

Harry's Monthly EView
LayLine Asset Management Inc
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8/2/22

Contents

Investment Thesis: Economic Structural Changes

Investing for Retirement: What About Bonds

Retirement Topics: Retiring

Market Musing: Technical Analysis and Life

Investment Thesis: The Coming Economy

The investment thesis for the Coming Economy argues for first, a short deflationary period that will not lead to a depression (in the traditional sense), followed by an extended period of rising inflation, that will not lead to hyperinflation.

Economic Structural Changes

Like the structural changes from an agrarian based to an industrial based and then to a technology-based economy, the structural changes in the Coming Economy are going to be big ones. The word structural refers to the relationships between elements of a structure, in this case the US economy. Structural aspects of the US economy are diverse, with multiple intra-structural relationships that effect and ultimately define the economic structure. Books have been written and much can be found by searching the internet, this will be a short read to serve as a basis to looking at the structural changes in the Coming Economy.

To begin, there are no, other than perceived, specific starts and finishes to big structural changes in our history. Many are still with us but in an indirect capacity. The evolution of trains in the 1800's was a huge structural change, you could get across the country in days or weeks, rather than months or years. But today, trains move mostly products and are less important to people's ability to move around freely as the car took over that role. Let's take a brief look at the last couple of major structural changes in the US economy.

The change from an agrarian based economic structure to one dominated by industrial activity took us from;

- Farms to Factories
- Horses to Cars
- Fire to Electric Lights
- Telegraph to Phones

On the farm, often multiple generations lived and participated in the operation of the farm. The new industrial structure did not allow for this, just not enough room in the city for the multiple generations of family to live. The move from horse and buggy to a car changed everything, made so much more possible. Traveling further to find work and return home at night. Electricity bought light

inside without fire, imagine reading or working by candlelight. The transition from the telegraph to phones connected society like never before. People could maintain contact with dispersed family members, call for help, and work more efficiently.

The change from an industrial based economy to the fast-changing technology lead economy took us from;

- Hand held Calculators to Computers
- Factory to Office Work
- Human Productivity to Technology Driven Productivity

What would take quite a bit of time on a calculator can be done instantaneously with a computer. Technology brought many jobs out of the factory into the office. Hard work (sweat and grit) was needed to work on the factory floor, computers just needed typing skills. If you could not work (or not allowed to work, think women) in the factories, economic opportunities were less than available. With technology more people could do more types of jobs, opportunities were enhanced.

The changes anticipated for the Coming Economy will take us from;

- Internal combustion transportation to electric driven
- Office Workplace to new Business Dynamics
- Production Technology to Personal Technology

The switch from an internal combustion driven transportation grid is one of the biggest changes in transportation in a century, with the added benefit of reduced carbon emissions. The sudden move to working from home has forever altered the employer – employee relationship. Technology has been the key to increasing productivity, it's now getting integrated into everyday life, for better or worst.

This is all fine and dandy, but there is both a social and economic cost to these structural changes, and it varies depending where you land in the new economic structure. The industrial change ushered in huge amounts of pollution and overcrowding in the cities where factories sprang up. Technology brought about huge changes in the labor mix, resulting in devastating labor dislocations. Over time the economic and social shock dissipates and the process of adaptation takes hold.

The common thread in this is it takes time, a lot of time, for these dynamic changes to work their way through the economy and society. The journey to Coming Economy will be no different. However, there are few, I expect that would want return to agrarian economic times with the horse and buggy, no phones, no TV, no flying around and mostly jobs requiring physical labor. When old ways conflict with the new ways, problems, conflicts, and opportunities emerge. It's not easy, but most worthwhile changes are unfortunately, not that easy.

[Investing for Retirement](#)

It appears that higher interest rates are forthcoming, if you believe the FED. When and if we see those higher rates, owning individual bonds may be something to consider, all the caveats apply,

for both interest income and capital gains. Many don't consider the capital gains aspect of individual bonds, but they can be compelling at times.

What About Bonds

(Originally published 7/5/16)

First, this is by no means meant to be a complete or even a creditable amount of information to go out and buy a bond. It is intended to provide some insight if you are considering buying a bond, or own one and would like to know a little more about them.

A bond is basically a contractual obligation between an issuer (the one that takes your money) and the purchaser of the bond. The issuer agrees to pay a specific (fixed) income, usually every six months, for a specific (fixed) period of time. At the end (maturity) of the contract the issuer pays you back the agreed amount, usually par (see below). Seems simple, but the word contractual is the key word, as there are many contractual elements to a bond.

Bond Lingo:

1. **Par:** New bonds are typically issued at par value. This means that \$1,000 buys 1 bond (pros would say the bonds are priced at 100 or par). Some bonds may be sold at a premium or discount to par value. A bond that costs \$980 (priced at 98) is being sold at a discount to par. A bond that costs \$1020 (priced at 102) is said to sell at a premium.
2. **Maturity:** Maturity of a bond is the date when the issuer will take back the bond and pay you for it. Usually at par, but not always. A twenty-year bond sold today (7/15/17) matures in 2036.
3. **Coupon Rate:** Stated on the bond, it tells what interest rate (fixed over the life of a bond) you will be paid each year. A single \$1000 bond with a 5% coupon will pay you \$50/year (\$25 each six months) until either it gets called away (see Call features) or when it matures.
4. **Accrued Interest:** Interest on a bond is credited each day you own a bond. If you buy a bond and sell it 5 days later, you will receive 5 days of interest.
5. **Call Feature:** Most bonds have a call option that allows the issuer to take back a bond at specific points in time. For example, a bond that matures in 25 years may have a call feature that allows them to take it away in 10 years, or callable in 2026. Sometimes bonds are called at a premium, as most investors do not like their bonds called. Bonds are often called when the issuer can replace them at lower rates, which means the bond holder that has a bond called will likely have to replace the called bond at lower rates, less income.

The simplest and most difficult concept about evaluating a bond's value is the relationship between interest rates and bond prices. Think of it as a playground teeter-totter, as one side goes up the other side goes down. Bear with me. Let's say we own a bond that pays us 4.5%, we paid par, \$1000 for it, and we bought it several years ago. Now we want to sell it. If rates in the market are still 4.5%, we should get about \$1000 for it (there are other factors that affect the price). If on the other hand, market rates have moved up to 5%, nobody will want to pay us \$1000 for our 4.5% bond when they can buy a 5% bond for \$1000. We will have to lower our price until the interest payments from our bond (\$45) will equal 5% to a new owner. Basically, we would get about \$900 for our 4.5% bond, for a \$100 loss. The important concept here is, as market rates go down, the price (value in the marketplace) of bonds goes up and as market rates go up the value of bonds goes down, a teeter-totter. This is why bondholders fear rates going up and applaud rates going lower.

Another aspect of bonds that is not that well understood is how bonds are bought and sold. Bonds are still basically bought and sold in an old-style barter system, not in the sophisticated exchanges for equities. For a client to buy a bond here is the order of operation. First the client's broker goes to his trader to get an indication on a bond the client wants, that trader calls other traders looking for the bond, those traders call their brokers looking for a client who wants to sell. In essence there are six people involved in the transaction. If you are wondering why we don't have exchanges like stocks for bonds, it's the sheer volume of individual bonds available that makes this difficult. Typically, when an issuer does a bond offering there may be bonds offered in as many as 20-30 maturities, meaning that that one bond offering may have as many as 20-30 different bonds, all with different maturities, call features and interest rates, each different in some way. While a company has only one common stock (usually), they may have 1000's of bonds outstanding and being traded. If we multiple that by the thousands of companies that issue debt and add in municipal debt and treasuries, there are simply too many (for the moment) for a single exchange to handle.

Retirement Topic

Retiring

We often hear the statements, "I'm looking forward to retirement, or I'm retired, as if it is a single moment in time. I going to suggest that "Retirement" is a process that begins well before and extends well beyond what is commonly referred to as retirement. The process, call it retiring, is different for everyone and it extends out over a, hopefully, very long period of time. Clearly, it's hard to put a point on when retirement is. It might when the career ends, or when the pension or benefits kick in, or due to any number of other factors. Fortunately for me there is no right or wrong answers so I can be somewhat free in defining retirement.

I'm going start by proposing that "Retirement" is not a point in time, but rather a process we call retiring. The question is, when does retiring start and when does it end, if ever. There is a point in time that can serve as kind of a marker for reference. That point in time is when social security benefits are started and that it has nothing to do with when employment ends. The reason when social security benefits are taken serves as that point is there are now many more options that were not available before. Money from social security, combined with collecting Medicare benefits frees many from the need to work just to get healthcare. Some will continue to work the same job, or get a new one. Some might apply their talent and skills to charitable or other activities one finds important. What I'm suggesting is that when social security benefits are available or taken, there are more options.

Using the date social security begins, there are two periods worth considering, the one before that date and the one after.

Retiring really starts about 10-12 years before that date. At that point whatever investment assets that have been put aside can double in value before starting social security. The Rule of 72 mathematically tells us the if 6% is earned on average, investment assets will double in 12 years. At 7.2% they would double in 10 years. Perfect example of why it is important and fruitful to put away money for retirement starting early in life.

Retiring then continues well after work becomes counterproductive and physical activities, for many reasons, are curtailed. For example, when we have to stop driving or when balance becomes more difficult, requiring a walker. This is a part of retiring that can be more challenging for many. When these events happen is highly individual, but when they do, extra help is often needed so we can continue to be retiring comfortably.

Retirement, is a part of life for most. Retiring can be viewed as the process we go through during this part of our life.

Market Musing

Technical Analysis and Life

Technical analysis analyzes price.
People buy when price is right,
Withhold enthusiasm when it's not.
Price is set by us,
Technical analysis interprets that.

Elliot wave, 5 steps forward,
3 steps back, it's still progress.
Just as 3 steps ahead,
And 1 step back,
Describes humans' progress.

A number sequence from the 1200's,
Predicts the spiral of a universe,
And spirals on a sea shell.
Fibonacci's market price predictions,
Just as notable.

A trend line moves up,
And then it moves down.
Like climbing a tree.
Easier going up than down,
Must go down to climb again.

Technical Analysis infers much.
While not a direct line,
The connections are there.
Drawing from real experience,
Technical Analysis and life.

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