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Resolute Connections

In the October edition of *Resolute Connections* we offer a collection of articles on topics we often hear about from our clients. For those with college students in the family, *Buying a Credit Score on the Cheap*, explains how you might help them start to build a credit score immediately after graduation. *Global Debt Overhang*, discusses a topic practically ignored this elections season which is our ever growing debt burden. Speaking of the election, its unusual nature has caused too much anxiety for the precious metal bugs to remain quiet, so of course the marketing of gold and silver has ramped up to an even higher level that experienced during the recession. *Gold Up, Gold Down* provides some food for thought that might help one avoid the latest precious metal marketing pitch. *Structural Struggle* touches on some of the reasons for the rather sluggish economy and suggest that perhaps the answers to improving growth lie beyond government remedies.

If you have any questions about anything we have covered in the articles below, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

Buying a Credit Score on the Cheap

Your kids graduate from college and face an immediate dilemma: they have no credit history, which makes it harder for them to rent an apartment or get a credit card. Is there a way the parents can help them without risking their own credit score?

An article on the website Nerdweallet suggests a solution that will cost just $200. You encourage your child to open a secured credit card, whose credit limit is equal to a deposit that can be as low as $200. You make the deposit on his/her behalf, and presto! The cardholder is now able to make small purchases, pay back into the account, and establish a credit score in about six months. And the transactions weigh more heavily in credit scoring when the adult child is a primary user, rather than an authorized

user on the parent's credit card. An added advantage: the child receives his/her own separate bill, and becomes accustomed to paying on time.

Credit experts advise that the child hold spending to 30% or less of the credit limit—which basically means putting no more than $60 on the credit card, and then paying that amount back. Parents can spring for a higher deposit if they think the adult child will be responsible for making higher payments.

Make sure the new credit card holder understands the interest rates, minimum payment and due date on the statements, and help adult children calculate how long it would take to pay off the balance making only minimum payments. Eventually, once the adult child has learned good credit card habits by using a card with training wheels, he or she can transition to an unsecured credit card. At that point, the secured card can be closed and your deposit returned.

Global Debt Overhang

You haven't heard much about the U.S. government's debt, in part because, as a percentage of the economy, the growth of our national debt has slowed dramatically. But measured on a global scale, the world's $152 trillion of debt—from consumers, corporations and governments worldwide—is more than double the balance at the start of the century, which worries the International Monetary Fund. That total represents 225% of gross domestic product around the world.

Government debt only accounts for about one-third of the total, and not all countries are contributing their share the total debt burden. The most recent IMF report singles out China as a country at risk of a disorderly wind-down of high debt levels among its corporations, and shows that emerging market economies, with greater access to credit, are among the fastest-growing global debtors.

Why worry? The report suggests that high private debt levels can increase the likelihood of a new financial crisis, which can lead to negative economic growth and another debt spiral. Meanwhile, highly-indebted borrowers are likely to reduce their investment and consumption, dragging down economic growth.

The report doesn't offer any policy prescriptions, except that the world needs to start digging out slowly and carefully, so as not to trigger a global recession, and in years when the economy is growing, there needs to be a policy that pays down debt—both by governments and the companies and individuals that have a little more money in their pockets.

Gold Up, Gold Down

The enduring popularity of gold as an investment has to do with its tangible nature. Unlike a stock or a bond, you can feel and touch golden coins and larger ingots. The problem with such tangible assets, of course, is that there is nothing alive about them; that is, there is no claim on the fruits produced by the labor of thousands of workers, in the form of dividends or growth of the enterprise. As Warren Buffett famously pointed out, if you owned all the world's gold, you could mainly polish it and admire it in your front yard.

Even so, with all the uncertainty in the Middle East, Brexit and the tumultuous U.S. election, investors piled into gold this year, and have been rewarded with roughly 18% returns so far. Alas, they are now learning that gold is one of the most volatile of all assets. Prices have fallen dramatically in the last month, including a 4.5% drop in one week alone.

Experts are saying that if the Federal Reserve Board raises interest rates, that could trigger a further plunge, since investors could park their money in relatively safe investments which (unlike the recent past) paid returns. Gold was competitive with bonds when bonds (like gold) were paying nothing. We may be about to see what happens when there's a difference in yield.

Structural Struggle

Why has the American economy grown so slowly since the Great Recession? This year, GDP growth will fall somewhere in the 1.5% to 1.8% range, below the 3% growth rate that is considered a sign of robust economic health. Critics have blamed everything from China's slowdown to globally outsourced manufacturing to fiscal fights in Washington. But new research from economists at the Federal Reserve Board points to a different—and much simpler—explanation.

The researchers started with a demographic prediction model. The model recognizes that the economy was destined to grow rapidly when the workforce is heavily weighted toward young accumulators, as it was in the 1960s and 1970s when the Baby Boom generation entered the workforce. The good times continued as the labor force matured and the Boomers reached a high consumption stage of their lives.

But then the Fed economists asked: what happens when the Baby Boomers start to retire, as they did starting in 2005, and in increasing numbers since? The boomer generation had fewer children than their parents did, so the research shows that as the workforce aged and retired, there were fewer people in the workforce. Economic output inevitably declined, no matter what happened in China or the manufacturing sector.

Over the past decade, the research shows that what economists call "capital"—machines, factories, roads, buildings, etc.—has become abundant compared to labor, which has depressed the return that investors receive for investing in capital. This doesn't just mean slower economic growth; it also leads to a decline in interest rates. This helps explain why interest rates rose in the 1960s and 1970s, and have gradually declined in the subsequent decades.

The conclusion? The U.S.—alongside many other developed nations—is experiencing a decline in workers compared with retirees, which happens to coincide with the lingering effects of the financial crisis. The power of demography is like the tide; don't blame the government or the Fed for not intervening, because they don't have the power to overcome the shortage of workers. More babies, and maybe more immigrants, represent better solutions.

Source: Bob Veres *Inside Information*.

For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.

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