

Third Quarter 2019

## Economic and Market Commentary

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*By Ray L. Lent, Founder, The Putney Financial Group; Chairman, Portsmouth Financial Services*

The industrial heart of England has long been in the West Midlands country, north of the Cotswolds and south of Stoke on Trent. Close to the center sits the metropolitan borough of Wolverhampton. Its population is engaged, as it has been for centuries, with foundries and metal manufacturing. A hard-working town filled with hard-working people. People who really didn't notice when Alfred Noyes was born in Wolverhampton in late summer of 1880. No one noticed, that is, except his parents, Alfred and Amelia. Father Alfred Sr. taught Latin and Greek, and soon he moved his family to Wales.

Given his parents loving attention, it was no wonder that the young man found himself in the role of upperclassman at Oxford by the turn of the century. But graduation would not occur for Alfred Jr. was a poet and he needed to decide between his finals or meeting with his publisher to cinch the deal on the publication of his first volume of poems, *The Loom Years* (1902).

The world's a richer place for that life-defining decision. Over the next 10 years, Alfred published five additional volumes of poetry, one of which included my very favorite poem from childhood.

"The Highwayman"  
By Alfred Noyes (1906)

*"The wind was a torrent of darkness  
Among the gusty trees  
The moon was a ghostly galleon  
Tossed upon cloudy seas  
The road was a ribbon of moonlight  
Over the purple moor  
And the highwayman came riding  
Riding, Riding  
The highwayman came riding  
Up to the Old Inn Door."*

So, since I've chosen robbery as my transitional historic theme, here's a story of one of the most audacious robbers of the past 500 years. His name was Thomas Blood.

Born in County Clare, Ireland, he grew to be strong, bold and with a moral compass that only pointed to his own selfish interest. By 24, Blood was in England fighting for Charles I in the first

English civil war. By 25, he had switched sides and was fighting for Oliver Cromwell. (Blood prided himself on his ability to pick a winner.) Cromwell won, and Blood was rewarded with land grants and was appointed justice of the peace. So far so good. Then the Restoration occurred, and Charles II took the throne and the lease payments stopped. Blood hit financial ruin and fled back to his ancestral home in Ireland.

### **If At First You Don't Succeed, Try, Try Again**

Well, it wasn't long before Blood was rabble rousing with his fellow exiled Cromwellians before he hatched a plan to storm Dublin Castle and hold the First Duke of Ormonde for ransom. Let me just say the plan fell short. Most of Blood's collaborators were captured and executed. Living the charmed life Blood seemed to live, he escaped England and then fled to the Netherlands with a bounty on his head.

Five or six years passed and Blood sneaked back into England posing as a doctor named Ayloff. Soon he started plotting revenge on the First Duke of Ormonde. This next plot didn't work out much better than the first, but at least this time Blood wasn't implicated. Never one to let moss grow under him, the very next year Blood concocted his most ambitious plan yet. A plan to steal the crown jewels of England from the Tower of London.

Blood's plot had a lot of moving parts. They included passing himself off as royalty and hiring a prostitute to pose as his wife. He hired the most handsome young man he could find to pretend he was his eligible bachelor nephew. Now the keeper of the crown jewels was a man named Talbot Edwards, who had a pretty homely daughter. So homely in fact that he wanted to see her married in quick order. So you can see where this is going. Passing as royalty, Blood befriended Edwards and told him about his eligible nephew. Soon he shared how special it would be to have a private peek at the crown jewels.

At first Edwards was hesitant, but Blood ingratiated himself through gifts and promises. The special night soon came, and Edwards secreted Blood and his fake royal family into the Crown Room. Edwards was quickly overpowered by Blood and his fake family who subdued him. Next they took mallets to the gold crowns to flatten them for concealment. The flattened crowns and jewels were ferreted into their pockets.

### **Not Even Close**

Regrettably for the would-be jewel thieves, they didn't get far. In fact, they were all apprehended a short time following the theft. Sitting in prison, Blood was sure this was the end. Hanging at best, with the worst unthinkable. You can imagine his utter shock to learn that Charles II was actually amused with the caper and awarded Blood a pardon and giving him land in Ireland that produced 500 guineas a year for him. A princely sum for sure. Blood was soon released from prison and ready for his trip back to Ireland as a hero. Before he could leave, he took to bed and went into a coma. He died shortly thereafter and was buried in the churchyard at Old Saint Margaret's, near Saint James Park. But our story doesn't end here.

With his reputation for deceit and subterfuge, the brazen robber's tomb was soon exhumed. Considering all the creditors Blood had left behind, some of them decided to make sure he was really dead and not faking his own death. He really was dead. But his story lived on, made into books, plays and limericks. It is said that Errol Flynn's most famous role, "Captain Blood" was at least based in part on the wily robber's life.

So why did I pick a poem and a story of theft and robbers for this quarter's commentary? Because right now, the whole country feels like it's been robbed, myself included.

### **Talk About Being Sidetracked**

You see, I wanted to continue my series on change, the inevitability of it, the need for it and the importance of always pushing the envelope forward. Remember last quarter we started with an exploration of agricultural trends and innovations in growing the world's food supply in a sustainable fashion. Critical, when you stop and consider that socio-anthropologists are predicting that the world's population will increase by another three and one half billion people before peaking later this century.

Next up was health care. Its delivery, advances, challenges and costs. I couldn't wait to share with you my excitement in learning how Cornell University has pioneer research that is today using 3D printers that are producing natural and fully functioning cars. Printers are producing replacement skin for burn victims and soon will be advancing technology that prints eyes that are really cameras that transmit "the seeing image" directly to the brain. Sound far off to you? Well, it's not, it's happening right now, right in San Francisco.

Just recently, doctors at UCSF have reported on their success in removing cataracts with drops, not surgery. It was my intention next quarter to advance the series with a study of needed change in government (is it really broken?) regulation, along with a discussion of wastefulness and grossly underfunded corporate and government pension plans.

### **Backed Up Like the Bay Bridge**

But now that all has to be delayed. Delayed just like any progress will be delayed in the substantive health care debate, delayed like any bi-partisan infrastructure bill will be delayed, delayed like any substantive gun control legislation will be delayed— you get the picture. And why is this happening? Because Washington is riveted to the impeachment process and nothing else will get done.

It would be like ignoring the elephant in the room if I didn't write about the question on every investor's mind: How will impeachment trials affect capital markets? I believe it breaks down like this...

### **Bifurcate**

Coming from the medieval Latin word, "bifurcus," a derivation of bi-furca, meaning two-prong fork, bifurcation has come to mean a division into two distinct and separate branches.

That's exactly what one needs to do here. Recognize that the political drama of an impeachment and capital market trends do not operate in lock step.

## **Let Me Bring It Home**

During our lifetimes, we've been witness to two different prior impeachment proceedings. One 40 years ago, one 20 years ago, and now a new chapter is unfolding. You know the news channels will follow little else, but what about Main Street and Wall Street? You'll find that they have actually surprising little correlation.

In 1972, Richard Nixon was elected to a second term in office by a landslide over his Democratic opponent, Senator George McGovern of South Dakota, being granted his heart's desire—"Four more years." But that was not to be and things started turning ugly real fast. Revelations of the Watergate break in and the administration's suspected involvement soon became pandemic. Congressional investigations soon followed, and by the time of the "Saturday Night Massacre," when the President demanded that Attorney General Elliot Richardson fire independent prosecutor, Archibald Cox, the presidency was in free fall. Richardson refused and resigned immediately. Nixon next asked Deputy Attorney General William Ruckelhaus to fire Cox. Ruckelhaus refused and he resigned. It wasn't until the third in line, Solicitor General Robert Bork reluctantly fired Cox that the President's will was met.

The Saturday Night Massacre occurred on October 20, 1973. Economists peg the beginning of the 1973-1975 Recession to November of 1973 and running until March of 1975. So the question begs to be asked, "Was the Recession of '73-'75 related to Nixon's pending impeachment trial (remember, Nixon resigned on August 9, 1974)?" The answer may be surprising to some, but the two events had little correlation.

## **The Oil Crisis Recession**

Up until 1971, the United States had been on the Gold Exchange Standard as established by The Bretton Woods Accord of 1944. The dollar was pegged to the price of gold, and all other currencies were pegged to the dollar. In other words, their value was left to float with demand. In August of 1971, the U.S. pulled out of The Bretton Woods Accord. Britain soon took note and floated the Pound Sterling. This started a chain effect throughout the industrialized world, with countries increasing their reserves by expanding their money supplies (printing money). These actions resulted in a significant depreciation of the dollar.

Now keep in mind that OPEC (the Organization of the Petroleum Exporting Countries) had the price of their oil pegged to the dollar. When the dollar sank in value, they were getting much less for their oil, so they needed to do something about it: They decided to peg the price of oil to the price of gold. By the time Nixon's impeachment process began, oil had quadrupled in price, gas shortages were rampant and unemployment was creeping up toward 9%.

These weren't the only factors in play. Metal technologies around the world had advanced, and this put great pressure on American steel and auto manufacturing and had a devastating effect

throughout the Rust Belt. America had long been engaged in Vietnam at a tremendous expense of lives and capital, and the post World War II global expansion had finally come to an end.

Before the Recession was over, GDP had declined by 3.6%. More than 2.5 million jobs were lost, and a new term, “Stagflation,” entered the American lexicon meaning rising costs in a shrinking economy. Had Nixon served out his entire second term and not faced impeachment, would the Recession have been avoided? Doubtful. The state of the economy was at the root of the recession, not the White House tapes.

## **Fast Forward 20 Years**

The decade of the 1990s started off slow, real slow, financially speaking. An inflation spike had hit at the end of the 80s. The Federal Reserve wanted to tamp it down quickly, and before we knew it, the federal discount rate had spiraled up to 8%. This choked off credit, and the GDP started slowing. As the GDP slowed, unemployment grew, and by the 1992 Presidential election, the country was ready for a change.

By September of 1994, the American economy started picking up a tail wind. For starters, oil prices reached their lowest levels in 20 years. This lowered not only transportation costs but manufacturing costs as well. (Oil prices didn’t actually bottom out for another two years.) Now add to this the fact that the first wave of baby boomers were hitting their peak earning years, and their kids, the millennials, created a whole new generation to buy things for.

The boomers started saving for their retirement which resulted in more money being available for credit and investment. This became the period of time when the country accepted the fact that we were no longer a manufacturing-driven economy but one that saw finance and the service sectors blossom. All this was playing out against a surreal backdrop of foreign economic crisis—Mexico in ’95, the Asian Flu of ’97, Russia in ’98 and Argentina in ’99. But the U.S. economy remained the envy of the world.

The mid-90s saw new tax reform, a revamping of the welfare system, unemployment decline and labor force participation increasing every year. Advancements in technology were astounding, and tech companies became the darling of the midway. Before we knew it, the annual deficit kept going down and down, until miracle of all miracles, by 1998, the country was actually operating at surplus levels. We were bringing in more than we actually were spending. In 1998, the country celebrated nine consecutive years of expanding GDP and enjoyed a budget surplus of \$69.2 billion dollars. All the while, the stock market doubled in value only to nearly double again by the time the dot com bubble burst in 2000. “Slick Willie could do no wrong.” Or could he?

## **Shenanigans in the Razorback State**

It started with an investigation of the President and his inner circle back in 1997 on a land deal named “Whitewater” and the firing of long standing White House travel agents (so that the Clintons could give that travel business to their cronies; remember, this is in the days before

Travelocity and Trivago). The investigation was trudging along, but its traction was marginal at best. That is until a woman named Linda Tripp came along.

Now Linda's best friend was a woman named Monica, as in Monica Lewinski. When Monica started sharing with Linda that she was secretly having an affair with the President, Linda started secretly recording their private conversations. After all, what are best friends for? Now Linda knew that a woman named Paula Jones had accused the President of sexual misconduct when they were both in Arkansas. She brought the suit in 1994, and Clinton's legal team didn't want the case to be heard until Clinton left office. The Supreme Court saw it differently, and in May of 1997, it ordered the trial to commence.

Linda, being the solid girlfriend that she was to Monica, went to Jones' attorneys, and to Lewinski's horror, outed her. Next thing you know, Monica was put on the witness list, and Bill was sent into panic mode. He decided he was going to "talk to Monica," (through his ally, Vernon Jordan) so that she could remember things more favorably to Bill, and at the same time get a new job of her choosing in the government. It didn't take long before special independent counsel Ken Starr, from the independent counsel Whitewater investigation, got wind of this and broadened his investigation. Ultimately Starr questioned the President; I'll spare you the details.

### **The Country's Second Impeachment Trial (Extra Credit If You E-Mail Me the First Impeachment Trial Without Googling It)**

Since the Whitewater Investigation was so exhaustive, the charges whizzed through the Judiciary Committee and would move to the Senate after the new year. Leading up to the mid-term elections of 1998, Speaker of the House, Newt Gingrich, bragged that the Republicans would pick up 30 seats in the House because of the impeachment scandal. They didn't. They actually lost five seats. Why? In Bill Clinton's own words from the campaign trail of 1992: "It's the economy, stupid."

Eventually, on December 19, 1998, Clinton was impeached by the House of Representatives for perjury to a grand jury and obstruction of justice. His trial in the Senate, to see if he should be removed from office, began on January 7, 1999. Now this gets important: It takes two thirds of the Senate or 67 votes to vote in favor of impeachment. When 1999 began, the Senate was comprised of 45 Democrats and 55 Republicans. When the final vote was tallied, it was 50 senators for impeachment and 50 senators against.

### **What Historians Ponder**

Had the dot com bubble burst in 1998, instead of two years later, would the impeachment vote have turned out differently? Would the public have pressured their elected officials harder to vote for impeachment? We don't know. What we do know is that, from the start of Bill Clinton's impeachment in 1998 to his acquittal in 1999, the S&P 500 went up 28%.

## Conclusion

Today is October 1, 2019, and I've just completed writing this commentary at my dining room table. It will probably be a good three or four weeks before you get this (we'll be reconciling all client statements as we always do), but when you do, I'll bet you dollars to donuts that impeachment will still be dominating the headlines like nothing else, and that will continue for months to come. Just remember: politics and the economy don't necessarily march in lockstep as we've just seen.

There's no doubt that the global economy is slowing down and in some cases actually contracting. Growth here in the U.S. is slowing, but it's not contracting. Productivity, which measures the ratio at which goods are produced (different from production, which is the process of creating, growing and manufacturing a quantity of goods and services) is up, interest rates are low and energy costs are stable. (This is in spite of the fact that half of Saudi Arabia's oil production was knocked offline just a couple of months ago by the Iranis-Iraqis. Imagine if that had happened 25 years ago.)

Although I don't see the economy wrestling with tragedy during these trying political times, nor do I see the type of giddy enthusiasm that led to the dot com bubble bursting in 2000, I would call this economy somewhere in between.

Valuations haven't gone crazy. The markets are not much higher than they were two years ago. Good companies continue to make money. For example, analysts are predicting that Amazon's profits in three years will be \$90 billion. That's equal to, in one year, the entire value of Lockheed Martin or Goldman Sachs, successful companies whose origins go back well over 100 years.

For those investors who are selective, not in a rush, and seek out quality, there will always be opportunity. Slow and steady usually produces positive and predictable results. Just call me turtle. As always, with...

Best Regards,

Ray Lent  
RLL/dot  
Enclosures