



The Verdi View



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Newsletter – July 2021, Quarter 2

Welcome to our quarterly newsletter. Below you will find our top Fast Facts, timely reminders, and life updates from the team. Feel free to pass along The Verdi View to your friends and family!

Wild Ride - After peaking on 3/24/00, the S&P 500® index fell 47%, then gained +121%, then lost 55%, then gained +529%, then lost 34%, and finally has gained +94% through the close of trading as of Friday 6/11/21. An investor who rode out all 3 “bear/bull” cycles since 3/24/00 would have gained an annualized +7.0% per year over the entire 21+ years (total return) in spite of initially investing at an all-time high on 3/24/00. The S&P 500® consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock’s weight in the index proportionate to its market value (source: BTN Research).

Bonds And Higher Interest Rates - The worst year for the taxable bond market in the last 45 years (1976-2020) was a loss of 2.92% (total return) in 1994. The YTD performance (through last Thursday 6/10/21) of the taxable bond market is a loss of 1.65% (total return). The Bloomberg Barclays US Aggregate Bond Index (created in 1986 with backdated history calculated to 1976), calculated using publicly traded investment grade government bonds, corporate bonds and mortgage-related bonds with at least 1 year until final maturity, was used as the bond measurement (source: Bloomberg Barclays).

Help Wanted - The number of job openings in the USA climbed to 9.3 million at the end of April 2021, the highest number ever recorded and up +1.0 million in just the last month. By comparison, at the depths of the mortgage crisis, there were 2.1 million job openings available in July 2009 (source: Bureau of Labor Statistics).

Inflation - The 10-year budget forecast released by the Biden White House on Friday 5/28/21 predicts that the “Consumer Price Index” (CPI) will not exceed 2.3% in any year through 2031 (source: Biden White House).

Living Long - US life expectancy at birth was 60.8 years in 1921. US life expectancy at birth was 77.8 years in 2021. Thus, life expectancy has increased by a year every 6 years over the last century (source: CDC).

Land Of Lincoln - S&P has downgraded the credit rating for state-issued debt from Illinois 5 different times since 2009, most recently in 2017 (source: S&P).

Work From Home, Start A Business - Americans filed 4.33 million “new business” applications in 2020, up +24% from 3.49 million filed in 2019, and up +75% from 2.48 million filed in 2010 (source: Census Bureau).

On The Road Again - American drivers are projected to use 9.0 million barrels a day of gasoline during the summer of 2021, up from 7.8 million barrels a day of gasoline used during the “pandemic-summer” of 2020, but still down from the 9.6 million barrels a day of gasoline consumed in the summer of 2019 (source: Energy Information Administration).

Do The Math - The S&P 500® is a cap-weighted index, i.e., the largest capitalized stocks carry a disproportionate impact on the index’s performance calculation. As of the close of trading on Friday 5/14/21, the 5 largest stocks in the index carried the same weighting as the smallest 323 stocks (source: S&P).

Make A Quick Decision - Existing homes that were sold nationwide in March 2021 were on the market on average of just 18 days (2 ½ weeks) before selling (source: National Association of Realtors).





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Team Update

The Office is Open!

We are officially back in the office full time and have been cleared to meet with clients in person. If you are still uncomfortable meeting in person, the option of a video chat is still available using WebEx. Our front door is unlocked, and we are excited to see you in person!

FORE!

Joe and Sydney are officially golf obsessed. Joe, a long-time golfer, stopped playing a few years ago due to an injury. During covid, when limited with activity options, Joe and Sydney started golfing most evenings and weekends. Sydney, who golfed for Assumption in high school, has recently joined the local LPGA Amateurs group and golfs in a weekly league. Sydney and Joe golf together frequently and are looking forward to a long summer and fall golf season! If you or anyone in your family enjoys golf please let us know as we would love to take you out!

Father's Day 2011



Father's Day 2021



What is the United States Net Worth?

"We're bankrupt, we just print money out of thin air"

"Our National Debt is so big we'll never pay it off, we are insolvent"

"If I operated my family finances like this we'd be in bankruptcy court"

These are things you hear on Twitter, in certain media outlets, blogs, maybe even from your friend at the club. We have huge debts, owe a ton of money to things like Social Security and Medicare therefore the United States must be in dire financial straits.

Are we though? Is our nation bankrupt? Let's do a thought experiment: what might the Balance Sheet of the United States look like?

Liabilities: We'll start with the ugly part, what are our liabilities?

According to the National Debt Clock we owe just north of \$28T dollars. Man, that seems like a lot, I owed \$525 on my last Amex bill and I couldn't sleep at night.

We also have unfunded liabilities like Medicare and Social Security. There's no exact answer for this but let's say, conservatively, that it's \$200 Trillion (I'm including federal and veteran benefits here).

Let's also use a catch all category of "other" and say that's \$5T. We owe things to people and places and we've guaranteed things and this is my guess for all of that.

Total Liabilities: \$233 Trillion.

Assets: What are the assets of the United States? Every balance sheet has both liabilities and asset so what are ours? The United States Government owns physical and financial assets. Let's do physical first.

The BEA has calculated that the land we own is worth roughly \$1.8T and the natural resources on and offshore at around \$125T (water, timber, silver, copper, oil, etc.). We also own about \$450B in Gold and \$1.4B in properties and inventories.

I'm also going to use a "other" category here because I guess we could sell aircraft carriers or planes or military equipment we own. Let's call that \$10T.

Now how about financial?

The US holds close to \$1.5T in Federally backed student loans and about \$2.2T in cash and other investments (data from US Treasury).

Total so far is about \$142.3T, still below what our liabilities are.

Now let's get into two things that aren't as concrete but incredibly important to our nation's balance sheet.

What is the value of all the human capital in our education system? All the students some of which might be the next Steve Jobs or Jeff Bezos who go on to create the next Apple or Amazon. What about all the inventions sure to occur in the future or all the discoveries like mRNA vaccines? This is hard to calculate but for the purposes of my blog I'm going with \$100T.

What is the value of the ability to tax the most productive private sector the World has ever known? Our government can not only tax the people in its nation but the companies operating inside of it. What is that worth? This is super, super hard but I'm going with \$300T. It's probably way more but let's just go with that.

Total Assets: a little over \$542 Trillion.

Final US Net Worth: +309 Trillion

Yes, we owe money. Yes, people like to use "debt" to scare you. Yes, my last two assets are hard to value, but I promise you that our nation is not bankrupt.

We are likely one of the wealthiest nations in the history of the World (if not THE) and our economy and its workers are incredibly productive.

Can you tell me how many people you know that have gotten rich betting against the United States of America? I don't know any.

Our economic might, our rule of law, our innovations, our workers drive the stock market regardless of our level of debt. Don't lose sight of the long-term prosperity we've all benefitted from because it's going to exist far into the future.

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Bull and Baird