FINANCIAL
newsletter

Wealth Architects, LLC

MAY

Lifetime Debt

Debt is not a bad thing. Credit is not a bad thing. Mortgages are not bad things. Student loans are not bad things.

But they sure can cost you a lot of money, both now and in the future.

Paying to Pay

Debt, in whichever form, means paying extra for immediate access to money. Debt is said to be "efficient" if the benefit the money provides is greater than the extra cost of borrowing it.

In the United States, we love debt. At the end of 2014, America's total household indebtedness was $11.83 trillion. Major sections of consumer debt include:

- $8.68 trillion in housing loans
- $1.16 trillion in student debt
- $950 billion in auto loans
- $700 billion in credit card debt

(Figures taken from the Federal Reserve Bank of New York's "Household Debt and Credit Report" Q4-2014)

While using debt is routine for most people who need to buy homes and cars, go to college and cover major expenses, it is still extremely important to consider its cost. The website www.credit.com estimates that the average American surrenders $279,000 in debt interest over the course of his or her lifetime (not including student loan interest). What's more, household debt is trending up; it has risen 43 percent since 2004. Student loans have grown particularly fast, climbing over 300 percent over that same time.

This is cause for concern among some economists and financial news pundits. The fear is that loans (particularly student loans) are siphoning off wealth people traditionally would have saved. Though broad loan usage helps stimulate the economy, high debt among individuals could stunt their financial growth.

A major part of the problem is that debt is self-sustaining. It not only grows on its own, but also puts people in a position to need more debt. A single event (e.g. medical cost) can trigger interest payments that ruin a family's cash flow and send them into a debt spiral.

To the Limit

But does debt need to cost us anything? Many people successfully avoid, or even invert, debt costs by being careful. The classic example of this is using a credit card to accumulate rewards while religiously paying off the monthly balance. Unfortunately, this may still lead to losses; your spending habits are much harder to outwit than a credit card company.

As it turns out, debt causes us to spend more money—even if interest is avoided. Debt psychologically enables extra spending, giving us immediate gratification while delaying the pain of cost. The result is a mental lapse in valuation that makes us comfortable with paying higher prices or buying on impulse.

This distortion of debt value is particularly bad when buying high-priced items. We may labor over spending an extra $20 at a grocery store, but when buying a car or house, our reasoning is skewed by big numbers and long timeframes. Hundreds or thousands of dollars seem trivial when we already have to take out a huge loan with decades on the term.

What Can You Do?

Although it comes at a price, debt is still an important tool that can give people amazing opportunities. The good news is that you can do several things to reduce the cost of debt in your life:

- **Improve your credit score** – The difference between a "Fair" and a "Good" credit score can easily translate into tens of thousands of dollars in interest payments over your life.

- **Pay with cash when possible** – This might seem like an unrealistic or outdated idea, but it limits your ability to buy impulsively and reduces bloated credit spending.

- **Fight for each dollar** – Remember that $100 saved when buying a car is worth the same as $100 saved while shopping. Don't let a loan inflate your target price for a big purchase.

- **Consolidate –** If you have numerous debts, consolidate them under a single bank loan. Interest rates are very low right now and a consolidation can save you thousands.

the market at a glance

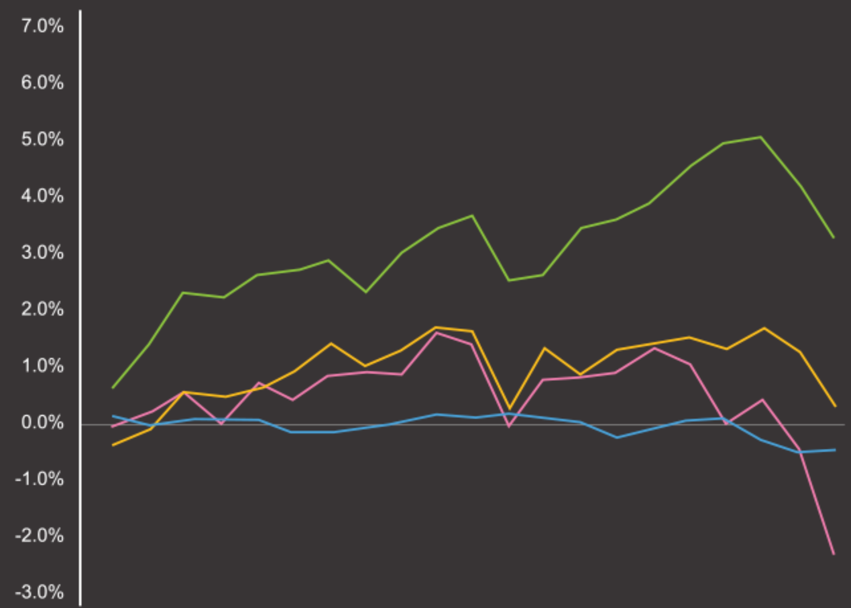
APRIL

U.S. Large Cap
(Dow Jones Industrial Average)
17,840.52 (0.36% ▲)

U.S. Mid/Small
(Russell 2000)
1,220.13 (-2.61%) ▼

Foreign Large
(MSCI EAFE Index Fund)
66.51 (3.65%) ▲

Bond Market
(Barclays Aggregate Bond Fund)
110.86 (-0.51%) ▼



Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

the market in action

- The United States Commerce Department reported that the U.S. economy grew just .2 percent in the first quarter of 2015. Though analysts expected sluggish growth due to the bad winter weather, the report underscores the still-fragile state of the economic recovery.
- Oil and natural gas giant Royal Dutch Shell PLC plans to acquire competitor BG Group PLC for $70B, creating the world's largest supplier of liquefied natural gas.
- Comcast Corporation canceled its $45B merger with Time Warner Cable after Federal Communications Commission (FCC) went unconvinced the deal was in the public interest and recommended the case be reviewed in court.
- Sears Holdings Corp. created the Seritage Growth Properties, a REIT comprising more than 250 Sears and Kmart store properties. The move is meant to produce a one-time $2.5B cash infusion for Sears as the famous retailer struggles to improve performance.
- The U.S. Commodity Futures Trading Commission announced a civil complaint against Kraft Foods Group Inc. and Mondelez Global LLC for the manipulation and attempted manipulation of wheat prices and wheat futures prices.
- Japan's Nikkei 225 stock index closed above 20,000 for the first time since 2000.
- More than 3 million egg-laying chickens are euthanized in Iowa after testing positive for H5N2 avian flu. Since December 2014, U.S. poultry farmers have killed off more than 70 commercial flocks—about 7.8 million birds in all— to prevent the spread of the disease. *(This form of the flu is not readily contracted by humans.)*
- The West Coast shipping industry around Los Angeles hit fresh labor disputes as trailer-truck drivers from four trucking firms strike to gain employment rights. Major labor conflicts have been slowing activity at these shipping ports since January.

Big Tech Breaks Out

From a practical standpoint, the term "tech company" is getting increasingly difficult to define. Less than 20 years ago, our modern tech giants were almost laughably simple businesses: Amazon.com sold books, Google was a search website, Apple made desktop computers, and Microsoft sold computer software for the home and office. Today these companies are… something else.

Over the past 10 years, these four tech companies have undergone a convergent evolution; no matter what their original service or product, each has found an excuse to "expand" into some of the others' markets. Despite this heavy competition, all of these companies have managed to reach a place among the most valuable businesses in the world.

But now, the new (and somewhat unsettling) trend for these companies is expansion into drastically different markets. It's already clear these giants know how to grow; the question now is, "Where will they stop?"

Google wants to deliver internet

For many people, Google's search and web services dominate their online experience. However, Google wants to be more than an internet destination, it wants to be an internet provider. Over the past few years, Google Fiber, an ultra-high speed internet service, has been setting up shop in test cities across the country. Recently, Google also began expanding its little-known cell phone carrier service.

What's their goal?

Google is an internet advertisement and data company, so it's in their best interest to keep people online. By getting more people on fast, stable internet and cellular service, Google can collect more data and increase the number and quality of ads delivered.

Why it's a bit scary:

With its prodigious search analysis and monitoring capabilities, you may feel like Google is already bordering on user omniscience. However, these steps towards controlling data service suggest that Google disagrees. No one is quite sure how much internet data it will take to satisfy Google, or how valuable their services may become.

Apple may be reinventing the car

Already the most valuable company in the world, Apple has dominated the mobile market since it set the standard for smartphones in 2007. Now, there are numerous rumors that Apple is developing its own electric car or vehicle software system. (Apple has neither confirmed nor denied any vehicle project as of April 2015, despite pressure from the press.)

What might be their goal?

Cars will undoubtedly continue to expand their onboard technology and digital services in the near future. If Apple is developing a car or vehicle software, it could be trying to set itself up as the market standard for vehicle/computer integration. Apple is probably the only tech company that could successfully market a car; it has a proven ability to sell new products to its loyal customers, no matter how different they are from what it's made in the past.

Why it's a bit scary:

Although it creates some of the highest quality devices in the world, Apple has been known to sell hardware that is restricted by the Apple brand. An Apple car (and its onboard computer) could give unprecedented control of vehicle servicing and customization to its manufacturer. Additionally, if a car is integrated with an online account, Apple (or any car company) could make it extremely inconvenient to switch brands when it comes time to buy a new vehicle.

Amazon can rent you some goats

A niche service for lawn care, Amazon Home Services allows residents (in a few pilot cities) to hire a goat grazing service for clearing land. Amazon doesn't actually own the goats; they just allow you to schedule and pay for a local provider to come out to your property.

What's their goal?

Amazon wants to move beyond typical online retail; it can provide people with access to almost all goods and services. Using Amazon's various home service connections, you can find a plumber, order your groceries or even buy an outdoor grill and then hire someone to come and assemble it for you.

Why it's a bit scary:

Amazon is rewriting the book on online shopping. Its move into the services sector proves that there is no real limit to what it can sell. Combined with its payment system, Amazon could be positioning itself to become the default provider of all commercial transactions online. Armed with that many purchase records for each customer, Amazon would be able to deliver incredibly sophisticated targeted ads.

Microsoft pushes physics to the brink

Few companies have thrown money at pure research projects like Microsoft. It literally has its own department of quantum physics, which is focused on the stable interaction of certain subatomic particles. Microsoft's researchers have been pushing technology to the edge of the physically possible in hopes of finding new ways to manipulate the building blocks of the universe.

What's their goal?

For Microsoft, the endgame is "quantum computers." Currently considered the Holy Grail of technology, quantum computing is being pursued by a number of companies and research labs. Although the technology would be limited to large data centers and couldn't be sold to the general public, it is expected to be as big of a leap forward in data processing as the computer was when it was invented.

Why it's a bit scary:

If developed, quantum computing will revolutionize studies in physics and medicine. What's more, the first successful quantum computer may be the only machine capable of building better quantum computers. It is concerning to imagine such life-saving, world-changing technology getting monopolized by any one company. With quantum computing as a market advantage, Microsoft could theoretically move to the top of almost any industry it chooses.

How much is too much?

Although these projects can make us feel like technology companies are taking over our lives, it's important to remember that consumers have put them in this position. Companies don't pursue the terminally unprofitable; when they move into new areas, it's because they believe the market will buy whatever they are selling. If we ever become too concerned with a company's expansion, we can ignore it and steer it in a direction that is better for the public.

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