

Something to Think About



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If you have consumed any news or commentary, in just about any form of media, over the last several years, you have undoubtedly read something about inequality in the United States. You have heard or read about the 1%, and how this segment of the population makes all the money and has all the wealth in the country. You have also learned the gap between the rich and the poor is growing, in both absolute and relative terms.

You know what? This is absolutely correct, and has been for a long time. In fact, I haven't been able to find a period in our nation's history when a small percentage of the population didn't own most everything, and made significantly more than the rest. Unfortunately, there is a lot of truth to the old axiom: "it takes money to make money." Sure, in America, we like to think if you just work hard enough, you too will be able to reap massive rewards.

That too is true, if you save the fruits of your hard work.

For much of the 20th Century, incomes in the United States went up faster than the official rates of inflation. When they stopped doing so, during the 1970s and 1980s, more and more women entered the official workforce. As such, the workforce participation rate went up, as did the absolute and relative number of Americans looking for and having work.

As a result, median household income in the country had a general upward slope, when adjusted for inflation, for a very long time. This means/meant most American households were able to see an improvement in their purchasing power, and, therefore, their standard of living; at least as defined by the consumption of goods and services.

Then, something strange happened, or you might call it strange. While wages have basically kept up with the official inflation data, whether you think it accurate or not, over the last decade, the percentage of the adult population actually looking for work has gone down. Not surprisingly, as a result, median household income has slumped, when adjusted for inflation, for some time.

This, then, adds fuel to the fire. As household incomes for much of the country have stagnated, those people at the top, who have always been there in some form or fashion, have been able to accumulate a bigger piece of the overall pie as it has expanded. Obviously, this is a cause of much resentment, perhaps understandably. After all, what do you care if someone else is doing better if you are as well? But what happens when you aren't?

The reality of the situation, which has been there all along, becomes, suddenly, crystal clear.

The obvious retort to this is: "well, Norris, our population is aging, and more and more people are retiring as a result. Simple demographics explains a huge chunk why the labor force participation rate has fallen, and, then, perhaps, why household income has fallen in tandem."

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Control your own destiny or someone else will.

Jack Welch

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That is true, and can explain some of it. However, since 1992, the participation rate amongst 55-64 year olds has gone up from 56.2% to 64.5%; for 65-74 year olds it has increased from 16.3% to 26.8%, and has gone from 6.3% to 11.4% for those over 75. Conversely, the percentage of men 25-54 participating in the workforce has fallen from 93.0% in 1992 to 88.7% in 2012. Women? Well, over that 20 time period, the participation rate has gone from 74.6% to 74.5%, or barely moved.

As a result, you can make a pretty decent argument the reason why inflation adjusted median household income has been falling is due to the fact fewer men, as a percent, are participating in the labor force during their prime career years. When you look at men over the age of 16, in aggregate, the participation rate has fallen from 75.8% in 1992 to, get this, 70.2% (in 2012). If the current trends continue, the Bureau of Labor Statistics estimates the male participation rate will fall to 67.6% by 2022. That will represent some roughly 10 million men that “should be” out there making it happen. If you assume the average American worker brings home \$35,000/year, for grins, that works out to be, drum roll please: \$350,000,000,000/year.

Then we have the issue of educational attainment. As of March 2014, only 45.9% of those Americans over the age of 25 who do NOT have a high school diploma or the equivalent participate in the official work force. Better, but still low, are those who have finished high school but haven't taken any college coursework or additional training who come in at 58.8%. Conversely, 74.7% of Americans with a bachelor's degree or higher are actively seeking employment. As such, intuitively, unskilled and semi-skilled workers are more apt to drop out of the work force while more highly skilled, and therefore marketable, workers stay in.

This has a point.

What is the single biggest factor when it comes to investing? Is it asset allocation? Well, the academics would tell you this is pretty important. How about security selection? Sure, that also plays a part. Market timing? Hey, if you can look into the future with crystal clarity 100% of the time, be my guess. Fees and transaction costs? Okay, those things matter some, I will grant you. However, none of these oft given reasons are the single most important factor when it comes to investing. Nope. Do you care to know what is?

Actually having money to invest is, and how do most people get the money to invest? That's right, they work to get it, and save some along the way. If you don't work, and you don't save, you won't have money to invest, and, voila, you won't get wealthier. Perhaps coincidentally, the number of workers receiving Social Security disability appears to have increased about by about 3.4 million over the last decade.

However, this is kind of inconvenient, and can be explained away with the waive of a hand, mental gymnastics, or a sophisticated argument about victimization and better recognition of what it means to be disabled. You know what? All of that might be completely valid, and then some. I mean it might be completely spot on. Still, it doesn't change the simple fact the labor force participation rate has fallen, particularly for men, as inflation adjusted wages have stagnated, particularly on the low end of the pay scale.

Put another way....blue collar male workers are having it really tough right now, with no end in sight. Why do I say that? Well, for this reason: 3D printing technology. It would have been easy to miss the headlines, because the Dutch seem to be taking the lead with this. However, over the last month, Dutch doctors have replaced a woman's skull with a customized plastic, 3D-printed cranium. If that wasn't cool enough, and that is real cool, the Dutch are also hard at work printing out a house in Amsterdam, using a malleable composite material that has many uses.

Given the relative slowness of the job due to the newness of the technology, construction workers aren't in danger of losing their jobs in the immediate future. However, what about a decade from now? How many jobs will this technology replace? To answer that, I guess you can say the world will always need ditch diggers, and that is completely true. However, do we need as many actual bodies now as we did, say, 50 years ago? Do we

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need as many in the US as they do in India? That sort of thing. Yes, we will still need construction workers, we just won't need as many of them...particularly framers, roofers, etc. Unfortunately, the construction industry employs a lot of these blue-collar, male workers, who are already underemployed by my argument. What does that do for median household income in the US? What does that do to the middle class or even lower-middle class? When a machine can come in and print out a house or building in a fraction of the time it would take to construct it using traditional methods?

Certainly, we will still have use for skilled craftsmen, using specialty materials, maybe even greater demand; however, where the rubber meets the road, and I mean this in all serious, 3D-printing will be commonplace in the construction industry within two decades, if not sooner. As the technology continues to improve, it will be increasingly quicker and less expensive. The composite materials and engineering skills the industry will develop will be so much science fiction, making construction in disaster prone and geographically treacherous areas safer and more efficient. The possibilities are endless.

But are we prepared for this? Is the blue-collar workforce prepared for it? Is our educational system prepared for it? As huge numbers of old economy jobs become obsolete, from manufacturing to construction and everywhere in between? As machines finish the fight with muscle?

Will we still be fighting the same old battles about the minimum wage and 'pay fairness'? Or will we be re-tooling our workforce to meet the realities of the situation?

You know, the technology of the not so distant future is awesome, just awesome. However, it is going to create some serious economic upheaval, as if we didn't already have enough. The GDP numbers will continue to go up, but so will inequality in wealth and income. It is both exciting and terrifying at the same time, knowing millions of jobs which constitute the core of our blue-collar workforce will become obsolete, if they aren't already.

If you read this newsletter with any regularity, you have undoubtedly seen a theme developing here. Developing our critical and creative thinking will produce superior results in the future, as gray matter will completely trump muscle in the future. The enemies aren't the Chinese or even illegal aliens from South or Central America. As Pogo once quipped: "We have met the enemy and he is us." However, I don't intend to be one of them.

To that end, we, at Oakworth, will explore and search for economically feasible ways to exploit this theme for our clients. We will listen to private equity pitches and search the public markets to find appropriate alternatives. Not all will succeed, but those that do will make money hand over fist, as this technology, and others, is an economic revolution which will fundamentally alter how we conduct business and live our lives. Therein lies the wealth creation.

The Top 1% will understand this. Will everyone else?

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