

April 12, 2018

What Are We Protecting?

"We are just an advanced breed of monkeys on a minor planet of a very average star. But we can understand the universe. That makes us something very special."

-Stephen Hawking

Bayer, the German pharmaceutical company, came to terms and settled US antitrust concerns, to acquire Monsanto for \$62.5 billion dollars¹.

For those that don't know, Monsanto is an American agriculture, chemical, and biotechnical corporation. Basically, Monsanto develops products that enhance or make efficient agricultural production and yield. They had been an American titan for the entire 20th century (founded in 1901).

Certainly, when one country has cheaper labor, more efficient production facilities, modern infrastructure and transportation, advanced communication, and fewer bureaucratic obstacles, the competitive advantage dictates things like this will happen.

This news has not garnered much in the way of headlines. The Money and Economics sections of the media have been a little busy talking about trade wars lately.

There was a story *Time* a few years ago that talked about a man who chronicled his mission to entirely self-produce everything that went into making a single sandwich². He produced his own flour, milked cows to make cheese, grew lettuce and tomato, rendered salt from sea-water - that sort of thing. In all, it was a six-month process that cost him about \$1,500. Through his labors, he successfully made himself a sandwich. He was disappointed with how it tasted.

This man took something that could be done for a few dollars and a couple minutes and removed *trade* from the equation. Instead of utilizing sources that were far more efficient (from a labor, time, cost, and quality of life perspective) he brought everything in-house. The result was a low-quality product that carried a much greater cost.

I share this anecdote as a metaphor to America's position in global trade. We can produce all of our own steel and aluminum, sure. It's going to cost us more to do it. Along the way, we'll create a few low-paying, low-quality of life manufacturing jobs. We'll lose a few better paying, comparatively more desirable, service jobs at companies that use steel and aluminum as inputs. As consumers, our cars and beer will cost a little more to buy. The likely result is that the country is harmed in GDP growth, U.S. consumers bear the brunt of added costs, and a few Midwesterners in the rust belt get to work in low-quality jobs for a few years.

The price Bayer is paying for Monsanto is more than the value of the entire publicly-traded U.S. steel industry³.

The U.S. is no longer a manufacturing destination. According to the CIA's World Factbook, in 2017 the service industry made up 80.2% of the U.S. economy. This is in comparison to industrials and agriculture comprising 18.9% and 0.9%, respectively⁴. We don't produce physical things in this country anymore because we don't need to and we shouldn't *want* to. Sectors such as technology, finance, entertainment, and the sciences are far more profitable to the country and create more desirable jobs for Americans.

I love this country and I am optimistic about our future. We just need to focus on the competitive advantages we have and avoid hamstringing ourselves trying to claw back the advantages we've already lost. Let's just buy the bread and lettuce and be the one to put together an excellent sandwich.

Volatility is Back

The first quarter of 2018 closed as one of the most volatile quarters in U.S. equity as I can remember. In the first quarter of 2017, there was exactly one trading day in which the Dow had intra-day movement in excess of 300 points. In the first quarter of 2018, there were 31 such days⁵. In the first days of February, we wrote about how this year has been a better example of "normal" in the stock markets than 2017 was (you can find this article in the blog section of our website)⁶.

We preach long-term discipline and implore our clients to refrain from watching the daily movements of their investment portfolio. Let's continue this allegory-filled commentary with another story:

B.F. Skinner, a well-known psychologist, studied the effects of how incentive structures effect behavior. He experimented with pigeons by equipping a food dispenser to react to the pigeons tapping on a lever to receive food. For some pigeons, one tap of the lever yielded one food pellet. These pigeons recognized the relationship between the system and their feeding and effectively moved on with their lives. Some pigeons had to complete a changing puzzle to access their food - multiple taps for a pellet or a pattern of taps. These pigeons were seemingly excited by the daily prospect of figuring out their feeding. The third method explored was randomly dispensing variable amounts of food at random times, untethered to the pigeon's actions. This drove the pigeons insane. The anticipation of the food and the inability to comprehend the method in which they receive it led to the pigeons voraciously tapping the levers, in some cases five times per second for fifteen hours.

Following stock markets, on a daily basis, cultivates the same dopamine hit the pigeons experienced with the random rewards. This is why we have 24/7 financial news and why some investors trade their portfolios into oblivion. Don't do that to yourselves.

Ferguson-Johnson Wealth Management Developments

Please join me in welcoming Jon Powell, CFP® as part of the ownership team at Ferguson-Johnson Wealth Management. Jon has been an investment advisor with our firm since 2013. In that time Jon has enhanced our portfolio management and financial planning services to our clients. Jon also has been the primary author of the semi-regular blog content on our website. We look forward to the energy and insight Jon will bring to them firm in the years to come!

As I write this, it is a beautiful Spring day. Let's hope we have finally emerged from the doldrums of this extended winter and can finally begin enjoying some nice weather.

John, Derek, Jon, Stacie, & Kadeem

¹ "Bayer shares jump on report of US antitrust deal on Monsanto", Reuters Staff. Reuters. 4/9/2018.

² "How to Make a \$1500 Sandwich in Only 6 Months", YouTube. How to Make Everything. 9/15/2015. Accessed 4/12/2018.

³ Josh Brown. Twitter. 3/5/2018.

⁴ "GDP - Composition, By Sector of Origin." The World Factbook. Central Intelligence Agency. 2017. Accessed 4/12/2018.

⁵ Data Source: Yahoo Finance, as of 3/31/2018.

⁶ "Recent Market Volatility", Jon Powell. Ferguson-Johnson Wealth Management. 2/9/2018.

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Indices are unmanaged and investors cannot invest directly in an index. Unless otherwise noted, performance of indices do not account for any fees, commissions or other expenses that would be incurred. Returns do not include reinvested dividends.

The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 actively traded "blue-chip" stocks, primarily industrials, but includes financials and other service-oriented companies. The components, which change from time to time, represent between 15% and 20% of the market value of NYSE stocks.

Derek Johnson is an Investment Advisory Representative of Ferguson-Johnson Wealth Management, a values-based investment management firm located in Maryland. Derek Johnson can be reached at (301)670-0994 or djohnson@mymoneymanager.com.