

“The Efficiency of a Circular Economy”

By Tommy Williams, CFP®

The numbers are coming in. Publicly-traded companies report their earnings and sales numbers for the previous quarter in the current quarter. For example, fourth quarter’s sales and earnings are reported during the first quarter of the year, and first quarter’s sales and earnings will be reported during the second quarter, and so on.



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Through last week, about one-fourth of the companies in the Standard & Poor (S&P)’s 500 Index had reported actual sales and earnings for the fourth quarter of 2017. As far as sales go, a record

number – 81 percent – of companies sold more than expected during the fourth quarter. That was quite an improvement. *FactSet* reported:

“During the past year (four quarters), 64 percent of the companies in the S&P 500 have reported sales above the mean estimate on average. During the past five years (20 quarters), 56 percent of companies in the S&P 500 have reported sales above the mean estimate on average.” The mean is the average of a group of numbers.

The money a company makes through sales is called revenue. For instance, if a lemonade stand sells 100 glasses of lemonade for \$1 each, then the proprietors have earned \$100. That is the stand’s ‘revenue.’ Of course, as every parent who has financed a lemonade stand knows, revenue doesn’t include the cost of the product. ‘Earnings’ are what the company has left after expenses – the bottom line. If every glass of lemonade cost 50 cents,

then the stand’s earnings are \$50.

Companies in the S&P 500 are doing pretty well on earnings, too. About three out of four companies have reported earnings higher than expected. Overall, earnings are 4.5 percent above estimates. Annual earnings growth for S&P 500 companies are up 10.1 percent. It’s still early in the fourth quarter earnings season, but the data so far seem likely to confirm that 2017 was a bright, sunny year for U.S. companies.

On a slightly different topic, I know you’ve been wondering about the concept of circular economics. What is the circular economy? It is *“a system that reduces waste through the efficient use of resources. Businesses that are part of the circular economy seek to redesign the current take/make/dispose economy, a model which relies on access to cheap raw materials and mass production. For example, car sharing*

addresses the inefficiency of privately owned cars – which are typically used for less than one hour a day,” explains Morgan Stanley.

Imagine not owning a car. Clearly, it's not something that would work everywhere. However, if you live in a city or town that has public transportation, ride sharing, car rentals, and bicycles, it's possible. If you're retired and you can organize your days in the way you like, it may even be sensible because owning a car is expensive. Transportation costs are the second highest budget item for most households, reports *U.S. News*. Housing costs top the list.

Giving up a car could help households save a lot of money. According to AAA, owning and operating a new car in 2017 cost about \$8,469 annually, on average, or \$706 a month. Small sedans are the least costly (\$6,354 per year), on average, and pickup trucks are the most expensive (\$10,054 per year), on average, of the vehicles in the study.

The calculations include sales price, depreciation, maintenance, repair, and fuel costs.

AAA's estimate does not include insurance. In 2017, the national average premium for a full-coverage policy was \$1,318 annually, according to *Insure.com*. Auto insurance premiums are highest in Michigan (\$2,394) and lowest in Maine (\$864). As evidenced by the popularity of Uber and Lyft I think we are in for numerous trends which would have seemed inconceivable one generation ago. Not to mention as we age driving is often not advisable, but who wants to relinquish their independence? Enter the instant chauffeur!

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