



## Basis Points – November 20, 2018

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### Above the Fold

- “You know New York City real estate is getting expensive when even Amazon had to move to Queens because they couldn’t afford Manhattan.” – SNL
- Keep an eye on emerging market (EM) stocks. While the EM index remains down 13.6 percent year-to-date, it has rallied 6.5 percent off its lows on Oct. 29, while the S&P 500 is only up 1.9 percent during that period. The rebound in EM stocks has coincided with a 15 percent decline in oil prices, a decline in the dollar and optimism of a U.S./China trade deal that would boost the fortunes of lesser developed economies.
- The shortened Thanksgiving trading week is typically a good one for consumer and retail stocks. Over the last 30 years, the consumer discretionary sector of the S&P 500 has risen 1 percent on average and traded positively 71 percent of the time during the week of Thanksgiving. The consumer sector has shown the best performance of any sector in the index and double the average return of the overall market during Thanksgiving week.

## Three Things

- Creative destruction is a key part of a capitalist economic system, and it is a challenge to know which companies will survive over the long term. In fact, among the 26,000 companies that have been traded on U.S. stock exchanges over the past 90 years, only 36 of them existed for the entire period.
- The Panini Generation: squeezed flat from both sides. The WSJ reports that many baby boomers who have worked hard their whole lives and made careful plans for retirement are now unable to do so. Many couples in their 60s are now caring for two generations, their parents and their adult children, rather than kicking back at retirement age. They face the strain of constant caregiving and dashed dreams, as well as the added expenses. The Pew Research Center found that 52 percent of U.S. residents in their 60s — 17.4 million people — are financially supporting either a parent or an adult child, up from 45 percent in 2005. Among them, about 1.2 million support both a parent and a child, more than double the number a decade earlier. With lifespans growing longer, the number of 60-somethings with living parents has more than doubled since 1998, to about 10 million, and they are increasingly expensive to care for. At the same time, many boomers are helping their children deal with career or health problems or are sharing the heavy burden of student loans. The fastest growing group of the population is those aged 80 or older, as advances in medicine and health care have allowed ordinary folks to enjoy a full extra third of life after age 65. But the burdens of caring for this new age group typically fall on their 60-year-old children that are moving into their retirement years.
- Significant debate during the last election focused on the problem of student loan debt, and the idea of eliminating all student debt. Major publications have written opinion pieces on the subject and there is a bill moving through Congress that would cancel student loan debt. Americans do hold about \$1.4 trillion in student loans and eliminating those debt obligations may seem like a progressive idea that would help struggling young people. However, The New York Times notes that canceling all student loan debt would not be a forward-thinking idea at all and would simply be a welfare program for the upper-middle class of the economic scale. “Education debt is disproportionately concentrated among the well off. The highest earning quarter of the U.S. population holds half of the student loan debt,” according to the Urban Institute. The average four-year college graduate leaves school with \$30,000 in debt, but the ability to repay the loans is strongly skewed in favor of those who finish school with a degree. The loan default rate for borrowers who finished college with a bachelor’s degree is only 8 percent, while those students who did not finish school with a degree default on their loans at a 40 percent rate. The author feels that the proper approach is a debt-forgiveness program that helps families who really need it, as those students who take on debt and finish school can and do pay back the loans over time.

## Did You Know

The big city population paradox: Large cities on the coasts are getting richer but are losing their electoral and representative power. The most populated 10 percent of states show an all-time high level of total income compared to the rest of the states. However, the five largest states have less representation — relative to the national average — than at any other time on record.

Amazon chose New York City and Washington, D.C. for its two new headquarters campus sites last week, and the choice of these cities created some controversy. Many in the press and local government leaders feel that it is wasteful to use public funds and tax credits to lure the very large and financially secure Amazon to their cities, and that communities in need of additional public services and infrastructure should not be handing out billions of dollars in incentives to Jeff Bezos, the richest man on the planet.

While these concerns will probably recede from the front page in the coming weeks, the choice of these large East Coast cities will affect representative government in the U.S. for many decades to come. The largest cities in the U.S. are indeed attracting large companies, who want access to their educated workforces and young, technology-savvy job candidate pools. But as big cities grow larger, their voice in the Senate and in the electoral college does not rise accordingly.

While more and more people flock to the cities on the coasts, their representation and influence in Congress decreases, relative to the rest of the country. With two senators per state, no matter what the population of the state, the representation in the Senate of the large populations becomes diluted. The power also shifts in the electoral college, where votes are based on a state's representation in the Senate and House of Representatives. The framers of the constitution crafted the rules this way, so that low population states would not be forgotten and would remain a strong voice in the growth of the nation no matter where the citizens flocked.

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