

# StraightTalk

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## Numbers and the News

As some of you know by now, earlier this month we spent some time in the hospital as a family. My son was injured in a football game – he was playing defense and was hit as the play ended (or perhaps after it was over). He left the field thinking he had broken his ribs and separated his shoulder, but it turns out that his spleen was shattered - and due to that injury and the significant internal bleeding associated with it, we spent several days in the intensive care unit, and several additional days recovering in the fantastic VCU Children's Hospital. The adolescent spleen has a remarkable ability to fully recover from this type of injury, and the two units of internal blood loss will gradually dissipate. He is back at home, well on his way to a normal routine, and will make a full recovery. I must say that the outpouring of support from friends, colleagues and clients was heart-warming, and my family is humbled and very grateful.

Because of the severity of his injury, and his age, my wife and I spent several nights with him in the hospital, which is far from a restful place, as most of you are aware. During the long nights when it was impossible to sleep in the recliners next to his hospital bed, we all found ourselves alternating between watching rebroadcasts of Sports Center and watching the various numbers on all of his monitors. He had several different IV drips, and heart, pulse, oxygenation, and respiratory rate monitors. The reason I bring these monitored stats up, is that on several occasions his numbers would be perfectly normal, and yet he would be feeling severe discomfort, in addition to the pain from his injury. At other times his heart rate and his respiratory rate would flat line on the monitors, actually reading zero while he was talking to us and feeling fine. After initial bouts of panic, we came to realize that sometimes the numbers were accurate, and sometimes they were anything but.

And so it is with all sorts of economic "news" numbers in today's fast paced, quick-hit media world. We are inundated every day with election poll numbers, economic data points, price to earnings ratios, the shrinking middle class numbers, the odds of a Fed rate hike, the widening income gap, etc. It has been my observation that these numbers are usually trotted out to help make the case that something bad is about to happen any minute now. Of course, I am not suggesting that the media is dishonest, but a reasonable case can be made by reasonable people that the media is at least "selective" in what gets reported. Editors of

newspapers and managing editors of TV newscasts choose every day which stories lead, which get buried, and which get no coverage at all. Within each story, some facts (or numbers) are highlighted, while others are omitted.

For instance, we have all been told by every politician within grabbing distance of a microphone that there is a widening income gap in America (and that presumably this is a problem that only the government can fix...) The actual data released in September from the Census Bureau showed that household income rose 5.2% last year - *the largest gain on record since the survey began in 1967*. The largest increases in 2015 incomes were for the bottom fifth of all earners. Women saw meaningfully larger gains than men, narrowing the gender gap to its lowest level ever. Overall, the ratio between the top and the bottom incomes shrank as well. So, raise your hand if you saw or heard the news that in 2015 incomes grew the most in 50 years, or that the wage gap between top and bottom earners, and the gap between men's and women's incomes narrowed! I'm guessing none of you have your hands up - so to me, this story could be filed under the letter "O" for numbers omitted from the news narrative.

Sometimes, the economic numbers are reported, but without the context that is critical to understanding the truth. As an example of this, much was made of Mitt Romney's income and the taxes he paid when he ran for President in the last election cycle, and the same situation has arisen for Mr. Trump in the current election. Forgetting for the moment his braggadocious claims about his net worth (or most anything else he says), the widely reported story is that he has not paid enough in taxes. Who decides how much is "enough" or "fair" is always an interesting question, but the implication is that high income earners in America are not paying their fair share. This has become a popular narrative in today's news culture. The top 1% has even become a phrase used to frequently argue for more redistribution than currently exists in our income tax code. And while the focus is often on the percentage of income tax paid, what is left out of this discussion is the amount of total taxes this represents as a group, which is a critical piece of information for providing context. According to the IRS, in 2014, (the most recent year the data is available) 410,298 tax returns were filed reporting at least \$1 million in adjusted gross income. This represents just one-quarter of one percent of all income tax returns that were filed that year. It also represents 14% of all income in

the country (which is loudly reported), but amounts to 27.6% of all federal income tax paid (which is often not reported, and provides the critical context). *In other words, in a land of 316 million people, roughly 400,000 taxpayers made 14% of the money, but paid 27% of all income taxes collected.* I will let you decide which of those percentages gets more coverage by today's news sources, and which is truly more important.

I'm by nature an optimist, which should not come as a surprise to any of you. I believe that it is extremely difficult, if not impossible, to be a successful investor and a pessimist at the same time. I also believe that being an optimist is the only worldview that squares with the facts. Not the raw sewage of bad news that washes ashore in each day's news cycle, but the real, big-picture facts that are critical for investing success. Some of these big-picture facts for us fellow optimists are discussed in a brand new must-read book by Johan Norburg, titled "Progress, 10 Reasons to Look Forward to the Future." In the book, he points out that as recently as 1980; one out of two people on earth were living in poverty. Today it is one out of ten and falling rapidly. Illustrating the pessimism that is so prevalent today, he points out that a recent survey asked a broad sampling of the American population if they agreed that global poverty had halved in the last twenty years (which it has). Only one percent of the people surveyed correctly responded that it had. The "news" has failed the other 99% of the people surveyed on this topic.

Some other facts from Norburg's book are equally astounding, and devastating for the narrative that things are getting worse. From the beginning of mankind's recorded history until 1960, more than half of the adults on the planet were illiterate. Today, 85% of people on earth can read and write. (There is a reason that the three major religions of the last thousand years were symbol based – no one but the clergy could read!) Additionally, he points out that 285,000 people on earth have gained access to clean water *every day* for the last twenty five years. Also, children's deaths are down by half over the last two decades. And, there are millions of people coming out of poverty in India and China every year... I could go on and on.

The reality is that life is improving at a pace never before seen in history, and yet the news numbers tend to almost always focus on the short-term, negative side of each story. I would argue that we must also try to focus on the longer term, positive side of any story in order to see a fully accurate picture. Today, there is significant reporting on poverty in America, and while any poverty anywhere is always awful, there is a huge difference between poverty in this country and poverty in the rest of the world. A significant number of poor people in this country have cars, heat and air conditioning, flat screen TVs, indoor plumbing, smart phones with internet access, and are morbidly obese. Never before in the history of the world have people in poverty been twice

their ideal body weight - they were always on the edge of starvation. The truth is that in many respects, poor people in this country live better than the U.S. President did 150 years ago.

News that has omissions or lacks context is a problem, but I would also argue that stories that don't see the light of day are just as big of a problem. There is so much good news out there it is astonishing, and most of us never see it. David Brooks wrote a great piece in the New York Times in August that outlined some of the greatness of America, which is under attack from daily headlines. His article points out that the American dollar is the world's currency, and English is the language of international business. The Food and Drug Administration is the benchmark for medical standards around the world, and the American patent system is the most important in the world. You likely knew most, if not all of these facts, but did you know that nine out of the top ten most valuable brands in the world are American? (Apple, Google, IBM, etc.) How about the fact that we have 15 of the world's top 20 universities? Or that 91% of online searches are done through American companies' services? Or that 99% of the smartphones in the world run on American-made operating systems? Also likely unknown by most of us is that American investment managers handle 55% of the world's assets, and American businesses host 61% of the world's social media users. Mr. Brooks summarizes this consistently unreported American exceptionalism by writing, "The biggest threat now is **unmerited pessimism itself**, and the stupid and fearful choices that inevitably flow from it."

We live in the greatest country in the history of the world, and have access to partial ownership in some of the greatest corporations to have ever existed, despite the constant negative news drumbeats. The Fed's next rate hike doesn't matter, and quantitative easing did not push the stock market up in the last six years. If it had, Japan, which has been pursuing the same strategy for the last two decades, and Europe which has been using our playbook for the last four years, would have seen their stock markets also rise. Our market recovered because of American exceptionalism, and because of the great companies in our economy ignoring the news numbers, and doing what they do, each and every day.

When it comes to putting stock in whether or not there is a risk of recession, or whether the employment numbers are strong enough, or the economy's growth numbers are high enough, or the stock market is too expensive, remember the words of the late, great Marvin Gaye in his iconic song, "I Heard it Through the Grapevine."

He sang "People say believe half of what you see, son, and none of what you hear." Or, you could remember the fact that the S&P 500 was 94 on the day I was born, and it closed at 2,152 as I write this. With all due respect to Marvin Gaye, you can believe all of what you see with those numbers...

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