



## CHARLES FISH INVESTMENTS, INC.

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### Charles W. Fish

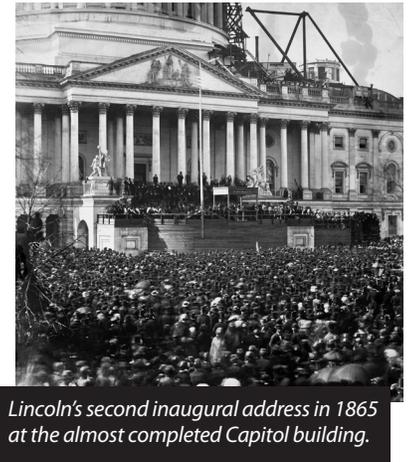
Chairman and Chief Investment Officer

January 6, 2020

*Letter from the Chairman...*

*"We are not enemies, but friends. We must not be enemies."  
Abraham Lincoln's Inaugural address, March 4, 1861*

Our 16th president also told us that to "abandon truth was to abandon freedom."  
Here are a few truths that hyper-partisanship has been drowning out:



*Lincoln's second inaugural address in 1865 at the almost completed Capitol building.*

- Our population growth rate, due to increasing deaths in our aging citizenry, declining fertility rates and restricted immigration, is the lowest it has been for over 100 years. This has profound implications for our economy, especially with regard to supporting Social Security and other pension obligations.
- Decreasing rates tend to have lessening simulative effect on the economy. Negative rates, moving to even more negative levels, are incapable of promoting growth. How many times can you take 6 from 30? Infinitely, if you allow negative values? Five times if you don't? Neither; the answer is once! This is because subsequent to once, you are subtracting from 24 and further diminishing values, not 30.
- Pension funds, insurance companies and individual savers, all need higher returns than the bond markets (even junk) can now provide. It is only natural that an ever-larger percentage of their assets will be diverted to equities and other alternative investments until they too become vulnerable asset bubbles. I suspect that the canary in the coal mine, when it comes, will be real estate.

Two thousand nineteen was a banner year for all asset classes, including municipals. The 10-year Treasury note dropped in yield from 2.69% a year ago, to 1.92%. The 10-year high grade munis went from 2.28% a year ago, to 1.45% at the end of 2019. The distinction to note is that the percentage of muni yield to Treasuries that was 84.76% in 2018, has decreased to only 75.52% today. Demand for municipal bonds continues to surge ahead of supply and risk premiums for lower rated and non-rated bonds is about half of what it was three years ago.

The State of California is estimating a \$7 billion budget surplus and the Securities and Exchange Commission appears to be about to broaden their 37-year-old definition of an "accredited investor." Good news on both counts. The compression in risk premiums confronting a portfolio manager now is bad news. "Better, cheaper, faster" may serve for manufacturing, but not muni credit analysis. Be sure the advice you're getting is sound and thorough.

The Japanese stock market peaked in 1989. Since then, it has actually declined 40%. Their national debt is a staggering 300% of GDP. In this country, the gap between the very wealthy and the rest of us is widening. Business investment is weak. The Federal Reserve is once again growing its balance sheet. U.S. national debt is expanding rapidly, both in nominal terms and as a percentage of GDP. The quicksand of deflation is very scary. Just ask the Japanese.

My greatest fear is the low priority many states and political subdivisions give to pension reform.

Winston Churchill famously defined tact as "the ability to tell someone to go to hell in such a way that he is looking forward to the trip." Unfortunately, I lack Sir Winston's tact. The complacency, over decades, of communities with grossly underfunded pension liabilities is the product of perpetually consigning the problem to a third-tier status. Nothing happens and the problems compound. Steps should have been taken long ago. They still can. The retirement age can be gradually increased. They can stop using ridiculously high performance assumptions. They can insist on reasonable vesting periods. Most importantly, they can start enrolling new employees in defined contribution plans instead of the defined benefit plans that the private sector abandoned 50 years ago. By disguising, burying, or simply ignoring the problem year after year after year, a community will eventually dig itself a hole so deep that the only recourse is bankruptcy. Sadly, the courts to date have favored pensioners at the expense of bondholders.

Wishing you a happy, healthy and prosperous new year.