

# SUMMIT WEALTH

## — PARTNERS —

### THE MYTH OF AMERICAN DECLINE

#### Why National Pessimism is a Waste of Time

*By Dr. Mitch Levin, CEO and Managing Director*

I've been told that my contributions to *The Rational Optimist* are often "high level" and "pie in the sky" optimistic. There is an important point I should make from the start: I am overall optimistic (long-term), I am not without the understanding that there will be, no doubt, turbulent and alarming periods ahead. While that is so, over the long term, I still believe we are the world's greatest nation and I am thankful to have been born during this time, in this country, and to be in this profession. That does not mean we won't have to work hard, work smart, and persevere – for that's how we got here in the first place!

We (you and Summit) are fortunate enough to have a team of highly qualified Wealth Advisors and other professionals to drill down on tactics for you and bring you tips and create awareness regarding your financial environment. I believe in their expertise and thus, I leave most of that type of educating to the experts.

As the firm's CEO and Managing Director, I find it most advantageous to spend my time focusing on the big picture, like Summit's direction, our ability to provide world-class financial service, the changing social, economic, and financial environment, and our long-term sustainability (such as our recent accomplishments in succession planning). On that note, I wanted to kickoff the first of the 2013 issues by spending some time, on a high level, highlighting why national pessimism is a complete waste of time.

"While it may be fashionable to decry the number of scientists and engineers China is turning out these days, a single focus on this misses the point entirely."

Plainly stated – the notion that America is in decline is a myth. According to Harry Truman, "The only thing new in the world is the history you do not know." And Sir John Templeton, legendary investor said, "Among the four most dangerous words in investing are its different this time."

Let's take a look at the value some of the world's most potent brands, as represented by the following ten companies:

Company	Value (Billion)
Apple	87
Microsoft	55
Coca-Cola	50
IBM	49
Google	38
Intel	32
McDonald's	37
General Electric	34
BMW	26
Cisco	26

Very few of us have a concept as to how one arrives at the elusive "brand value." However, of the ten most valuable brands on the planet, nine of them are owned by American companies. **Don't watch the countries, watch the companies.** William E. Conway, Jr., co-founder and co-CEO of the Carlyle Group wrote recently in the *Wall Street Journal*, **"Today we find ourselves in a world of no return with government bonds paying next to nothing and the yield on high grade corporate bonds at historic lows. Investors are seeking safety in addition to growth, and the United States offers a powerful combination of the two."** America is characterized by a few of the following, yet too many take these aspects for granted:

- Freedom
- Rule of law
- Confidence in our regulatory agency
- The most admired universities
- The deepest and most liquid capital markets
- Pluralist medical systems
- Pockets of innovation which, though imperfect, are highly advanced and function smoothly.

**Opportunities for growth in America include not only the four megatrends of industrial and demographic aspects described in my last article, but also because of a combination of low interest rates, a strengthening housing market, and a significant domestic energy discovery.** Although many may be paralyzed by fear of the fiscal cliff, frustrated with Washington's partisanship, and mesmerized by politics of the post-Great Recession recovery, any way you look at it, there is no greater place than America. Here are some other trends to consider:

1. The profits of the great companies are decoupled from the U.S. economy. U.S. stocks no longer measure the U.S. stock market, they just reflect markets physically located in the U.S. that will rise and fall and are based more and more on events outside of our borders.
2. The vast majority of globalized and American companies have adjusted to lower growth rates in the U.S. and Europe. Add to this low wage growth and cheap wages abroad and little to no inflation and there may be a recipe for sustained profit growth.
3. Monetary easing with lowered long-term rates will continue with an ongoing flood of new currency. While some may argue that the only way to handle the industrialized world's debts is through inflation, the world's long-term bond markets are at the lowest rates ever, possibly indicating minimal inflation. So the near zero returns in bonds, regardless of whether one thinks this is a bond bubble, indicates that there could be more opportunity in stocks which merely are portions of the world's great companies.
4. The new energy revolution appears underway, particularly in America. We've got massive reserves of shale gas and oil, cost effective development of arctic hydrocarbon reserves, and new discoveries suggesting that North America has more energy untapped than ever before believed possible – far greater. And America's current production exceeds Saudi Arabia's.
5. The lacking of common amenities of modern life, such as televisions, washing machines, microwaves, may be dismissed as irrelevant when measuring one's level of participation in the economy, yet missing from these observations is any discussion of personal choice. In short, some of our poor live better than the average European middle class.

Let's look back at where things were in history. Were we more or less afraid during the Cuban missile crisis, or the threat of a cold war and Communism's domino theories, or extreme inflation and wage and price controls of just a couple of generations ago? Or were we more or less afraid when the dust ball and the Great Depression hit, or the picking of the Supreme Court, or the Stock Market Crash, or when the impending fascist dictatorships in Europe were starting to bubble over a few more generations before? And

what about the multiple crashes that occurred prior to getting off the gold standard or when a third of the population was wiped out by the combined effects of the flu and World War I? Then there's the Civil War... I mean, we can go back for a long, long time!

**America has faced far greater existential threats than mere accounting errors.** And although it has been stated that our country's debt is unsustainable, it's also been said that if something cannot continue, then it won't. This is not to say that we should be like Pollyanna and not take to our government or economy, our culture seriously. The point is also not to say that we should fear that America is going to fall into the ocean or that we will be the harbinger of the next series of "middle ages." Remember, we still have rule of law and property rights. We have well-functioning institutions. We also have a culture of risk and reward, and there are few other countries in the world, if any, where people are continually banging on the doors to come on in.

The decline of America, hardly. Some of the trends may be worrisome, and thus, merit serious attention; however, reality persists. While it may be fashionable to decry the number of scientists and engineers China is turning out these days, a single focus on this misses the point entirely. The article entitled "The World's Best Countries in Science," from *Scientific American*, October 2012, begins by asking what makes one country better than another. "Publishing research papers is a good way to get a perspective on basic research, the editors conclude. And how many students a nation educates in science and technology discipline is a key metric." The magazine then goes on to rank the top 25 countries – here is a bit of what they found:

- In research papers, the United States scored a 100. The second place finisher, Germany, came in at 20, China came in 3<sup>rd</sup> at 19.8. In terms of the number of patents issued, ranked in order of the number of patents issued by the U.S. patent and trademark office in 2011, the U.S. again was the clear winner followed by Japan, South Korea, Germany, and Taiwan. China was ninth.
- In expenditure and gross domestic expenditure on R&D for the most recent year for which the figures are official, 2007, the U.S. was first, China, again with five times more people, and a centrally planned economy still playing massive catch up, was second.
- In higher education, in the number of science and engineering doctoral degrees awarded in 2009, the U.S. is first, followed by Germany, the UK, and Japan and France. China ranks not in the top 25. Thus America remains not only the country where the world's best science is done, it is the place to which the rest of the world's best minds come. So you can see that the United States is at the forefront still.
- And in the Credit Suisse (phonetic) article, "Global Wealth 2012, The Year in Review," the authors estimate that global household wealth is likely to increase 50% just in the next five years to \$330 trillion. China is expected to add \$18

trillion of household wealth and to surpass Japan as the second wealthiest country in the world by 2017 though the U.S. at an estimated \$89 trillion, will probably still lead the world's great countries.

If you read my November/December article, you remember we discussed many positive indicators: we highlighted 3D printing, driverless cars, robotics, and an abundance of energy resources in America, as well as the demographic trends to name a few. Then and now, we examined the multitude of reasons we can and should remain supportive and optimistic in this great nation. **We have the opportunity born from the great work of our predecessors, perpetuated by our most recent generations, and promised to our children and their children. We should be good stewards of this opportunity and, while holding our leaders and ourselves accountable, make certain to look deeper than the media, into the truth.** Like Summit's investment philosophy, we should be evidence-based and logical in our approach. That's a great place to start.

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