

The Wealth Perspective

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Creative Destruction?

Joseph Schumpeter is the Austrian economist who is credited with coining the above phrase to describe how capitalism's enterprises constantly improve and change because they have to make a profit to stay in business. In Schumpeter's words, "The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates."

Allowing "Creative Destruction" to happen has often been cited as the main reason the USA's economic engine has outperformed most other economies over the centuries. The Pony Express was wiped out and replaced with telegraph wire and it was replaced with the radio and telephone. Wagon trains and stage coaches were replaced with the rail road. The horse and mule were replaced with the automobile. Even war tactics were changed by industrial creation. Charles De Gaulle made many attempts to get the French to abandon the Maginot line's premise of defending from fixed positions. He insisted that the industrial technology had rendered this tactic obsolete. Hitler simply bypassed the line and went through Belgium. Using planes and tanks and mobile artillery and infantry in a coordinated attack—"Blitzkrieg"—made fixed position warfare obsolete. More recently ever since the 1950's, computer technology has constantly evolved. And history is littered with failures: Wang Computers, Apple's Newton, Compaq, IBM's personal computer. Internet start ups sometimes fail but also open the door for a better mouse trap: My Space, (Facebook) Alta Vista (Google), Netscape (Microsoft), Napster (Pandora, Spotify).

The most recent huge economic disaster was the housing bust and the ensuing Great Recession. The Great Recession created great economic hardship along with great economic opportunity.

Social and political failures are hard to swallow for good reason. All of us know someone who used to be successful: real estate agents who just quit, or home builders who went bankrupt or only survived after a bank picked them up upside down and shook until all money was taken. All this sounds bad, but it really get worse when you consider the human cost of "Creative Destruction" How many Pony Express riders lost their jobs and learned Morse Code? How many stage coach drivers were young enough to learn how to be a rail road engineer? How many mule busters learned how to work on automobiles? How many techs were laid off when Apple's Newton failed? On and on it goes.

All these failures come with a human and societal cost. Alcoholism, divorce, drug abuse, and suicide all are some of the results of our inability to adapt to change and face personal economic disaster. None of us are the Rock of Gibraltar; we all have a breaking point. We all know someone in the above categories. How many times have we said so and so was doing well until they got laid off or fired. Like it or not, our self worth is stuck like super glue to our abilities to produce.

Social safety nets such as Social Security, Medicare, Medicaid, are very expensive and budget busters. They grew out of our passion to help citizens who were old and or unable to make a living. Unemployment insurance is a safety net to help between jobs.

Europe has such a huge social safety net that 80% of their income gets taxed, and they prop up enterprise any chance they get, which in my mind equals Socialism. China props up many industries with cheap government loans and other artificial means. The Chinese communist government manipulates and keeps many old labor intensive enterprises alive to keep political leverage and to mitigate the human cost of failures.

Give me our system any day because at least I can vote and have a choice, keep and spend more of my money than most countries. We still have the best economic engine in the world. It is not perfect, and comes with a great human cost. It's still better than most other countries. I hope we never lose out ability to fail, because failure forces us to adapt, change and move on. I also hope we never lose our passion to help others who have not been as lucky.

The stock market is going through an adjustment period. The Federal Reserve is raising rates and it's starting to matter. I don't see the specter of inflation that they claim to be predicting. Hopefully they will stop at 3% which may be close to their goal of having rates and GDP the same (neutral).

Thanks,
Andy McClung CFP™

Wikipedia; Time Magazine 20 most successful failures

2018 Market Results

S&P 500	+1.4%
NASDAQ Composite	+5.8%
Dow Industrials	+1.6%
Russell 2000	-1.6%
Dow Global	-6.2%

Source the Wall Street Journal 11/01/18

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