thoughts

FROM HANSON+DOREMUS

AUGUST 2025

"Demographics is destiny"

...Auguste Comte (19th century French philosopher)

Demographics is the study of population and the make-up of that population. Birth and death rates factor into this analysis as do the age and sex breakdown of the population.

Some argue that if you know the demographics of the world, you can predict the future. Historically, population growth has driven greater output, increased overall demand, created new markets, and pushed up personal incomes. Population growth, however, is not something everyone is in favor of. An increase in population puts greater pressure on resources, increases environmental damage, and requires an increase in agricultural production, which is not evenly spread among all people. Some end up with more, some less.

The biggest problem with demographic data is that it is not stable. Back in 1969, Paul Ehrlich published, "The Population Bomb". Ehrlich argued that rapid population growth would have devastating consequences for the world, including mass starvation. Population growth was rapid prior to 1969. World population did not pass one billion until 1805. It then took just 123 years for population to double, and by 1969 world population had nearly doubled again.

What Ehrlich and other population alarmists did not know at the time was that world population growth rates were about to peak. It was not uncommon in 1969 for families to have five or more children. Today it is estimated that the world may have slipped below the threshold replacement level of 2.1 children per female. This would be the first time in recorded history that this has occurred.

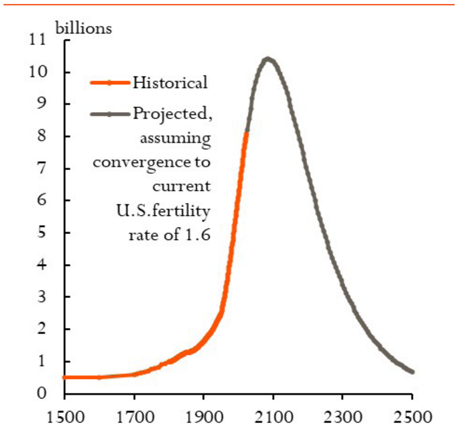
Many countries are alarmed at the possibility of a declining population, fearing that this will lead to a shortage of workers, slower (or no) economic growth, lower tax revenues, reduced military power, inability to pay for the elderly, and social unrest. The list goes on.

China ended its one-child policy in 2016, but its birth rate has continued to fall. Many countries are offering payments for larger families, but results have not been encouraging. Vice President J.D. Vance is trying to shame Americans into having more children, ridiculing those "childless cat ladies." Another avenue to population growth is immigration, but this is not a winning policy prescription in most developed countries today, certainly not in the U.S.

The one thing we do know from demographics is that if current trends in fertility rates continue (*see charts below*) global population will grow for another 75 years or so and then contract. Demographics is indeed destiny, as long as you know the future demographic data! Paul Ehrlich learned this painful lesson. As the sociologist Philip N. Cohen has remarked, "if you think you have a model now that predicts birth rates in two hundred years, you're just drawing lines on a chart."

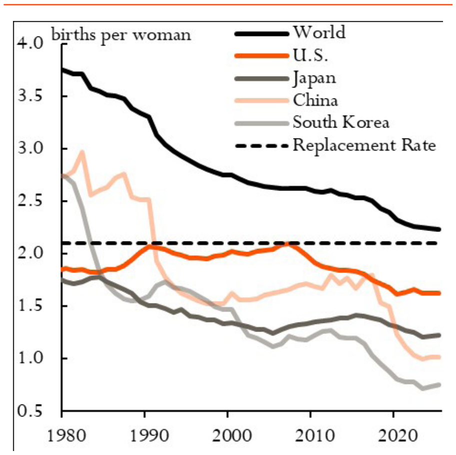
- Eric Hanson

WORLD POPULATION



Sources: Hyde, Gapminder, UN WPP, Our World in Data; Spears et al (projections)

FERTILITY RATES



Source: UN Population Division

Hanson+Doremus Investment Management is a registered investment advisor offering integrated investment management and financial planning to individuals, businesses, and nonprofits. It was founded in 1995 and is regulated by the U.S. Securities Exchange Commission.

802.658.2668
hansondoremus.com

431 Pine Street, Suite 302
Burlington, Vermont 05401

GLOBAL ECONOMY

By Neil Macker

Spain's Economic Rebound ...

At the start of the global financial crisis in 2008, Spain fell into a prolonged recession, compounded by the European debt crisis in 2010-2012. The country's real estate bubble burst and the ensuing fallout engulfed the banking sector, leading to a €100 billion bailout from the European Union. Unemployment spiked to around 27% by 2013, up sharply from under 10% in 2008. Given the anemic GDP outlook and lack of investor confidence, Spain appeared likely to lag well behind larger European economies like Germany.

A little over a decade later, the story has changed as the Spanish economy grew by 3.2% in 2024, more than triple the Eurozone average of 0.9%. Its growth smashed large peers, with France only up 1.1%, Italy up just 0.7%, and Germany contracting by 0.2% (*see chart below*). Despite concerns about the global impact of the new U.S. tariff regime, the Organization for Economic Cooperation and Development (OECD) projects a 2.6% GDP growth rate in 2025 for Spain, well ahead of Germany (+0.4%) and France (+0.6%). Unemployment has also improved tremendously, falling to 10.3%, the lowest since 2008. So, what drove this amazing turnaround for Spain?

It is hard to ignore the impact of the Spanish sun. Spain is the most visited country in Europe and tourism's contribution to GDP is substantial, with the country's National Institute of Statistics putting it around 12.5%. But that's not new—apart from the Covid years, tourism has always been strong. While tourism receives a lot of credit, there are a few other key factors, some of which have been at work for a decade.

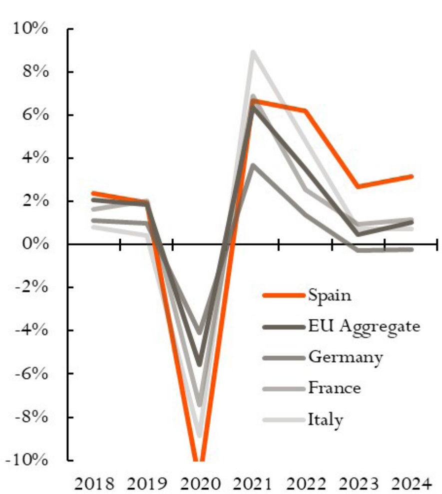
First, the reforms put in place after the Eurozone crisis. In the mid-2010s, Mariano Rajoy's Partido Popular, following the old adage to "not let a crisis go to waste", reformed to the banking sector and the labor market. Banks were consolidated and made more resilient. Labor law changes reduced employer costs and led to a shift away from temp jobs, previously favored by many businesses. Other reforms helped increase labor mobility and skills-job matching.

There was also a focus—at times in the form of grants and co-investment—on higher value-add service industries like telecommunications, real estate, and information technology over manufacturing. Since the fourth quarter of 2019, thanks to higher productivity, these sectors have grown faster in Spain than in the Eurozone as a whole. Spain adopted specific policy goals to expand wireless broadband access, grow renewables, and digitize small- and medium-size businesses. Renewable energy, for example, has been booming, especially after the repeal of the so-called "Sun Tax" on solar in 2018. Solar industry employment has doubled since then, and the industry's contribution to GDP has tripled. Spain's renewable companies have grown to have a global presence, with firms like the electric utility and wind powerhouse, Iberdrola, surpassing €100 billion in market capitalization.

Part of Spain's growth can also be attributed to a shift in immigration policy. After Rajoy, Pedro Sanchez's Spanish Socialist Workers' Party made it a priority to welcome immigrants. Spain's foreign-born population growth has far exceeded the rest of Europe, increasing by a cumulative 42% since 2018 (*see chart below*). Sanchez has also made it easier for undocumented migrants to get healthcare and eased restrictions on work. These measures have helped fuel workforce growth—helpful in otherwise aging Europe. And Spain's immigrants have generally been more skilled, with 70% having medium or high education levels in 2022, up from 55% in 2008, and versus 60% on average across France, Italy, and Germany.

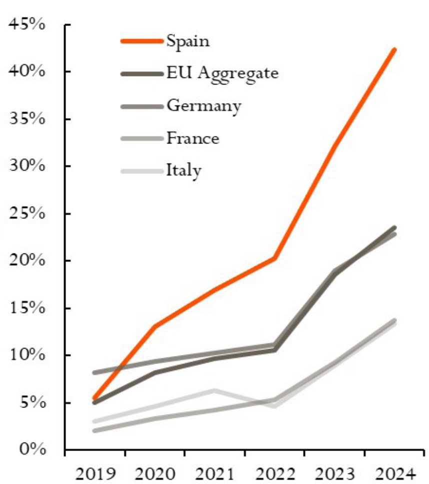
While Spain's special draw as a tourist destination is important, there are still lessons for the rest of Europe. First, unpopular or difficult policies may reap rewards in the future. Second, targeted (skilled) immigration could drive additional growth in specific sectors, and, in general, growth in a younger labor force from immigration could provide a long term demographic benefit. Finally, targeting specific industries can stimulate private investment and help develop more valuable sectors of the economy.

GDP GROWTH



Source: World Bank

CUMULATIVE GROWTH IN FOREIGN-BORN POPULATION SINCE 2018



Source: Eurostat

By Sarah Cocina

Continuing Care Retirement Communities...

Choosing where—and how—you want to live as you age is one of the most important personal and financial decisions. And there are many options, from independent living to assisted living, memory care, and skilled nursing facilities. There are also Continuing Care Retirement Communities (CCRCs) which offer it all on one campus. I sat down with Meagan Buckley, President and CEO of Wake Robin, to discuss why planning ahead matters, what sets CCRCs apart, and how to make the move with clarity and confidence.

Meagan, how do you usually explain a CCRC to someone unfamiliar with the concept?

I describe a CCRC, also known as a Life Plan Community, as a place where you move in with the ability to live independently, and the reassurance that as your needs change, you'll have seamless access to higher levels of health care. Unlike standalone independent living or assisted living communities, a CCRC offers the full continuum of care.

How do residents typically cover the upfront and ongoing costs of living in a CCRC?

Most residents pay the entrance fee from the sale of their home. Then there is a predictable monthly fee which covers housing, dining, amenities, and future health care if needed, including residential care, memory care, and/or skilled nursing. When offered occupancy, we conduct a health assessment to be sure you can live independently for at least two years, as well as a financial review to ensure long-term sustainability. This model gives residents peace of mind—financially and emotionally—knowing they won't have to make another move as their needs evolve.

What holds people back from moving into a CCRC like Wake Robin?

The biggest barrier is timing. Many people wait until they begin to feel the effects of aging or until they believe it feels "right" to leave their home. But with the size of the Baby Boomer generation, the number of people interested in Life Plan Communities has grown significantly, and waitlists are long. That's why I encourage people to start exploring options in their early 60s. Planning ahead allows you to be clear about your goals and flexible about details. Often, the most important choice is which community you want to join, not the exact floor plan or view. By starting early, you can align your preferred timing with availability, rather than being forced to wait years once you've decided you're ready.

What role can the younger generation play in supporting older family members in the decision-making process?

Adult children can be great partners in this decision by talking openly about life goals and what matters most. Sometimes there's a worry that moving into a CCRC might reduce a future financial gift—but many families here say Wake Robin is the greatest gift of all. It frees everyone to focus on enjoying time together instead of managing care that can sometimes be incredibly complex and burdensome. Visiting communities together, asking good questions, and staying flexible about details like floor plans, helps ensure the choice is about the right fit, not just the right address.

What should people know about the waitlist at Wake Robin?

More and more, older adults are looking for the vibrant lifestyle, on-site healthcare, and meaningful social connections that Life Plan Communities offer. At Wake Robin, we've seen this growing interest firsthand – especially after the COVID-19 pandemic reminded many of the importance of a supportive community. As a result, the estimated wait for select one-bedroom apartments can now range from 5-7+ years. For most other apartments or cottages, the estimated wait can range from 10-15+ years depending on the style. The average age of residents who enter our community is 79.

How has your perspective on Wake Robin evolved since becoming the CEO?

Having been a part of the Wake Robin community for seven years—and serving as CEO for several years now—I remain impressed by the strength and resilience of this community. It's the people here, their collaboration, and shared commitment that make Wake Robin not just a place to live, but a place to thrive. In today's challenging and fast-changing world, the stability of our organization is a powerful asset that allows us to confidently imagine—and build—a lively, fun future together.

What has been the most rewarding part of leading and collaborating with the Wake Robin community?

For me, it's seeing the growth and transformation all around us—both in residents and staff. People arrive thinking they're just moving to a new home, but before long, they're making new friends, trying new things, and discovering fresh purpose. At the same time, our staff is growing too. Just this week, we celebrated yet another team member's 30th work anniversary. And we also welcome those just starting their very first jobs. Seeing that full circle of growth is truly inspiring. Being part of a place where joy and meaning are part of everyday life and where humor lives even in the hardest spaces—that's what makes this job so special.

FINANCIAL INNOVATION

By Evan Pemberton

What's up with direct indexing?...

Financial innovation is a feature of the investing world. In the not-too-distant past you had to pay $15 per trade or more to buy stocks in whole-share denominations. Nowadays, trades are almost always zero-commission, and you can buy fractional ownership of stocks through exchange-traded funds (ETFs). But innovation has not stopped there. Why buy a cookie-cutter index ETF created by a large financial institution when you can customize one yourself? Enter: direct indexing, sometimes called personalized indexing.

Direct indexing is an investment approach where you own a representative sample of the individual securities in an index rather than buying a traditional mutual fund or ETF that tracks the entire index. Conceptually, instead of owning an S&P 500 ETF, you might hold 200-300 stocks from that group. The goal is to closely match the index's performance and risk profile, while accessing some potential additional benefits.

Arguably the most meaningful benefit gained through direct indexing is the ability to personalize your portfolio based on your individual preferences. You can restrict your portfolio by company, industry, or across a multitude Environmental, Social, and Governance (ESG) concerns. For instance, you might choose to exclude fossil fuel stocks due to climate change concerns or increase your allocation to companies with more diverse boards. Beyond just ESG restrictions, you can also customize your portfolio to reflect other factors like emphasizing dividend paying stocks or those that generate higher free cash flow.

A second benefit is tax optimization. Normally when holding an ETF, you are limited to selling shares that represent the entire index, so even when some companies have losses, your overall ETF position may be at a gain. With direct indexing you own the individual securities that make up the index, which allows you to opportunistically sell individual positions with losses to offset gains.

A final benefit for some investors is the ability to better diversify around a concentrated position that you may be unable or unwilling to get out of all at once – maybe a stock purchased ages ago with a lot of unrealized capital gains. Your personal index can omit that holding or reduce the allocation to its industry while still trying to track the index. The table below shows an example of this strategy (though no comment on its merits or appropriateness) with a fictional portfolio holding $100k of the S&P 500 index and a concentrated $35k position in IBM. The columns on the left show a resulting allocation to the Information Technology sector of over 50% – much higher than the S&P 500's. Direct indexing ("Evan's 300") removes some Tech exposure, presumably the stocks most like IBM, so that the overall portfolio matches the sector-level exposures in the S&P 500. Of course, under this approach, the fate of IBM will still have a big impact on performance.

Although direct indexing originated in the 1970s, it was mostly reserved for large institutional investors who had the scale and resources to manage it. Even into the early 2000s, high trading costs made it impractical for most individual investors. That has changed in the past decade. Advances in technology combined with major shifts in market operations, such as commission-free trading and access to fractional shares, have opened the door for retail investors.

But despite all the publicity, direct indexing isn't without its drawbacks. For one, buying and selling hundreds of individual securities can lead to complex tax documents including 1099s filled with pages of transactions. Portfolio reporting can also be overwhelming, as investors may see hundreds of individual line items. Custodians are addressing some of these issues through summary-level reporting. Another concern is whether the additional costs are worth it as many firms charge additional fees for direct indexing.

As with most investment approaches, it's useful to be suspicious about marketing spin. When measured against the costs, the hype around tax optimization and customization may overstate the actual benefits. We are watching this space, especially as the industry works out the logistical hurdles.

BUILDING AN INDEX AROUND A CONCENTRATED POSITION

	Evan's Portfolio			Evan's with Direct Indexing		
Sector	**S&P 500 ETF**	**IBM**	***Total %***	**"Evan's 300"**	**IBM**	***Total %***
Energy	$3,000		*2.2%*	$4,050		*3.0%*
Materials	$1,830		*1.4%*	$2,471		*1.8%*
Industrials	$8,630		*6.4%*	$11,651		*8.6%*
Consumer Discretionary	$10,400		*7.7%*	$14,040		*10.4%*
Consumer Staples	$5,240		*3.9%*	$7,074		*5.2%*
Health Care	$8,790		*6.5%*	$11,867		*8.8%*
Financials	$13,770		*10.2%*	$18,590		*13.8%*
Information Technology	$34,000	$35,000	*51.1%*	$10,900	$35,000	*34.0%*
Communication Services	$9,900		*7.3%*	$13,365		*9.9%*
Utilities	$2,450		*1.8%*	$3,308		*2.5%*
Real Estate	$1,990		*1.5%*	$2,687		*2.0%*
TOTAL (S&P 500 + IBM)	**$135,000**		*100%*	**$135,000**		*100%*

Source: Author; fictional portfolio for illustrative purposes only