FINANCIAL
newsletter

Wealth Architects, LLC

September

By the numbers
The price of college

With classes now underway at most universities, students are starting to dig into their semesters full of credits. They are also digging into their wallets, as a report from the Federal Reserve Bank of New York showed that student loan debt is currently the largest chunk of non-housing debt in the U.S., beating out both auto loan debt and credit card debt.

Here is a look at the numbers that showcase the current state of college prices in the United States.

8x

According to a Forbes report citing the Federal Reserve Bank of St. Louis, the median cost of a four-year degree has increased at a rate eight times faster than the rate which median wages have increased. While the cost of a degree has doubled since 1989, wages have only seen a marginal increase.

$27,140

When comparing public and private four-year institutions, private remains a significantly more expensive option. While the average cost of one year's tuition, fees, room, and board at a public four-year in-state college is $21,370, this is more than $27,000 less than the average private four-year price of $48,510.

$250

The average published in-state tuition and fees for public four-year schools increased by $250 from last year. This increase brings the U.S. average to over $10,000 for the first time.

5 percent

Looking at first-time students at public four-year colleges, 78 percent attended a school in the state of which they are a resident. Since 2006, this number has fallen by five percent, showing that more students are opting for an out-of-state education. On average, attending an out-of-state college will cost students $16,060 more than in-state.

$29,800

Of the 69% of college students from the Class of 2018 that took out student loans, the average student graduated with a debt balance of $29,800.

The market at a glance

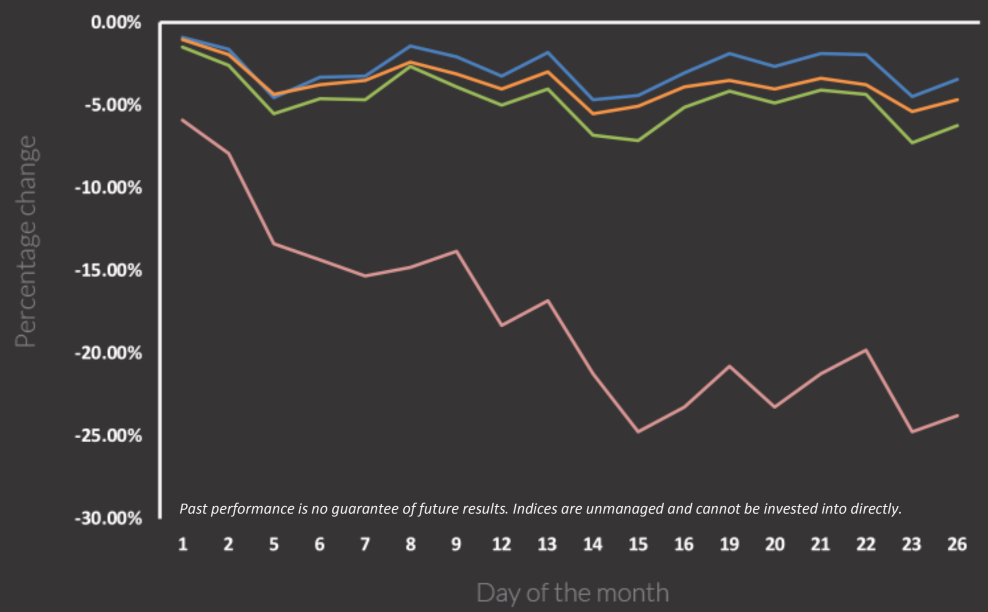
August

U.S. Large Cap
(S&P 500)
2,926.46 (-1.81%) ▼

U.S. Mid/Small
(Russell 2000)
1,494.84 (-5.07%) ▼

International Large
(NYSE International 100)
5,271.12 (-2.95%) ▼

U.S. Treasuries
(U.S. 10-year Treasury yield rate)
1.50 (-25.74%) ▼



The market in action

- Shares of food manufacturer Kraft Heinz fell nearly 20 percent during August following a dip in sales for the 12th straight quarter. As grocery retailers like Walmart, Kroger, and Amazon have increased the production of in-house store brands, the company's stock has fallen by nearly 40 percent so far this year.

- Financial services and mobile payment company Square broke $1 billion in revenue in the second quarter of 2019, an increase of 44 percent since the same period in 2018. Following the report, Square announced the sale of its meal delivery service to DoorDash for $410 million. Despite the results, higher than projected losses led to a 15 percent dip in share price following the news.

- Luxury department store chain Barneys announced it is filing for bankruptcy and will operate just seven locations moving forward. The closure adds to the more than 7,000 total retail stores that have closed so far in 2019, a number that is projected to reach up to 12,000 by year-end according to Coresight Research.

- Transportation service company Uber reported its largest quarterly losses ever at $5.24 billion in the second quarter of 2019. Stock-based compensation associated with its IPO in May was a key driver for the losses, though its adjusted revenue has grown at the slowest rate so far in the company's history. Following the report, shares of Uber were down 10 percent.

The Month in Brief

The stock market had a tumultuous August, reacting to the sudden devaluation of the Chinese yuan and the escalation of the trade dispute between the U.S. and China. Ultimately, investors seemed more interested in risk aversion: the S&P 500 lost 1.81% for the month. Demand for bonds helped to send Treasury yields lower; prices of precious metals climbed. Away from the markets, monthly personal spending and retail sales gains were strong.

Domestic Economic Health

Tariffs and trade issues remained front and center in the Wall Street conversation. On August 1, the White House announced a 10% import tax on an additional $300 billion of Chinese goods coming to U.S. shores. (Most of these products are so-called "final" consumer goods, like clothing and shoes.) In a nod to importers and retailers, the White House stated on August 13 that this 10% tariff would be delayed until December 15 for certain products: toys, consumer electronics, and other items that are big sellers during the holiday shopping season. Effective December 15, tariffs will impact nearly all Chinese imports to the U.S.

China soon retaliated, and the U.S. quickly responded. On August 25, China unveiled a plan to place tariffs on an additional $75 billion of U.S. goods. As part of the plan, import taxes on American-made cars and trucks would jump by 30%. Just hours later, the White House announced that the tariffs planned for September 1 and December 15 would rise by 5% to 15%, respectively, and that the 25% tariff currently in place on $250 billion of Chinese imports would rise to 30% on October 1.

A few summer statistics from Main Street seemed to contradict anxieties that the economy might be slowing down. Consumer spending advanced 0.6% in July, and that complemented July's 0.7% gain in overall retail sales. Core retail sales (which exclude auto and gas purchases) were up 1.0% in the seventh month of the year.

A key measure of consumer confidence seemed strong: The Conference Board's monthly index was at 135.1 in August, beating the 129.5 consensus forecast of a Reuters poll of economists. The CB's present situation sub-index (surveying consumers' view of the economy right now) hit 177.2, the best reading since November 2000.

All this said, other indicators hinted that manufacturing activity might have hit a soft patch. The Institute for Supply Management's Purchasing Managers Index for the factory sector declined to half a point to 51.2 in July, and the federal government reported July retreats of 0.2% for industrial output, 0.4% for factory production, and 0.4% for core durable goods orders, which do not include the volatile transportation category (total durable goods orders, however, were up 2.1%). ISM's monthly PMI for the service sector also lost ground, slipping 1.4 points in July to 53.7.

The labor market added 164,000 net new jobs during July, according to the Department of Labor. (The revised June number: 193,000.) Unemployment remained at 3.7%. The U-6 rate, which counts both the unemployed and underemployed, fell a respective 0.2% to 7.0%.

The Bureau of Economic Analysis delivered its third ("final") estimate of second-quarter economic growth in late August: 2.0%. That number beat the 1.9% consensus forecast of economists polled by MarketWatch.

Federal Reserve Chairman Jerome Powell's spoke on August 23 at the Kansas City Fed's annual Jackson Hole banking conference. Powell said the Fed was "carefully watching developments" and would "act as appropriate" if U.S. economic conditions weaken. The next Fed policy meeting is less than two weeks away. Wall Street wonders if Fed policymakers might be inclined to make a rate cut; comments from multiple Fed officials at Jackson Hole did not point to a consensus on that matter.

The rise of **peer-to-peer payments**

Ask nearly any of today's college students how they split the bill for dinner, pay their roommates for cable, or even pay their rent and you will likely hear one common answer: Venmo. Peer-to-peer (P2P) payment services have exploded in popularity leaving many to wonder how bills were ever paid before them. Since just two years ago, P2P payment users have increased by 31.6 million users in the U.S. according to research from eMarketer.

How did this booming industry get started and who are the current big players? Let's take a look.

eCommerce payments are born

The origins of P2P payments can be traced back to 1998, when Cofinity launched as a financial transaction software company in Silicon Valley by founders Ken Howery, Luke Nosek, Max Levchin, and Peter Thiel. In late 1999, Cofinity would go on to launch its flagship product, PayPal. Noticing the potential of the money transfer business, Elon Musk, now co-founder and CEO of Tesla, facilitated a merger between Cofinity and his X.com business.

PayPal would go on to become the premier way to move money online. A key driver of PayPal's adoption was its integration with the popular eCommerce platform, eBay. Following its IPO in 2002, PayPal was acquired by eBay for $1.5 billion.

Over the following decade, PayPal would grow to more than 100 million active user accounts spanning 25 different forms of currency.

A forgotten wallet

As PayPal was gaining popularity, Andrew Kortina and Iqram Magdon-Ismail met as freshman roommates at the University of Pennsylvania. Their bond grew throughout college leading the two computer science students to work on several projects together in the years during and after college.

While attending a local jazz show, the two brainstormed the idea of being able to purchase a band's live set by sending a text message that would return an MP3 file via email. It was here that the name Venmo was created, a combination of vendere (Latin for "to sell") and mobile.

During a weekend working on the music service idea in New York, Magdon-Ismail realized he had forgotten his wallet in Pennsylvania and would pay Kortina back via check for purchases made throughout the weekend. Quickly, the pair realized how inconvenient this solution was and that there was an unsolved need for quick and easy P2P transactions. Though PayPal was convenient for online purchases, its P2P functionality needed to be accessed via a computer. In a world where mobile was quickly emerging as the ideal platform for consumers, Kortina and Magdon-Ismail began pivoted their music purchasing platform to a P2P payment service that users would operate primary through SMS messaging.

The idea quickly appeared to be a hit. The Venmo co-founders would go on to raise $1.2 million of seed funding to develop applications for iPhone and Android users. Following its public launch in March of 2012, Venmo attracted the attention of payment system company Braintree, who would acquire Venmo for $26.2 million just over five months following the launch.

PayPal acquisition and Venmo today

Venmo continued its explosive growth among money-transferring millennials, but in 2013 its parent company Braintree was looking for a buyer. Coming full circle, PayPal acquired Braintree in late 2013 for $800 million, citing that Venmo was a key motivation to get the deal done.

Today, Venmo has more than 40 million active users that are on pace to transfer more than $85 billion through Venmo throughout 2019. Venmo leads several large banks in terms of digital users, outnumbering Bank of America's 37 million and Wells Fargo's 29.8 million. In fact, according to the Wall Street Journal, there is only one U.S. bank with a larger digital footprint than Venmo: JPMorgan Chase with 51 million users.

Venmo has also dipped into the physical payments industry with its Venmo card that allows users to use their Venmo balance by swiping a MasterCard-network enabled debit card at registers.

Cash App

Cash App is a competitor to Venmo that is owned by financial services company Square Inc. The service was created after Square fell short to PayPal in the acquisition talks with Braintree. The service operates with great similarity to Venmo in that users with the mobile app can send and receive payments to peers. It also offers a physical card, the Cash Card, for users to spend their balance at retail locations. To help compete with Venmo's card, the Cash Card offers promotional discounts called "Boosts" that give a certain percent or dollar off at specific retail chains or categories.

Despite doubling its number of active user accounts from 2017, Cash App entered 2019 with just 15 million users compared to Venmo's current 40 million.

Zelle

Big banks have certainly taken notice of the demand for easy P2P payments and in 2017 launched Zelle. The service is run by Early Warning Services, which itself is owned by Bank of America, BB&T, Capital One, JPMorgan Chase, PNC Bank, US Bank, Citibank, and Wells Fargo. With tight integration through these bank owners, Zelle places transferred money right into a user's bank account, not a separate balance like Venmo and the Cash App. Additionally, Zelle does not require users to set up an account if they are members at one of many participating banks.

Zelle has mounted a significant challenge in the P2P payments race and passed Venmo in terms of volume of transactions in July of 2018. Looking at the entire year, Zelle nearly doubled Venmo's total transaction volume.

Though one would be quick to say Zelle is winning the P2P payments battle, adoption remains lower than Venmo across every generation. Forbes notes that a key driver in the difference regarding transaction volume could be that Zelle is used by older generations as a more traditional bank transfer for items such as alimony payments.

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