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CLIENT BULLETIN

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➢ *Trillions and Trillions*

In **1979** the size of the U.S economy, as measured by its Gross Domestic Product (GDP), was **$2.5 trillion**. Since then it has doubled in size roughly every ten years – to **$5 trillion** in **1988**, to **$10 trillion** in **2000**, and finally doubling again to **$20 trillion** in **2018**. I don't know who asked the question, but it's a good one - who has benefitted during the past 242 years by betting against America? (source for GDP figures: Office of Management and Budget)

➢ *Increasing Costs*

Inflation, as measured by the Consumer Price Index (CPI) came in at a rate of 2.95% on a year-over-year basis ending 7/31/18. The rate is creeping up toward the long-term inflation rate of 3.13% over the past 100+ years (sources: US Bureau of Labor Studies and the Department of Labor).

➢ *Room to Grow*

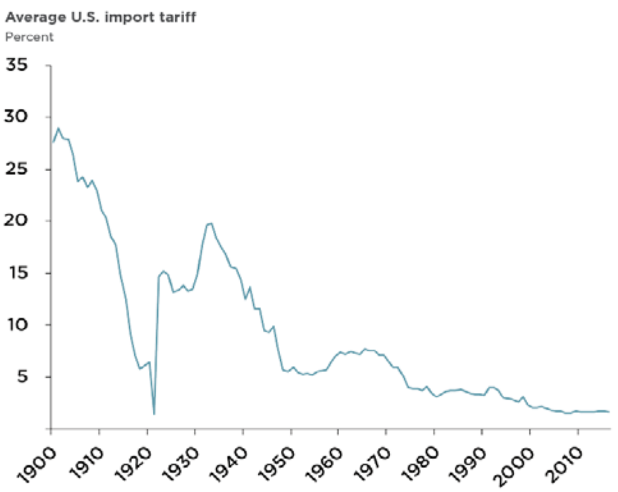
Global companies are still excited about the prospects for China's economy despite trade concerns. One of the reasons is the infancy and growth potential of approximately 1.4 billion Chinese citizens. Personal consumption by Chinese consumers represents just **39%** of the Chinese economy. Personal consumption by American consumers represents **70%** of the U.S. economy. Much of this future growth will occur online. 23% of the retail spending by Chinese consumers is completed as an online purchase vs. less than 10% in the United States (source: Bloomberg).

➢ *Building Debt*

The average interest rate paid by the federal government on its interest-bearing debt was 2.457% as of 7/31/18. Every 1 percentage point increase in the cost of debt on our nation's $15.6 trillion of ***publicly held*** debt (which doesn't include the amount owed to the Social Security system) equates to $156 billion of additional annual interest expense. Young people beware - in 25 years the US government will spend as much money servicing its national debt as it will spend on the Social Security program (source: Congressional Budget Office).

- ***Big Picture***

Despite the current tariff tiff, the long term trend for trade among nations is good. The associated chart shows the average U.S. import tariff as a percentage of trade which has trended downward strongly over the decades. The big jump up in the'20's was the infamous Smoot-Hawley Tariff Act which was designed to protect American businesses and farmers during the Great Depression but instead added considerable strain to the international economic climate and extended the depression.



Sources: World Bank, Statistical Abstract of the United States

- ***Still a Mess***

Greece recently exited from its third bailout over the past eight years. "This is a day of liberation," said Greek Prime Minister Alexis Tsipras. In reality, little has changed. Greece still owes billions to creditors who will continue to review progress in the nation's economic overhaul which has a long way to go. The business environment remains mired in bureaucratic red tape; unclear property rights make investing in Greece a legal minefield and ½ of outstanding loans made by Greek banks are non-performing (source: Bank of Greece).

- ***Long Way to Go Bernie***

Bernie Madoff has been incarcerated in federal prison in North Carolina for just over 9 years. Madoff, who is 80 years old, is scheduled to be released in 121 years on 11/14/2139 (source: Federal Bureau of Prisons).

- ***Index Change***

On September 28th the make-up of the S & P 500 Index will undergo a significant makeover. Many of the changes stem from the changing world of business. The "old" category of Telecommunication Services has been renamed Communication Services. As a result, some companies that were previously categorized as technology companies such as Facebook and Google are now included in the Communication Services category. In addition, some companies that were formerly categorized as "consumer discretionary" such as Netflix, Comcast and Disney now land in the Communication Services category as well. In any case, the S & P 500 has ceased to be a broad-based stock index for performance comparison – 37% of the year-to-date performance of the S & P 500 has been driven by just 3 stocks in the capitalization-weighted index (source: S&P Dow Jones Indices).