Here's To Your Wealth!

Weekly Market Update from Potomac Wealth Advisors, LLC

April 7, 2014

Big Data and the Markets

- A billion hours ago, modern Homo sapiens emerged.
- A billion minutes ago, Christianity began.
- A billion seconds ago, the IBM PC was released.
- A billion Google searches ago ... was this morning.

Hal Varian, chief economist of Google. "Beyond Big Data," NABE annual meeting, September 10, 2013, San Francisco. Reprinted in Business Economics, Vol. 49, No. 1.

- 2000-plus: Estimated number of times the online activity of an average internet user is tracked every day
- 868: Number of websites among the 2510 most popular in the US where Twitter can track the activity of visitors
- 1205: Number of websites among the most 2510 most popular in the US where Facebook can track the activity of visitors

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Private Wealth Magazine
as a member of their *Inaugural All-Star Research Team*

Washington Business Journal
as one of *Washington's Premier Wealth Advisors*

NABCAP
as one of the *Top Wealth Managers* in the Washington, DC Metropolitan Region

SmartCEO Magazine

- $27.61: Estimated annual value to Facebook of a very active US female user's data ($22.09 for a male)
- 700 million: Approximate number of adult consumers in the global database of Acxiom corp., a leading data broker
- 3000-plus: Number of shopping tendencies Acxiom says it can measure for nearly every US household

Sources: Acxiom Corp; AVG PrivacyFix; Wall Street Journal, March 24, 2014, R1, "Big Data"

OK, so where are we going with this?

Financial TV, radio, print, and internet-based discourse is continually saying something like, "The Fed is printing all this money, and we are going to have a big inflation, and interest rates will go shooting up, and the economy will go in the tank."

Right-wing Tea Party Republicans are concerned about the huge coming federal deficits and the massive cost of entitlements. Left-wing Democrats stress income inequality and the need to raise taxes in order to achieve fairness. Both of these bookends of the political spectrum are embroiled in primary political fights, after which they will try to shift adroitly toward the center for the general election in November. While making a noisy show of dueling each other and their primary opponents, they will accomplish little (which might not be all bad).

Meanwhile - and quietly - the economy of the US continues a slow recovery, interest rates stay low, the governmental deficit shrinks (under 3% of GDP now and falling), and the current account deficit falls as energy production in the US rises and displaces the marginal need to import. Inflation remains under the Fed's minimum threshold of 2%. Stock market volatility spikes on news events and then recedes. Incredible efficiencies are being generated by the free-market economy which is using technology with incredible

as a *Top Wealth Manager*

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as one of *America's Top Financial Planners* 2005 - 2011

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efficiency and offsetting higher regulations and a higher tax environment.

So where are we going with this?

The lists at the beginning of the discussion highlight evidence of sources of massive gains in productivity and how they are achieved. The bottom line is that rising productivity means low inflation pressures and higher business profits and improved quality of living for those who desire to use these productivity gains for personal consumption, medical care, and business development or for familial and interpersonal relationships. "Big Data" means productivity gains. That means we are all way more efficient at what we seek to do.

This rise in productivity is happening while the classic economic twin deficits are shrinking and stabilizing. Capitol Economics sums it up this way: "The US economy is the closest it has been to both internal and external balance in more than a decade." We agree. Furthermore, the trends that are carrying us toward these twin balanced positions are accelerating forcefully. The external balancing is progressing on the back of the nation's growing energy sector, which is creating thousands of jobs in many regions of the country. The internal budget balancing progresses amid the push-pull of polarized politics in this election year and through the 2016 presidential election.

We may be poorly governed. We wish Democrats and Republicans would cooperate. But if they don't, we as a nation go on anyway, with gains in productivity that we achieve not because of our politicians but in spite of them.

All this sums up to a continuing bullish outlook for the stock markets and a prolonged period of lower inflation and lower interest rates. The best guess, and it is just a guess, is that the short-term rates in the US will be close to 1% or lower for another two years or longer. Those short rates tend to anchor the long rates. There may be a glitch in labor markets tightening faster than folks expect and if that happens that would mean labor costs will start to rise sooner than expected. So too much good news has a potential negative side effect.

So our somewhat benign outlook still has risks attached. There are always risks attached - and with the stock market at such high levels it makes sense to have an actively managed component.

So at this time we remain invested in the stock markets, and we remain invested in the bond markets. We believe the flight to cash or near cash, which yields near zero, is a mistake. And in recent years it has been a huge mistake despite how hard the holders of cash try to convince themselves. Markets may correct and allow for entry points, but the trend is still up. Bond markets may have volatility, but investment grade and even high yield debt remain more attractive to us versus cash. Again we would utilize active management in the event interest rates run up as they did last spring. But under current circumstances of low inflation and low interest-rate policy and improving external and internal balance in the United States we eschew cash except for necessary liquidity.

It is springtime (finally!). One hundred million Google searches occurred during the time it took to draft this text. Commerce is happening at a pace never before seen and the promises of technology are only in the early stages of being realized.

Happy Spring. Enjoy Big Data. It is here to stay.

Weekly Focus - Think About It

"Education is the most powerful weapon which you can use to change the world."

--Nelson Mandela, Former President of South Africa

Best Regards,

Mark

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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*The DJIA is a widely followed measurement of the stock market. The average is comprised of 30 stocks that represent leading companies in major industries.

**The NASDAQ Composite Index is a market-valued weighted index, which measures all securities listed on the NASDAQ stock market.

Diversification and asset allocation do not guarantee against loss. They are methods used to manage risk.

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