



## ***Tales of Christmas Past*** ***1975 - 2015***

*"I can't remember the last time I got a question at a Q&A that had a positive spin on it." - Liz Ann Sonders, Schwab Chief Investment Strategist*

For the past several years, I've waited until after the New Year to send out a Bodnar Financial White Paper.

I find it entertaining to review the pundits' Top Ten lists (my favorites never seem to make the cut) and to gawk at Mission Control Groupthink's prognostications regarding the capital markets for the next 365 days.

If you normally skip those melodramatic headlines, don't worry. You're not missing much.

I read the financial tabloids so you don't have to.... And as Liz Sonders would attest in her quote above, the theme is always the same: the sky is falling, and everything is terrible. Unfortunately, she is spot on. I too need to think hard to recall a time when the universality of public pessimism was so great.

Thus, as a Christmas/ Hanukkah/Kwanzaa/Festivus gift to you, my loyal and cherished clients, I am sharing with you a tale of **optimism** that the financial illiterates of the mainstream media have not the faintest notion.

How to combat the pouting pundits of pessimism? With an antidote of truth. Because as you have heard in these pages many times before: **optimism is the only realism.**

I arbitrarily selected several data points (population, GDP, earnings and S&P 500 closing price) for five years, namely the years ending in "5" since my attendance at Arthur L. Johnson Regional High School in Clark, New Jersey.

For you budding compliance officers in the audience, I am aware that the full-year 2015 numbers are not yet available. But with only 14 days left in the year, I think we can get close enough without doing intellectual violence to this exercise.

**1975:** Saigon falls; President Ford escapes two assassination attempts within seventeen days. Margaret Thatcher becomes the first woman leader of Britain's Conservative Party. Andrei Sakharov, the great hero of Soviet resistance wins the Nobel Peace Prize. *Saturday Night Live* debuts. An American and a Soviet spacecraft link up in space; the event is memorialized on a beautiful ten-cent U.S. postage stamp.

- Global population: 4.1 billion, **50% living in extreme poverty**
- U.S. population: 216 million
- U.S. real GDP: \$5.49 trillion
- S&P500 year-end close: 90.19
- Earnings: \$7.71
- Dividend: \$3.73



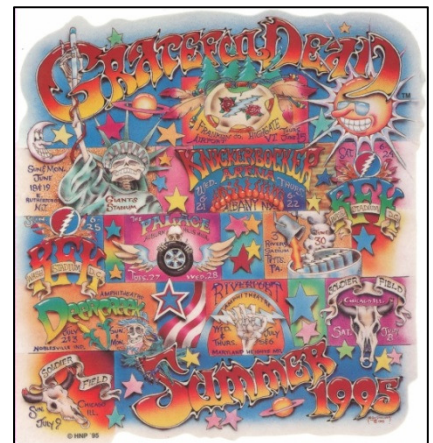
**1985:** Gorbachev comes to power in the Soviet Union and meets with President Reagan. The Internet domain name system is created. Windows 1.0 is published, and the first successful human heart transplant takes place. The song of the year is "We Are the World." In the greatest marketing catastrophe since the Edsel, the Coca-Cola Company introduces New Coke. A first class U.S. postal stamp costs twenty-two cents.

- Global population: 4.85 billion
- U.S. population: 238 million
- U.S. real GDP: \$7.71 trillion
- S&P 500 year-end close: 211.28
- Earnings: \$15.68
- Dividend: \$8.20



**1995:** The Oklahoma City bombing is the greatest domestic terrorist atrocity in American history. O.J. Simpson's murder trial begins, and ends ten months later in his acquittal. Israeli Prime Minister Yitzhak Rabin is assassinated. The Rock & Roll Hall of Fame and Museum opens in Cleveland. Jerry Garcia dies. A postal stamp costs thirty-two cents.

- Global population: 5.7 billion
- U.S. population: 266 million
- U.S. real GDP: \$10.28 trillion



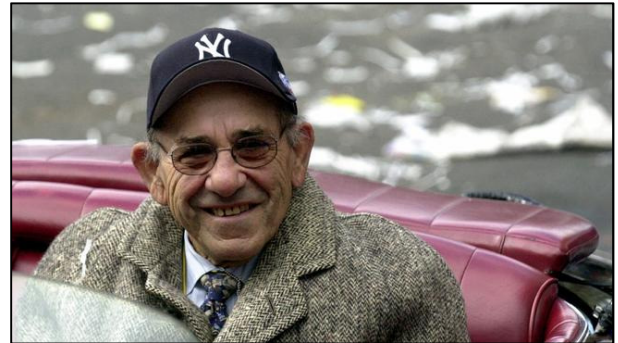
- S&P 500 year-end close: 615.93
- Earnings: \$37.70
- Dividend: \$14.17

**2005:** Hurricane Katrina devastates an American land mass larger than Great Britain. Saddam Hussein goes on trial for his life. The seventh of July becomes London's 9/11, as coordinated attacks on the bus and subway system claim 52 lives. Pope John Paul II dies; he will be canonized only nine years later. A post stamp costs thirty-seven cents.



- Global population: 6.5 billion, **but by the turn of the century, the rate of extreme poverty has fallen to 1/3**
- U.S. population: 296 million
- U.S. real GDP: \$14.37 trillion
- S&P 500 year-end close: 1,248.29
- Earnings: \$76.45
- Dividend: \$22.38

**2015:** A radical Islamic faction, ISIS, casts the Middle East into chaos, and carries out terrorist atrocities in Paris and elsewhere. Refugees pour into Europe. The world's leading nations reach an accord with Iran on its nuclear development program. Yogi Berra dies. A postage stamp costs forty-nine cents.



- Global population: 7.29 billion, **less than 1/10 live in extreme poverty**
- U.S. population: 322 million
- U.S. real GDP: \$16.4 trillion only through 9/30/2015
- S&P 500 as of 12/14/2015: 2,010
- Earnings: \$118 (full-year estimate)
- Dividend: \$43 (full-year estimate)



## **This, then, is the tale of 4 decades on our dear planet:**

- Global population is up nearly 80%, with extreme poverty slashed from 1 out of every 2 humans, to 1 out of every 10, creating a wave of new middle class consumers. To paraphrase Sarah Palin: buy, baby, buy!
- U.S. population is up by half, and gaining a new person (through net births and migration) every 14 seconds. And still almost unimaginable room to grow: population density per square mile in this country is 85, compared with almost 300 in France, 590 in Germany, 680 in UK... and 870 in Japan. Staggering natural resources, with mineral rights vested in the landowner. A hundred years' worth of hydrocarbon energy reserves under our very own landmass.
- Real GDP has more than tripled on only a 50% population increase, meaning real GDP per capita has soared.
- The S&P 500 rose more than 20 times on an earnings increase in excess of 15 times, and a dividend boost approaching 12 times.

Significantly, these gains should be measured against an increase in the general level of consumer prices of less than 5x.

**Is this the greatest agglomeration of real wealth by the greatest number of people in the history of the world?**

**In spite of the drumbeat by the downcast band of pouting pessimists, is this the greatest time in the history of planet Earth to be alive?**

**It just may be, my friends.**

So, was it just a lucky four decades, or, is there a megatrend underpinning this spectacular progress? There are 2 megatrends, and of course they form a virtuous cycle.

- 1) **The spread of the free market.** Liberty vanquished communism and most extreme iterations of socialism during the past 40 years.
- 2) **Exponential progress in information technology.** Today, a middle school child carries in her backpack a smartphone with more computing power than the state-of-the-art mainframe had in 1975.

And this cycle continues....with no sign of abatement.



I end, as I began, with a quote. This one is from Lowell Wood, a 74-year-old man whose total lifetime patents of 1,085 now exceeds that of Thomas Edison. Speaking on the current vogue of declinism, he said this:

*"It's irrational. It's frankly illiterate to not be optimistic. We're going to see a blossoming across essentially every front, unprecedented in human technological history. This is not something that's hoped for. This is baked in the cake."*

So, my wish to you this holiday season is to channel your own inner Lowell Wood, and share the good news of the past and the future with your family, friends, and co-workers. Give them a copy of this missive and wish them the best. Be encouraged about the future, because these megatrends will always outlive the doom and gloom media cycles.

From your friends in Florham Park, New Jersey: Jeanne, Lorraine, Jackie and yours truly.....

"Happy New Year" does not go far enough. Happy Decade! Happy Century!



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*References:*

1. Global population / U.S. population: *Wikipedia*
2. U.S. Real GDP: *Yahoo! Finance*
3. S&P 500 year-end close / Earnings / Dividend: *S&P / Dow Jones Indices, LLC*
4. S&P 500 Earnings / Dividend (full-year estimate): *JP Morgan Guide to the Markets, Q3*

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