

TILIA



NEWS

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 INVESTMENT MANAGEMENT | FIDUCIARY ADVICE | RETIREMENT PLANNING
 

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### Economic Strength Continues

After a slowdown that lasted for most of 2015 & 2016, the Empire State Manufacturing Survey has strengthened this summer. The *General Business Conditions* index climbed to its highest level since September of 2014. New orders, shipments & hiring all grew in August. The August reading bested consensus estimates by the largest margin since late 2009.

The *Index of Small Business Optimism* rose in July, registering the highest reading since February. Sixty percent of those surveyed reported hiring, or trying to hire new employees. The bad news is, 87% of those trying to hire reported few or no qualified applicants for those positions. Finding quality workers ranks as the 2nd most important business problem behind taxes. Construction & manufacturing reported labor shortages as the number one problem. Eight percent of all firms said they were raising average selling prices, the highest reading since late 2014.

The National Association of Home Builders also had a strong report for August. Builders reported strong current sales conditions & high expectations for the next six months. The Northeast was the one region that came out negative, with just over half of respondents reporting unfavorable conditions.

The Port of Long Beach in the Los Angeles area reported its best month in the 106 year history of the port in July. For the year, cargo traffic is up 6.4% vs. 2016. Los Angeles area port data is widely followed, as they handle about 40% of the nation's container traffic. Sources: *NFIB, NY Fed, calculatedriskblog.com*

### Crypto-currencies - The Future or a Farce?

2017 has been the year of crypto-currencies. Bitcoin, the most well known of the group, has risen significantly in value, as well as adoption. Newer forms of crypto-currency, including Ethereum, Ripple, Stratis & Litecoin have posted mind-boggling returns in a very short amount of time. For those not involved, fear of missing out grows with each positive headline, fanning the flames of the rally.

Crypto-currencies are built around blockchain technology, which is an open, decentralized online database of every transaction involving value. Essentially, it's an online ledger that's public and cannot (theoretically) be changed. With the backbone of blockchain, people & businesses around the world are able to transact (via crypto-currency) at very little cost - instantly, transparently, & without reliance on any government or banking institution. As then-President Obama once said "It's like everyone is walking around with a Swiss bank account in their pocket."

The rise of the blockchain technology could not have come at a more opportune time. Bitcoin launched in January 2009, right in the depths of the financial crisis. With public mistrust of financial institutions & central bank money-printing as a tailwind, this alternative form of currency had the perfect environment to develop. What started in the shadows of the internet is now a full-blown phenomenon, with the collective value of crypto-currencies surpassing 100 Billion dollars.

One of the newest uses of these currencies has been in the form of fundraising. Individuals & businesses are lining up to do "Initial Coin Offerings" or "ICOs". This is an entirely unregulated way for someone with a business or even just an idea, to raise funding online via crypto-currency. No prospectus, no SEC filings - just send over some of your e-currency and you can have a stake (sort of) in the future of this idea. Akin to kickstarter, all that your coins entitle you to in most cases is some of the future product, if it ever gets that far. In the meantime, the fundraiser promptly changes your e-currency into proper government tender and pockets it. These ICOs have made headlines almost daily, with many raising millions in a matter of minutes. Recent ICOs include boxer Floyd Mayweather, who raised \$33 million for something called [stox.com](http://stox.com). If that doesn't smell bad enough to you, rapper "The Game" is currently promoting an upcoming ICO for a company named "Paragon", with the goal of "revolutionizing cannabis & the world." Anyone willing to fund these offerings deserves to be parted from their money.

While the ICO universe is generally un-investable, don't let that distract you from our initial topic. Do these currencies have a future? That answer is probably a yes, at least in some form. Blockchain technology has significant value. Do Bitcoin & other crypto-currencies make sense as an investment? That answer, in our opinion, is no. The durability of value in Bitcoin rests on the premise that new supply will be come at a very slow trickle. The problem is that there are very few barriers to competing crypto-currencies coming online. As of today, there are 10 different e-currencies that are worth more than 1 billion in total value. Every additional e-currency that gains acceptance competes for value with the others, inflating the overall supply. This is a bubble akin to the Tulip craze in Holland during early 17th century. Eventually, as supply continues to rise, the amount of speculators willing to bet on "the greater fool"

Are College Expenses Moderating?

At over \$1.3 Trillion, student loan debt in the US is now the second highest consumer debt category, edging out auto loans at \$1.2 Trillion. As a 4-year college degree became a requirement at more employers in the 90's & 2000's, tuition costs rose an average of 6% per year from 1990-2016.

Two and a half decades of growth at double the inflation rate has had a disastrous effect on young college graduates. Nothing discourages saving for the future, household formation or discretionary spending like 80-100k of non-dischargeable debt hanging over your head.

Finally, this trend is showing signs of moderating. Labor Department data showed tuition at college & graduate schools grew 1.9% in 2016, roughly in-line with inflation. While it's far too early to tell, we hope that this is a sign of slower future growth in the cost of higher education.

We have good reason to believe that college tuition growth will indeed slow over the coming decades. More employers are reversing the bachelor's degree requirement, and the popularity of shorter, trade-centric programs is rising. Online curriculums continue to gain in popularity, which put less strain on university resources. The next wave of would-be college enrollees have also grown up as dedicated customers of Facebook, Apple, DropBox & Spotify, whose founders all decided that college wasn't for them.

Beware of "Skimmers"

We've all heard about thieves implanting gas station islands with skimmer devices to steal your credit card information. In the last couple of years, these devices have advanced via bluetooth & 3D printing, to enable these criminals to build their own skimmers and access the data without having to revisit the site and physically retrieve the device. Skimmers have increasingly been found in the triangle as of late, with one station in Carrboro reporting 3 separate cases in 2017! While it's difficult to defend yourself against the threat, here's some tips to help:

- Paying inside is the most effective defense, but rarely convenient.

Sources: Wall Street Journal, wncn.com

will be exhausted and the air will start to leak out of the bubble - slowly at first, and then a waterfall of selling. At least that's how other historic bubbles have played out. We don't believe this one is any different.

While we could certainly be wrong, the two traits of a bubble are a) a parabolic rise in value b) euphoric participants. You be the judge:



A 35 year old owner of a photo-sharing service in Florida recently said the following: "This is like getting into the internet in the 90's. I'm obviously very bullish, but I expect to make a couple million dollars off very little money. This is the opportunity of a lifetime. Finance is getting its internet." - via a recent NY Times article.

From time to time we've checked in on Reddit's Bitcoin price thread, a popular online forum for adopters of the currency. You see comments like the following on a daily basis:



If this isn't enough to dampen one's feelings for crypto-currencies, the safety aspects of it should be. Crypto's are the go-to tool for ransom these days, from hackers to actual kidnappers. Additionally, safe storage of the currency is difficult, with users regularly getting their coins stolen from them by hackers. Even the exchanges have suffered at the hands of hackers. Unlike a credit card or an FDIC/SPIC insured bank or brokerage account, the victims have no protections. It's the online version of the wild west.

"Skimmers" - continued

- Use a credit card, rather than debit. CCs have better fraud protections & the money is not immediately deducted from your account.
- Look for signs of tampering, misalignment of graphics or stickers missing or broken from the cabinet beside the swiper.
- Choose the pump closest to outside cameras or the station's clerk. The most common targets are islands along the outer edges.