thoughts

FROM HANSON+DORÉMUS NOVEMBER 2021

Not back in the office yet...

According to Google's Community Mobility data, we are visiting supermarkets and drugstores at the same level we did before the pandemic, and we are almost back to pre-pandemic levels when it comes to visiting restaurants, shopping centers, and recreational spots like theme parks, movie theaters, and museums. But the one place we still are not returning to is our workplaces. We still are not back in the office.

Google aggregates data on all the places people visit daily (if their "Location History" is turned on), then compares this to our baseline activity in early 2020 before COVID changed everything. As of November 8, across the entire U.S., trips to workplaces were 22% below the baseline.

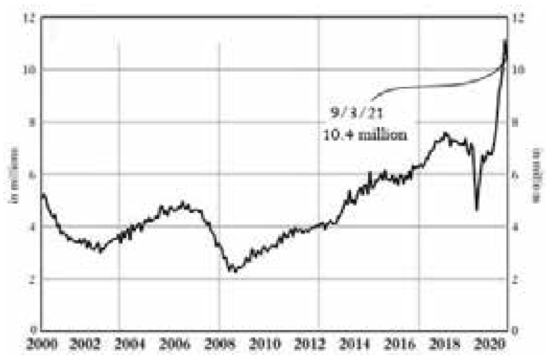
These data fluctuate day to day, and there are big regional differences (on Google, you can look at patterns around the world, from Afghanistan to Zimbabwe). Workplace activity in big cities like San Francisco and New York is well below what it used to be (*see charts below*). Bloomberg reported that only 21% of San Francisco office workers had returned as of September 22, and even though tech job listings are back to pre-pandemic levels, 20% are for fully remote work.

More workers are insisting on staying remote -- and it does look like workers have the upper hand. Unfilled job openings are at a historic high, and as Jim Grant recently wrote, "The bidding frenzy for employable people resembles the stampede for houses or non-fungible tokens." Yes, employees are a hot asset with newfound bargaining power to demand more – or quit. You can call it the "Great Resignation," the "Great Reshuffling," the "Great Reassessment," or for the less gentle, the "take-this-job-and-shove-it" movement. No one really knows why people aren't returning to the office -- or to work at all. But if we're fine going to shops or restaurants, it's probably more than COVID holding us back.

Savings are high. As Anne points out on page 4, checking account balances are 50% higher than in 2019. More families can make do with one wage earner instead of two. And more people are striking out on their own. New business formation reached a record high in mid-2020 and is 50% higher today than before the pandemic. But perhaps more than anything, it's that after a year at home reflecting on what is really important in life, many have concluded that working in so-so jobs is not it.

- Julie Won

MONTHLY JOB OPENINGS 2000 TO PRESENT



Source: *Grant's Intereset Rate Observer*, Bureau of Labor Statistics

WORKPLACE ACTIVITY IN SOME CITIES IS WELL BELOW PRE-PANDEMIC LEVELS

Source: Bloomberg

Hanson+Doremus Investment Management is an investment counsel firm managing portfolios for individuals and institutional clients.
The firm also consults with individuals on financial planning, and works with self-directed retirement plans on investment options.

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By Eric Hanson

Medicare Advantage turns 25...

Health care is an enormous issue. For the elderly (over 65) it is not just about cost but also availability and choosing the right plan. Medicare, the government program covering hospitalization and outpatient physician costs for the elderly, was enacted under Lyndon Johnson in 1965. Before that you had to be lucky enough to have an employer retirement health policy or be able to afford insurance.

In 2006 prescription drug coverage was added to Medicare (Part D) and in 1992, Medigap policies, which cover costs not paid by Medicare (co-pays, deductibles, co-insurance, etc.), were standardized.

Medicare enjoys widespread support, but it is complicated -- very complicated. In addition to Parts A and B (hospitalization and outpatient physician costs) there are 23 standalone Part D drug plans and 10 different Medigap plans. It can be overwhelming.

Then along came Medicare Advantage plans (MA) in 1996 promising private sector competition, lower total costs and easier to understand plans. On this last point, ease of understanding, they have certainly been successful. A full 42% of Medicare recipients today are now enrolled in MA plans. This number is expected to rise to almost 60% in the not too distant future.

MA plans in theory (and the devil is always in the details) offer the same services as Medicare and many offer more, including some dental, vision, hearing, and transportation services. And they do it all for one price. No more having to research a zillion different add-ons.

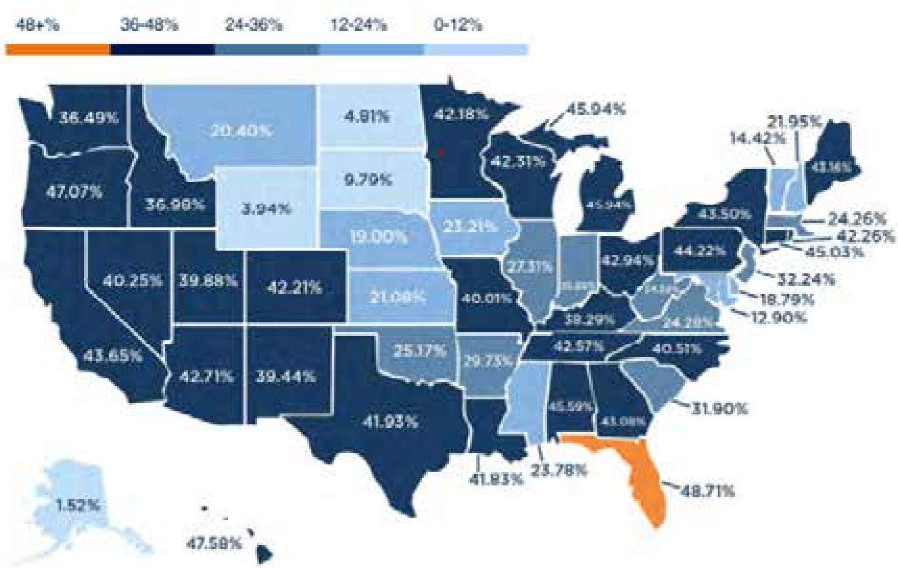
The government pays MA plans about $1,000 a month to cover enrollee health care. The plans then need to shoehorn your health needs into this amount and earn a profit. The plans are all slightly different but in general they recruit a list of physicians and hospitals that agree to work within the insurance company's fee structure. A primary care doctor is the gatekeeper responsible for your care and the one who will refer you to a preset list of specialists and hospitals. This is all fine if your doctor is in the plan, and you are comfortable with the specialist list.

Are MA plans more cost effective than traditional Medicare? Where you stand on this one depends on where you sit. The Kaiser Family Foundation finds that MA plans cost the Government $321 more per year per participant than traditional Medicare. This adds up to $7 billion annually. Other studies, however, show that MA plans save the government up to $5 billion a year. Take your pick.

And which approach is better for the consumer? Traditional Medicare is front-end loaded meaning you pay upfront monthly fees for Part B, Part D, and Medigap. When you get sick, additional costs are generally not a significant surprise. MA plans are back-end loaded. You pay a small monthly participant charge (in addition to your Part B fee), and if you stay healthy your health care costs are predictable. But when you do get sick, costs can escalate quickly.

The decision on how you get your Medicare boils down to how you define peace of mind. If you like the idea of "set it and forget it," one price for everything, and you are comfortable with the doctor and hospital list, and you are in reasonably good health, MA plans look attractive. If you like the idea of knowing up front the bulk of your costs, and you want the freedom of choosing your own physicians and hospitals, traditional Medicare is probably the better choice. No easy decisions in life!

MEDICARE ADVANTAGE: THE NUMBERS



Source: Medicare Advantage Enrollment Map; Better Medicare Alliance, 2021

By Eric Hanson

A report from China...

From August through October my wife Yang Xin was in China helping to care for her father. Xin lives in Zhoushan, a series of islands off the coast of Zhejiang Province, once remote but now connected by high-speed expressways. Shenjiamen, the principal town of Zhoushan is a prosperous fishing port, a major oil terminal for China, and the home of one of the four holiest Buddhist sites, Putuoshan.

We have apartments both in Shenjiamen and in Hangzhou, where Xin conducts her business (sometimes remotely, sometimes in person). Hangzhou is a very prosperous city of 10 million about half an hour by high-speed train (at 180 mph!) from Shanghai.

Xin brokers furniture fabric from producers in Zhejiang Province to wholesalers in Eastern Europe, principally Poland. It's a complicated process, sending out samples, securing orders, ensuring the quality of not just one meter but up to 15,000 meters of the same fabric, renting containers and ship space, and meeting tight delivery schedules. Xin often deals with people she has known for years but never met in person. Globalization is a complicated dance, but it works.

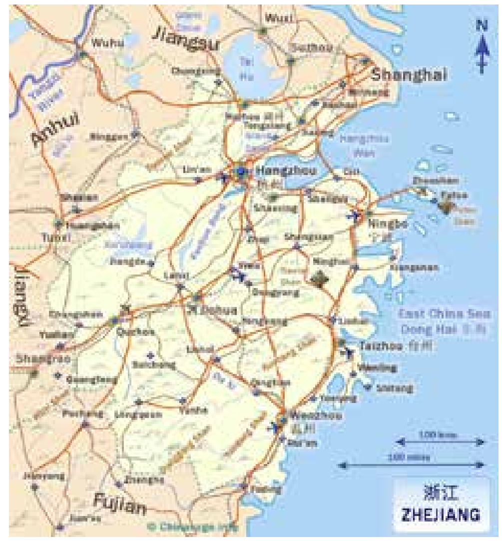
Here are some observations I have gleaned from her trip. While the rest of the world is "learning to live with COVID," China has gone into COVID lockdown. Chinese figures are sometimes suspect, but their statistics show there have been fewer than 5,000 deaths in the country due to the pandemic since early 2020 compared to 750,000 in the US. Quarantining is strict and common. When the container port of Ningbo-Zhoushan, one of the five busiest in the world, reported just one case of Covid recently, the entire port was shut down for several days.

It was difficult and expensive for Xin to travel to China. She quarantined for a total of 21 days upon arrival, the first 14 days in hotels in or near Shanghai, which she paid for herself, and the final seven days at her apartment in Shenjiamen with camera monitors at the door!

After quarantining she carried an app on her phone (as do all Chinese) with a daily code of Green, Yellow or Red. The codes are based on your phone's GPS. Travel anywhere close to where COVID has occurred, and you might go from Green to Yellow to Red (back to full quarantining!). Your code is constantly checked when you are out in public.

Earlier this year Xin's biggest business difficulty was obtaining containers and spaces on ships. Prices soared and availability was limited. Now the biggest problem is electricity and keeping factories operating. Part of the problem is a lack of coal for power plants, but the government is also trying to meet global warming standards. Cutting power to high polluting industries like fabric dying achieves two objectives: it reduces pollution and relieves congestion at the ports.

Source: Yang Xin



Source: www.chinasage.info/provinces/zhejiang.htm

Finally, there is the issue of housing. The biggest and most profitable investment for individuals in China the past twenty years has been property. Developers pre-sell units (at full price upfront) and then deliver the apartments two to three years later. Individuals often own two to four units, one to live in and the others to rent or flip. Xin's apartment complex in Zhoushan (and these complexes are duplicated throughout China) consists of 12 buildings (*see picture*) with a total of over 1,100 units housing perhaps 4,000 people. The complex was finished in late 2020. Xin estimates one third of the units are occupied now and another third are being held for investment. In Hangzhou our apartment is near Alibaba's headquarters (China's Amazon), and with the problems the company and Jack Ma are having, real estate in that part of the city has gone flat, and commercial rents are down. Letting the air out of the real estate boom gradually to avoid a panic will be Xi Jinping's big high-wire challenge.

YOUR PORTFOLIO

By Anne W. Doremus

Keeping an eye on Wall Street…

Wall Street has a long history of coming up with "innovations." Some new products such as Exchange Traded Funds (ETFs) have truly benefitted investors. But for every one of these good ideas there have been many more that did investors harm; the collateralized debt obligations (CDOs) that played such a central role in the 2008-2009 Financial Crisis are the poster child here.

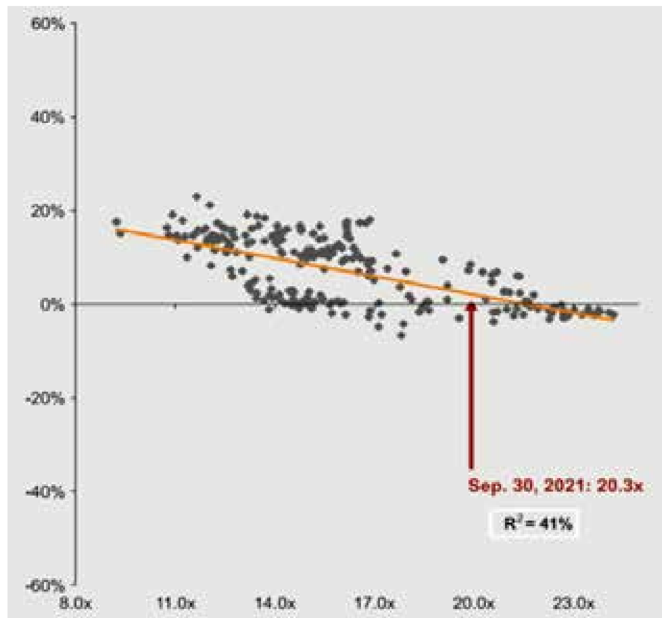
Several trends today are encouraging banks to, once again, fire up their product innovation teams. First, investors are feeling flush. According to the J.P. Morgan Institute, the median household's checking account held 50% more this past July than in 2019. Consumer balance sheets too are in excellent shape thanks to rising real estate and retirement fund balances. Second, the outlook for future returns from traditional asset classes like stocks and bonds doesn't look great. On the stock side, the broad market recovery of the past 19 months has left shares trading at lofty valuations. Historically, high valuations (P/E ratios) suggest lower future returns (*see chart right*). On the bond side, a recovering economy and uptick in inflation is prompting the Fed to reduce its bond buying and consider raising rates in the years ahead – both actions that are bearish for bond prices. Finally, new technologies such as blockchain are expanding the way financial professionals think about packaging risk and return.

The "holy grail" in the investment world today is finding an asset class or product that offers the prospect of strong returns *and* diversification benefits (i.e., their returns do not move in sync with stocks or bonds). The products listed below are just two of the latest efforts to achieve these goals.

Bitcoin: While Bitcoin has been around for years, the first cryptocurrency ETF was just released late last month. Prior to its release, investors needed to go through a somewhat cumbersome process of setting up and funding a separate account or "wallet" to hold their Bitcoin. The new ETF avoids this step by buying Bitcoin futures rather than the cryptocurrency itself. This approach has proven popular with investors attracting $1.3 billion in assets in the first two weeks since its launch. As is always the case in investing, however, it pays to "look under the hood" before buying this product. A lack of liquidity in the Bitcoin futures market could make the already volatile asset class even more difficult to sell and the annual expense ratio stands at a lofty 0.95%. My take? While Bitcoin may offer diversification and return benefits over time, I would pass on this new product given its limited trading history, the illiquidity of its underlying market, and high expense ratio.

FORWARD P/E AND SUBSEQUENT 5-YEAR ANNUALIZED RETURNS

S&P 500 Total Return Index



Source: IBES and J.P. Morgan Asset Management

Forward P/E Ratio

60-month annualized total returns, measured monthly, vs P/E ratios.

Non-Fungible Tokens (NFTs): While not exactly a creation of Wall Street, this "asset" is attracting a lot of dollars. Trading volume in the third quarter totaled $10.67 billion, up over 700% from the second. The token here can be anything digital (tweets, music etc.) but to date, most NFTs have involved some form of digital art. "Non-fungible" means that unlike dollar bills which are fully interchangeable, your holding is unique. NFTs utilize the same blockchain technology that cryptocurrency Ethereum is based on to track ownership. As with art, nothing is to prevent someone from copying your NFT but owning the original is what has value. Like most art, the monetary value of an NFT is based not on its underlying earnings potential but rather the hope that someone else will pay you more for it in the future. For this reason, I would classify this asset class (if it is one) as speculative at best. NFTs, considered a fad by many, are just in their infancy. Some investors consider them an alternative store of value while a range of companies are incorporating them into their marketing campaigns. I would give this product a pass as well until the ultimate "use-case" becomes clear.