

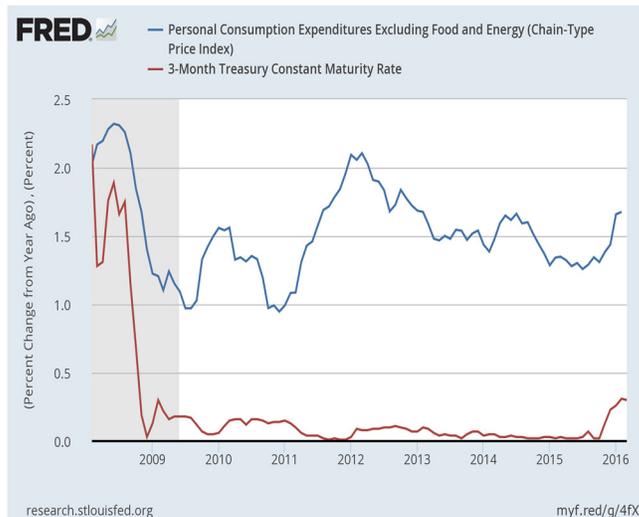
Investment Matters

For the quarter ended March 31, 2016

How Likely Is A Recession?

Virtually every recession is the result of too much of a good thing, namely economic growth. Every economic system has a limited capacity to produce goods and services. When the capacity of the economy is exceeded, i.e. when people are trying to buy more goods and services than the economy is currently capable of delivering, prices are forced higher. As it becomes more difficult to hire enough qualified workers, wages must be jacked up to attract those who are available; as sales are booming the prices of raw materials are climbing even faster; as businesses seek more and more money to expand production facilities, the price for borrowed money shoots up.

For most people this is a time to celebrate. Jobs are plentiful. Everyone feels good. For investors it is a time to raise caution. The inflation produced by an overheated economy is sowing the seeds of the next recession. Even a small increase in the inflation rate can hurt those who are on fixed incomes but as it goes higher it begins to pinch nearly every consumer. Higher inflation also provokes the Federal Reserve to raise interest rates in an attempt to keep inflation in check. These negative forces are very powerful. They eventually result in a period of negative economic growth



AS LONG AS SHORT TERM INTEREST RATES (RED) ARE BELOW THE INFLATION RATE (BLUE) A RECESSION IS UNLIKELY.

and a plunge in stock prices.

Right now, the economy appears to be growing below its productive capacity and is not creating any

The economy is growing below its productive capacity

significant inflation pressure. While jobs are available for most people who want to work, wages are only growing at about the same pace as the economy. Raw materials prices are also not pointing to an overheated economy. Prices of most commodities are still weak. Gasoline is a good example. Also, it's still

cheap to borrow. Mortgage rates are near multi-decade lows, as are yields on government bonds. Short term interest rates are below the inflation rate, a sure sign that the Federal Reserve is not yet alarmed about inflation. Inflation is actually below 2%, the level targeted by the Fed for a Under these conditions it seems highly unlikely that a recession will begin for at least a year or more.

For a complementary review of your investment portfolio please call our office at (716) 633-6555 to schedule an appointment at your convenience.

\$15 Dollar Minimum Wage Will Hurt The Poor

We Americans assume that everyone should have a fair chance to have a good life. Unfortunately the planned transition to a \$15 minimum wage in many states and cities around the country will hurt the poor, just the people it is intended to help.

First, 60% of adults living in poverty do not have any job. Mandatory higher wages will not help them at all.

Second, most people currently receiving the minimum wage are not living below the poverty line. Many are young people who live with their middle class or even affluent parents and are not supporting a family. Other minimum wage workers are working to supplement the earnings of the primary breadwinner in the family. Seniors often take minimum wage jobs to supplement their retirement income or just to remain active.

The 20% of minimum wage workers who are truly poor are the ones we want to help. While some of these will keep their jobs, others, the least skilled, will certainly be priced out of the job market. The young and inexperienced will be hurt the most. For the

Continued on page 2.

Wages: continued

poorly educated and least experienced, the hurdle to getting that first job will become insurmountably high.

Businesses, especially those with a high percentage of low skilled workers, will struggle to make ends meet. Most will raise prices; many will increase automation or reduce service features to lower their costs; others will go out of business or move to jurisdictions which allow lower wages. The result will be fewer jobs for the people who need them most.

An artificial increase in labor rates at the low end will force upward adjustments for higher skilled workers also. This is likely to lead to higher inflation which hurts everyone, but especially the poor.

Most certainly there are cheaper, more efficient and less disruptive ways to help the working poor than by making a high stakes bet that the law of supply and demand does not apply to human labor.

Not Widely Known

A World Bank report ranks the United States 46th in terms of how easy it is to start a new business corporation, behind France, Malaysia and Estonia.

Of all the companies in the Fortune 500 index in 1955, only sixty-one remain in 2015.

In 2002, coal provided over 50% of all U.S. electricity in the while natural gas accounted for only 18%. Today they each provide about 34%.

San Francisco is now home to 80,000 more dogs than children. The percentage of children has dropped from 22% in 1970 to 13% today.

In 1956 IBM produced the first computer with a hard disk drive (HDD). The HDD held 5 MB of data and weighed over a ton. Today a flash drive weighing less than an ounce can hold 128,000 MB of data, 24,000 times as much.

Suggesting reform, the White House reported that the five-fold increase in

occupational licensing in the U.S. over the last 60 years may now be holding back economic growth. Most licensing requirements are at the state and local level.

Home ownership in the U.S. is at the lowest level in 48 years, 64%.

In 1970 world poverty (less than \$1/day of income in constant dollars) was about 27% with far higher ratings in Asia. Today, world poverty is less than 5%, a modern miracle.

Since 1973 the average living space per person in a U.S. household has doubled. The average home is 1,000 square feet larger while the average family has declined from 3 to 2.5 people.

The U.S. now produces 91% of our domestic energy needs, up from 70% only 10 years ago.

In Los Angeles and Seattle, regular taxis have a passenger aboard for only about 40% of miles driven. Uber taxis in the same cities are carrying a fare more than 55% of the time.

Of 87 privately held start-up companies currently val-

ued over \$1 billion, 44 were started by immigrants.

Median household income for various ethnic groups living in the United States in 2014: Indian - \$100,295, Taiwanese - \$85,566, Lebanese, \$65,514, Turkish - \$64,617, Nigerian - \$61,289, Egyptian - \$60,543, Vietnamese - \$59,405, White - \$57,355.

The U.S. trade deficit in 2015 was about \$400 billion, meaning that we bought that much more from foreigners than they bought from us. With their extra dollars foreigners bought about \$400 billion more of our financial assets than we bought from them. The so-called balance of payments was nearly zero.

After declining for eight years the labor force participation rate has reversed direction since last September. The U.S. labor force grew by 2.2 million workers in 2015.

Average hourly earnings increased at a 2.7% annual rate in the first quarter of 2016.

The Bottom Line: 3/31/2016

Market Indicator	Current Value	One Year Change
Large company stocks (S&P 500 Index)	2060	1.8%
Small company stocks (S&P Small Cap Index)	687.0	-3.6%
Short term interest rates (3 Month T-Bill Yield)	0.2%	From 0.1%
Long term interest rates (10 Year T-Bond Yield)	1.8%	From 1.9%
Inflation (Consumer Price Index)	238.1	1.3%
Energy (West Texas Intermediate Crude Oil)	\$38.11/bbl.	-19.8%
The economy (Inflation adjusted GDP)	\$18.2 trillion	2.0%

QUOTABLE

"Markets don't care about good or bad; markets care about better or worse."

Richard Bernstein, Market Strategist

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