

July 22, 2019

Market/Index	2016 Close	2017 Close	2018 Close	2018 Change	As of 06/30/19	2019 Change
DJIA	19,762.60	24,719.22	23,327.46	-5.63%	26,599.96	14.03%
NASDAQ	5,383.12	6,903.39	6,635.28	-3.88%	8,006.24	20.66%
S&P 500	2,238.83	2,673.61	2,506.85	-6.24%	2,941.76	17.35%
Prime Rate	3.75%	4.50%	5.50%	1.00%	5.50%	0.00%
10-year Treasury	2.45%	2.40%	2.69%	0.29%	2.00%	-0.69%

Second Quarter See Saw... The markets were on a bit of a see-saw in the second quarter. The S&P was down 7% and then up 8%, but it closed the quarter very near its all-time high. GDP is growing at a steady pace and unemployment is at 3.7%. The rate on a 30 year mortgage fell to 3.81% and the Consumer Price Index rose a very manageable 0.48% in the second quarter. The economy is running on all cylinders and should continue to do so in the foreseeable future. There are some interesting stories in the world that can affect your investments; here are some that we are keeping an eye on.



Changes Proposed for 401K Plans and IRA's

In May the House of Representatives passed the SECURE Act, which will introduce various changes to retirement accounts including IRAs and 401k plans. The act is expected to be approved by the Senate and become law relatively soon.

One of the most significant revisions to IRAs introduced by the legislation is repealing the prohibition on contributions to a traditional IRA by an individual who has attained age 70½. The legislation does not propose a revised maximum contribution age, yet states that more Americans continue working beyond traditional retirement age. So essentially, there will no longer be an age limit on IRA contributions.

The Required Minimum Distribution age for IRAs will increase from age 70½ to 72. This is beneficial for those retirees that don't need the income from their IRAs until later, thus likely minimizing the tax liability on distributions that would have been required at age 70½.

Annuity payments will become an option for retirees when leaving their job and taking their retirement savings. In addition to opting for a rollover of retirement assets to an IRA or other qualified plan, retirees will be able to choose annuity payments as well.

A modification to 401k plans that will affect eligibility requirements for part-time workers is also a major change. Longer term part-time employees will no longer be excluded from 401k plans, allowing part-time workers the ability to save and accumulate towards retirement. We think these changes are all beneficial to the American people.

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Social Security Falls Short on Projections

A U.S. Government report compiled and released by the Government Accountability Office (GAO) found that 48 percent of individuals 55 and older had no retirement savings whatsoever. This is unfortunate because it makes Social Security the primary source of income for many of the elderly. Nine out of ten retirees 65 years of age and older receive benefit payments representing an average of 41% of their income. In 1940, the life expectancy of a 65-year old was 14 years, today it's about 20 years. By 2036 the number of Americans eligible for benefits will almost double, from 41.9 million to 78.1 million. Social Security costs will exceed its income in 2020 for the first time since 1982, forcing the program to dip into its trust fund, which is currently just under \$3 trillion. The latest annual report issued by the trustees of Social Security and Medicare revealed that by 2034, that fund will be depleted. While no one assumes that social security will go away, changes will have to be made. Increased retirement ages and reduced benefits will certainly occur making an individual's savings a much greater determinate of their quality of life in retirement. Having a financial plan is paramount to helping you reach your goals; we'd be happy to help you prepare one.

Venezuela—A Continuing Crisis South of the Border

The Venezuelan socialist economy has collapsed. Years of economic mismanagement and a worsening political crisis have led to a recession that has almost no parallel in recent memory. Inflation in Venezuela is running at almost 25,000 percent a year. That's difficult to comprehend but here are some examples. In one year, \$1,000,000 of savings would be worth \$4,000. \$100 worth of groceries would cost you \$25,000 in the same time period.

Ricardo Hausmann, a Venezuelan economist based at Harvard University, has put it in another context: calories. If the average Venezuelan worker spent every single bolivar from his wage on the cheapest food available (now the yucca plant), how many calories could he buy in one day? Here is the incredible and frankly devastating answer... 900. Nine hundred calories per day. If you look at the cheapest protein source, the average Venezuelan worker makes enough money to buy two eggs per day. So Venezuelan people are starving.

Interest Rates and Initial Public Offerings

We spend a good amount of time talking about the ramifications of Quantitative Easing. Central Banks purchasing bonds to keep interest rates low has helped the world economy rebound from the 2008 Financial Crisis, but as with everything else, there are unintended consequences. We have all read a great deal in the financial press about extremely successful startup companies with valuations over one billion dollars. Uber, Lyft, Airbnb, Snapchat, Peloton, SpaceX, & Pinterest come to mind. They are all interesting companies with good business models that are changing the world, but these companies would never be valued so highly if interest rates were in a "normal" range.

Any company's value is based upon the present value of future cash flows. In basic terms, if a company is expected to have cash flows of \$1,000,000 a year for 30 years and the rate on US treasuries is 10%, then the company is worth about \$8 million. If the rate on US treasuries is 3% the company is worth \$15 million, an 87% increase without any change in the company's underlying business prospects. By pushing interest rates lower Central Banks are pushing up valuations of all businesses.

Business have started to recognize this and are flooding the market with Initial Public Offerings. Uber, Lyft, Beyond Meat, Chewy, and Slack Technologies have already gone public and WeWork, Peloton, and Postmates are on the way. Few of these companies are profitable and the future cash flow part of the valuation equation are just projections. If these projections are not met and interest rates rise, expect the valuations of these companies to plummet.

IPO fever is making its way abroad. Anheuser-Busch InBev's Asian unit recently began taking orders for an offering on the Hong Kong Stock Exchange that could raise upwards of \$9.8 billion, \$3 billion more than they estimated in May, which would make it the largest food and beverage IPO in history. The Kingdom of Saudi Arabia is preparing for a potential IPO for the Saudi Arabian Oil Company (Aramco). The Saudis are shooting for a **\$2 trillion** valuation. Neither company needs the cash for expansion; they are just selling when valuations are high.

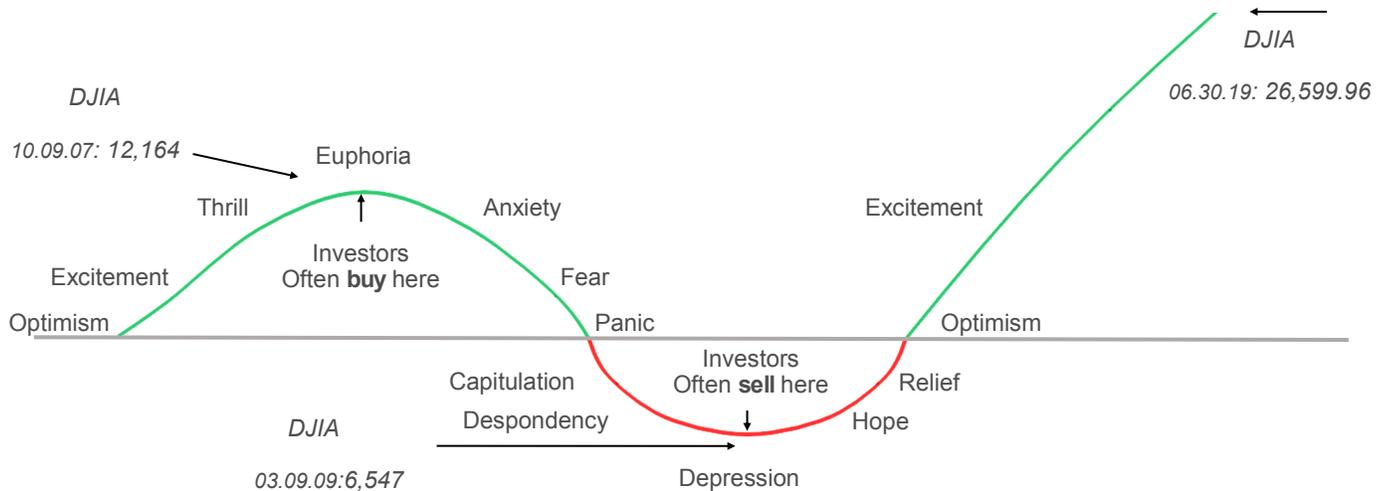
A survey from three universities in Venezuela found that **the average Venezuelan lost 24 pounds last year because they could not afford to eat**. And hundreds of thousands of children are at risk of dying from starvation and malnutrition.

This economic collapse has been accompanied by a societal collapse in law and order as well. Venezuela now has the highest murder rate in the world and a staggering number of Venezuelans are leaving the country. Ricardo and his colleagues estimate that almost **10 percent of the Venezuelan population emigrated in the past year**. That is almost 3 million people.

Venezuela should have learned by now that dictatorship and socialism are not the answer. When capitalism comes back the people will benefit.



2007-2019 Investment Cycle



All of us at Anchor Investment Management hope you are enjoying the longer days and vacations with your families. We stand ready to assist you with your financial needs and wish you a great summer!

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