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Resolute Connections

Recently completed research has determined the median retirement portfolio account balance for persons age 56-61 is just $25,000, not quite enough these days for a comfortable retirement. *The Cost of Waiting* touches on why it is important to start saving early for retirement, something pertinent to the millennial generation. The *Flattening Curve* reviews one of the better indicator of a future recession and what it says today about the future.

Mega Cash Returns is about Apple's enormous stock buyback announced recently - Apple could be purchasing companies like Qualcomm and Twitter, or a controlling interest in ExxonMobil with the dollars it is using to buy its own stock. It appears for now company management has decided that its excess cash belongs in the hands of its shareholders. *Churning at the Top* discusses index investing which is boring, right? This seems especially true with the large cap indexes like the S&P 500, which includes big permanent, stable titans of the global economy. Not much changes from year to year, decade to decade. Or does it and is investing in an index so boring? Read on to find out.

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.

The Cost of Waiting

The median retirement portfolio account balance for persons age 56-61 is just $25,000—which is obviously not enough for a healthy retirement, and suggests that

many Americans followed less-than-healthy savings habits. In fact, this amount could have been accumulated simply by saving $6 a month in a 60/40 portfolio from 1980 to the present.

A recent blog post by New York-based research director Michael Batnick calculates how procrastination impacts the amount that would have to be saved in order to afford that comfortable retirement. He starts by noting that the 90th percentile pre-retiree has managed to save $855,000. Then he imagines that a hypothetical person starts her work life in 1980, and invests in an evolving portfolio, 80% stocks, 20% bonds from age 22 through 39, a 60/40 portfolio from age 40 through 54, and 40/60 stocks/bonds until age 60, today. To get to $855,000 today, this person would have had to save $159 a month in the first year, and increased that savings each month commensurate with inflation.

What if she waited five years before starting to save for retirement? Then she'd need to save $327 a month to achieve the same goal. If she waited ten years to get started, the savings would start at $570 a month and rise with inflation. The point of the blog: if you know somebody starting out or in early earning years, invite them to consider the potentially heavy cost of waiting before they start saving—or they could suddenly, unexpectedly, end up with the equivalent of $25,000 and retirement just around the corner..

Flattening Curve

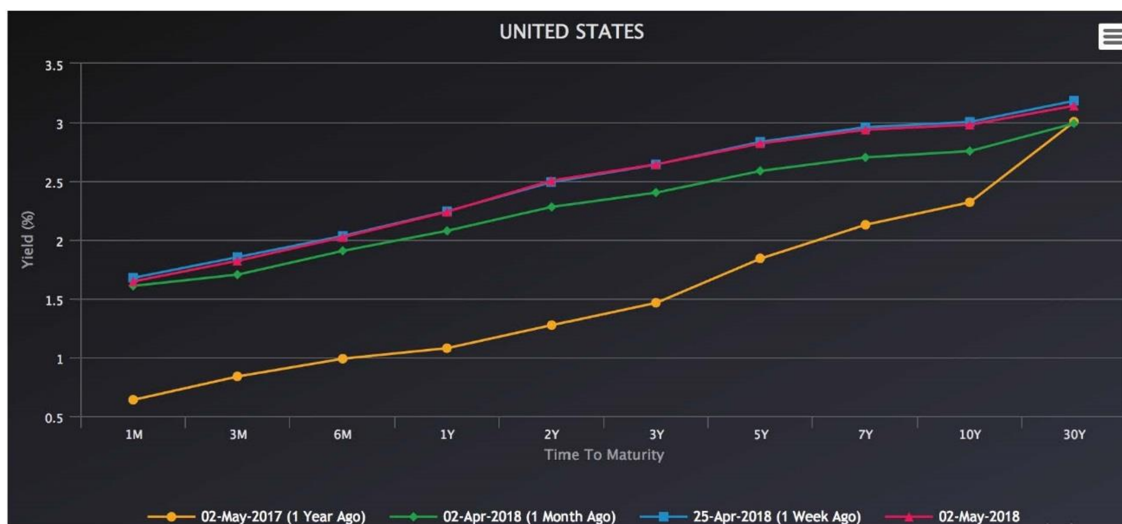
The best indicator of a future recession is not perfect, and doesn't provide an exact time or date, but economists have found that an inverted yield curve can be a warning sign of a downturn to come.

A what? The yield curve is a map of the yield of bonds from very short term—one month, three months, six months, 1, 2, 3, 5, 7, 10 and all the way out to 30 years. A normal curve is sloped upward—for obvious reasons. The longer the maturity of the bond, the more the borrower should have to pay to compensate you for the risks of inflation and interest rate movements. The 6-month bill should pay at least incrementally more than the 3-month maturity, and on up the maturity range.

Deviations from this obvious hierarchy are rare—as it turns out, just about as rare as recessions. Since 1955, long-term bonds yielded less than short-term ones before every single U.S. recession. Nobody knows exactly why a spate of market illogic should be followed by economic pain; there are theories, but the cause-effect is uncertain.

Unfortunately, the inversions in the past have occurred anywhere from 6 months to 24 months before the actual recession, so this is not exactly a precise timing mechanism. But perhaps we should consider the next yield inversion as a time to buckle our seat belts on the investment roller coaster.

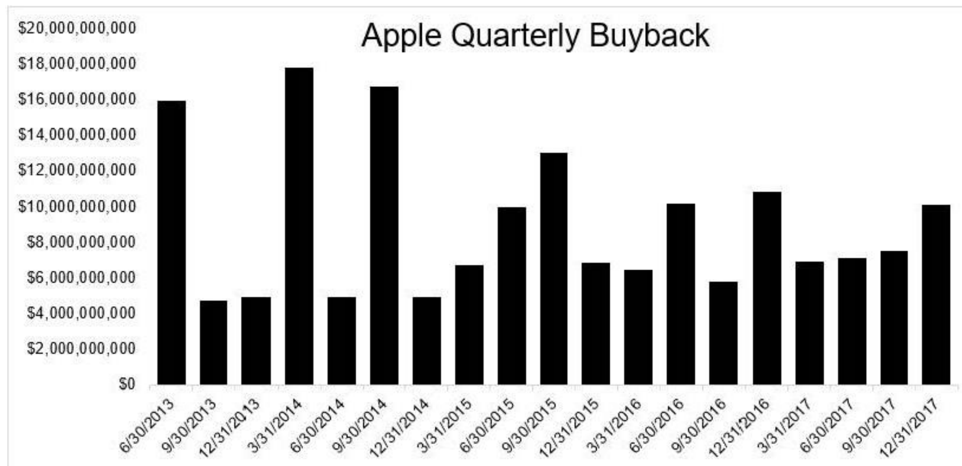
So where are we now? The chart shows the current yield curve (red) compared with a week ago (blue), a month ago (green) and a year ago (orange). As you can see, the curve has flattened in the past 12 month, not to inversion, but certainly a narrower spread. If you want to watch to see if there is further flattening, here's one website that tracks the curve in real time: https://www.bondsupermart.com/main/market-info/yield-curves-chart.



Mega Cash Returns

There wasn't a lot of fanfare when Apple Computer announced that it would commit $100 billion of the excess cash it had laying around to buying back its own shares.

This may be because, as you can see from the chart, the company has made a quarterly habit of committing enormous sums to buying shares of what appears to be its favorite stock: Apple Computer. The company purchased $22.8 billion of its own stock in the first quarter under the previous buyback authorization—which, as it turns out, was a new quarterly record for a U.S. company, besting Apple's previous high, and giving the company the 10 biggest quarterly share buybacks in U.S. stock market history.



To get a sense of the scale of these cash commitments, consider that Apple's buyback in 2018's first quarter was enough to buy every single one of the shares of any one of 275 companies in the S&P 500 index. If you add up the $210 billion that Apple has put into its buyback program since 2012, the sum is more than the total market value of all but 20 companies in the U.S. Add to that, Apple's planned annual dividend bill—dollars returned directly to shareholders—will come to an additional $13.2 billion, making this, purely from a total cash standpoint, the highest dividend payment in the world. That single dividend sum alone is greater than the market capitalization of 141 S&P 500 companies.

To the untrained ear, this looks like profligacy—careless shoveling of cash out of the company's vaults, rather than reinvesting in new and better phone technology or a more efficient computer operating system. But if you look purely at the dividend (see chart) as a percentage of share price, Apple is actually paying out less than the average S&P 500 company. And despite the share buybacks and raised dividend, Apple has actually been spending more than $41 billion on research and development since 2013. (see chart)

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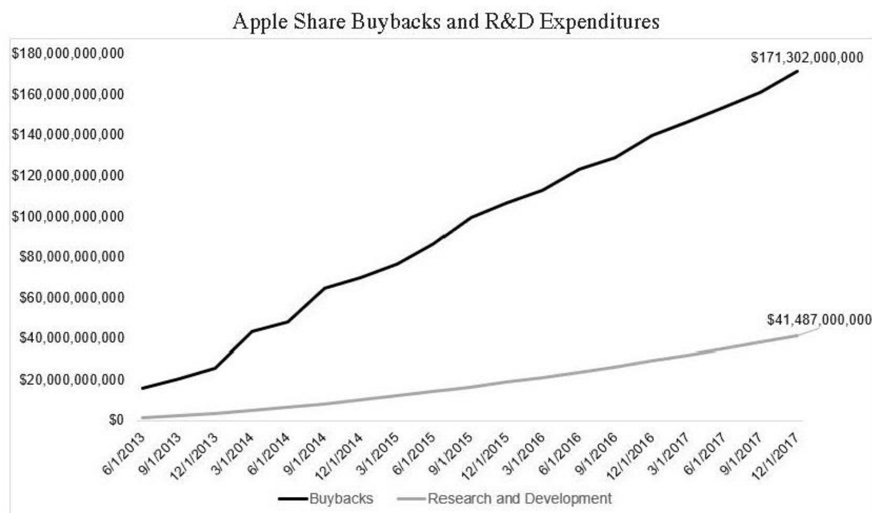

The bottom line is that Apple could be purchasing companies like Qualcomm and Twitter—or controlling interest in ExxonMobil. But for now company management has decided that the excess money belongs in the hands of its shareholders.

Churning at the Top

Index investing is boring, right? This seems especially true with the large cap indexes like the S&P 500, which includes big permanent, stable titans of the global economy. Not much changes from year to year, decade to decade.

Or does it? In actual fact, the S&P 500 added and deleted three stocks last year—Advanced Micro Devices, Raymond James, Inc. and Alexandria Real Estate Equities were included, replacing Urban Outfitters, Frontier Communications and First Solar—and this was a fairly normal year.

These small incremental changes can add up over time. Imagine if you had fallen asleep in 1955 owning equal shares of each company in the Fortune 500 (the S&P index didn't exist then) and awakened last year, whereupon you immediately checked your holdings. You'd be startled to realize that only 60 companies on today's list were among the 500 companies on the 1955 one. Some were merged away, some fell down in the ranks, and many name brands of the time—like Armstrong Rubber, Cone Mills, Hines Lumber, Pacific Vegetable Oil and Riegel Textile—are distant memories.

The point here is that, long term, there is nothing especially stable about the hierarchy of large companies in the U.S. or global economy. We don't know which will be the major corporate titans of tomorrow's economy, just like nobody back in the 1950s could have predicted Facebook, Twitter, Apple Computer or Microsoft. This is exactly why we buy index funds or diversified portfolios. Nobody knows which individual companies will rise from obscurity, or become the next Pacific Vegetable Oil.

Source:

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