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The Advisor

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PHYSICIAN INVESTMENT ADVISORS

I am happy to present this month's market commentary from our Investment Team. The goal is to give our clients and friends a simple way to see everything they need to know about the financial markets on a weekly basis, in 5 minutes or less. After all, investing should be simple, not complicated.

NATIONAL DEBT CEILING BEING RAISED

Can you imagine that you have run up the balances on your credit cards to their maximums and you call the issuer of each credit card and announce; "I have decided that you need to raise my spending limit."

You know the response; "We make that decision; not you." The bank, or other institution, that issues those credit cards has an underwriting department that determines your risk and ability to pay before they determine a maximum spending limit on your card.

A responsible household manages its debt and monthly spending against its income and other sources of assets. This balancing act keeps debt from getting out of hand and assists in maintaining good relations with creditors and keeps the consumer's FICO score, and other measures of financial responsibility, high.

This micro-economic example is replicated on a macro scale when you consider the same balancing act that the United States must go through to be responsible with tax revenues versus spending and accumulated debt. What is different is that the United States can try to borrow money to pay its debts, but as the old saying goes; "you can't borrow your way out of debt." This has proven to be a tough lesson for many individuals. And there is a real lesson for a country in this bit of wisdom.

The Federal Government takes extraordinary measures.

Unfortunately, because of out-of-control spending by the government and a mismanaged balance sheet, the Treasury needs to raise the limit of its borrowing authority in order to pay the bills. Public debt increased during the Clinton and Bush years, but has made its steepest and largest climb during the Obama administration, where it jumped from about $11 trillion to $20 trillion. Contrast this with the rise in public debt during President Clinton's administration, where public debt went from about $4 trillion to under $6 trillion. There were two shutdowns of the government during that time, as the budget battle waged.

While this budgetary tug-of-war goes on, Americans are mostly in the dark. The average American can understand the benefits and risks of personal money management, but the rise in the nation's debt is a nebulous concept with little expected personal impact.

In August of 2011, the credit-rating organization Standard and Poor's downgraded the U.S.'s credit rating from triple-A to double-A plus. Rocky budget negotiations, at the time, persuaded the organization to take its rating down a notch. This was a first for the U.S.'s credit rating, since the treasury bond has enjoyed the status of being the crème-de-la-crème of safe debt instruments. The rating has allowed the U.S. to borrow at lower rates because of the reduced risk to investors.

The U.S. has maintained it highest rating from the two other credit issuing agencies. But, once again, the Congress is in the position where it has to make a decision to raise the debt ceiling. Without that bigger wallet to draw from, things like contributions to federal retirement funds may have to be postponed.

This is one area where the debt ceiling and personal finances intersect. A nebulous concept then becomes very real.

THE U.S. TRADE DEFICIT; SHOULD THERE BE CONCERN?

In recent years, the growth of manufacturing in China, as well as some emerging economies, has allowed that sector to be dominated outside the U.S. Cheap labor, and a preponderance of manufacturing facilities has moved much of the production of products outside the U.S. and often to Asian countries.

America's largest trade deficit is with China; the world's other biggest economy. The U.S. trade deficit with China was $24.3 billion as of April of 2016. That was a large portion of the U.S.'s overall trade deficit of $37.4 billion at that time.

The trade deficit is a measure of the amount of goods and services the U.S. imports versus our exports and how much more imports exceed those exports.

Change is Afoot.

The deficit has been a major focus of the new administration, with a "made-in-America" theme, and the repatronizing of international company profits as goals in the coming years. As an incentive to place more of those manufacturing jobs in the U.S., for American-based companies, there has also been discussion of making it more expensive to manufacture goods outside of the U.S.

Another factor that plays into the equation is the strength or weakness of each country's currency. When the dollar is strong, the cost of U.S. exports becomes more expensive in markets outside the U.S. Twenty-sixteen saw the deficit hit a four-year high, totaling $502.3 billion for the year.

President Trump has suggested imposing a 45 percent tariff on Chinese goods, since many Chinese trade policies, along with purported currency manipulation, can artificially make Chinese products cheaper to import. Products like cold-rolled steel have been sold at prices lower than cost in the U.S. This has made competition difficult for U.S. manufacturers.

In a world economy, there must be an even playing field to facilitate fair trade between nations. When one country

manipulates the elements that effect fair trade, it claims an unfair advantage. This continuing deficit scenario plays into many economist's forecasts and has some residual impact on the market, especially for institutional investors. The U.S. has not enjoyed a trade surplus since the mid-1970s.

In the meantime, the promise of cutting regulations and corporate taxes and imposing steeper tariffs may stimulate a new resurgence of growth for American manufacturing that would cut the trade deficit and benefit American companies over time. One of the only sticking points is that U.S. wages are much higher than the wages paid in emerging economies and in China. Also, negotiations would have to find some mutual benefits to avoid a trade war.

With a very real trade deficit, that has grown steadily over the years, any concessions the new president could bring to fruition would help the U.S. The trade deficit has proven to be a drag on the economy, and economic growth has been lethargic in recent years, so improved trade agreements would help the U.S. economy.

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K Richard Douglas has worked in the financial services industry for 26 years, with an additional 10 writing about financial and economic topics. He’s a former series 9, 10, and 26 registered principal and series 6, 7, and 63 registered representative. Richard has held many financial service industry designations, especially in the retirement planning and compliance mechanism areas.