STOCKBOY

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Opportunity of the Century…..for our Government

Stock's Magical Levitation

The stock market has been bumping along at lofty levels in recent months – trending somewhat up at times and then down again. Overall, it's still been a very good year in the stock market, at least to date. Though the markets were down late last year (mostly modestly, depending on the sector, for the full year), we're now back near record highs.

When you look at the headlines in Washington and around the globe, it makes you wonder how the market overcomes these concerns. The general opinion is that the stock market is more concerned about the economy than politics and the economy has been pretty strong overall.

The economy and the stock market have both been trending generally upward since the Great Recession of 2008-9. But when will this trend go the other way? Economic slowdowns aren't suddenly impossibilities.

However, with the exception of the 4th quarter of last year when the market fell quickly and harshly, the market doesn't seem to believe there are significant dangers. As with a game of musical chairs, at some point the music will stop and the nervous investors will be searching for the limited seats of perceived safety. The investors who won't be looking for those seats of safety *after* the music stops are those who are truly long term investors with a good plan. Instead, they'll plan ahead, then wait it out and even perhaps start buying good companies at lower prices – a formula for long term success.

No Trading Fee Generosity?

The primary broker/custodian of my investment firm is Schwab, which just recently announced they will no longer charge a transaction fee for stock and ETF trades. These fees have been falling dramatically for years in the discount broker world and this is the latest (and final, I would assume) move downward.

Schwab announced that they are eliminating trading costs because they say, "Price should never be a barrier to investing for anyone…" That's very nice. But if they truly believed that, why were they charging fees up until now? I'm happy Schwab is no longer charging trading fees but I don't believe the reason is the one mentioned above. I'm fairly confident the decision was made by the Schwab board while discussing profit and loss along with future growth – not altruistic feelings. The fact that both concepts are fulfilled, however, is a win-win.

Investment Fads --Et Tu Pot Stocks?

In the tradition of 3D printing companies and crypto-currency/block chain manias, apparently now come marijuana stocks. A pot ETF that represents the industry, Alternative Harvest (MJ), is down over 25% so far this year. Why do these new, growing industries have stocks that fall, if not plummet? It seems to be the coalescence of people wanting to cash in on a new, exciting and seemingly booming industry yet the reality being that it takes time for industries to mature and make profits. Many of the 'early adaptor' companies don't stay solvent through this process. Thus, rushing into these fledgling industries seems questionable.

Infrastructure: Long term meets Short

As bad as politics seem lately, most politicians agree with the public that our nation's infrastructure desperately needs to be improved. So why isn't it done? Primarily it is due to disagreements as to how to pay for it. Thus infrastructure improvements fall into the behavioral category that seems an all-too-common human weakness: deferring for too long important things that don't have to be done today.

If our infrastructure isn't maintained and improved, we are sure to pay a much higher price down the road, and we're already seeing that. This price will continue to escalate in the form of disasters like the bridge collapse in Minneapolis a few years ago and the periodic gas line explosions in cities like New York. It will also reveal itself in ongoing 'soft costs' such as all the bent wheels from pot holes and municipalities having to regularly repair ruptured water mains, and traffic jams where everyone involved loses valuable time. These costs are harder to tally and often happen to individuals in dribs and drabs, but they are real and add up quickly -- like a credit card statement adds up, even with just a bunch of 'small' expenses during the month.

This same 'important but not immediate' mindset can apply to businesses and investing. In business, it means companies often don't properly invest in long term beneficial aspects of their operations such as investing in new equipment and properly rewarding and supporting good employees. Cutting corners can help the bottom line each quarter by reducing expenses, but at some point the opposite occurs – deferred expenses pile up, sales fall and profits dwindle. It's important to regularly invest in the future to stay ahead of the wave so it pushes you forward instead of eventually washing over you.

The Deal of, and for, the Next Century

It appears there's an opportunity, sitting right at our feet, to help pay for our infrastructure improvements. With long term bond interest rates being historically low, this is a good time and opportunity for the U.S. government (and states) to borrow now to pay for long term infrastructure improvements.

The concept of matching is nothing new in the investment world. It's the idea of matching investments to the purpose of the money. For example, if you think you'll need money in the short term (say, 2 years or less) for something like tuition or a house down payment, it should be invested for safety and liquidity. For retirement money, assuming you're not retiring soon, the money should be generally in the stock market for long term growth (where you can 'afford' the ups and downs along the way to that long term growth).

I dislike the idea of taking on more government debt as federal debt is already very high, but infrastructure cannot be put off indefinitely, and we should look to start fixing it today. Given that, taking on historically cheap, long term debt by governments issuing long term bonds is a good option in a sea of bad ones. Issuing, say, 50-year (or longer) bonds at around 3 or 4% appears to be as good a deal as you're likely to get.

Beyond the low interest rates on long term debt, with the exponential effects of inflation over time the money we use today will seem relatively modest in 50 years (or further) as we finish paying it off.

The investments in infrastructure are for long term improvements such as bridges, roads and pipelines. These should last decades, so the debt can be in decades too (matching) – particularly if it's in an era of relatively cheap debt.

BrianWeisman, *CFA,CPA,CFP,CMA*
(734)6651454brian@columbiaasset.com