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All things big and small

Despite the market's focus upon behemoth businesses, the clearest barometer of "retail" economic indicators resides in small business. Twice as many jobs are in companies with less than 100 workers than in industries with over 1000 employees. Small businesses are principally providers of jobs during periods of rising inflation and economic growth.

That is why the changes we anticipate from the world's central banks regarding raising interest rates are so important. **We believe that historically low interest rates have not sufficiently loosened the spigot for money and have, instead, created a tougher playing field for small business employment.** Just as low inflation has hurt the pricing potential for goods and services, so too has it hurt the upside potential of a vitally important second-tier of the global economy.

Because of the inability to price competitively, small business has refrained from hiring energetically. It is the larger corporations who are gaining the majority of market share and employees at present.

However, rising inflation in the next few years should mark a turnaround for several small companies. We expect the number of new businesses to magnify as the economy expands. New patents, new inventions, new hires originate not only at large corporations and institutions but also, in the right economic climate, in homes, warehouses, garages, and studios. In fact, measuring the number of new patents is an excellent way to measure the growth potential of the economy, over all.

The most practical way to succeed is constantly to adapt. Change is an excellent barometer of the kind of innovations that only occur in nimble businesses unburdened by years of cultural strategies and monolithic structure.

The technology sector of the last 20 years is an excellent example of how "winners" develop out of a single idea, becoming themselves the behemoths of their space. Patent creation reflects the vibrancy of innovative thought. There is no shortage of creative thinking in energy, healthcare, aerospace, technology, agriculture, and infrastructure. No doubt, if looking in the right place, there are innumerable opportunities for capital gains for investors who are patient enough.

The challenge, however, is in trying to gain market share from much larger more established companies. The bigger players still have the ability to under-price their smaller competitors who have zero leverage when it comes to slashing prices and maintaining profitability at the same time.

Which is why we are hopeful that when/if price-push (inflation) does return it might make the playing field more equal by giving all players the opportunity to price their goods and services with greater efficiency. Maximizing profits by producing a "better mousetrap".....instead of using accounting alchemy, hiring/firing, or fire-sales.....would mean that the whole landscape is thriving. Historically, and within reason, all markets perform better when prices are allowed to "float" due to demand.

Bottom line: central banks tried incentivizing markets by making money "cheaper", but the strategy failed to produce an omnibus result. Rather than obsessing about cutting financial costs, perhaps we need to create a new imperative that encourages capital expenditures, fulfills needs, lowers instability, and improves the quality of life not just for the elite but for the many.

Markets

The last time this type of *altruistic economics* was in place was during the post World War 2 financial boom of 1951-1962. No doubt that even during those halcyon years there were rough spots and cyclical bumps, but the proliferation and breadth of wealth-building produced a manifest landscape of opportunity and entrepreneurship.

Productivity and growth are quantifiable statistics. They also increase the standard of living of a population. A self-sacrificial attitude is vitally important to allow everyone to benefit from the fruits of their labor. Building a savings hoard for oneself only discourages the natural evolution of innovation and economic vitality.

Today, success has become synonymous with consumption and overt affluence. The more "things" one owns the more elevated their status in other people's eyes. Spending, not saving, has become the motto for governments, corporations, and individuals. As rampant consumerism has become more normal, savings rates have been steadily eroding.

So pervasive is this attitude that foreign nations are now being unjustly compared to each other, and to wealthier, mightier antagonists based upon financial reckonings such as GNP and GDP. They are being obliged, more and more, to normalize integers, lifestyles, and to look like one another. Ironically, the epidemic of consumerism and comparison is widening the wage and inequality gap at the same rate all across the globe. The wealthy are flourishing while the less fortunate struggle mightily for pride...and for life. Too bad, because these unfair comparisons are sowing psychological and political divisions, too.

The biggest beneficiaries to the homogenization of the global markets are the shareholders of companies that successfully sow these judgments and which work diligently to penetrate new, emerging markets. This is an equal opportunity pandemic. **The road to fabulous wealth has unfortunately become the prospect of multiplying market share, irrespective of the human cost.**

Few prominent ethicists have come forward to challenge the rules of this "new economics"....nor should they be compelled to do so. But for how long can policy makers avoid the trap that lies therein? The lesson we learned from recent history tells us that this rhythm is unsustainable, politically and ethically. The capriciousness with which our lawmakers deal with stagnating wages, supply shortages, deteriorating infrastructure, illness and disease, hunger, poverty, and a generational breakdown of moral leadership is deplorable.

If prices do start to rise, there is compelling evidence that the economic expansion might be mismanaged by our politicians. Despite its recent successes the economy is not working for everyone.

Conclusion

Investors oftentimes base their portfolio success upon how frequently they score a singular trade home run. However, a much more realistic predictor of wealth building is to look at the bigger picture and to aggregate a series of good investments *more often than the bad ones*. No investment is perfect, nor should one expect that every selection will be successful. Instead, you must consider other benchmarks for "success" rather than the indices, themselves.

The stock market is only one barometer of the equation for building economic longevity. Dips and turns in the averages are normal occurrences but do very little to fortify our attitudes about our fellow man....except to make us feel better when we win and the other guy is losing! Using the stock averages to predict a country's *compassion quotient* is a foolish stretch of the imagination. Perhaps we need instead to look much further than the Dow Jones...at solutions that provide for that "better mousetrap" to flourish.

The epoch of creating enormous wealth is still in front of us. Unfortunately, we won't find it by chasing one-off transactions without also having a clear vision of what it means to pave the way forward for a bigger landscape than ourselves only. In truth, the biggest moral compulsion we face is to decide whether we occupy this planet singularly or collectively. Water, food, poverty, ecology, healthcare, energy, infrastructure, aging...and a dose of empathy...are the overarching principles of how to use money to make money.

Perhaps we need to "think small", block by block, neighbor to neighbor, to make the bigger reality happen for everybody.

Suggested balanced account asset allocation, Q4, 2018

Equity:	**41%**
Fixed Income:	**33%**
Cash:	**26%**

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