

THE MAIN ADVISORY

Second Quarter 2014

Piecing It All Together

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More Stimulus Addiction

“When an accident is waiting to happen, it eventually does. When countries become too deeply indebted, they are headed for trouble. When debt-fueled asset price explosions seem too good to be true, they probably are.” Carmen Reinhart and Kenneth Rogoff

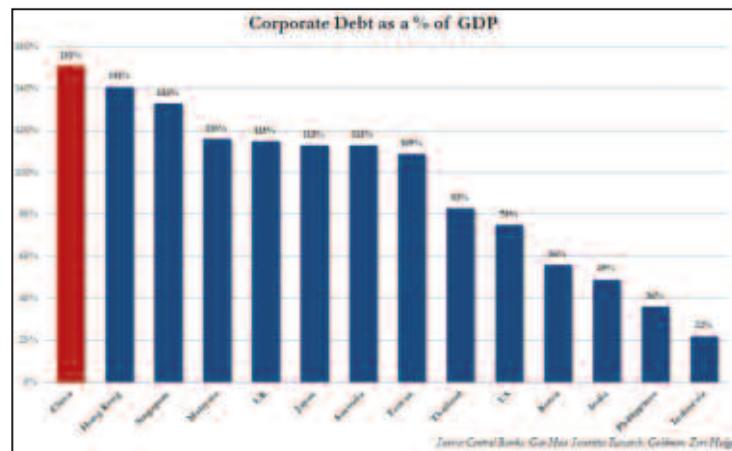
I’ll bet you are thinking I’m going to write another article about the U.S. economy, federal stimulus, and the growing debt burden. I’m not.

As investors, we tend to get comfortable with what we see in our own backyard. Yet, the U.S. represents only a fraction of the world’s global domestic product (GDP). We measure our investment opportunities by how long we stand in line to order our lunch, the number of open parking spots at the shopping mall, or the number of overnight deliveries by UPS. However, there is much more to consider when allocating portfolios.

Investing opportunities or pitfalls are not isolated to the U.S. Greece, Italy, and Spain’s fragile economies threatened to spill over into other markets in 2012-2013. Today, stories of China’s slowing economy are plastering financial publications almost daily. China is the world’s second largest economy. When its economy slows, there can be major ripples across the rest of the world.

China’s economy has been growing at approximately 8% per year for the past 30 years. Fearing their economy would fall into

recession during the 2008 crisis in the U.S., Chinese officials jumped into action by stimulating demand with its largest fiscal deficit in more than 60 years. They mobilized bank lending with historically low interest rates and enormous liquidity injections—governmental stimulus.



China’s total debt-to-GDP has grown by roughly 20% per year, from just under 150% in 2008 to nearly 210% at the end of 2012...and continued rising in 2013. Even more scary, corporate debt has soared from 92% in 2008 to 150% today against the expectation that China’s government would always backstop defaults. Sound familiar?

Table 1: An alarmingly high debt-service cost

	Debt load (% of GDP)	Average interest rate	Average maturity (yr)
Total corporate debt	145	6.3%	4.4
bank loans: short-term	45	4.6%	1
bank loans: medium/long term	55	7.2%	8
corporate bills/commercial papers	4	3.0%	1
corporate bond	10	6.5%	8
shadow credit: short-term	12	6.0%	1
shadow credit: medium/long term	18	9.0%	3
Interest payment (% of GDP)	9.2		
Principal payment, no roll-over	29.4		
Total debt service cost	38.6		

Source: PBoC, CBRC, CEIC, SG Cross Asset Research/Economics
 Note: The estimate for the shadow credit stock covers trust loans, entrust loans, credit supplied by Hong Kong banks. Underground credit is not considered here due to a lack of information.

Notice in Table 1, the high interest costs and the short maturities. Principal and interest payments represent 38.6% of GDP! Much of the debt has to be refinanced or paid off in fewer than eight years. Whew...even more stress.

Much of China’s stimulus spending has gone into infrastructure while it waits for “consumerism” to take hold among the population. This has led to a massive over-building of housing and office space that sits unoccupied but laden with debt.

China must carefully devise a plan to unwind the stimulus and debt already unleashed. There is wide speculation about whether they can pull it off successfully. Again, sound familiar? In the past, China would rarely disclose the severity of the problem, but

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Assembling your financial puzzle one piece at a time.

More Stimulus Addiction (continued from Front Page)

recently has acknowledged the challenge with plans to rein in the debt while maintaining economic growth.

The tea leaves are revealing a decline in growth. Exports fell 6.6% in March 2014 while imports fell 11.3%. Imports are typically raw materials that are used in manufacturing that are then exported. Observing a decline in both exports and imports can lead to conclusions about overall worldwide demand. The trend is definitely worth a close watch going forward.

Another sign of trouble can be found in the valuation of China's currency, the Yuan. For a long while, the Yuan was pegged to the U.S. dollar, but now floats on its own accord with a commitment from Beijing not to interfere or manipulate. A lower

“China is like an elephant riding a bicycle. If it slows down, it could fall off, and then the earth might quake.” – James Kynge, *China Shakes the World*

Yuan against the dollar makes China more competitive in trade with the U.S. The Yuan recently experienced an unprecedented decline in value that prompted U.S. officials to cry foul. It appears the commitment was short-lived and suggests Beijing's manipulation of the currency is another sign that domestic growth is not strong enough to support the economy so the reliance on exports could be minimized.

Economic growth in the U.S. is puttering along, but still below the 3% forecasts offered for the past several months. Global markets are once again displaying swings in volatility from day to day. Catalysts for sell-offs often come from left field. Keep an eye on China because the slightest hiccup or mistake by government officials in accomplishing their goal for a “soft landing” could have a shocking impact around the world and on investor portfolios. ■

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Darla D. Main, CFP®

*President and CEO
of Main Advisory, Inc.*

Those Were The Days ...

This was a family line from Edith and Archie Bunker. There are several things I remember that apply to this statement: strobe lights at high school dances, musicians in the band dressed in blue leisure suits, eight track tapes, and saddle shoes.

One vivid memory from my childhood is of the black phone in our living room. My great aunt had a yellow rotary wall phone, and I thought it was the coolest thing ever. One of my aunts even



had an old crank wall phone that connected her to the next door neighbor just for fun.

Our phone was connected through a party line. We answered to “ring, ring” and the neighbor answered to “r-i-n-g.” You could always tell when the neighbors weren't home because the phone would ring continuously for several minutes. We didn't have answering machines. As you can imagine, we also didn't have privacy. It was easy to eavesdrop on one another's conversations so long as you subdued your heavy breathing. Private matters were never discussed over the phone for fear they would become public.

The rotary phone was replaced by the push button phone with color choices. Then, along came the cordless phone which allowed for additional privacy and mobility. Today, with the exception of my parents and in-laws, our entire family communicates with a mobile phone. My mother is quickly gaining traction with her new iPhone 5.

We are not alone in this trend. According to a recent article in *The Wall Street Journal*, nearly 40% of all households have no landlines, and there are now more mobile devices than people. For the past decade, AT&T and Verizon have been burying fiber-optic cable and upgrading antennas with hopes of replacing ➡

Wearable Technology

By Lauren C. Peck, CFP®

Wearable Technology = clothing and accessories incorporating computer and advanced electronic technologies with practical functions and features

If the current trend in mobile technology continues, 2014 may go down as the year of the wearable.

Most of us have seen or used gadgets that track our heart rates, how many calories we burn, how many steps we take, or even the quality of our sleep. In a consumer electronics world dominated by smartphones, tablets, laptop computers, and HDTVs, these devices, otherwise known



as “wearables,” represent a nascent market which is generating significant consumer buying interest.

The world of wearable technology has evolved beyond health and fitness monitoring - though health and wellness devices currently generate the vast majority of the revenue because of their ease of use, lower prices, impressive functionality, and appeal to a health-conscious market.

Wearable technology offers a wide range of capabilities throughout varied industries, from industrial uses to medical and military applications.

Wearable gadgets are transforming how companies do business. By utilizing wearables in their daily course of business, companies are trying to capitalize on improving work force efficiency, customer service improvements, and worker safety.

Take Walt Disney World Resort, for example. At its Orlando, Florida theme park, wristbands equipped with RFID transmitters are being tested. Guests can use the bands as a hotel-room key, park ticket, and charge card by touching an RFID reader. The bands also connect to Disney's vacation-planning system where guests can make reservations for meals, reserve attractions in advance, and share vacation photos.

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the century-old landline telephone system with new technology.

The first notices from AT&T were sent to individuals and businesses in Carbon Hill, AL and a section of Delray Beach, FL reporting that there will be *no landline phones installed going forward*. The options will be mobile devices or a traditional type phone that connects to a router-like box installed in a home or business. AT&T plans to convert its 22 state protocol to wireless technology by 2020. Verizon is not far behind, but has not yet revealed a timeline for their transition.

There are some protests from consumers and smaller companies who service rural areas. The regulators on both a federal and state level are closely involved. But, my bet is that wireless will replace

the traditional landline sooner than later. And, before long, you will be explaining to your children and grandchildren about how your phone operated in your home when you were a kid. I'll bet you might even say “those were the days!” ■

IMPORTANT EVENTS IN THE HISTORY OF THE TELEPHONE



1876: Alexander Graham Bell is granted a patent for the telephone.

1892: Bell makes first New York-Chicago phone call.

1984: After about 70 years as a regulated monopoly, AT&T is broken up into one long-distance company and seven regional “Baby Bells.”

2004: Verizon launches its FIOS network, built with fiber optics.

January 2014: FCC approves “experiments” to shut down traditional phone networks.



Wearable technology is also offering software developers an unprecedented opportunity to create applications that leverage information that until now has been out of reach. For instance, at Disney, the data from the new wristbands may provide insight into things like wait times and how guests flow through the parks. Understanding this opportunity and the associated technology challenges is critical for developers and businesses alike, as together they strive to create applications that will enrich not only individual experiences but also the much larger and growing wearable tech ecosystem as a whole.

Inevitably, new technology produces new worries for some who believe that wearable technologies will create yet another barrier that separates us from connecting and interacting on a social level. Others have major privacy concerns.

The tech giant, Google, created a wearable computer, one with an optical head-mounted display that looks similar to a pair of eyeglasses called Google Glass. Some believe the hands-free device has the potential to positively augment our daily lives with information and applications that can be executed with simple voice commands. But, the company has experienced a fair amount of backlash since launching the innovation. The Glass device has received poor reviews for functionality and ease of use, is controversial as a symbol of privilege (priced at \$1,500), and has been criticized for its perceived infringement on people's privacy.

The future of wearable technology is nearly impossible to predict, even for those most involved in its development. What we do know is that the possibilities are seemingly endless and growth in this sector is projected to increase dramatically in the coming years. However, if wearable tech companies are going to proliferate and incorporate themselves into our daily lives, unresolved questions remain about pricing (too high), battery life (too short), utility (too limited), looks (too ugly), and privacy (too scary). The industry as a whole also needs to persuade consumers that they need another gadget, despite already having an abundance of them (smartphone, computer, etc.). Yet, regardless of any head scratching caused by wearable tech pioneers, these vendors should be praised for taking risks and thinking outside of the box. ■

OUR TEAM!



The Main Advisory Team. Suzanne Campanella, Lauren Peck, and Darla Main.

Darla Main - President, Main Advisory, Inc.

After reading *The Grain Brain*, I've attempted to reduce the amount of grains in my diet and go 100% gluten free. At first, the transition was a bit painful. My husband often jokes that his family grew up with napkins at every meal, and mine grew up with homemade bread. I've learned to bake with coconut and almond flour if the desire for something sweet consumes me. Usually my lack of time to spend in the kitchen trumps my cravings. Never before was I aware of how the American diet is laden with carbohydrates until I committed to a gluten free diet. I wish I could report that I have shed 20 pounds, but I haven't. Instead, I do feel better overall; difficulties sleeping have disappeared, and the occasional brain fog is a thing of the past. The best part of the diet is that my grocery shopping is faster since I stick to the perimeter of the store and skip the middle entirely.

BOOKS WE ARE READING

Making Masterpiece by Rebecca Mead



Suzanne writes, "I was just fourteen when I first watched *Masterpiece Theatre* and was swept away by 'The Six Wives of Henry VIII.' Thus began my abiding affection for PBS and particularly, *Masterpiece Theatre*. Rebecca Mead's new memoir *Making Masterpiece* takes us behind-the-scenes of what being an executive producer actually means and how the last twenty-five years of *Masterpiece* and *Mystery!* have unfolded.

Mead harkens us back to the Alistair Cooke days when *Masterpiece Theatre* was funded by corporate sponsors such as Mobile Oil. She relates delightful tales about Mr. Cooke and how he filmed his hosting segments for the show while recounting her history of working with the BBC and creating productions here and 'across the pond.' Interwoven throughout is her personal journey as a

Lauren Peck - Assistant Director of Investments

Warning: Proud sister alert. Next month, my family and I will travel to Madison, Wisconsin to celebrate my sister, Erin's, graduation from medical school. Often called the "perpetual student," this graduation marks the end of a long road of schooling for Erin, one that began with a Bachelor's degree in Chemistry, followed by a Ph.D. in Public Health, and finally an M.D. I'm so proud of my sister and all of her hard work and perseverance. I know that her residency program (she's staying in Madison, Wisconsin for the next three years) won't be easy, but I am excited for my sister to begin her working career as a Primary Care Physician. Congratulations and good luck, Dr. Peck!

Suzanne Campanella - Client Services

I'm doing well with my journey into opera. My husband (who is also a music lover and opera novice) was sweet enough to surprise me with two tickets to the Pittsburgh Opera's "La Boheme." Puccini is one of opera's greats, and this opera is so easy to listen to and so beautiful. Our local cast did a superb job. The very next week, I went to a local movie theater to watch a rebroadcast of the Met's "La Boheme" in HD. What a comparison to watch it live versus on the screen, to watch our local company versus the Met. I have to say I loved both performances for different reasons. Watching the Met in HD on a movie screen is akin to watching a movie--you are drawn to the emotion of their faces, the costumes, the sets. However, when you watch an opera live and in person, I feel you are more captivated by the music itself because the singers are more at a distance. I believe I prefer opera live, no matter the company; it is the music that lifts you to another time and place.

woman producer and how she raised her family while juggling her career. An executive producer most definitely has to appease many creative forces, and as you read, you are treated to many anecdotes and insider stories of famous actors, writers, and producers (including Kenneth Branagh, Elizabeth McGovern, Jean Marsh, and Eileen Atkins). It's a wonderful walk down memory lane for PBS fans and easy, delightful reading.

P.S. For *Downton Abbey* fans, leap ahead to the last three chapters. Julian Fellows writes, 'I'll never forget the day of our first read-through. We had this huge table, where there were literally forty-five actors all sitting around reading. It absolutely took off in a way that was not apparent on the page everybody suited their part, hand in glove and also knocked off each other, black and white, colorful, muted in a way that was just orchestrated. Everyone felt it. But we didn't know the show was going to be a big hit I feel you cannot deny that a big part of this business is luck and timing.' And oh, how very lucky they have been." ■