May 9, 2014

"It's in human nature to go to excess."
-Warren Buffett

POINTS TO PONDER

1. One of the more heartening aspects of the US economy's otherwise lackluster recovery is the solid performance by the private sector. On the flip side, a surge in medical expenditures, due to the previously uninsured now being covered by Obamacare, has been driving much of the recent increase in consumer spending (and, hence, GDP). Unfortunately, this is not the highest quality form of economic growth, regardless of the societal benefits. (*See Figures 1 and 2*)

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2. The April jobs report, released last Friday, May 2nd, elicited considerable enthusiasm. Yet, once again, the participation rate fell, implying roughly 800,000 Americans are no longer seeking work. Wage growth was also flaccid, likely reflecting that the majority of jobs generated in this expansion have been in lower-paid positions.

3. The commonly heard rationalization is that the work force is shrinking due to retiring "Boomers." However, this assertion is contradicted by the still-anemic employment rate for those of prime working age. (*See Figure 3*)

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4. While there are definitely encouraging signs of the US economy heating up after the "polar vortex" winter, when growth literally froze up, there are some serious hurdles. For one thing, high net worth Americans are still reeling from writing huge tax checks this April, due to the record-breaking 2013 tax hikes. Also, gasoline prices have vaulted by $0.45 per gallon, costing consumers roughly $60 billion, tantamount to another steep tax increase.

5. Bullish US stock investors should be aware that, historically, the market tends to struggle in a mid-term election year (also the second year of a presidential term). Additionally, these are years in which the "Sell in May and Go Away" effect is particularly pronounced. (*See Figure 4*)

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6. Various past EVAs have noted the current towering level of margin debt. Newsletter maven Simon Hunt drives home the danger of debit balances now exceeding 3% of GDP by pointing out that in the only other two instances (since WWII) when margin debt was above 2% of the total economy, the stock market was cut in half.

7. Prominent economist Gary Shilling has written extensively on what he calls "The Great Disconnect." This is the disparity between sluggish global economic growth and sky-high stock prices. As you can see below, they remain extremely disconnected (also as recently reported by Simon Hunt). (*See Figure 5*)

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