

Ivory's Economic Outlook

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"Happiness isn't a state, it's a skill. It's the skill of knowing how to take what life throes your way and make the most of it."

Gary Null, Author, Alternative Medicine Advocate

On a recent visit to my father's memory care center in Florida the attendants had arranged the patients into a circle for them to hit a balloon. If you've ever been inside the sales office of one of these facilities you probably recognize the balloon toss, or some other activity, from the brochure they use to sell their services to exhausted and sometimes defeated families who can no longer care for their loved ones at home.

My father wanted no parts of the exercise and sat on the side with my mother and me. He was, however, paying attention and had convinced himself that the balloon was a bomb. My mother was distraught that this once proud man had been reduced to imagining things that didn't exist. And then suddenly the balloon popped. My dad had been vindicated and said "see, I told you, that was a bomb". When my mom responded that it was simply a balloon, he asked in a matter-of-fact way "then where's the damn balloon?", paused and said "Exactly, because it was a bomb".

According to the Mayo Clinic, dementia is an umbrella term used to describe a group of symptoms affecting memory, thinking and social abilities and is caused most often by Alzheimer's disease. It affects one in nine Americans aged 65 and older, or 6.7 million people in the United States per the CDC and is on track to take the lives of 45 million of the 330 million Americans alive todayⁱ.

This might sound like a strange beginning to an investment newsletter, but a memory care center for dementia patients in northern Florida costs my family \$6,700 a month. In Washington DC, where I live, that same facility would cost twice as much. Even those who have properly saved for retirement will see their accounts dwindle with all deliberate speed. After all, withdrawing \$10,000 or more each month net of taxes to pay for a facility can devastate even the most responsible among the middle class.

Medicaid will provide a nursing home if you run out of money, after the children have exhausted their own savings, but these facilities do not resemble the lifestyle you have likely become accustomed to. Moreover, the quality gap of a state provided at-home nurse versus a private pay service may be just as cavernous and unsettling. This is not solely about us, but also the spouse and the children who must make difficult and often heartbreaking decisions about their loved one.

Unfortunately, the number of affected seniors is expected to explode. Dr. Dale Bredesen explains in "The End of Alzheimer's" that the disease is a consequence of inflammation in the brain. Every time we eat a potato chip, drink a soda, or consume fried food the immune system comes to the body's defense and sends white blood cells to fight the enemy. A body that is under constant attack, whether it is from stress, diet, inactivity, or environmental toxins, will have chronic inflammation.

In response to chronic inflammation, the brain will create amyloid plaque as a form of protection that impedes the brain's ability to relay information through synapses. When Alzheimer's drugs remove the plaque, the patient may see short term results, but the body wants its protection back and reacts by creating even more amyloids. This may explain why Alzheimer's drugs offer improvement at the beginning of treatment before conditions deteriorate once again.

If one were to forecast future diagnoses, they would only need to review the surge in obesity numbers and the high glucose diet many of Americans consume. A funny thing happened in 1967 when the New England Journal of Medicine published a study by three Harvard scientists who were paid by the sugar industry to suggest that it was the fat that was bad for our health and not the sugarⁱⁱ.

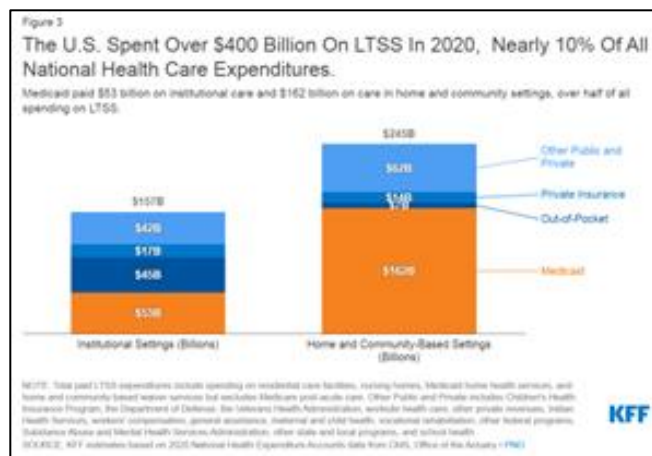
Some 50 years later a high glucose diet may have dire consequences. For instance, there is an enzyme that degrades excess insulin in the body when you consume too much glucose. This enzyme also degrades amyloids, the protein in the plaque that destroys synapses in the brain, but it can't do both at the same time. If overwhelmed with fighting insulin, this enzyme is forced to prioritize between the two and the amyloid levels correspondingly increase.

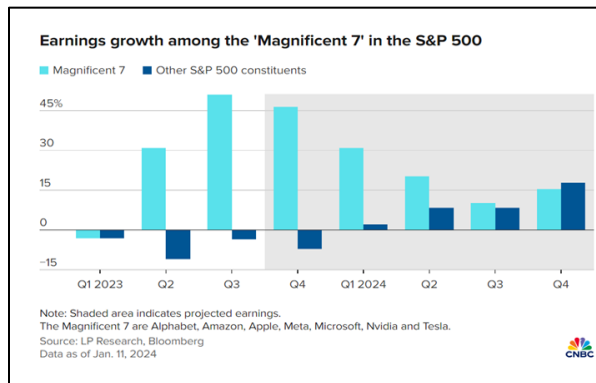
Something as simple as a vitamin D deficiency can be harmful because it is the Wi-Fi system in the blood stream that turns on 900 genes that includes the creation and maintenance of brain synapses. If you don't get enough sleep the body can't properly repair itself. Similarly, if you have too much stress that sends cortisol, and inflammation, throughout the body you increase your odds of being affected by some level of cognitive impairment.

There are two ways to protect your family and your finances from this awful disease. First, there are long-term care insurance policies that will pay for care once you are unable to perform two of six assisted daily living activities without assistance such as bathing or showering, dressing, getting in and out of bed or a chair, walking, using the toilet, and eating. A policy can come in the form of straight long term care insurance or as a hybrid life insurance policy that offers long term care protection as a component. The former is less expensive with premiums that can be increased by the insurance company, while the latter has a death benefit if you never need long term care, premiums that cannot be increased and is more expensive.

In the alternative to purchasing insurance, you can exercise, eat a more balanced diet, and attempt to reduce the stress, the things we've already been advised to do. Once you consider the costs and the energy required to address dementia, a proactive attempt to prevent the wrath of this disease is not only sensible, but financially responsible for our own households.

There is a macroeconomic component as well: Uncle Sam has \$80 trillion in unfunded liabilities over the next 75 yearsⁱⁱⁱ, 66% of these obligations are from Medicare and as we speak 54% of all Medicaid expenses are for nursing homes that care for seniors who've run out of money^{iv}. Once you account for a high stress, high glucose, sedentary lifestyle many Americans have been living, Dementia will hit many of us much sooner in life for which expensive care will be required for much longer. Case in point, there is an ex-Orlando Florida detective in my father's facility who is in her 40's. I don't know what her eating and exercise habits were in the past, but something tells me law enforcement officers have a lot of stress and aren't used to normal sleeping patterns.





One might expect the health experts to work with government organizations to address the problem, but that would require honest non-partisan discourse unavailable in today's climate. In fact, nobody should be surprised that fewer than two-in-ten Americans say they trust the government in Washington to do what is right "most of the time".^v Last year many of the pundits, me included, thought we were on the cusp of a steep economic slowdown. As an indication of how wrong we were, GDP numbers recently reported a 3.1% growth in the economic output.

GDP is a function of consumer spending, investments, and government spending, with the latter contributing 17% to GDP. In a strange turn of events, government spending contributed 30%^{vi} of GDP due to the infrastructure bill and other remnants of the covid stimulus policies that added \$2.5 trillion of debt to the balance sheet, or three times what was spent on the 2008 bailouts^{vii}. The GDP calculation is also adjusted for inflation with what is known as a deflator. While the CPI, the government's own calculation, was 3.4%, the deflator they used to report the GDP was 1.5%^{viii}. Had they used their own CPI number the GDP growth would have been 1.3% and not 3.1%.

The recent jobs report was celebrated for creating 353,000 jobs, but full-time employment has been declining by over a million jobs for several months^{ix} and the positive headline was aided and abetted by an increase part-time jobs. The government contributed 6% to Non-Farm Payrolls in 2021 and 2022; last year uncle Sam contributed 23% to the job numbers^x. The way CPI numbers are calculated has also been changed and embedded in the inflation numbers is an assumption that health insurance premiums declined by 34% which reduced CPI by .18%.

This of course is background noise; sometimes you have to keep the main thing the main thing and what matters most is whether or not companies are making money. The Russell 2000 is an index that measures the performance of the 2,000 smaller companies and 40% of these stocks had negative earnings in 2023. If you were to remove seven widely held stocks from the S&P 500, the remaining 493 companies had both negative earnings and negative income growth last year^{xi}.

Kwame Alexander recently released a book of contemporary poets "This is the Honey", many of whom I know personally from my days of going to open mic shows here in DC. Jason Reynolds wrote in "Your Dream Is" that "your dream is the mole behind your ear, that chip in your front tooth, your freckles. It's the thing that makes you special, but not the thing that makes you great".

When government data is fabricated, companies are not making money at a faster clip and the market continues to accelerate it reminds me that sometimes I am special, but not always great. And then there's my father who was quick to remind anyone who would listen that sometimes you can be so smart that you're stupid. In the final analysis, the numbers are what they are, and there is a legitimate chance that we will get a soft landing, not because of the Fed or a surge in private sector activity, but because government spending may have prevented a recession.

The numbers are likely to have one of three immediate impacts. First, a strong economy reduces the likelihood that the Fed will need to lower interest rates. Think of it this way: why would they need to give

the economy a boost if it's doing fine all by itself. Second, the bond market may keep interest rates high to account for the fact that economic growth is more robust than initially thought. Third, the first two might not happen.

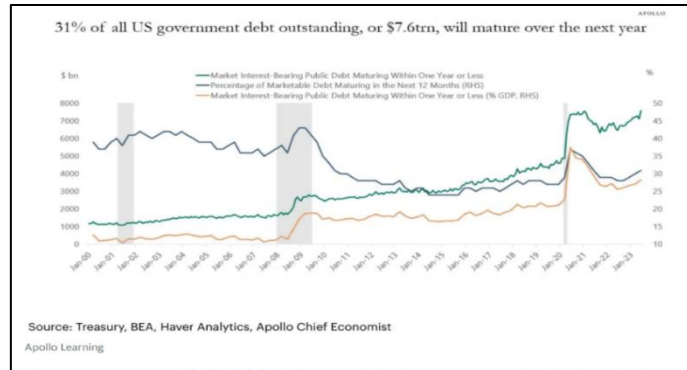
Investors must now navigate the refinancing of \$7.6 trillion of government debt^{xii}, \$1 trillion of corporate bonds^{xiii} and \$500 billion of commercial real estate

loans^{xiv} in 2024 at much higher rates when the economy is booming, or so they say, and companies aren't increasing profits enough to justify these valuations. Were I forced to write a haiku, a Japanese poem with only three short lines that are five syllables, seven syllables and five syllables long, I'd say something like "Dewey Decimal/Purchased shares of Amazon/And took the buyout".

Yes, it's difficult to have complete faith in your eyes when you don't trust the data and know that patience is both virtuous and expensive, but this is where we're at. I can make a case that the market will keep marching along or that it will collapse. The odds are that it will be something in between.

In this sense, not much has changed. Money markets are paying over 4% with no volatility, gold should still be a safe haven unless the economy really accelerates, and we own more than a couple of those seven stocks that are driving the market. There will be swings and misses and mixed signals, but the International Energy Agency estimates that global nuclear capacity needs to double by mid-century from 2020 levels to help the world meet net zero commitments^{xv} and Uranium stocks seem to benefit from the lack of supply and increased demand for the time being.

More than anything, as I watch the man who mastered the American experiment with lead paint in a two-bedroom laboratory deteriorate before my eyes, I don't want my clients or their families to experience this same journey. There's no point in outsmarting economic obstacles if you can't enjoy the fruits of your labor in the end. Watch what you eat, get enough sleep, reduce your levels of stress, and if warranted, get some long-term care insurance. After all, it's not the luxury car that makes you happy; it's the person in the passenger seat.



ⁱ "The End of Alzheimer's"; Dr. Dale Bredezen

ⁱⁱ How the Sugar Industry Shifted Blame to Fat, New York Times; 9/12/2016

ⁱⁱⁱ Medicare and Social Security Are Responsible for 95 Percent of U.S. Unfunded Obligations; Cato Institute; 3/28/2023

^{iv} Centers for Medicare & Medicaid Services

^v Pew Research

^{vi} The Bureau of Economic Analysis

^{vii} Hedgeye Research

^{viii} Stunningly strong 2023, Consumers stepped up, while businesses investment faded; KPMG; 1/25/2024

^{ix} Upon Further Review – The Labor Market Is Cooling; Forbes; 1/6/2024

^x Bureau of Labor Statistics

^{xi} Bloomberg

^{xii} US treasury

^{xiii} Bloomberg

^{xiv} MSCI

^{xv} Hedge Funds Pile Into Uranium Stocks Set for 'Dramatic' Rise; Bloomberg; 10/29/2023

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The S&P 500 is an unmanaged index which cannot be invested into directly. This index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.