Points to Ponder

May 17, 2018

The First Tee...

Richie Rich…being considered wealthy in the U.S. has varied monetary and well-being implications according to a Modern Wealth survey conducted by Charles Schwab Corp:

- The survey encompassed 1000 Americans across generations, between ages 21 to 75:
  - Respondents were universally in agreement that money, or lack of it, is a major source of stress *(Amen)*
- Monetary targets vary between the generations in regards to the amount of money needed to either be considered financially comfortable or considered wealthy*(financial philosophy)*
  - Here are the survey findings for these money questions for Millennials, Gen Xers, Boomers and All:
    - **Millennials…**Comfortable: $1.3 Million, Wealthy: $2.0 million; **Generation X…**Comfortable: $1.4M, Wealthy: $2.6M; **Baby Boomers…**Comfortable: $1.6M, Wealthy: $2.7M; **Consensus…Comfortable: $1.4M, Wealthy: $2.4M**:
      - Either Boomers are more materialistic or they have realized, with maturity, it takes more money to reach monetary nirvana:
        - 22% of Boomers surveyed believe they will make-it to being cash wealthy, where-as, Millennials are more optimistic at 64% *(reality bites!)*
  - 49% of respondents think saving and investing is the way to wealth, 40% thought hard work was key.
- Everyone has a different definition of what makes them feel wealthy…the survey says:
  - Good thing not everyone is a capitalist, as 60% of respondents say they live paycheck to paycheck:
    - Here are some things survey respondents said what wealth means to them…**Living Stress Free** (28%)**; Being able to afford anything they want** (18%); **Loving relationships** (17%); **Enjoy life experiences** (14%); **Having lots of money** (11%); **Having good health** (7%...*I had always heard having good health was everything?*); **Being charitable** (2%); **Other** (3%).
  - Money isn't everything…here are things that respondents said enrich their daily lives:
    - **Spending time with family** (62%); **Taking time for myself** (55%); **Owning a home** (49%); **Meals out/delivered** (41%); **Services such as Netflix, Spotify** (33%); **Grooming** (29%); **Having latest tech gadgets** (27%); **Busy social life** (21%).
  - Money is a way to a means…if you don't think about what you are working for, you could die rich but not live rich.
- The man (and woman) with a plan…only one in four Americans have a written financial plan:
  - Having a written financial plan promotes improved daily and long-term money management:
    - The survey demonstrates differences in monetary discipline between those with a financial plan and those who don't:
      - **Pay bills and still save each month…**With a Plan: 75% No Plan: 33%**; Have an emergency fund…**Plan: 65% No Plan: 24%; **Have life insurance…**Plan: 62% No Plan: 39%**; Feel financially stable…**Plan: 62% No Plan: 32%**; Never carry a credit card balance and makes loan payments on time or have no debt…**With Plan: 42% No Plan: 26%**; Live paycheck to paycheck…**Plan: 38% No Plan: 68%.
    - Some of the reasons provided for not having a financial plan are, not having enough money to need a plan, trust issues with financial reps (especially after the financial crisis), too expensive, too complicated and their information had been compromised by hackers…**there is a misconception financial planning is just for the wealthy.**
  - Millennials are more financially involved than their Boomer parents (Gen Xer's fall in the middle):
    - Nearly 3 out of 4 twenty to thirty-year olds rebalance their investment/retirement portfolios annually:
      - 31% of Millennials have a written financial plan…compared to 20% for Gen X and 22% for Boomers *(no wonder Boomers can't retire!)*
      - 36% of Millennials have specific savings goals…compared to 25% of Gen Xers and 17% of Baby Boomers *(Boomers throwing in the towel)*.
      - 25% of Millennials and Baby Boomers work with a financial advisor, compared to only 16% of Generation Xer's.
    - Younger investors are not only saving and investing for retirement (which has been the primary impetus for older generations), but are also investing to help fund short-term experiences such as travel and hobbies *(funding fun!)*.
- Debt delinquent…there is a larger disparity of borrowers who do not have a debt retirement plan:
  - A FINRA study showed just two-in-five Americans said they are able to spend less than they earn:
    - Household debt has risen to a record level at $13.1 trillion…including mortgages, auto loan, credit cards and student loan debt:
      - Spending on general purpose credit cards surged 9.4% last year to $3.5 trillion…card delinquencies are rising at the fastest pace since 2007.
      - U.S. borrowers are defaulting on subprime auto loans at a higher rate than during the financial crisis…$434 billion loans outstanding.
      - Student loans represent 10.5% of total household debt, up from 3.3% in 2003…11% of student loans are seriously delinquent or in default:
        - College graduates from the last 5 years earn an average after-tax income of $2,655 per month, 15% goes to student loan payments.

At the turn...

The Back Nine…

Benchmark Battle Royale...it appears LIBOR is not going down without a fight:

- The much-maligned London Interbank Offered Rate is due to be phased-out in 2021:
  - The Intercontinental Exchange (ICE…who oversees LIBOR), is making an effort to resurrect the benchmark:
    - Due to LIBOR currently underpinning over $370 trillion of financial contracts around the world, replacing the gauge (that has been in existence for over 30 year) could be the most significant development in the markets for years to come.
  - Various countries are working to develop a LIBOR replacement…with the U.S. Fed leading the way with its Secured Overnight Funding Rate (SOFR) benchmark (the Fed began generating daily SOFR rates last month):
    - LIBOR relied on expectations of its reporting banks to set rate levels, whereas, SOFR is based on actual repurchase transactions that are derived from collateralized trades…LIBOR rates are determined by uncollateralized transactions:
      - SOFR's initial roll-out has not been without problems…there have been instances of the erroneous inclusions of some non-applicable transactions that skewed the rate, damaging the index's credibility *(growing pains)*:
        - Because the SOFR rate is based on actual collateralized transactions, it is designed to be less vulnerable to exploitation.
        - LIBOR rates are issued for multiple maturity dates (1 day to 1-year), while SOFR is currently only posting an overnight rate:
          - It is believed the Fed will expand SOFR to include rates for longer-term to be more compatible with LIBOR's maturity structure.
        - The volume of trading underpinning the SOFR rate is about $750 billion, this compares to about $500 million for 3-month LIBOR.
        - Since its introduction, SOFR appears to be significantly more volatile than LIBOR, susceptible to T-Bill price swings due to issuance amounts and month/quarter-end supply variations…there are also questions how reliable SOFR will be in times of extreme financial stress
    - There are a few other benchmark index ideas being generated from the U.S. *(the process could evolve into another political dispute)*:
      - One, is taking the average rate from the Federal Home Loan Bank system…where thousands of investors currently transact daily.
      - Another, is called Ameribor, which is an interbank rate reflecting borrowing costs based on member transactions for the American Financial Exchange...the AFE is an electronic marketplace where banks lend and borrow short-term funds.
      - The Overnight Bank Funding Rate (OBFR) is an unsecured interest rate based on transactions in both overnight Federal Funds and Eurodollar markets…there is about $300 billion in daily transactions in these two markets on which to base the rate.
  - ICE (who makes money from licensing LIBOR) is making moves to strengthen the LIBOR index with new procedures:
    - ICE has introduced a new method how global banks derive and submit quotes used to generate the benchmark rates:
      - The change is called waterfall methodology…rates that firms submit must be based on wholesale, unsecured funding transactions, if no transactions are available, the bank may utilize quotes from transactions in the secondary market.
  - Need for urgency…U.S. and Australian regulators are warning banks about being too complacent about the benchmark transition:
    - Due to the massive amount of financial contracts tied to LIBOR (including corporate loans, student debt and derivatives), regulators are concerned financial institutions are already behind the curve in being ready for the coming changes:
      - Undoubtedly, some of the reticence to making pre-mature financial contract changes is the unknown as to what the new benchmark is going to be…if ICE has its preference, it will be a new and improved reincarnation of LIBOR.

19th Hole...

Money is better than poverty, if only for financial reasons.

Woody Allen

Ross Elford, First Vice President

Direct: 314.746.3679 | Mobile: 314.223.9739 | Fax: 314.746.8737