



386 W. CENTER, OREM, UTAH 84057

801-356-9600 fax: 801-356-9601 [www.first-financial-advisors.com](http://www.first-financial-advisors.com)

July, 2016 NewsLetter

July 4, 2016

To Our Valued Clients and Friends

#### THOUGHT FOR THE DAY

*"America will never be destroyed from the outside. If we falter and lose our freedoms, it will be because we destroyed ourselves."*

**Abraham Lincoln**

#### MARKET PERFORMANCE

The *Brexit* vote for the Brits to leave the EU took its toll on the markets for a few days, then bounced right back to close out the quarter with modest gains. Gold and silver continue strong, even as the Fed backed away from raising rates this month thanks to a lousy jobs report for May and potential disruption from the *Brexit* vote. The US economy continues to limp along, and rising oil prices are stabilizing the junk bond market and boosting S&P earnings. It appears rising oil prices are a reflection of both shrinking supply together with rising demand due to growth in China and India which portends well for global growth. The likes of billionaire George Soros continue to warn of a financial meltdown in European banks, even while our 30 SIFI 'banks' passed their most recent stress test, removing an important cloud over our markets. **YTD: DJI +2.9%; S&P +2.7%; NAS -3.3%; PRISM +2.5% Gold +31.7%; WTI OIL +29.7%**

#### IT'S ONLY NUMBERS

It makes me squirm when asked about the outcome of the upcoming US Presidential election. With all the campaigning hoopla going on, it's easy to forget that our President is elected, not by popular vote, but by delegates (*electors*) at the **United States Electoral College**. The *electors* are themselves selected according to the particular laws of each state, and under the rules established by the **23<sup>rd</sup> Amendment**, are apportioned to each state and the District of Columbia (which is currently pushing for full statehood) according to the numbers of members of Congress to which each state is entitled (District of Columbia gets 3). There are currently 538 *electors* who come to their state conventions already pledged to vote for a particular candidate based upon the outcome of the general election. Except for the *electors* in Maine and Nebraska, *electors* are selected on a "winner-take-all" basis. That is, the *electors* pledged to the presidential candidate who wins the most votes in the general election in a state become *electors* for that state. Based upon past voting experience, states have been labeled either predominately Democratic (blue state) or Republican (red state). Currently blue states outnumber red states and the election outcome – if held today – would show *electors* 347 for Hillary, 191 for Trump. Thus, regardless of the vote count in the General Election, unless Republicans can turn blue states red, the next President will be the Democratic nominee – Hillary Clinton. The Electoral College never actually meets as one body. *Electors* chosen on Election Day meet in their respective state capitals in December, at which time they cast their electoral votes on separate ballots for president and vice president. That's when the President is actually elected, but the December vote is a mere formality since the math will have been calculated on Election nite, and for us cold-hearted analysts, the math hasn't changed much since 2008. Some scholars have chosen to ignore the numbers and try using statistics about this and that to predict the outcome of the election. Good luck with that. But wait! Coming up on the outside is dark-horse candidate Gary Johnson, two-time Republican Governor of New Mexico and Presidential candidate for the Libertarian Party. Can he turn blue states purple? Will Hillary-haters and Never-Trumpers swing their vote to a virtual unknown candidate who is fiercely anti-government Libertarian, but also socially as multi-colored as Sanders? Tune-in in November to find out!

#### DIMINISHING RETURNS

*Video killed the radio star*' was a song from the 70's. Today we might sing, *technology killed my manufacturing job*. Technological innovation has thrived on the idea that technology improves our lives. Recent economic data suggests otherwise. Technology allows a machine to perform a task more efficiently than a human, increasing overall productivity, but eliminating man-powered jobs along the way. It may make economic systems and processes more efficient, but does it improve our lives? Electricity certainly did, but is there a point of diminishing returns where innovation becomes *counterproductive*? In other words, is it better for humanity that robots can now build a car, replacing men working jobs at a factory who otherwise would be getting paid, taking care of families, drinking beer with their buddies after work? I recently watched a sci-fi movie whose plot was an interesting extension of technology. It seems that science in the future figured out what our human 'life-force' is and that it could be 'harvested' (put in a bottle). In the movie, powerful, enterprising human businessmen somewhere in space started a business harvesting 'life force' and selling the 'juice' to the rich so they could live forever. Humans on our earth were the 'crop' and those alien abductions by little gray men we have read about over the years were the nasty little 'farm workers' doing the harvesting. The head bad guy addressing a captured earthling, said, "Business is about consumption, and we just happen to be consuming....well.....you." Technology may not be harvesting our 'life-force', but it definitely is changing our humanity. Consider the fact that billions of people around the world now spend more than 1 hour every day glued to Facebook, not to mention the numerous times – day and night – that they are 'checking in.' As a society we are now acknowledging that iPhone addiction is a serious problem among teens as they abandon human interaction with family, especially if coupled with pornography. It reminds me, again, of the StarTrek show where Picard and his crew encounter an earthlike planet inhabited by a peaceful and happy agrarian society led by a lovely matriarch that Picard falls in love with. As he woos her, Picard promises the lady the bounties of his modern technology to improve her life. With a knowing smile, the lady reveals that she is a thousand years old, and her society had become so technologically advanced that they realized they had lost their humanity and ultimately rejected hi-tech and went back to the soil, tilling the land, growing their crops, and being together as families. Are we missing something here? In the meantime, at FFA we are worshipping at the altar of technology and buying shares of FB.

### TRUMPANOMICS

After Donald Trump's impressive victories in the primaries, he was interviewed at length on CNBC – the oracle of American Capitalism, after all – to find out his opinions on REAL issues, as opposed to the political blather that spews out of every campaign speech of every candidate. As a hard-nosed economic analyst, I listened with interest to his answers and found myself agreeing with much of what he had to say. Here's the hard facts: America was founded on economic principles of a free-market society (as opposed to the socialist model of a state, central-planned economy). *Free-market* is just another word for '*capitalism*' which, in some circles, has become a dirty word, because under capitalism, industry is privately owned, profits are the incentive, and there are winners and losers. The irony is, the more prosperous we become as a society under capitalism, *the more uncomfortable we become with the idea of 'losers'*. We instinctively want the system to be more 'fair'. As we work to make it more 'fair' through regulation and redistribution (taxation), we ultimately strangle the energy that gave rise to the prosperity in the first place. We have seen that capitalism is the most powerful economic force in the universe for creating wealth and prosperity. We have also learned that, if not regulated properly, capitalism can become its evil twin – corruption, greed, and exploitation. A tough, successful businessman like Trump had interesting things to say about those issues that, from a rational, economist's left-brain point of view like mine, made sense, ideas that could help rebuild our middle class. Yes, there are those brilliant academics who are already extrapolating Trump's comments on unfair trade practices into a full-blown trade war, as if Trump has no brains and harbors an economic death wish. Does anybody really think that a President Trump would 'push the button' of annihilation just because someone offended him? But history has shown that the people who elected Pres. Obama are not deep thinkers about economic theory and the like. They only know that the system has somehow become 'unfair' to them (and it has). Hillary has promised them that MegaMother knows best and will take care of them and protect them from the invisible Grinch's around them that are treating them unfairly. Even so, economic policy derives primarily from the Fed and Congress thru fiscal policy, so even Hillary can't 'give the store away', but Bernie's socialist success in the primaries gives me that creepy feeling that we're reading a chapter out of *Atlas Shrugged*, and Ayn Rand must be rolling over in her grave.

### WHATEVER IT TAKES

Now that Hillary is 'the presumptive nominee of the Democratic Party', it's open season for opponent-bashing with the Republican nominee, Donald Trump. The thing that puzzles me as a veteran of a number of presidential elections is why everyone seems so surprised and upset at the political shenanigans and maneuvering that goes on – hollow promises of '*a chicken in every pot and a car in every garage*', influence peddling for campaign dollars, voter fraud, even out-right lying. This is not new, it is not unusual, it is what politics is all about (despite what we idealists wish it was). That may sound cynical, but why pretend that it's not. At least in America, we try to refrain from killing our opponents (unless you believe that the Clintons *really did have* Vince Foster murdered). Take, for example, the attacks on Trump for his now-defunct **Trump University**, the for-profit college started by Trump in 2005, purportedly designed to help participants learn how to be good real estate investors from the master himself. In April, 2010, a lawsuit was filed by a former student against the 'university' and Trump personally, claiming '*fraud, negligent misrepresentation, and bad faith*', demanding that all tuitions be refunded to students who had been taken advantage of. In August, 2013, New York Attorney General Eric Schneiderman – a longtime friend and donor to the Clintons – filed his own action on behalf of the State against Trump for '*illegal business practices, false claims, and racketeering*'. Over the years and a series of claims, counterclaims, and rulings for and against him, Trump has done what any hard-nosed politician would do – sling mud at the judge. On the other side is the notorious **Clinton Foundation (Clinton Global Initiative)**, founded in 2001 by Bill purportedly "*to strengthen the capacity of people throughout the world to meet the challenges of global interdependence...and helping communities address the effects of climate change.*" Conservatives have found the activities of the Foundation particularly galling since it receives donations from powerful Clinton supporters (including the Saudi government) who, in turn, benefit from the Foundation's charitable activities and the Clintons' political influence. While Republicans call 'Foul!' it looks to me like politics as usual – whatever your party affiliation. A number of attempts have been made by Clinton opponents to discredit the Foundation without success, including the New York Times article supposedly connecting the Clintons to a Canadian financier to help make a uranium deal in Kazakhstan in return for a \$31 million donation. Forbes did a fact-check and ultimately discredited the story. In fact, in 2015, The Washington Post reported that, "*the foundation has won accolades from philanthropy experts and has drawn bipartisan support.*" Unfortunately, Trump has now revoked the press credentials of the Washington Post. We must not be naïve about the game or how it's played. Like it or not, the only thing that matters in this game is – **winning**, and – as usual - that means '*whatever it takes.*'

### LOOKING AHEAD

The Brits had their say and elected to leave the EU (*Brexit*), a profound decision the implications of which will take years to understand. What an unhappy predicament to be forced to choose between helping a desperate flow of deserving refugees, or preserving one's own culture constructed over hundreds of years of history (400,000 Syrians have died in their brutal civil war). The real danger is the Brits have given a clear face to the social restlessness growing thruout Western Europe which could trigger the unraveling of the EU itself and the Euro as their common currency. Former Fed Chair Greenspan has issued a warning to world governments that transfer payments (social welfare programs) are threatening to sink the world financial system as debt piles up with no productivity or income gains. In the meantime, we cuddle up to our conservative portfolios, collect the dividends and interest, and try not to fret.

We value your questions or comments so please don't hesitate to email or call.