Clark Asset Management
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Current Comments
By Gary N. Clark, CFA
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Current Comments is an occasional publication authored by Gary N Clark, CFA, with input from others at the firm – mainly Vincent Payne, CFA. I am adding more thoughts and comments on other issues, indirectly related. We currently live in a period of a lot of drama, so there is plenty to comment on. Our recipients are typically clients, and we send this to others who may be interested.

So where are we? The United States economy continues along, essentially growing. By metrics of unemployment rate, GDP growth rate, and inflation, we are doing okay to fairly well. The new tax law, lessened regulation, and the absence of accelerating inflation have inspired our equity markets to move higher. The economy has continually been growing about 2% per year – which is not dramatic, but is an enduring positive number. The S&P 500 index is about where it might be a year from now (Perhaps 3200) assuming somewhat normal relationships. In other words, it would be more attractive if it were lower. Regarding all of the existing drama and ongoing angst, the leading economic indicators remain generally headed up, as they have been for a long time. The major variables that drive financial market valuations are behaving satisfactorily. While unemployment is relatively low, this is not a torrid economy. There are cracks around the fringes, specifically in automobiles and housing. These are two very important sectors for our economy and for the financial markets.

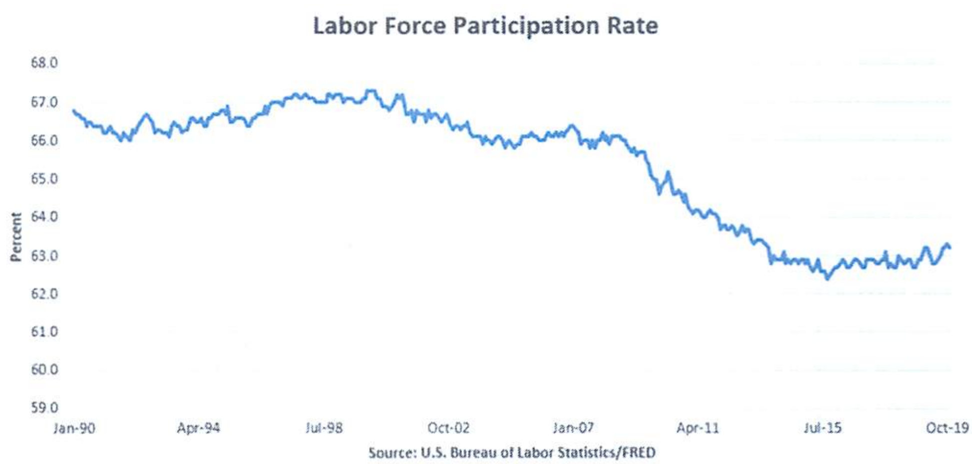
Housing:

Housing starts have continued to increase over the past ten years, yet they have barely surpassed some of the previous lows. Several factors seem to be slowing the growth in new home starts, potentially including:

a. The student debt of Millennials, and others, dampening housing demand
b. Tighter and more stringent mortgage underwriting requirements
c. The constriction of immigration

Home prices are declining in parts of the upper ranges of London and New York. Overall, there are anecdotal accounts of real estate appreciation leveling off to an extent or gradually slowing down, depending on location. There was a sort of a common maxim in the early 2000s that two years after an immigrant enters the

United States, he has a new pickup truck, and after about seven years he is a new homeowner. Today, "he" might have a harder time crossing the border, and He may be more likely to be a "she." On the positive side, there is adequate pent-up demand or potential demand. Many millennials have not married yet, and labor force participation rates may be turning up. I think an increase in Labor Force Participation Rate will provide fuel for this expansion longer than many expect. Employment and household formation are the two most significant variables affecting the real estate market. Additionally, interest rates have declined somewhat, which makes it easier to acquire a home of a given price. This also tends to increase homeowner equity, which new owners might access for consumer spending. I would think owners who went through the last cycle are less likely to do so. We will talk more



about the future impact of the increase in our national debt (especially held by foreigners) on our real estate investment values and returns. A good book that we have recently read and recommend to those interested in real estate investment is Enrico Moretti's *The New Geography of Jobs.* There is room for future growth. With unemployment at 3.7%, there might seem that there is little room to grow. However, the Civilian Labor Force Participation rate -- which had peaked back in 2001 at a little over 67% and had been heading down since-- appears to have stabilized and seems to be in the process of turning around. More workers rejoining the labor force would provide inputs for continued expansion.

The SECURE Act:
Our president recently signed the SECURE Act, making it law operative next year. This Act:

a. Allows IRA contributions after age 70, if one has earned income
b. Delays the age when required distributions begin to 72 – beginning next year for people who turn 70 ½
c. Eliminates "stretch IRAs" for inherited IRAs.

Several of our clients benefit through lesser taxes and greater investment returns with inherited IRAs. Existing accounts appear to be grandfathered under the new law. Oftentimes, the details are important. With many tax changes, CPAs and tax attorneys find ways to avoid some or all of the impact. The elimination of stretch IRAs is an important change that investors need to consider in their estate planning.

On Iran:
As elsewhere, there seems to be a lot going on. Over the last 140 years, the West has changed the government of Iran about three times. Most recently, the overthrow of the elected Iranian Prime Minister Muhammad Mossadegh engineered by the British and the CIA, as well as the installation of the Shah. During the Iran-Iraq war (1980-1988), the United States tilted toward Iraq as a matter of policy. Iranian casualties were about one million. Are they grateful to us?

Mr. John Bolton publicly announced that he supported regime change in Iran. After pulling out of the nuclear accord and imposing "sanctions," we have moved on to permitting no one to buy Iran's oil, forbidding Iran from selling it without U.S. permission, and withholding permission for them to spend the U.S. dollars that they own. The current administration's goal is to push perianal petroleum exports down to zero, and we are pretty close. We have told India, which borders Iran and imports about 10% of their petroleum from Iran, to stop buying their petroleum. Secretary of State Pompeo recently said the "it's possible that Trump was sent by God to save Israel from Iran". If another country, say China or France, declared that we could not sell soybeans or petroleum to other countries and that other countries could not export to the U.S. without their permission, what would the U.S. position be? I think a state of war has essentially *de facto* been created.

After doing this, Mr. Trump announced that he was willing to talk.

From the surface, one could wonder why we support Saudi Arabia over Iran. Mr. Trump claims they buy $400 billion worth of defense and other U.S. goods and services. Could there be another reason? What does this have to do with the investment domain? Geopolitical events are a source of quick changes in prices, paying more to a foreigner behaves like a tax. The price of oil is more subject to fluctuation from unique geopolitical events than most other prices. It is an area with a lot of uncertainty. The increasing use of sanctions will be a consideration leading to the use of various crypto-currencies, mainly because of their anonymity.

"China is Going To Pay!!":

Beginning economic textbooks discuss tariffs, and they include the concept of "incidence". Who actually bears the burden of a tariff? When a tax is levied upon any product or activity, who bears the burden of that tax? It is borne partly by the buyer, and partly by the seller. If tariffs are applied to imports from China, for example, who bears the burden? It is not all borne by the Chinese exporter. It would be reasonable to expect that Mr. Trump was exposed to a microeconomics course while attending Wharton. So the costs of Trump-imposed tariffs is not all borne by China, and the hypothetical suggestion that Mr. Trump and Mr. Wilbur Ross (our U.S. Secretary of Commerce) are not aware of this is not credible. While some U.S. workers/employees may benefit, tariffs are a cost to American consumers. Tariff tax revenue goes to the U.S. Treasury, not the U.S. consumer. Overall, the U.S. consumer is likely to be worse off. Tariffs were a topic debated a couple of hundred years ago. Apparently, Mr. Trump missed the conversation or he knows he is not being truthful.

The Cyprus Connection:

Almost by accident, about two years ago I researched and gave a talk on a fellow that had $2 million in a checking account in Cyprus before he was starting to become better known. His name was **Paul Manafort**. It has been alleged that Mr. Manafort ran perhaps $70 million through the nation of Cyprus. Cyprus is an interesting place in an interesting location, with a correspondingly interesting history. It has been ruled by the Persians, Greeks, Romans, Egyptians, Turks, and British, amongst others.

It was an interesting story, and Mr. Manafort has had an interesting career. It seems that not too many people interfered with it until he became Campaign Manager for Donald Trump. His indictment (posted online) listed quite a few accounts or companies that had accounts in Cyprus, or were domiciled in Cyprus. Several accounts were at the **Bank of Cyprus**, a bank formerly about one-third owned by **Wilbur Ross**, the U.S. Secretary of Commerce. Robert Mueller also inquired about Mr. Manafort's accounts at Federal Bank of the Middle East. About half of these accounts were held by Russians.

This last December, a contingent from Clark Asset Management went on a fact-finding mission to Cyprus. There are a lot of Russians in Cyprus. Cypriot does not have information sharing with Russia, while banks in the European Union do share information with Russia. So there are a lot of Russians in Cyprus, and it is also a Russian holiday destination.

Robert Mueller's report was completed and submitted. It documented a lot of contacts between the Trump organization and various Russian citizens. As with subsequent histories about Richard Nixon and L.B.J., these are often interesting, detailing information that was not known at the time. Mr. Mueller documented many things, but not the **corrupt intent** of Mr. Trump. Hence, he could not prove obstruction. Additionally, he specifically stated the report did not exonerate Donald Trump. I think the really interesting (and relevant) information is **not** in the Mueller report. I suspect a lot of money originating in Russia flowed into Trump real estate and other Trump interests, and at some point Mr. Putin took some control and direction of that pipeline. I think the really interesting information is what **is not in** the Mueller report. And I suspect that Mr. Putin ***owns*** Mr. Trump.

Your Roth IRA Account:

A Roth IRA account formerly had to be open for five years before an investor enjoyed all of the tax benefits. This year, it has to be open and funded for five years before an investor can utilize all of the benefits. Roth IRAs may be useful in tax or later estate planning, yet an account may be difficult to open after age 70. So if you do not already have one, I suggest that you contact us about opening and funding (even with $500) your Roth IRA account today.

We all thank you for your confidence this past year. We hope you all had a great Holiday Season, and we wish you and your family a great year ahead in 2020.

Respectfully,

Gary N. Clark, CFA
