

# The Market in Review

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## This week's articles and insights

1. *Who Would You Kill? The Ethics of Self-Driving Cars*
2. *Stocks Up, Economy Down*
3. *Stretching Out the Dollars*
4. *People and Pets*

**“Sometimes you have to choose between a bunch of wrong choices and no right ones. You just have to choose which wrong choice feels the least wrong.”**

**— Colleen Hoover, *Hopeless***

## Your Index Report

	Current	Last Week	Year-to-Date
Dow Jones Ind. Avg.	26,966	+ 1.66%	+ 15.60%
S&P 500	2,996	+ 2.42%	+ 19.51% (+14.26% in \$CDN)
TSX	16,589	+ 0.86%	+ 15.82%

## Who Would You Kill? The Ethics of Self-Driving Cars

Times were simpler when Moses came down from the mountain with the Ten Commandments.

*Don't steal*

*Don't commit adultery.*

*No other gods but me.*

And so on. Ten simple rules for a simple era.

Then there is *Thou shalt not kill.*

Straightforward in 1,000 B.C., but more problematic in the modern age. How does this apply, for example, to a preventable car accident? Three thousand years ago, two camels colliding in the desert caused a few new bumps on the humps. But today? We are developing cars and trucks that drive themselves at 100 mph. They will need their own Ten Commandments to ensure the safety of the humans they transport, and those nearby. The question of the day is, what ethical rules should cars follow when the decision is not black and white?

A recent study in Nature Magazine, done in conjunction with MIT, attempted to answer this. It surveyed 40 million people in 233 countries to assess just how people wanted cars to react in the event of an imminent collision. The problem was that people's answers changed, depending on whether they were inside the car or outside of it.

*"In surveys, people said that they wanted an autonomous vehicle to protect pedestrians even if it meant sacrificing its passengers — but also that they wouldn't buy self-driving vehicles programmed to act this way."*

- Nature 24 October 2018

In other words, save me first if I am outside the car, but also save me first if I am a passenger. What is a poor car to think with rules like these?

Answers were also dependent on where you lived. In prosperous countries with stricter rules of law, people were less likely to spare pedestrians who jaywalked. In countries where this is the norm, they were more lenient toward illegal street crossers.

In northern Christian countries, older people were sacrificed for younger ones in most cases. France, Greece, and Canada top the list of those who would spare the young over the old.

However, in countries that are dominated by Confucianism and Islam, older people have a higher standing and were less easily sacrificed. Taiwan, China, and South Korea respondents were actually more likely to spare the older person over the younger. A good thing to know for us older travelers!

In countries with less income inequality, like Finland, executives and the homeless were treated almost equally when it came down to which to run down first. In countries with wide gaps between rich and poor, the poor were usually the ones chosen to end up under the wheels.

What decisions were universal? Most people surveyed in every country spared humans over pets, and groups of people over individuals.

In a summary of the MIT/Nature survey, they ranked the categories people thought should be protected first in any potential accident. Here they are in descending order:

1. Person with a baby stroller.
2. Girl.
3. Boy.
4. Pregnant woman.
5. Male doctor.
6. Female doctor.

On the flip side, here is the list of people (and animals) to be spared last:

12. Fat man.
13. Homeless person.
14. Old woman.
15. Old man.
16. Dog.
17. Criminal.
18. Cat.

Note that none of the above choices involved sacrificing yourself - the passenger - to save someone else. This is actually a completely different ethical issue though it is getting its own share of research. Researchers have suggested an Ethics Knob that the passenger would select when entering the vehicle. The "Altruistic" setting would mean saving all others first. "Logical" would mean choose the path that saves the most lives, and "Egoist" would prioritize the passenger at all costs over anyone else.

Imagine God trying to fit an Ethics Knob on a clay tablet. We truly live in a different world!

## Stocks Up, Economy Down

Stocks and bonds on both sides of the border have done well through the half-year. We have much to be thankful for on Canada Day (July 1<sup>st</sup>) and Independence day (July 4<sup>th</sup>).

Markets have been driven by one thing and one thing only this year: the prospect of lower interest rates. After two years of interest rate hikes from 0.25% to 2.50% in the United States...



...markets now expect at least two rate cuts by January. The chart below shows the current Fed Funds rate – the interest rate banks charge one another to borrow – versus the expected rate next January.

The first rate cut is widely expected at the end of this month.



Source: Bloomberg

Why does this matter?

Markets have not rallied because of good political news. Tariffs have been hiked by both China and the US this year, and Canada has been caught in the middle. Our canola, pork and beef have been frozen out of China's markets. The Trump tax cuts of 2017 were a huge driver of higher corporate profits. The problem is, these tariffs - which are just tax increases phrased another way - have essentially wiped out all the tax benefits.

President Trump of the US and President Xi of China met last weekend and declared a temporary truce in their ongoing trade war. It was welcomed by markets, but a pause is still a long way from the peace of a true trade agreement.

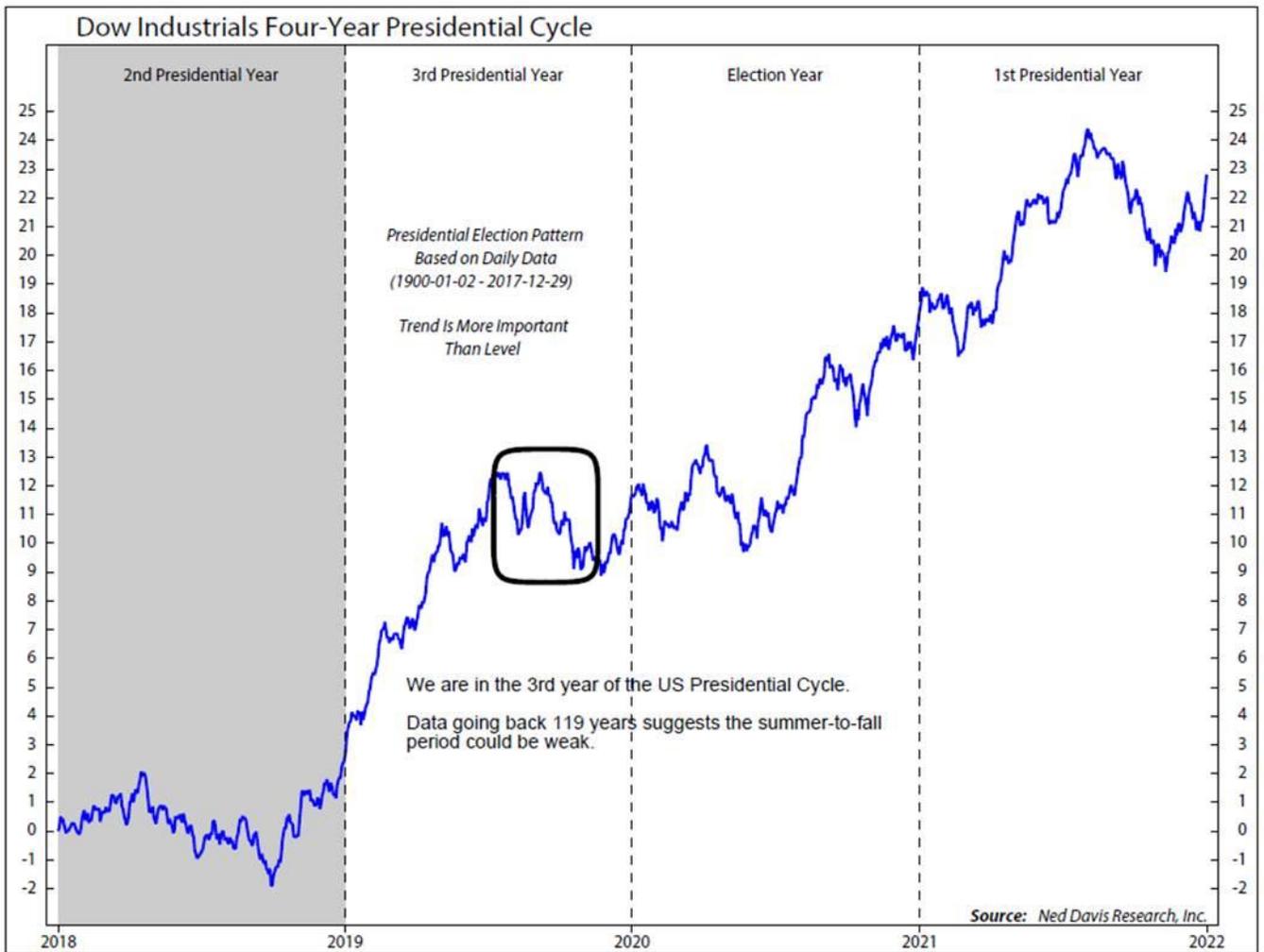
Meanwhile, global trade continues to slow and earnings estimates are falling. Of the 113 companies in the S&P 500 that have issued earnings guidance for June, 87 have issued negative guidance and just 26 companies have issued positive guidance (source: Factset).

The last pillar holding up the economy – strong employment – is also starting to fade. The ADP Employment report – a measure of private business hiring –

showed 102,000 new jobs in June 2019, which was less than the expected 140,000. May's 41,000 was the lowest number of new jobs since 2010.

We are not panicking, because falling interest rates are an enormous positive force on the stock market.

However, we do expect things to cool off over the rest of the summer. In this pre-election year, this is exactly what has happened in the past:



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## Stretching Out the Dollars

A common question we get from people considering retirement is “How do I make sure I don’t run out of money?” No one knows the exact day when they will leave this Earth, but it would sure make planning easier if we did.

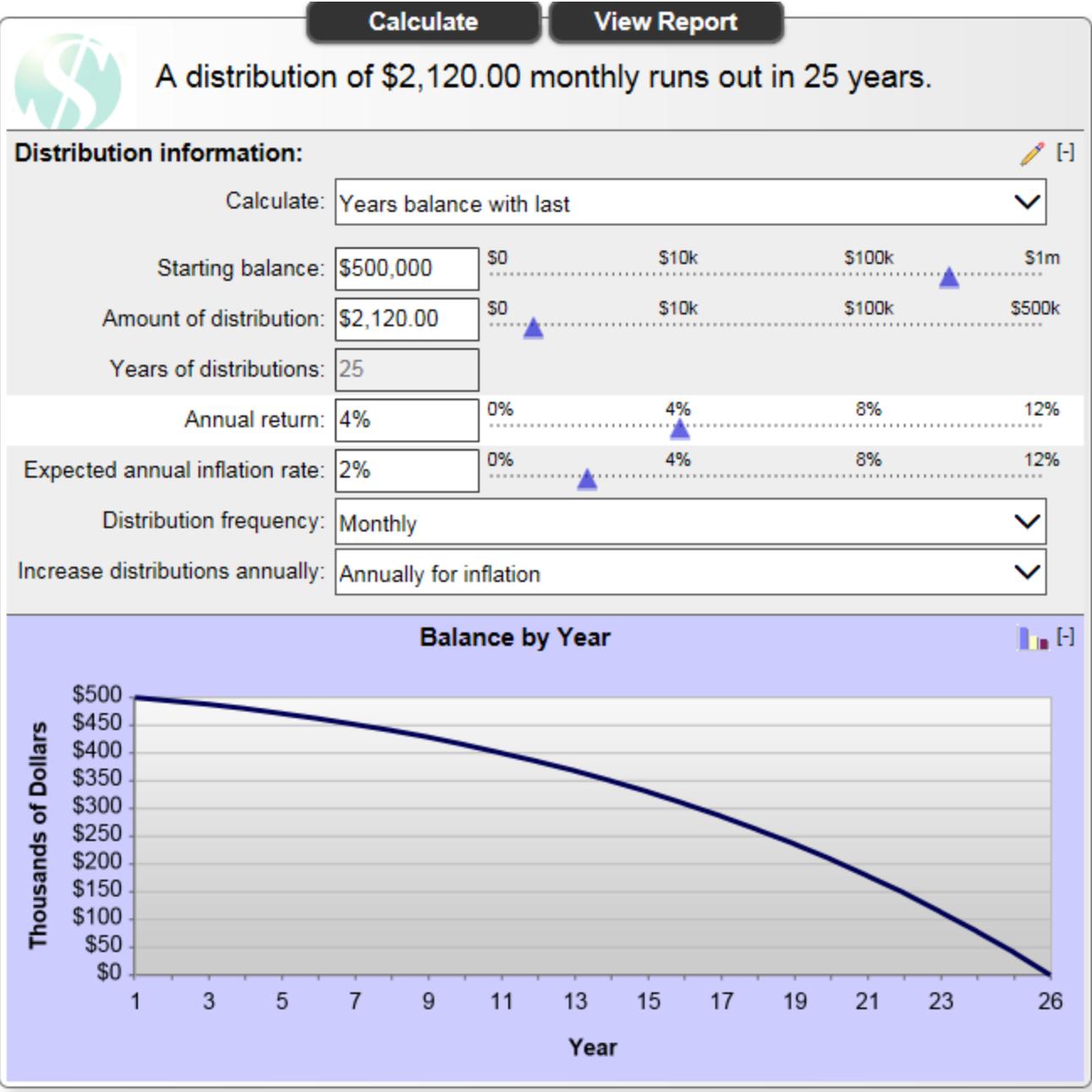
For those of us without large and guaranteed pensions waiting at retirement, outlasting our money is a big consideration. You can:

- Spend less in retirement – the “rice and bean diet” plan.
- Earn more on your savings. A 4% return won’t get you there? You don’t want to find yourself chasing hot stocks and bitcoin investments to try for a 25% return (hint: this never ends well).
- Spend less time in retirement.

It is this last idea that we suggest people think about. The math is simple: the longer you work, the fewer years your retirement dollars have to last.

For example, consider deferring retirement by a single year. How much does that help?

Say you have \$500,000 in a tax-deferred account, like an RRSP in Canada or an IRA in the US, and you retire at age 65. If you earn a steady 4% in a balanced account and withdraw \$2,120 per month, it would last to age 90. This is well past the average life expectancy of 82 years.



Source: [mymoneycoach.ca](http://mymoneycoach.ca)

If you wait a full year and let the money grow at 4%, you get another year and 4 months out of the same savings. Almost 1 ½ years of retirement by holding off for one year.

Calculate

View Report



A distribution of \$2,120.00 monthly runs out in 26 years and 4 months.

Distribution information:



Calculate: Years balance with last



Starting balance: \$520,000

\$0

\$10k

\$100k

\$1m

Amount of distribution: \$2,120.00

\$0

\$10k

\$100k

\$500k

Years of distributions: 27

Annual return: 4%

0%

4%

8%

12%

Expected annual inflation rate: 2%

0%

4%

8%

12%

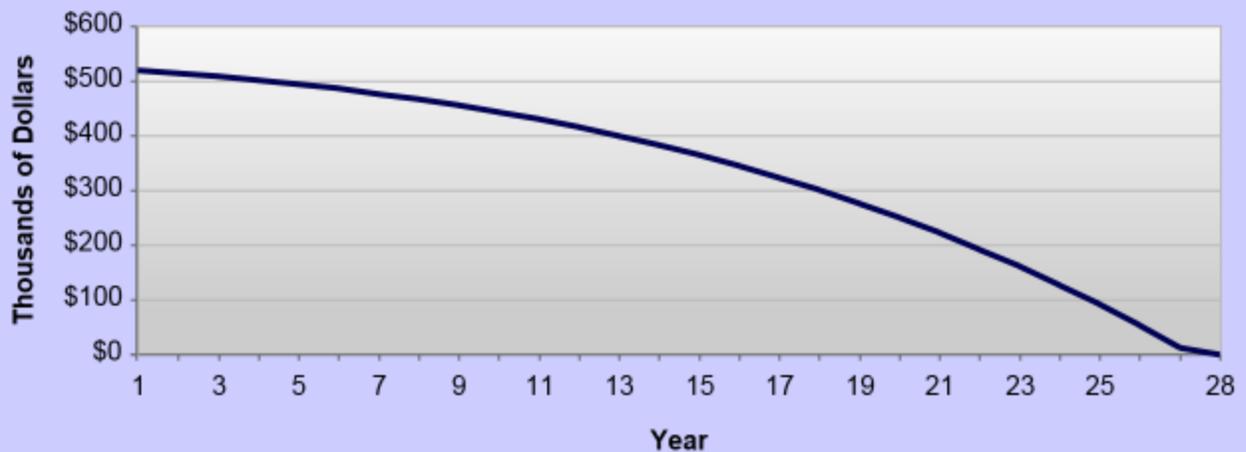
Distribution frequency: Monthly



Increase distributions annually: Annually for inflation



Balance by Year



Hold on - what if you were to use that extra year to not only grow your money, but to save an extra \$20,000?

Now, you have an extra year of 4% growth plus \$20,000 more in savings. This “buys” you almost three years of retirement spending.

Calculate

View Report



A distribution of \$2,120.00 monthly runs out in 27 years and 8 months.

Distribution information:



Calculate: Years balance with last

Starting balance: \$540,000

\$0 \$10k \$100k \$1m

Amount of distribution: \$2,120.00

\$0 \$10k \$100k \$500k

Years of distributions: 28

Annual return: 4%

0% 4% 8% 12%

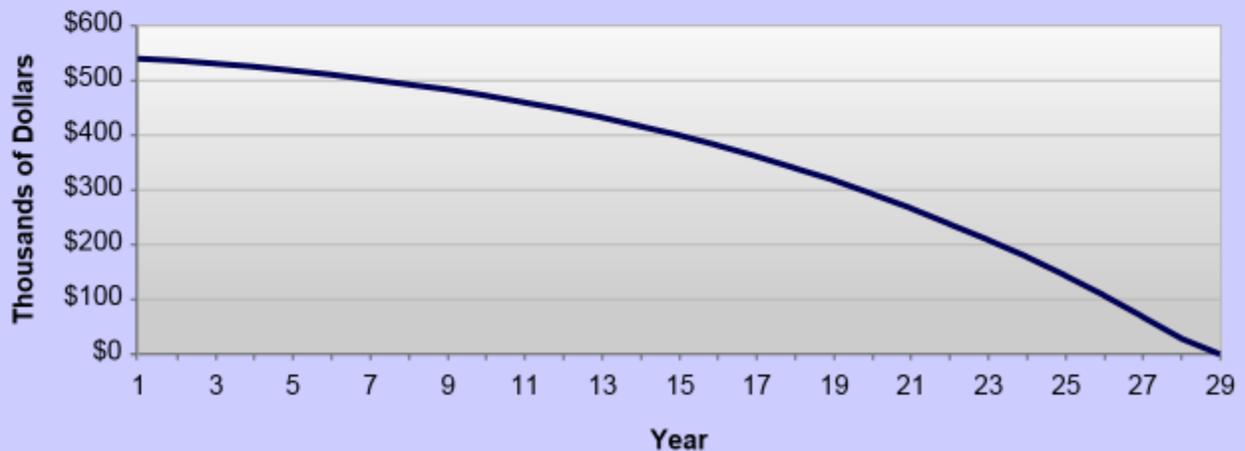
Expected annual inflation rate: 2%

0% 4% 8% 12%

Distribution frequency: Monthly

Increase distributions annually: Annually for inflation

Balance by Year



*“Money is not a synonym of happiness but life is rough and tough without money.”*

— T. P. Chia

Even scaling back and working part-time for a few years can make a big difference – you don't even have to save any money. Just don't spend any savings for a few years while you work less.

The other benefit to working longer is that government pensions jump higher with each extra year worked. The Canada Pension Plan hits you with a 6% discount for each year you start it earlier than 65. However, if you defer to after 65, the government boosts CPP payments by 7% per year. Social Security in the US has the same 6% discount per year for retiring sooner, but adds 8% per year for each year you defer after 66.

In 1950, the average life expectancy for a Canadian and American was 68 years old. By 2015, it was 82 years for a Canadian and 79 for an American (source: Our World in Data). We all need to plan on living longer, and stretching our money further.

## People and Pets

Canada's 13<sup>th</sup> largest city by population is...Hong Kong. An estimated 300,000 people in Hong Kong hold Canadian passports. The recent riots in protest of the extradition bill mean some may soon be looking for homes on this side of the Pacific. There are approximately the same number of Canadians in Hong Kong as there are in Halifax.

Pets now outnumber children in America. According to the National Pet Owner's Survey, there are now 90 million dogs, 94 million cats, and 139 million fish in the USA, compared to just 74 million children. Spending on pets is growing at double the rate of the economy. Our portfolios hold Merck (**NYSE MRK**) whose animal health division is the third largest of this category in the world. Drugs for animals are approved much faster than drugs for humans and don't get fought over in national political debates. It is a very profitable segment of health care, and Merck's animal health division is a key component of Merck's tremendous growth.

As further evidence of the market's interest in pet investments, a new company called Chewy (**NASDAQ CHWY**) went public in June. Chewy aspires to be the Amazon (**NASDAQ AMZN**) of pet food, supplies, and now drugs. It is, for now, the largest company in this category but since its founding in 2011, it has still yet to make a profit. Chewy is competing with Amazon – the T-Rex in the on-line world – and its one-day shipping service.

For now, we see Chewy as a great place to visit for pet owners, but not so much for investors.

*Thank you for your referrals this month! They are always handled with great care and discretion.*

<http://www.dividendvaluepartners.com>

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Amazon.com, Inc. - Raymond James & Associates, Inc. makes a market in the shares of Amazon.com, Inc.

Prices shown are as of close July 4th, 2019.

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