thoughts

HANSON+DOREMUS
INVESTMENTS AND PLANNING

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The outrage of Korea's $70 dessert…

You might call it Korea's splurge of the summer. Writer Se-Woong Koo, in his excellent English-language blog *Korea Exposé*, calls it an "over-the-top affair" and "the-most-talked-about delicacy of the season." Others I know just call it excessive and ridiculous.

What we're talking about is a Korean dessert called *bingsu,* a traditional treat that Koreans long have enjoyed on hot summer days. *Bingsu* is basically shaved ice with a sweet topping. The old-fashioned version is simply sweet red beans over ice, and over the years, that's evolved to include fruits, ice cream, and other toppings. But the "over-the-top" versions we're talking about here have gone way off the charts. We are talking gold flakes, caviar, and muscat, with prices to match.

The Four Seasons serves frozen milk shavings topped with mango slices and a sphere of mint mango sauce encased in edible gold leaf for 94,000 Korean won, or more than $70. The Lotte Hotel dropped last year's caviar, but this year did an apple mango *bingsu* presented on a bed of mystical dried ice (KRW 88,000/ about $67). And not far behind is the very popular Shilla Hotel's version at KRW 83,000 (about $63).

It's not the prices themselves that are shocking. Yes, they're outrageous, but Korea always has had extreme luxury items for the wealthy. What's surprising here is that it's the masses, not the wealthy, flocking to these places. Social media has been full of tips on how to score a table at the Shilla (get there an hour before service starts.) Queues have been long.

BINGSU, MODERN AND TRADITIONAL

Source: Both photos from Korea Exposé, Se-Woong Koo. Second photo also credited to Wikimedia Commons

There are a lot of different directions you could take this story. Part of the phenomenon, no doubt, is generational, as young Koreans in their 20s and 30s opt to spend more on Instagram-able experiences (Koreans call them Generation MZ, a mashup of Millennials and Gen Z). Part of the story is about the emotional narrative that surrounds all luxury goods and fills some human need in us.

But there also is something mildly disturbing about all this. Korea has one of the highest household debt levels in the world. At 104% of GDP, it's well above Japan's 65% and the U.S.'s 80%. For the average Korean, it takes 18 years of saving one's entire salary to buy a home in Seoul. The newspapers are full of young people who say their only hope of accumulating a down payment is winning big in crypto, stocks, or the lottery – and Koreans love crypto, even now. Remember, this is the country that gave us Emmy-winning *Squid Game* and Oscar-winning *Parasite* (both about economic desperation). So why spend $70 on shaved ice?

A Korean friend of mine who lives in Seoul offered this to me last night on Zoom: "I don't know. I think young people have just given up hope on having anything, so they might as well enjoy what they can now." She then proceeded to show me pictures of almost grotesquely elaborate macarons being sold in Seoul. And yes, they were very expensive.

\- Julie Won

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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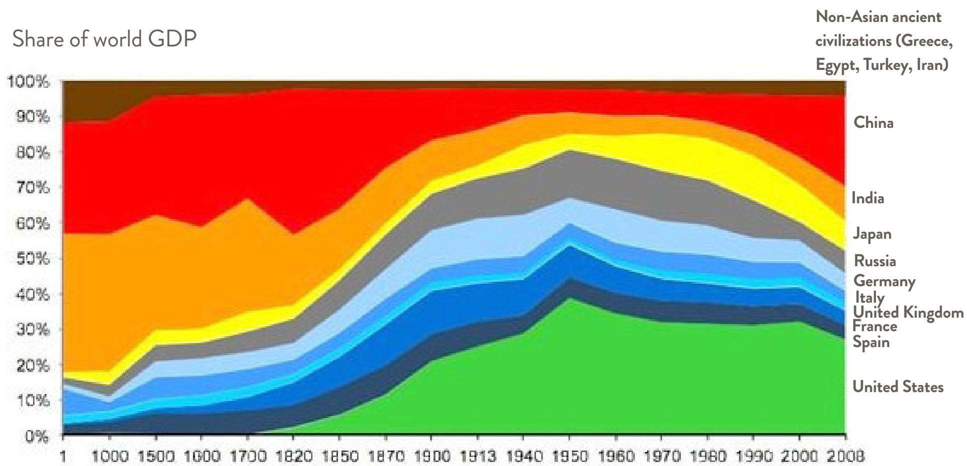
GLOBAL ECONOMICS

By Eric Hanson

The Chinese economy approaches stall speed…

Two thousand years ago China and India were the world's largest economies. As recently as the early 1800s China was still the world's largest. The final one hundred years of the Qing Dynasty, however, brought the country to its knees, and it was not until the ascension of Deng Xiaoping in 1978 that rapid growth developed again. And rapid it has been. China has lifted more people out of poverty (800 million) more quickly (over just 40 years) than has ever been done before.

ECONOMIC HISTORY OF CHINA AND OTHER MAJOR POWERS



Source: *"Statistics on World Population, GDP and Per Capital GDP, 1-2008 AD; Angus Maddison, of Groningen.*

Now comes the hard part. Xi Jinping faces serious problems today (*see below*). Covid and the housing crisis are the immediate ones. China cracked down hard on Covid in 2020 and was successful in containing the outbreak. The zero Covid strategy since, however, has caused serious economic disruption. How do they get out of this? If they open the economy, they risk a Covid explosion and "loss of face" apropos the two-year government policy. If they do not open, the economy will continue to lurch from one lockdown to the next.

The housing issue is equally problematic. Construction has contributed significantly to China's growth and consumers have benefitted from flipping apartments, using the profits to spur domestic spending. Now everything is working in reverse. Developers are defaulting, apartment owners can no longer sell at a profit, and buyers who paid in full for still-to-be-built apartments are refusing to pay their mortgages. The government must thread the needle, making sure that paid-for apartments are completed while at the same time reining in the past excesses of developers.

China's one-child policy was lifted in 2016 but the birth rate is still well below the number necessary to keep the population growing. Just like in the U.S., it is expensive in China to raise children. Many urban couples are perfectly content now with one child. It is estimated that China's population will begin falling by 2025, and the working age population has already peaked.

The government's recent emphasis on state industrial policy has hurt the private sector, which has been the principal source of employment growth. Entrepreneurs like Jack Ma of Alibaba were, like Icarus, seen as flying too close to the sun (the power of the Communist party) and have had their wings clipped. And finally, there is the "Middle Income" trap. Many countries have grown by emphasizing low-cost manufacturing and exports. But few have been able to make the jump to fully developed status. This requires higher value-added production, innovation, and technology. Xi Jinping is wrestling with this challenge today. China's growth rate, now at stall speed, must be a concern to all of us because of the country's outsized influence on the global economy. But don't count them out just yet. China has faced curves in the road before and adjusted. As Deng Xiaoping said, you "cross the river by feeling the stones."

THE UNCERTAIN FUTURE

Source: This Photo by Unknown Author is licensed under CC BY-SA

- Zero-Covid Policy
- Unwinding the Housing Market
- Economic Growth vs Communist Control
- Fertility Rate Decline
- Shrinking Workforce
- "Will get old before it gets rich"
- Middle Income Trap
- But – When Required, China Adapts

By Julie Won

Regret, remorse, and anguish...

CNBC recently reported that 72% of recent homebuyers feel regret about their purchase -- either because they paid too much or because they rushed the process and made too many concessions. Whether that survey is robust or accurately reflects reality, I don't know. But I certainly can believe there is regret out there -- because there always is. The threat of regret is ever present, lurking behind every decision we make.

Nobel-Prize winning psychologist Daniel Kahneman has written that, "Regret is an emotion, and it is also a punishment that we administer to ourselves" (*Thinking, Fast and Slow,* 2011). It is profoundly painful because it shines a spotlight on our own agency in poor outcomes. And it is most intense "when you can most easily imagine yourself doing something other than what you did."

Because regret is so painful, we start anticipating it as soon as we know a decision is at hand – and our desire to avoid it sometimes leads to suboptimal decisions. One famous (and humorous) acknowledgement of this comes from Harry Markowitz, who won the Nobel Prize for working out the complex mathematics behind the tradeoffs between investment risk and return. Markowitz is the father of Modern Portfolio Theory and a finance superhero, but when Jason Zweig of *The Wall Street Journal* asked him if he used his own work for his personal investment portfolio, he said no:

> *"Instead, I visualized my grief if the stock market went way up and I wasn't in it – or if it went way down and I was completely in it. My intention was to minimize my regret . . . So I split my contributions 50/50 between bonds and equities."*(This is from a classic 2009 article titled "Investing Experts Urge, Do as I Say, Not as I Do.")

If Nobel Prize winners struggle with regret, what are we mere mortals to do? On the one hand, it makes sense to limit our regret exposure because regret makes us do silly things (reverse course at the wrong time, buy too high, or hide our heads in the sand.) On the other hand, focusing too much on regret isn't good either. If we worried less about kicking ourselves every day for the next year, we likely would take a much longer view on our portfolios. We would tilt our portfolios toward cheaper "value" stocks -- and probably, we would buy more international assets as well.

Ultimately, there's a tradeoff between return maximization and regret minimization, and acknowledging that means it's important to have what Kahneman calls a "well-calibrated sense of your future regret." That is, if you're prone to regret, Kahneman advises limiting your regret exposure. But if you're less prone to it, move the dial toward long-term return.

Remember, whatever choices you make – whether you go conservative or aggressive, active or passive, ESG or not – there's always going to be a portfolio out there that looks better than yours at any given moment. This doesn't mean you've failed as an investor. But unless you're superhuman, you're going to feel jealousy and regret, and you've got to prepare for that.

One thing to try is to slow down, project yourself into the future, and imagine how badly you will feel if you're totally wrong about a decision. It sounds simple, but few people really think about the possibility of being dead wrong. And it matters. Today, we're in a time fraught with big questions: Are we in a sustained bear market or is the worst over? Will inflation kill us, or recession? Or both, or neither? How do we decide if we should be dialing down risk or seeking out opportunity? Investor Howard Marks advises: "Try to travel into the future and look back . . . What you think you might say a few years down the road can help you figure out what you should do today."

AS A DECISION MAKER, YOU'VE GOT TO WORK 24 HOURS A DAY. IT TAKES 10 MINUTES TO MAKE A DECISION AND 23 HOURS AND 50 MINUTES TO ASK YOURSELF IF YOU WERE RIGHT.

Source: Karsten Schley, licensed from cartoonstock.com

And one final note: Watch out for emotional extremes because those are what get us most often. Howard Marks says that "…in the real world, things generally fluctuate between 'pretty good' and 'not so hot.' But in the world of investing, perception often swings from 'flawless' to 'hopeless'." I always try to remember those words because it's a slippery slope to thinking, "If I don't get in (or out) now, I never will!" And, that is exactly the thinking that makes us pay too high a price or pull out all the stops in a competitive bidding process – and then feel regret after we've won.

ECONOMICS TRENDS

By Anne W. Doremus

The implications of slower labor force growth...

The latest job statistics held mixed results. The good news? Another 315,000 jobs were added to the economy, bringing the total number of people employed to just shy of the 158.87 million peak logged back in February 2020. But while the closely watched labor force participation rate inched ahead to 62.4%, it still lies below prepandemic levels.

Policy makers have spent a lot of time trying to understand why the labor market has taken so long to recover. Most point to several recent trends including the lingering health effects of Covid, and the available (though diminishing) pool of stimulus funds which allowed many to step back from work. Lower immigration levels, the result of the pandemic and more restrictive policies, have also contributed to our workforce shortages. Finally, there is the concept of the Great Resignation, a term first coined by Organizational Psychologist Anthony Klotz back in May 2021. Klotz predicted then that the pandemic and related shift to work-from-home policies would cause employees to exit the workforce after reconsidering their work conditions and career goals.

While these trends will likely revert to normal levels over time, there is a more significant and long-lasting factor impacting our nation's workforce today. The U.S. Census Bureau projects that over the next decade, the civilian labor force is expected to grow at an average annual rate of just 0.5%. This anemic rate, which is half of the previous decade's level, is the result of low population growth and baby boomer retirements. Only two forces – labor force growth and productivity growth – drive increases in the economy. While gains in productivity, achieved by better technological innovation or processes, could help offset our labor force deficiencies, the prognosis here is not encouraging (*see chart below*).

The labor force problem is not unique to us. Developed economies around the globe have been struggling for years with the implications of these same demographic trends. Consider that according to market research firm Statista, Japan's labor force has grown just 1.2% over the last 25 years while China's work force is down 2.1% from its 2015 peak.

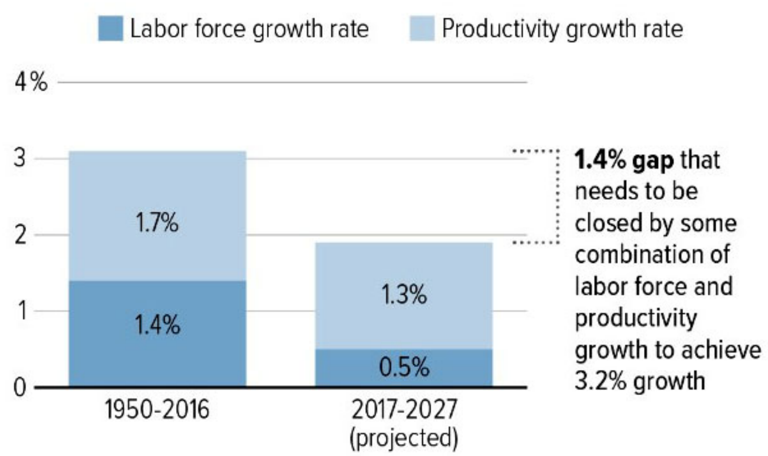
Every country is managing the challenge in a different way. Some, like Russia, have offered financial incentives such as lower taxes or cash rewards to boost fertility rates while others have eased immigration rules. Most of these measures have done little to change the powerful demographic forces at work.

This past Spring, Japanese Prime Minister Fumio Kishida tried a different tack. After years of unsuccessfully trying to boost population and economic growth, he announced a plan to shift the country's focus toward "a new form of capitalism." In his original comments, he outlined plans to shift the nation's policy focus away from outright growth and toward plans aimed at reducing social disparities. These efforts would include significant investment in human capital, innovation, and digitization. While the general strategy was well received, several of the more disruptive ideas were dialed back after investors raised concerns that they would hurt shareholder profits.

The U.S., I suspect, would also experience resistance to similar policies. The idea that faster growth leads to rising living standards (an implicit promise to most citizens) is a central tenent of our capitalist system. Recent political discord and economic indicators have raised serious questions about our ability to deliver on this promise with current policies. But it is not at all clear that slower growth will make the task any easier. How we balance the growth that we *can* achieve given our demographic circumstances with other priorities such as income equality and biodiversity will be a defining issue of the years ahead.

3.2% NOT A REALISTIC TARGET FOR FUTURE GROWTH

Percent contributions to average annual growth in potential GDP



Note: Data may not sum to total due to rounding

Source: *Actual and projected growth figures from Congressional Budget Office*