May 2019

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Resolute Connections

In this month's newsletter, *Uber Under Water* reviews the latest billion dollar 'unicorn' to go public recently, not sure this one will ever turn out to be a winner. You may have noticed the recent stock market volatility, which for the most part has been caused by the trade dispute between the US and China. We thought *Who Pays in the Tariff Wars?* might help to explain the underlaying causes to this market disruption.

Following a similar train of thought, as the U.S. stock markets appear to have entered another period of volatility, *What the Past Doesn't Tell Us* discusses what history tell us about what to do when the markets get choppy. And *Safety First* reviews the safest states for seniors to retire to, while *Scam Built on a Scam* touches on the latest crypto-currency rip-off.

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

Uber Under Water

In the long and interesting history of Wall Street's initial public offerings, the recent stock offering by ride-hailing company Uber Technologies, Inc. might go down as one of the strangest. Investors were invited to pay $45 a share for the opportunity to participate in the profits of a company that lost a whopping $3.04 billion last year on revenue of $11.3 billion. Over the past three years, the company has lost more than $10 billion, according to regulatory filings. Yet the initial offering valued the company at roughly $80 billion. To put that valuation in context, the $80B figure would make Uber as valuable as Caterpillar, the manufacturer of all those yellow dump trucks and bulldozers you see around the world, and more valuable than either GM or Ford.

Moreover, there is no evidence that this interesting financial performance is poised to turn around. Lyft Inc., a rival ride-hailing firm, provides competition, although it, too, is reporting quarterly losses exceeding $1.1 billion. Meanwhile, there is no reason why another company—or several—couldn't set up a computerized algorithm matching ride hailers on their smartphones with drivers who also have smartphones—after all, the entire arrangement is nothing more than an app.

What makes Uber even less attractive is its contentious relationship with its drivers, who provide 100% of the actual service to customers. On one day this past week, thousands of Uber drivers turned off their apps in a U.S.-wide strike over pay and working conditions. In a securities filing, Uber stated that it had reached an agreement with some of the 60,000 drivers who are contesting their status as independent contractors, and who had instituted arbitration proceedings against the firm. Total cost, including attorney's fees: in the $150 million to $170 million range.

In light of all this, it may not be totally surprising that in the first day of open trading, Uber shares were down roughly 8.8% from the offering price. Some analysts are wondering if Uber not only will ever earn any profits, but whether it should attempt to as it builds market share against cab drivers and rival ride-sharing apps. If your idea of a great investment is a company that is leaking billions in losses and may never earn a profit, Uber looks like the perfect anchor for your investment portfolio.

Who Pays in the Tariff Wars?

Global stock markets have been spooked by the escalating trade disputes between the world's two largest economies: China and the United States. And there is no evidence that the dispute is about to be resolved. On Friday, President Trump raised tariffs on $200 billion worth of Chinese goods, and began taking steps to tax nearly all of China's imports. The new tariff levels are an unprecedented 25% of the value of the Chinese goods coming into the U.S., raising the costs of seafood, luggage and electronics. China, meanwhile, has placed tariffs on nearly all of America's exports into the Middle Kingdom, including agricultural products.

But many taxpayers seem to be confused about how tariffs work. The President has said that American tariffs on Chinese products are bringing in unspecified "billions" to the U.S. government. That may be true, but the source of those "billions" is not China or Chinese companies. Importers pay the import taxes when the items they've purchased overseas cross the U.S. border. With import taxes as high as 25%, it is all-but-guaranteed that the price of these items will be higher when sold to American consumers.

If the importer—which might be a manufacturer who has components manufactured abroad or a retail company like Wal Mart—decides to absorb some of the tariff cost, then that shows up in lower profits for the American company. So when an American consumer buys an iPhone, the cost might go up $160—which is the additional amount that would be paid to the U.S. government. Or Apple Computer could eat the cost and reduce its overall earnings by 24%. The same is true with goods like vacuum cleaners, electronics, computer monitors and power adapters.

There are arrangements where the importer and exporter negotiate for the exporter to pay the tariff—the term for such an agreement is DDP, or "Delivery Duty Paid." But once again, the tariff raises the cost of the item, and the ultimate bill comes due to the consumer who buys the product.

So ultimately, U.S. tariffs on imported items, shipped from China or any other country, represent an additional tax directly on the wallets and purses of American consumers—or on the earnings of American companies that decide to absorb some of these costs.

There may be additional economic impacts, such as what American farmers—particularly those who grow soybeans—are now experiencing. When the cost of American products go up due to retaliatory tariffs imposed by China, Chinese consumers and importers can go to different markets, where they can buy items that are not burdened by the costs of import duties. Chinese importers have shifted their purchases of American crops to South America, which has long sought a foothold in the world's largest consumer market.

Wouldn't that work the other way around? One issue is that many Chinese companies are government-owned or government-supported, so during an escalation of trade war conflict, the government of the most populous nation on earth will do what the American government will not: stabilize sales by subsidizing prices or making up for losses while the negotiations continue.

Most economists believe that tariffs impede global trade and the health of the global economy. And tariffs create uncertainty about whether companies can rely on existing supply chains or sources of manufactured items that go into their final products, like mobile phone devices and automobiles. This is why the imposition of additional tariffs, and the threat that they will continue into the future, is spooking the investment markets. The U.S. Treasury is definitely getting fatter as a result of American tariffs on Chinese goods. The question that stock market analysts and traders are asking is whether this is good for the American consumer and the U.S. economy as a whole.

What the Past Doesn't Tell Us

The U.S. stock markets have entered another period of volatility, which reminds us a bit of last December before the market calm of January and February. Does this new bout of volatility mean that cautious investors should get out of the markets? What does history tell us about what to do when the markets get choppy?

The answer is that history is kind of all over the place, and not an especially reliable guide to the future. In a recent article in Bloomberg, the author looked at six episodes over the past five years where the two-day change in the so-called volatility index, called the VIX, exceeded a 6.45 point surge—which, the article noted, had recently taken place for the first time since January.

The first was August 2015, when China shocked the world by unexpectedly devaluing its currency. On August 21, the VIX index closed above 28, almost 13 points above where it had ended on Wednesday. On the next trading day, the VIX peaked at 53.29. This triggered a sell-off in the markets, on fears of a hard landing in China. The lesson: sell!

Another rapid shift in the VIX occurred in June 2016, after the shock results of the U.K. referendum on European Union membership gave us all the familiar term: "Brexit." The VIX index closed 6.6 points over the level it had been when the British people were heading to the polls.

In the coming month, the S&P 500 index rose more than 8%. The lesson: buy!

Remember February 2018? The fear gauge closed at 17.31 on Friday, February 2 and rose to 37.32 the following Monday. Stocks yawned, and were virtually flat over the next three months. The lesson: hold!

In late March 2018 the VIX rose 7 points over two days, after China announced its retaliation against tariffs proposed by President Donald Trump. Stocks struggled, and then the S&P 500 rose 6.4% over the next three months, reaching all-time highs. The lesson: buy!

In October 2018, Fed Chair Jerome Powell announced that the policy rate was "a long way from neutral," signaling the intention to raise the Fed funds rate. At the same time, there was news that the ongoing trade war with China was having a larger impact on Corporate America's profitability than previously thought. The VIX closed above 20, and stock market shares fell 16% in the weeks ahead. The lesson: sell!

In December 2018, the VIX rose 7.7 points on Christmas Eve, which marked the end of a tough month for the markets. The next month, the markets experienced their best start to a year since 1987. The lesson: buy!

Obviously, this suggests that this particular tea leaf is not a perfect predictor of how to profit in the U.S. stock market. But you are going to hear pundits, prognosticators and traders confidently tell you that the VIX is a surefire way to time the markets. They'll sound persuasive. And their rightness or wrongness will be entirely random.

Safety First

Senior citizens can find a wealth of "best of" lists on TheSeniorList.com, including best assisted living facilities, best dental and vision insurance for seniors, best online dating sites for seniors, best to-your-door meal delivery services, best senior cell phone plans, best walk-in tubs and a list of the best prescription discount cards.

Recently, the website also listed the safest states for seniors to retire to. The rankings define safety in five different dimensions: the amount of fraud reported per 100,000 residents in each state (the lower the better), the monthly housing cost for renters (lower is better), the percent of residents over age 65 who are living in poverty (ideally not high), the average annual rate of violent injury death among residents 65 and older, and the percentage of seniors living alone compared with the state's overall population. The rankings are below, with each state's ranking in each of the five categories among all states (lower numbers indicate superior rankings):

1. Iowa (Fraud: 3rd; Housing: 5th; Poverty: 3rd; Violent injury: 12th; Living alone: 3rd.)

2. Nebraska (Fraud: 5th; Housing: 11th; Poverty: 9th; Violent injury: 14th; Living alone: 29th.)

3. South Dakota (Fraud: 2nd; Housing: 2nd; Poverty: 17th; Violent injury: 8th; Living alone: 40th.)

4. Minnesota (Fraud: 11th; Housing: 27th; Poverty: 4th; Violent injury: 9th; Living alone: 25th.)

5. Utah (Fraud: 7th; Housing: 30th; Poverty: 2nd; Violent injury: 38th; Living alone: 1st.)

6. North Dakota (Fraud: 1st; Housing: 12th; Poverty: 39th; Violent injury: 6thd; Living alone: 34th.)

7. Indiana (Fraud: 26th; Housing: 13th; Poverty: 12th; Violent injury: 21st; Living alone: 21st.)

8. Kansas (Fraud: 19th; Housing: 16th; Poverty: 10th; Violent injury: 22nd; Living alone: 27th.)

9. New Hampshire (Fraud: 21st; Housing: 37th; Poverty: 1st; Violent injury: 19th; Living alone: 22nd.)

10. Wisconsin (Fraud: 12th; Housing: 20th; Poverty: 15th; Violent injury: 13th; Living alone: 41st.)

Scam Built on a Scam

If you've been sitting on the sidelines during the crypto-mania that produced 2,142 new crypto currencies and saw a huge runup in the price of bitcoins and others, congratulations. You missed out on a market drop that exceeded the stock market decline in 2008-9, and may have also missed out on the adventure of having your online "wallet" pilfered by more experienced crypto-investors.

Cryptocurrencies are like dollars, yen or euros, except that unlike those more mainstream currencies, cryptocurrencies are not backed by any government. They are also not accepted at most retail establishments, and their value can change dramatically from day to day. If you're not buying illegal firearms or recreational drugs, then normal currencies are definitely the way to go—except that many people apparently believe that bitcoins, ethereal, XRP, EOS, Litecoin, Binance Coin, Tether, Stellar, Cardano, TRON, Monero and, well, more than 2,000 others are now investments. You can see the list of investment "opportunities" on the coinmarketcap.com website—and notice that many of them have no actual circulating supply that anybody knows about.

It's hard to imagine that there is a worse investment in this world, but recently we've become aware of crypto-opportunities which virtually guarantee that you will lose you all of your money. Recently the U.S. Securities and Exchange Commission issued a warning about fraudsters who tout a cryptocurrency advisory and trading business. They will invest your funds in "mining" farms that will (they say) provide guaranteed returns of 20-50% with little or no risk. In addition, some investors are assessed up-front "taxes" and/or the costs to extract fake profits from the investment.

Of course, there are no guaranteed high investment returns in this world, but the allure of crypto cash as a new, exotic investment seems to have attracted gullible "investors." In the warning, the SEC announced indictments against two Nigerian citizens on one count of conspiracy to commit wire fraud and eleven counts of actual wire fraud. They were affiliated with three websites: wealthcurrency.com, boomcurrency.com and merrycurrency.com.

Your best approach is to avoid any cryptocurrency "investment opportunity," but this is especially true when returns are "guaranteed." If you suspect that you've been contacted by a fraudster, you can call the SEC at 800-732-0330, or email the enforcement division directly at help@SEC.gov.

Source:
Bob Veres Inside Edition Newsletter

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