



## POST OAK PRIVATE WEALTH ADVISORS

ADVISORY, CONSULTING & INVESTMENT MANAGEMENT

# The 10 issues defining America's social and economic future

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With an annual gross domestic product of over \$18.5 trillion, the U.S. economy is a global behemoth, generating nearly one-quarter of the world's economic activity.<sup>1</sup> But even a large, advanced and established economy like the U.S. can experience change and evolution. In fact, change and evolution is necessary if the U.S. is to remain a dynamic and vibrant economy on the global stage.

Whenever the economy goes through a period of significant change, it's natural that there will be winners and losers, those who disrupt and those who are displaced. The U.S. seems to be at one of those points in the long-term economic cycle where the split between winners and losers is becoming strikingly apparent. This split is not only visible in economic statistics like income growth and employment, but also in the technology we use, the communities where we live, and the culture we create.

As the calendar page turns to a new year, I believe it's a good time to step back and take a wide-angle view of the major issues that will likely guide the direction of the U.S. economy going forward. I want to discuss more than the financial and investment implications of this dramatic shift in the landscape, although those implications are relevant to you as a Post Oak client and will be a part of this discussion.

To focus this discussion, I will concentrate this overview on 10 issues under four primary themes that I believe are most influential on the future direction of our country: Economy, Technology, Society, and Culture. There is a lot to say about each of these issues, but in the scope of this report we will keep the discussions to the brief side. Throughout the coming year, I plan to pick up on these themes for deeper discussions in future reports to you.

## Economy

*"The department store is  
online now."*

Warren Buffett  
CEO, Berkshire Hathaway

### 1. New vs. old economy

The evolution of the economy from "old" industrial and commodities-based companies to "new" knowledge-based firms has been happening for many years. But at present day, it seems this evolution is evolving as well, as disruption shifts to displacement. Just think of Amazon—the company that disrupted the businesses of selling books, toys, electronics and more over the last 20 years is now displacing many long-standing brick-and-mortar companies, even beyond the retail sector.

But the continued evolution of the "new" economy is not only changing the retail sector; there are even more dramatic disruptions and displacements happening across the U.S. economy, in sectors such as healthcare, pharmaceuticals, energy and more. Consider the list on the following page of the top 15 firms in the annual Fortune 500 index for different historical years. In the most recent edition (2016), only 4 of the top 15 companies can be considered "old" economy, either as manufacturers or commodities producers like energy. Thirty years ago, in the 1985 list, you wouldn't find Walmart or any healthcare companies in the top 15. Over 60 years ago, when the first Fortune 500 list was published in 1955, manufacturers and commodities producers dominated the top 15.

<sup>1</sup> Source: World Bank, Gross domestic product 2016



Economy

Top companies in the Fortune 500 by revenues

2016	1985	1955
Walmart (Retail)	Exxon (Energy)	GM (Auto)
Berkshire Hathaway (Conglomerate)	GM (Auto)	Jersey Standard/Exxon (Energy)
Apple (Technology)	Mobil (Energy)	U.S. Steel (Industrial)
Exxon Mobil (Energy)	Ford (Auto)	GE (Industrial)
McKesson (Health)	Texaco (Energy)	Esmark (Conglomerate)
UnitedHealth (Health)	IBM (Technology)	Chrysler (Auto)
CVS Health (Health)	DuPont (Chemicals)	Armour (Consumer Goods)
GM (Auto)	AT&T (Telecom)	Gulf Oil (Energy)
AT&T (Telecom)	GE (Industrials)	Socony/Mobil (Energy)
Ford (Auto)	Amoco (Energy)	DuPont (Chemicals)
Amerisource Bergen (Health)	Chevron (Energy)	Amoco (Energy)
Amazon.com (Retail)	Atlantic Richfield (Energy)	Bethlehem Steel (Industrial)
GE (Industrials)	Shell Oil (Energy)	CBS (Media)
Verizon (Telecom)	Chrysler (Auto)	Texaco (Energy)
Cardinal Health (Health)	Marathon Oil (Energy)	AT&T (Telecom)

Source: Fortune

\$14.2T

Total assets of major global central banks (U.S. Federal Reserve, European Central Bank, Bank of Japan) November 2017

2. The end of “easy money”

It now seems clear, after many years of central bank easing, that loose monetary policy has reached its limits. At least in the U.S., the federal government is finally turning to fiscal policy as a way to recharge growth, through reform of the tax code for individuals and businesses. Many provisions in the Republican tax reform bill stand to benefit businesses, by lowering the effective corporate tax rate and moving business taxation to a territorial system where profits will be subject to taxation based on where they are earned. How much lift tax reform will provide and for how long is debatable, and also beyond the scope of this report.

We also may be nearing an inflection point regarding the direction of interest rates, where we may soon see the end of the bond market “supercycle” of decades-long slump in interest rates. Predicting the end of the bond bull market has been difficult over the past few years—rates on U.S. government bonds are up from their historic lows set in July 2017, but they haven’t yet broken out in the true sense of a rally.

This could change along with the fiscal outlook for the U.S. As higher budget deficits loom, the supply of U.S. sovereign debt is likely to grow (unless growth spurs higher tax revenues and/or lawmakers agree to curtail government spending.) That itself should lead to higher rates. But while the supply of debt may increase, so too would the demand, specifically from aging populations demanding sources of secure income. The net effect of consistent or growing supply and strong demand could be interest rates that stay where they are. They possibly could at least return to their long-term average of 4%, but is there potential for rates to break out above their long-term averages? It seems unlikely given the dynamics at work.



## Technology

# 7.5B

World population, Nov. 2017

# 2.0B

Monthly Facebook users,  
Nov. 2017

*"Data are becoming the new raw material of business."*

Craig Mundie  
Former Chief Research and Strategy  
Officer, Microsoft

# \$20B

Projected value of global  
blockchain market in 2024.  
Source: Transparency Market  
Research, Jan. 18, 2017.

### 3. Social media grows up

Social media platforms like Facebook and Twitter tend to get more attention, or blame depending on your perspective. We witnessed in 2016 how these platforms can be used to transform the electoral process; Donald Trump's campaign was very effective in using social media to reach and motivate likely voters, and as President he is a proficient and adept user of Twitter himself. We can now also see how social media can demarcate the existing divisions within our society, enabling many people to self-select into groups or "tribes" that share similar opinions and beliefs but that are also resistant to outsiders or mostly void of differing views.

In a sense, social media companies like Facebook and Twitter are becoming more like media or entertainment companies, but they still hold onto many of the ideals that guided them as tech firms. For example, when it comes to content, the big social media companies tended not to provide much oversight for the user-created and user-published material on their platforms, preferring to stick to the geekier side of their businesses such as creating the user experience and collecting data on their users' habits. But because these firms depend in large part on revenue from advertisers, who don't want their products or services presented alongside questionable or objectionable content from social media users, this attitude may change. Case in point is Facebook's recent decision to hire 1,000 "content reviewers" to screen advertising content.<sup>2</sup>

### 4. Big data, privacy and security

Another issue emerging among tech companies—and not just social media firms—is privacy. Companies are collecting vast amounts of data about us whenever we visit a website or use our smartphones to take photos, find directions or hail a rideshare service like UBER. What happens to this data is largely unknown—some firms may use it to improve their product offerings, but others are certainly selling the data they have collected to marketers who crave more information about what we do with our technology tools. In some respects, this is not much different and no more harmless than the market research companies have long sought about their potential customers—technology has just made it easier to collect and analyze this data.

But there are other risks in this widespread collection of data, namely from hackers who seek to access and distribute personal information for nefarious purposes. Cybersecurity is becoming an increasingly important issue for organizations, not only for those businesses that have troves of data on their customers but also for governments that have personal information in tax and voting records. The risks of vast data collection and the vulnerabilities of an inter-connected world are becoming more apparent as technology permeates our lives; this year's security breach at Equifax was a prime example and alerted many people to how much their personal information may be at risk.

### 5. Blockchain as a potential solution

For businesses that rely extensively on trust, protecting customers from security breaches and data hacks will likely become more imperative going forward. While cybersecurity may seem like a never-ending battle—hackers will get more sophisticated as organizations get more defensive about security—one potential solution is emerging in blockchain technology.

<sup>2</sup> "Facebook is hiring another 1,000 people to review and remove ads" Recode, Oct. 2, 2017. <https://www.recode.net/2017/10/2/16395342/facebook-mark-zuckerberg-advertising-policies-russia-investigation-election-moderators>



## Technology

*"I think we should be very careful about artificial intelligence. If I had to guess at what our biggest existential threat is, it's probably that."*

Elon Musk  
Founder, Tesla Motors

You may have heard about blockchain as the technology behind Bitcoin and other cryptocurrencies. The incredible rise in Bitcoin prices in 2017 was driven more by mania than fundamentals and entranced not only investors but the financial media as well. But it's the blockchain technology behind Bitcoin that has the potential to be revolutionary. The encrypted, transparent and distributed nature of blockchain transactions offer a layer of security that can prevent the hacking, copying or manipulation of data.

Many industries that record, store and transmit vast amounts of data will find blockchain appealing, most logically among banking, financial markets, healthcare and governments. But other industries are looking into the advantages of blockchain as well; for example, Boeing is working with blockchain technology to create a security solution that will protect the GPS network from illegal tampering.

### 6. Rise of the robots

Automation is another technology trend that is shaping not only the economy but our society too. It's hard to say automation is entirely new or emerging—robots have occupied space on many factory floors for some time now. But "robots" are appearing more and more in other places, most notably in drones and self-driving vehicles. Automation is not just about machines, however; many tasks that use more brain power than physical labor can also be automated through the use of algorithms. Computer code is used to trade stocks, populate your social media feed, and even write content for news web sites.

It's beneficial to ask at this point in the evolution of our technological world if we want to establish limits on automation and if so, where and how much. How much of our economy or our way of life do we want to put on auto-pilot? It's also a critical moment to consider the effects of automation on the employment markets. Many people in the "blue collar" workforce have already experienced the disruptive effects of automation, but soon this displacement will spread to "white collar" employment as well. In many respects, it makes sense to automate low-value work so people can use their skills and talents more effectively. But this kind of transformation doesn't happen overnight, and the effect that obsolescence can have on people individually and within communities can contribute to other society problems.

## Society

*"[Income inequality] is the biggest issue of our time—the biggest economic issue, the biggest political issue, and the biggest social issue."*

Ray Dalio, Founder  
Bridgewater Associates  
(World's largest hedge fund)

### 7. The persistence of income inequality

The problem of income inequality came into the public's consciousness a few years ago, and the issue really hasn't gone away. If anything, you could say the divide between the richest Americans and everyone else may be at its widest ever; a recent paper published by the National Bureau of Economic Research found that the richest 1% of Americans own 40% of the country's wealth, more than the bottom 90% combined.<sup>3</sup>

Many economists see the arrival of automation and the increasing pace of technology as the root cause of the income inequality problem. No doubt many skilled workers were made obsolete by the development of automated processes and tools, and many of these workers were either unable or unwilling to adapt to changes in the nature of their work. And while the pace of economic growth over the last nine years has been favorable and employment growth particularly robust, average wages for American workers have lagged these gains.

<sup>3</sup> "The richest 1 percent now owns more of the country's wealth than at any time in the past 50 years" Washington Post Wonkblog, Dec. 6, 2017. [https://www.washingtonpost.com/news/wonk/wp/2017/12/06/the-richest-1-percent-now-owns-more-of-the-countrys-wealth-than-at-any-time-in-the-past-50-years/?utm\\_term=.bdbc52145b31](https://www.washingtonpost.com/news/wonk/wp/2017/12/06/the-richest-1-percent-now-owns-more-of-the-countrys-wealth-than-at-any-time-in-the-past-50-years/?utm_term=.bdbc52145b31)



## Society

*"It appears that younger people are willing to treat transportation as an on-demand service, rather than paying the fixed price of owning a car."*

Scott Kelly  
University of Michigan  
Energy Institute

There is no simple solution to this issue. A continuing rise in economic growth should help, as more workers participate the benefits of business expansion. But the pace of automation and globalization isn't likely to reverse either—that would result in more displacement of current workers and exacerbate the income inequality problem. The idea of a universal basic income (UBI) has been floated by some business leaders, including Facebook founder Mark Zuckerberg, as a means of providing some degree of social insurance to workers who find themselves displaced from the workforce due to technological change. As the chasm between income strata persists, we'll likely see ripple effects throughout our economy and society, including in consumption patterns, housing, debt level, education and more.

### 8. Demographic changes

Baby boomers have defined American life for most of its post-WWII history. But as this generation ages and enters retirement, a significant demographic shift will take place. Much of the focus of this shift is on the Millennial generation, generally defined as those born in the late 1980s and 1990s and who came of age at the turn of the century. The Pew Research Center noted the size of the Millennial generation surpassed the Baby Boomer generation in 2015 (75.4 million Millennials vs. 74.9 million Boomers). Perhaps what's more significant about Millennials than their numbers are their changing attitudes and beliefs—Millennials tend to be more tech-centric and social, which would come naturally given their early exposure to technological progress. But this generation is also entering adulthood with different views and habits—for example, rates of home and vehicle ownership are lower among Millennials than they were among older generations when they were at the same age. Also, Millennial shopping patterns tend to be different and many prefer the experience of casual dining to fancier restaurants or cooking and eating at home. Should these patterns persist as Millennials enter middle age, it could have wide-ranging effects on many sectors of the economy.

While the focus of demographic change has landed on the rise of the Millennials, it's also important to consider how older generations will change in the coming years. The wave of retiring Baby Boomers will place greater demands on healthcare facilities and real estate. But don't expect Boomers to age gracefully—they are sure to bring their attitudes about eternal youthfulness and desire to live longer lives into retirement. Then there's the generation in the middle, often referred to as Generation X, who will become the next "sandwich generation". Many will be squeezed between the demands of providing care for their children and their parents at the same time. Also consider that many people in older generations will be nearing or entering retirement woefully underprepared—household savings rates have been low for years, and those who have saved have also experienced two significant stock market downturns in the last 20 years. The lack of retirement preparedness and the rising demand for healthcare will likely tax government budgets in the decades to come.

## Culture

### 9. America becomes more multicultural

While the age demographics of America are shifting, so too is the complexion of the U.S. population. In the coming years, the racial profile of Americans will change—projections from the Pew Research Center show a declining percentage of white population to below 50% by 2055, while the estimated share of the U.S. Hispanic and Asian population rises to 23% and 12% respectively.<sup>4</sup> (The projected share of the black population is expected to remain steady at 12-13% through 2065.) America will not only begin to look more mixed

<sup>4</sup> "Projected U.S. Population by Race and Hispanic Origin, 2015-2065, with and without Immigrants Entering 2015-2065" Pew Research Center, Sept. 24, 2015.



## Culture

### Most diverse cities in America

1. New York, NY
2. Jersey City, NJ
3. Houston, TX
4. Dallas, TX
5. Silver Spring, MD

Wallet Hub 2017 Survey

*"Human beings are not perfect. Their institutions are not perfect, but they have to keep trying. And America has to help people keep trying."*

Condoleezza Rice  
Former U.S. Secretary of State and national security adviser

in terms of racial composition but also in terms of religious belief. The biggest change in America's belief practices will be the rise of the unaffiliated—their numbers grew by 6.7% between 2007 and 2014 in a Pew Research survey, while the number of Christians declined by 7% and those affiliated with other religions rose by only 1.2%<sup>5</sup>

Globalization is one primary driver behind America's changing demographic complexity, as levels of immigration increase across the world. The U.S. Census Bureau projects the share of foreign-born U.S. citizens to increase to nearly 20% of the population by 2060, up from 13% in 2014.<sup>6</sup> These trends may be influenced by changes to immigration regulation down the road, but the globalization genie is essentially out of the bottle and the mobility of global citizens and migrants can only be expected to increase, not decrease. That being said, the U.S. will have to address problems with its existing systems of immigration and naturalization, not only for the benefit of future U.S. citizens but for the country itself as a whole. Immigration may contribute to disruption in our economy and society, but new migrants can also boost our working-age population and help increase the overall productivity of the U.S. economy.

### 10. The decline of institutional trust

While Americans have many reasons to be optimistic about the future, including the economic, technological and societal trends discussed previously, it's also important for us to address some of the more pessimistic outlooks for the next few years. As a society, America seems to have become more divisive, discordant and anxious. Perhaps these divisions have always been there, and social media has only made them more obvious, but you can see them everywhere—between income levels, religious affiliation, educational attainment, rural versus urban, etc. Within these separate "tribes", these divisions lead to suspicion of outsiders and outside viewpoints, fear of change and disruption, and perhaps most significantly, an overall drop in trust in traditional institutions.

When taken together, the numbers can paint a bleak picture about the national mood: only one-third have confidence in the presidency; one-quarter have confidence in the media; one-fifth have confidence in big business; and one-eighth have confidence in the U.S. Congress. The most trusted organization in the U.S. is the military, at 72%.<sup>7</sup> Some of the loss of trust is well-deserved, especially when confronted with evidence of ethical lapses and moral failings, from the pay-to-play abuses of government officials to accusations of sexual harassment and assault from figures in sports and entertainment. The erosion of trust should be of critical concern; when as citizens we lose trust in the institutions that serve as the foundations of our society, we become unmoored from the values that helped make our nation strong and durable. It's incumbent on our leaders and those in positions of authority to uphold these values and act in ways that restores and maintains the trust of the citizenry.

5 America's Changing Religious Landscape. Pew Research Center, May 12, 2015. <http://www.pewforum.org/2015/05/12/americas-changing-religious-landscape/>

6 "Projections of the Size and Composition of the U.S. Population: 2014 to 2060" U.S. Census Bureau, March 2015. <https://www.census.gov/content/dam/Census/library/publications/2015/demo/p25-1143.pdf>

7 "Americans' Confidence in Institutions Edges Up" Gallup, Inc. June 26, 2017. <http://news.gallup.com/poll/212840/americans-confidence-institutions-edges.aspx>



## Where we go from here?

The idea behind this outlook wasn't to propose any solutions to these issues or to dwell on the problems they create. My intention is to raise awareness of what I see as the primary issues facing our country and our economy in the years ahead. The direction we take as a country does have an influence on the financial markets and the value of household wealth. But this knowledge can also help us face these future challenges these issues will present in the years to come.

Given all of the possibilities available to us as a country, as a community and as individuals, I do see reasons for optimism and hope. I do not see any of the likely challenges outlined in this report as insurmountable; I believe as a country we possess the resources, knowhow and spirit to seek opportunities that will help solidify our futures and improve our lives along with those in our families and in our communities.

It will remain critical for us to be prudent, deliberate and conscientious when evaluating the opportunities and challenges that await us—the level of noise and distraction in our world right now can make it difficult to focus on what's important. But occasional reminders of our potential and our capabilities for success can help us stay on the path toward better futures for us all.

Sincerely,  
Robert M. Wyrick, Jr.  
Managing Member  
Post Oak Private Wealth Advisors  
Houston, Texas

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