FINANCIAL
newsletter

Spelts Wealth Management

AUGUST

Making Augmented Marketing a Reality

Augmented reality (technology that combines computer-generated images with elements gathered from real-life surroundings) once seemed like a futuristic improbability from a science fiction film. Many modern technological developments, from navigational services to medical imaging, have been shaped by augmented reality. These innovations have also impacted phone application and video game development, most notably by the recent smartphone game phenomenon “Pokémon Go.” In order to play the game, “Pokémon Go” requires users to walk around outdoors and visit public places, most often religious buildings, parks and local landmarks. With “Pokémon Go” and similar apps requiring millions of users to be in public—and near stores—for gameplay, the relevance of augmented reality technology could present long-term changes in how businesses market themselves.

Local Businesses

Small businesses that are near in-game locations of “Pokémon Go” (known as “PokéStops” and “Gyms”) are seeing a noticeable increase in foot traffic and have leveraged the game’s popularity to their advantage. Offering game-related discounts or using in-game items to attract players, local businesses are capitalizing on the need for players to access specific locations. Some businesses in areas with highly-concentrated amounts of PokéStops and Gyms report seeing revenue boosts of 30 percent, effectively using the app for cheap, or free, marketing. Groups of local businesses have even banded together to create city-wide events for “Pokémon Go” users, encouraging players to visit their neighborhoods. By heavily promoting these events on social media sites, local businesses are reaching customers that they might have ignored otherwise.

Large Partnerships

Fast food juggernaut McDonald’s is no stranger to promotional partnerships. For decades, the chain has offered toys and other items that coincide with popular releases in television and film. However, in Japan, McDonald’s is now partnering with “Pokémon Go” to make nearly 3,000 restaurants official PokéStops and Gyms. Much like local businesses, McDonald’s is anticipating that this will draw in non-regular customers and be an additional attraction for frequent customers. While this partnership has yet to be implemented anywhere but Japan, it opens up new possibilities in cross-promotion for companies. By positioning itself within a vital aspect of a game, a company is sure to generate business and brand recognition.

Marketing Revolution

The end goal for marketing has always been to appeal to consumers in order to generate business. Now, games like “Pokémon Go” are helping businesses accomplish this goal by inciting proximity. Whether it’s small businesses using in-game items or large companies with country-wide partnerships, consumers are visiting businesses that are catering to them in this new and unprecedented way.

The global success of “Pokémon Go” ushers in seemingly limitless potential for how marketing can utilize augmented reality technology. Many varieties of augmented reality headsets, like Google Glass, are either currently available or slated for release in the near future. While this technology may take years to perfect, integrating marketing schemes with this kind of platform could be highly effective. An augmented reality headset that integrates advertisements into the user’s field of vision would not only be able to keep their brand in front of people, but it could also determine what stores they need to visit. Someday, instead of selling airtime on TV or ad space on billboards, augmented reality devices could sell foot traffic, delivering potential customers to the front door of any business that pays for their service.

In the meantime, simple geographical-based marketing will likely become much more common. Given the reported impact on profits for companies as a result of “Pokémon Go,” integrating advertising with reality—in a way that makes it necessary for users to visit a business—could be the next marketing revolution.

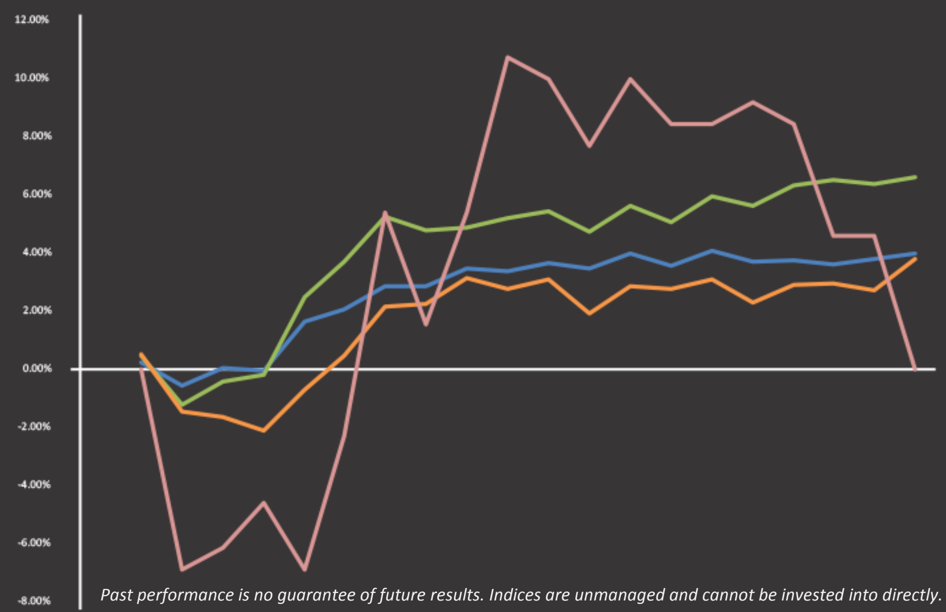
the market at a glance
JULY

U.S. Large Cap
(S&P 500)
2,173.60 (3.56%) ▲

U.S. Mid/Small
(Russell 2000)
1,219.94 (5.90%) ▲

International Large
(NYSE International 100)
4,809.65 (3.37%) ▲

U.S. Treasuries
(U.S. 10-Year Treasury Yield Rate)
1.46 (0.00%)



Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

The market in action

- The U.S. 30-Year Treasury hits a record low yield early in July, providing just a 2.11 percent annual return for buyers. The unprecedented depression in yields (felt by most long-term government bonds) was credited to the political and economic uncertainty following the "Brexit" vote in the United Kingdom.
- Mortgage refinances in the United States jump 21 percent as mortgage interest rates approach record lows.
- Japanese telecom conglomerate SoftBank Group announces its purchase of the British chipmaker ARM Holdings PLC for $32B. ARM is the U.K.'s largest technology company and will be SoftBank's largest acquisition to date.
- The Department of Commerce reports that the U.S. economy grew at an annualized rate of 1.2 percent in Q2 2016—less than half of the expected growth rate. Combine with weak reports from Q4 2015 and Q1 2016, the statement sparked concern among economists that the United States is moving into a prolonged period of low growth.
- Following months of investigation, the Federal Trade Commission determines nutritional supplier Herbalife Ltd. is not a pyramid scheme; however, the commission still issues a $200M fine against Herbalife for misrepresentation of its business practices.
- Verizon Communications announces the acquisition of Yahoo Inc.'s struggling internet businesses for $4.8B. Verizon will only purchase the Yahoo brand and U.S. websites, leaving the remaining company— and its $40B stake in Chinese online retailer Alibaba Group—to be rebranded and converted into a holding company.
- The U.S. Census Bureau reports homeownership in the United States has tied its record low (set in 1965), falling to 62.9 percent in Q2 2016. Although homeownership is broadly down across all age groups, adults classified as Millennials (age 18-34) held the lowest ownership rate: 34.1 percent.
- Oracle Corporation makes plans to acquire cloud-service pioneer NetSuite Inc. for $9.3B.

The Future of Social Security

In 1950, America boasted roughly 16 working adults for each retiree. The large pool of workers contributing to social security and the relatively low number of retirees receiving payments combined for an effective way to fund a stable source of supplemental income for retirees.

Shrinking Labor Force

However, since then, the ratio of workers to retirees has plummeted to just 3-to-1 in 2010. Projections indicate that, given the number of Baby Boomers who are nearing retirement, this ratio will shrink to just 2-to-1 in the next 10 years. With birth rates at their lowest in the past century, the number of workers entering the workforce is simply not keeping up with those that are retiring.

Due to the declining ratio of workers to retirees and the subsequent decrease in the amount generated by taxes, the Social Security Administration will soon start paying out more than it generates. If the rate at which workers pay into social security stays the same, the fund be depleted in approximately 20 years.

Contrary to what some may fear, if the fund runs out there will not be a complete cessation of payments to retirees. Though there would be no surplus to draw from once the fund starts to pay out more than it generates, regular revenue for social security from taxes would still supply retirees with a retirement benefit. However, the lack of surplus would result in these benefits being reduced by 20-25 percent per year.

Vital to Retirement

According to a 2014 survey from the U.S. Census Bureau, roughly 40 percent of retirees would fall below the poverty line if not for social security. Additionally, the Social Security Administration reported in 2014 that 20 percent of retirees aged 65 or older rely on social security payments for all of their retirement income. Given that social security is absolutely vital to many Americans, there is urgency about what steps will be taken to accommodate for the current, and projected, seismic shift in active workers. Different groups have called for an immediate reduction in benefits to postpone depleting the fund, higher taxation on workers or some combination of the two.

A Widespread Problem

Given the uncertainty of how significant social security payouts will be in the next few decades, self-directed retirement funds will play a more crucial role in retirement. Currently, Americans are generally underprepared for the projected reduction of social security benefits. Recent studies show that savings to retirement accounts by adults are dismal. According to a 2016 survey from GOBankingRates.com, 1-in-3 adults have no retirement savings whatsoever, while nearly 3-in-5 have less than $10,000 saved.

Some might assume that the reason for low savings is that many young working adults simply have not had the time to contribute to their qualified accounts and let the balances grow. However, the truth is that the majority of adults over 40 years old are behind on their retirement savings, too. The cycle of deferring current savings and hoping to catch up later has left many unable to retire. Over the past few years, approximately 25 percent of Americans have had to delay their retirement by at least one year.

News of the Social Security fund being depleted has led to panic about how Americans will fund retirement. The silver lining is that as long as social security taxes are in place, there will be government assistance in retirement—it's just a matter of how much the payments will be.

Given the projected reduction in benefits, Americans must be careful not to overestimate how much they will be getting from social security. Now, more than ever, Americans need to remember that social security is not meant to fund their entire retirement; it is meant to offer a layer of support. By preparing their personal savings for lower social security payments, Americans can ensure that they are ready for retirement on their own terms.

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