwynne.

They had an amazing time touring Italy for their honeymoon. Please join us in extending congratulations & best wishes for a wonderful life together to Olivia & Rhys Gwynne. May happiness wear a path to your door!



THE BIG PICTURE

We are:

Ken Rae, CFA

Brian Lipskie, CFA

Taylor Echlin, F.C.S.I.

Jim Harper, FCPA, FCA

David Martin, CIM

Andréa Miljkovic, CFA

David Paleczny

Derek Rae, CIM

Rick Vandermey, CFA

Dave Brune, CFA

Alex Stoodly, CIM

Robin Stanton, CFA

Thomas Pick, M.B.A.

The RaeLipskie Partnership provides discretionary “fee-only” portfolio management for high net worth individuals, endowments and charities.

The RaeLipskie Partnership

20 Erb Street West, Suite 201
Waterloo, Ontario N2L 1T2
T 519 578 6849
F 519 578 7269
Toll Free 888 578 7542

1100 Burloak Drive, Suite 300
Burlington, Ontario L7L 6B2
T 905 336 8962
F 519 578 7269
Toll Free 888 578 7542

Just when it seemed like trade talks between the U.S. and China were progressing, the President indicated in early May that China “broke the deal,” which dashed market hopes for a quick settlement. While talks remain ongoing, the new tariffs of 25% kicked in immediately. Twenty five percent is a not insignificant number and when dealing with two of the largest economies in the world, we thought it would be a worthwhile exercise to sharpen our pencils in an attempt to quantify the overall impact.

The good news for equity investors is that upending global growth requires an event capable of shaving trillions of dollars from the global economy. Yes, President Trump imposing 25% tariffs on America’s largest trading partner outside of the European Union is not the best thing for the global economy. Yet it is nowhere near the catastrophe that many pundits are making it out to be. First of all, the 25% is ‘only’ supposed to be on \$200 billion of goods which would amount to \$50 billion in tariffs. Sounds big. However, we need to consider that nominal U.S. GDP in 2018 was \$20.5 **trillion**. China’s 2018 GDP was \$13.6 trillion. Therefore, \$50 billion would equate to roughly 0.4% of Chinese GDP. It is 0.1% of U.S. and Chinese GDP combined. But wait. Trump also tweeted that he may impose 25% tariffs on an additional \$325 billion of goods. We will believe this when we see it, but even if this were to materialize, the total tariffs would amount to only 0.4% of combined U.S. and Chinese GDP – not nearly enough to disrupt overall global growth.

It’s worth keeping in mind that this approach is typical of Mr. Trump’s negotiating style – start with a “scorched earth” stance and then negotiate his way to a compromise, or as he calls it “A Big Win!”. For instance, after campaigning and tweeting on how unfair NAFTA was to the United States, Trump eventually inked a replacement deal that had few changes and is now championing its passage through Congress. And, after promoting the effectiveness of steel and aluminum tariffs, including benefits to the U.S., the President reversed course and proceeded to extol the virtues of their elimination.

While this topic, and the President’s tweets relating to it, have introduced a degree of volatility into the market, we would suggest that the overall economic impact will be relatively nominal, and while global economic growth may be modestly lower for a period of time, it will not be derailed.

QUOTE
o-the
DAY

“America works and it works now better than it ever worked. The luckiest person that will ever be born in the world to date will be a baby being born in the United States today.”

--Warren Buffet to Forbes Magazine