



RAGS TO RICHES

Q2-2015 Letter to Investors

The Dow Jones Industrial Average posted a -0.26% return during the first three months of the year. Those taking a more cautious approach by investing in 10 year treasuries had even worse results at -11.4%; gold was down 4.7%; oil fell 8% and the dollar rose a solid 7%.

President Obama's second inaugural address was about equality, opportunity, an enduring strength of the U.S. Constitution and the promise of our democracy - *government for the people, elected freely by the people*. He quoted from the Declaration of Independence the famous words, "We hold these truths to be self-evident, that all men are created equal; that they are endowed by their Creator with certain unalienable rights; that among these are life, liberty, and the pursuit of happiness."

In his speech, the President's stated the following:

Today we continue a never-ending journey to bridge the meaning of those words with the realities of our time. For history tells us that while these truths may be self-evident, they've never been self-executing; that while freedom is a gift from God, it must be secured by His people here on Earth. The patriots of 1776 did not fight to replace the tyranny of a king with the privileges of a few or the rule of a mob. They gave us a republic, a government of, and by, and for the people, entrusting each generation to keep safe our founding creed. America's possibilities are limitless, for we possess all the qualities that this world without boundaries demands: youth and drive; diversity and openness; an endless capacity for risk and a gift for reinvention. We are true to our creed when a little girl born into the bleakest poverty knows that she has the same chance to succeed as anybody else, because she is an American; she is free, and she is equal, not just in the eyes of God but also in our own.

America personifies the [Horatio Alger](#) myth of rising from scant beginnings to the top echelon of society. The American dream is a roadway paved with rags to riches stories. The route has two paths – success or failure; with success comes victory and its spoils. It is capitalism at its best. Is the dream available to the mass majority of citizens? Can anyone rise to great heights financially, educationally and socially? What are the requirements necessary to succeed? Is the formula an unrelenting effort of keeping your nose to the grindstone, studying diligently, working earnestly and saving and investing money; will that get you there?

Regrettably, it is my sense that class at birth -- those privileged few Warren Buffett aptly calls the *ovarian lottery winners* -- is still the most likely way to get to the top. The deck of cards seems to be heavily stacked in their favor. They live in the best neighborhoods, attend private schools, go to summer camp, eat the most nutritious food, wear the best clothes, take vacations, own the latest Apple products and come from money. As we are aware, there are numerous discrepancies between the haves and have nots. Education is an area that is disturbing. College enrollment exceeds 80% for households in the top 20% of incomes, with 53% receiving a bachelor's degree. The rate of college enrollment falls to 51% for those in the bottom 20% of incomes, with only 22% receiving a bachelor's degree. The rising cost of education has segregated socio-demographic groups. Student loans for families from the bottom quintile are 24% of household income, a figure that is difficult to manage. Those in the top quintile have debts in the low single digits. The benefits of being able to afford college and not be restricted by student loan payments for years are significant. A college degree is paramount to make it in today's marketplace; to flourish a graduate degree is in order. The path to higher education is nearly impossible for those who have to work to support themselves or others.

For example, let's just say that an enterprising person from humble beginnings has diligently taken all the steps necessary to climb the ladder of success. They graduate from an Ivy League college, complete graduate school with a master's degree in medical science and get hired by a respectable company in New York City earning a \$150,000 salary, which places them in the top 10% of income earners. It looks like they are well on their way to climbing the ladder of success. But how do they rank in net worth? Today, it takes \$3.3 million to be in the top 10% of net worth. Our enterprising individual is just starting out and

has yet to build his/her net worth, which takes considerable time if they are starting with very little in the first place. Building net worth is met with its own challenges at the onset: housing costs, transportation expense, health insurance, electricity, water, cable, debt obligations, food, clothing, taxes and so forth. When all is said and done, the money goes pretty fast. If our enterprising individual earning \$150,000 saves 15% or \$22,500 per year compounding at 7% for 30 years, the amount would grow to around \$2.4 million, which is still shy of the top 10 percent \$3.3 million. Rising to the top of the economic and social hierarchy is tough.

The economic backdrop is far less rosy for most Americans. The median household income in the U.S. approximates [\\$52,000](#) per year for those graduating from community and state schools. Nationally, the personal savings rate is currently 5.8%, or \$3,016 annually for median income earners. Saving and investing for 30 years with a 7% compounding rate amounts to \$329,000. The median American household that scrapes and saves for three decades amasses a sum 1/10th of those at the top.

What's this have to do with global financial markets you ask? Two-thirds of our Gross Domestic Product is accounted for by way of consumer expenditures of goods and services. This weekend, I shared dinner with an accomplished graphic designer from a renowned regional newspaper. He said that in the past month there have been five layoffs and that he hasn't had a raise in five years (his performance evaluation has been exemplary). Technology is replacing jobs rapidly. Highways use transponders for toll roads, retailers provide self-checkout stations, merchandise for almost anything is available online, and robots are building cars and moving inventory in warehouses; Google's driverless car suggests transportation disruption is next. As technology marches onward, human jobs are eliminated along the way. It is truly a jungle out there. The world is evolving and the employment landscape is going through a ruthless makeover. The jobs of tomorrow embrace the digital revolution. Services that require advanced technical education will be in high demand. Skilled labor remains a constant and is poised to profit in the future for those willing to do the dirty work and heavy lifting.

Consensus estimates project a [-2.8% contraction](#) in S&P 500 top line sales growth. Does it matter? You bet it does. We need demand for our goods and services to prosper. How do we stimulate sustainable demand? In my opinion, confidence. We need structural reform. I am suggesting pro-growth fiscal policy from Washington that puts more money in the hands of the risk takers, consumers and the senior citizens. This is no dead-end street. The wheels of motion are turning. Walmart recently announced a 30% increase in starting wages. Since their announcement, many other major employers have initiated wage increases, which will put more money in workers' pockets, enabling them to spend and save. This drives demand. So, what do we do about the ovarian lottery winners? We embrace them. That's right, they are the ones that can take risks and invest into start-ups and new enterprises. What makes America exceptional are its ideas. Entrepreneurs are creating new companies each and every day. The companies of tomorrow are being launched by enterprising individuals that are competent, passionate and often financially ill-equipped; it is here that the privileged few can step in and fill the funding gap.

Sam Stovall, Standard & Poor's Chief Investment Strategist, reminds investors that since 1945, the S&P 500 has averaged +1.9% during Q2, rising 61% of the time. How will the scenario play out if the Fed begins its rate tightening cycle? It is my hope that the market shows its historical positive return.

Respectfully,

[William "Chip" Corley, MBA, RFC](#)