March 2018 | Vol. No. 28 | A Deeper Look at Financial Planning Topics

The Future of Retail

Chances are you know there is a sea change going on in the retail industry. But you may not realize how far and how fast the online tide is rising. Singularity University founder Peter Diamandis invites you to recall the powerful retail networks created by Sears, J.C. Penney and Macy's. Since 2006, the stock value of Sears has fallen from $14.3 billion to $300 million—a 98% drop.

Over the same time period, JCPenney's stock value fell from $18.1 billion to $1.2 billion (-94%) and Macy's, worth $24.2 billion in 2006, is now worth $9.3 billion (a 62% drop). Less dramatic but still significant price declines can be found at Kohl's (-54%), Nordstrom (-28%), Best Buy (-25%) and Target (-20%). Diamandis notes that in 2017, over 6,700 physical stores closed their doors.

Meanwhile, the premier online retailer, Amazon, has seen its total market share value rise from $17.5 billion in 2006 to $726.3 billion in 2018, a rise of more than 4,000 percent.

It's anybody's guess whether Amazon will continue drawing sales and market value from the bricks-and-mortar retailers, but Diamandis points out that this remarkable shift has been accomplished despite e-commerce only accounting for 10% of total retail sales in 2017.

It seems like a sure bet that this number will continue to grow, although the actual trajectory is uncertain. Diamandis does, however, see some hope for physical retailers on the horizon, as custom 3D printing will make it possible for people to walk into a store, log onto a terminal and custom-order clothing or other items that will then be physically created on-site. And he notes that the so-called "experience economy" will extend to retail purchases, as people don virtual reality glasses and create their own custom kitchen redesign or map out their upcoming vacation trip to Prague.

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Advisor Corner

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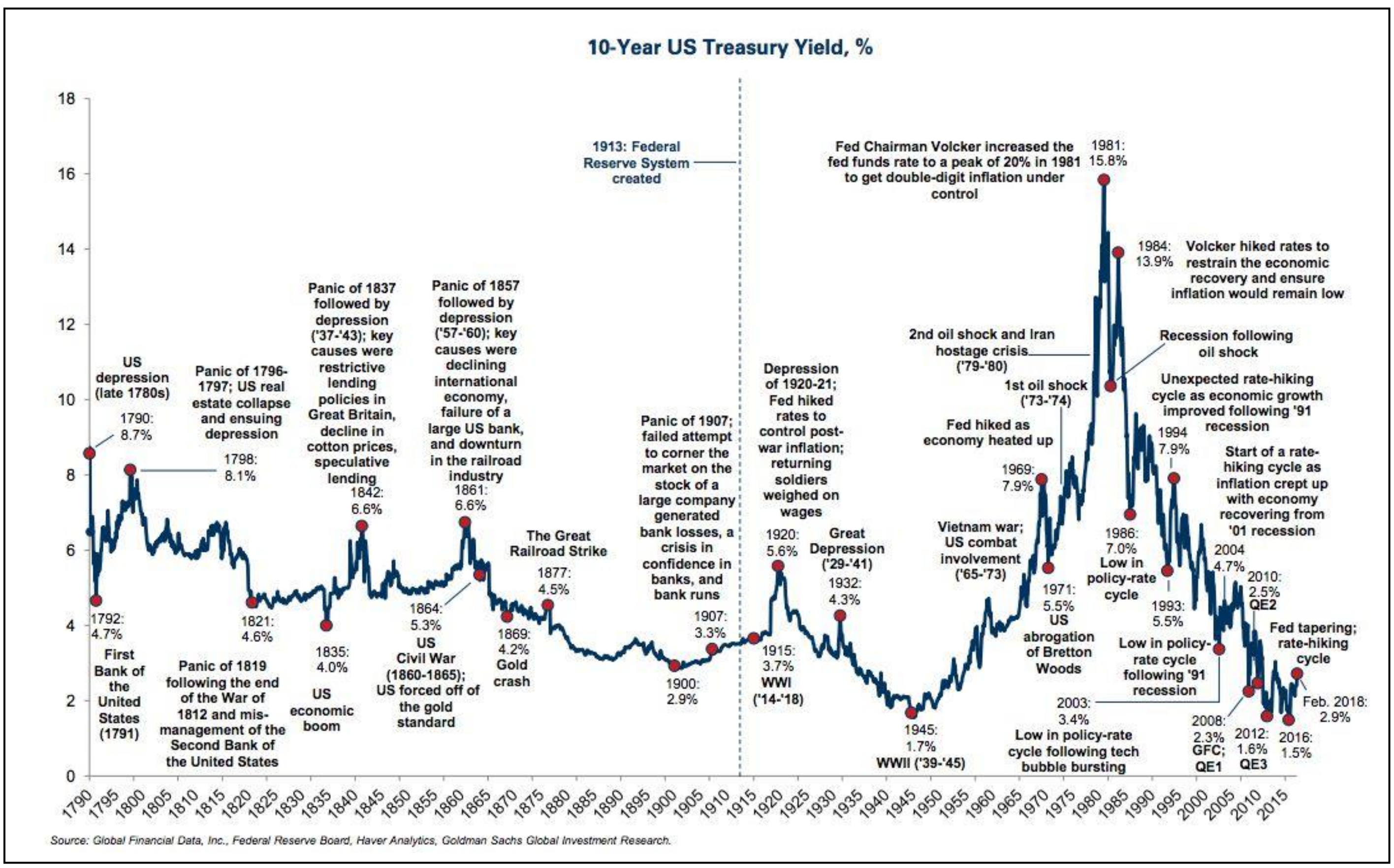
The History of Bond Rates—Past as Prologue?

Although stocks get the most attention, bonds are significant contributors, both to your total return on your portfolio, and also to the prices of every other investment. Bonds compete with stocks and real estate for investment dollars; when their yields are high, it causes a shift in demand away from those "risk" assets, and tends to lower the price of a dollar of corporate earnings.

When you look at the long-term history of bonds, shown in the graphic, you see that the time period following World War II can be divided into two distinct periods. Since 1945, when 10-year Treasury yields bottomed out at 1.7% a year, there was a long period when bonds became more competitive with stocks. That period ended with an all-time high for 10-year Treasuries of 15.8%. The latter part of the runup was not a great time to be invested in stocks, with the 1974-75 bear market following and then leading a long sideways doldrums in share prices.

The annotated chart doesn't note that the long bull market in stocks started the year that bond rates started their long decline, but it does show that since 1981, bonds have become less and less competitive with other asset classes. The recent jump in rates is actually in line with other incidental bumps that would give way to sharp declines in a long downward trend that has lasted more than 35 years.

Many analysts worry that the trend could turn around—although, to be fair, some of them have been boldly predicting a rise in bond rates for the better part of seven years. But the underlying issue is that when bond yields DO eventually turn back upwards again, the result could be the same as it was during the runup in the 1970s: a long, extended period where stock returns underperformed their long-term averages.



Sunny Weather Forecast

Economists and traders pay a lot of attention to something that probably doesn't keep you up at night: the FOMC Minutes, or, in English, the summary of the discussion among decision-makers on the Federal Reserve Board, known as the Federal Open Market Committee.

What do they discuss? The health of the U.S. economy, the prospects for inflation, and whether interest rates should be raised or lowered. The latter issue, of course, is the reason for all the fuss; traders want to know if rates are going to go up faster than people expect, which might slow down the economy and reduce demand for stocks.

Recently, the FOMC released the minutes from its late January meeting in Washington, DC, and the news was generally upbeat. FOMC members appear to believe that the U.S. economy has reached full employment, and that the core inflation target will be met in a couple of years with no significant concern that it will overshoot that level. You can read the full report here: https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20180131.pdf but some excerpts show how sunny is the forecast among these economic weathermen:

"*Participants characterized their business contacts as generally upbeat about the economy; their contacts cited the recent tax cuts and notable improvements in the global economic outlook as positive factors. Manufacturers in a number of Districts had responded to increased orders by boosting production…."*

"*Businesses in a number of Districts reported plans to further increase investment in coming quarters in order to expand capacity…."*

"*Many participants reported that labor market conditions were tight in their Districts, evidenced by low unemployment rates, difficulties for employers in filling open positions or retaining workers, or some signs of upward pressure on wages…"*

"Business contacts in a few Districts reported that they had begun to have some more ability to raise prices to cover higher input costs."

Of course, the markets dove at the end of the following day, and one interpretation of the minutes is that the Fed will tighten rates faster and more often than had previously been reported. That would be a negative for stocks, but it's also pure speculation; all the Fed decision-makers promised was "further gradual tightening," which is ambiguous enough to fit anybody's interpretation. The most balanced way to read the minutes is to take the Fed at its word: it sees a healthy local and global economy and a return to wage prosperity unfolding before its eyes. That doesn't mean the market can't go down and stay down, but it does suggest that the economic doomsayers don't have a lot of fans at America's central bank.

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Tech Advances to Watch

What are the most important technological advances from the past year? Every year, MIT Technology Review provides its answers to the question, with an eye toward the innovations that will have the greatest impact on consumers.

This year's list includes 3D metal printing; that is, printing metal parts quickly and cheaply, and cutting-edge urban design using digital technology. Also: digital earbuds with a built-in language processor that will translate foreign languages into standard English. The magazine cites a power plan that captures the carbon released by burning natural gas, avoiding greenhouse gas emissions, and a tool developed via the new blockchain technology behind bitcoin that makes it possible to carry out digital transactions more cheaply and efficiently than can be done with today's credit cards.

One other item on the list is all the new genetic testing services, which are making it possible to predict peoples' chances of contracting certain diseases and even to determine the natural IQ of the person. At the same time, the magazine warns, these services will also increase the risks of "genetic discrimination"—employers deciding to hire based on your genes, or healthcare providers charging higher premiums to people who might have more susceptibility to congenital illnesses or heart disease.