The Kiplinger Letter

FORECASTS FOR EXECUTIVES AND INVESTORS

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Celebrate our 95th Anniversary with this free issue!

Dear Client: Washington, Sept. 28, 2018

ECONOMIC FORECASTS

GDP growth
2.9% in '18, up from 2.2% in '17

Interest rates
10-year T-notes ending '18 at 3.2%, rising from 3.0% currently

Inflation
2.5% at end of '18, from 2.1% in '17

Unemployment
Ending '18 at 3.7%, dropping from 3.9% currently

Crude oil
Trading from \$65 to \$70 per barrel in December

Consumer confidence
Highest since 2000; will stay at high level through most of '19

Complete economic outlook at **kiplinger.com/outlooks**

Retailers can expect a merry holiday season this year. Consumers are feeling good, flush with cash and eager to spend. Registers will be ringing briskly.

RETAIL

Look for spending to grow by 4.6%...off a bit from last holiday season's blowout 6.1% but still a very strong end to an already good year.

Online sellers are in for another big jump... Internet sales up 15%, accounting for 16% of all holiday purchases. For the first time, shoppers will buy more online via phone than from computers. Sales made through social media sites will also surge... up 51% on Instagram (but down 7% on Facebook).

Physical stores won't be left out in the cold. Their sales: Up a solid 3.5% from a year ago.

Note the blurring of in-store and online sales as more folks shop both ways. Most buyers under 45 will be browsing on their phones while in the store, checking to see if an online seller offers a better price. But many shoppers really do want to shop in person... as a social outing, to enjoy the festive atmosphere, and to see and touch products. Also, most consumers say they like the option of ordering online and picking up their purchases at a store.

Expect customers to get an early start on their holiday shopping. This year, there are 32 shopping days between Thanksgiving and Christmas...the most possible. And many retailers will be starting their sales promotions in October. Nevertheless, Christmas Eve figures to be a heavy buying day for procrastinators with smartphones.

Among the hot gifts this year for kids: Educational toys such as Anki's Cozmo, an interactive robot, or Ozobot's Bit robot, which introduces kids to computer coding.

For girls, dolls and stuffed animals that are a mystery inside the packaging, such as Hatchimals and dolls from L.O.L. Surprise. The discovery is part of the appeal.

For older folks, card games old and new are in...Uno, Exploding Kittens, Cards Against Humanity, etc. Also board games such as Connect4 and Catan... perhaps a sign that electronic devices have got so numerous as to be a turnoff.

Two headaches for retailers in an otherwise rosy season: Shipping costs, especially for online sellers feeling pressure to match Amazon's free shipping deals. Shipping surcharges figure to be lofty, especially given strained trucking capacity.

And finding enough seasonal help. Retailers are already working overtime to find enough temporary workers to handle the holiday rush. With labor so scarce, they're expanding their search to retirees, college students home for the holidays, etc. Many are offering juicy benefits, such as deep employee discounts and gift cards, plus higher wages. Firms in shipping and warehousing are also beating the bushes.

Seasonal hiring will near 700,000...a further strain on a tight labor market.

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TRADE <u>The escalating U.S.-China trade war heralds economic pain for both sides</u>. New American duties on $200 billion worth of Chinese imports raise prices for buyers of everything from TVs to leather handbags. Chinese exporters stand to lose from reduced sales to the U.S., though such sales contribute less to China's economy than they used to. Retaliatory Chinese tariffs on U.S. goods hurt Chinese buyers, too.

<u>American farmers are particularly exposed to the cross fire</u>. Soybean growers normally send a third of their crop to China, but its 25% levies on American beans will force Chinese importers to look elsewhere...such as Brazil...and pay higher prices.

<u>Neither side shows any sign of backing down</u>. The White House may decide to impose tariffs on an additional $267 billion of Chinese imports. Beijing nixed talks that were meant to resolve the two countries' differences and is mulling new moves to hurt U.S. firms, such as boycotts or axing efforts to halt intellectual property theft.

<u>If the trade storm worsens, Western states are best situated to weather it</u>. Their diverse economies tend to be geared more toward high-technology industries, which are less vulnerable to the trade war. From Texas to Washington, labor markets and housing markets are healthy, and local business conditions are strong. Calif. is an outlier to some extent because of all the freight passing through its seaports, but Midwestern ag states have more to lose because of their dependence on farming.

<u>So far, the trade fight fallout is being outweighed by the robust economy</u> across the country as a whole. Lower taxes and reduced regulation are spurring hiring and boosting business optimism, even as many firms worry about rising protectionism.

M&A <u>Mergers and acquisitions are going strong</u>, with the first half of the year seeing a one-third jump in M&A deals by dollar value. Trade-related fears appear to be prompting U.S. companies to look for partners or takeover targets at home, rather than engaging in cross-border tie-ups that could suffer from tariffs. Most of the 10 largest deals so far this year involved only American businesses.

<u>Health care is a particularly fertile sector for dealmaking</u>. One megadeal, insurer Cigna's $52-billion purchase of pharmacy benefit manager Express Scripts, is nearly complete, and regulators are reviewing a proposed merger of Aetna and CVS. Firms in the industry see consolidation as a way to control costs and protect profits, especially with web giant Amazon's $1-billion purchase of online pharmacy PillPack.

INVESTING <u>More investors could get a crack at owning a piece of private companies</u>. The Securities and Exchange Comm. is considering relaxing the standards for becoming an "accredited investor," who can purchase stakes in businesses that aren't publicly traded on stock exchanges. Currently, you need at least $1 million in assets excluding your home, or income of more than $200,000 per year to qualify. The SEC may instead let applicants qualify based on certain professional credentials or take an exam to prove their financial knowledge and ability to handle such risks.

<u>The change could unleash a flood of new capital to back private businesses</u> and make it even easier for promising start-ups to grow without going public. Uber and Airbnb, for instance, have become giants, thanks to abundant private financing.

<u>Emerging-market stocks have swooned lately</u>. <u>But don't ditch them entirely</u>, say the editors of *Kiplinger's Personal Finance* magazine. For long-term investors, this could be a buying opportunity, though they'll have to endure lots of volatility.

<u>Consider these actively managed funds first</u>: Baron Emerging Markets has beaten its benchmark index over the past five years. American Funds New World eases volatility by investing some assets in big multinationals that do a lot of business in emerging markets. Matthews Asia Innovators has held up well in down markets.

<u>Some solid exchange-traded funds</u>: Vanguard FTSE Emerging Markets ETF. Schwab Emerging Markets Equity ETF. iShares Core MSCI Emerging Markets ETF. All three provide broad exposure to emerging markets while charging very low fees.

POLITICS

Want an early read on the 2020 presidential election? Keep an eye on Fla., where the gubernatorial contest is heating up. Both parties' candidates look like rising political stars: 39-year-old Democrat Andrew Gillum, the mayor of Tallahassee, versus 40-year-old Republican Ron DeSantis, an ex-House member. Gillum was seen as the most liberal of the Democratic candidates. DeSantis, a Navy veteran, is a staunch supporter of President Trump. Whoever wins, it will say a lot about the president's support in this large, bellwether swing state.

A GOP victory would be a confidence boost for the president. By contrast, if the Democrat wins, he may feel the need to do more to court centrist voters.

Recent polls slightly favor the Democrat, but it's probably too close to call.

The makeup of Congress will also be affected by the Fla. governor's race. The winner will oversee the next House redistricting process. A growing population means there will likely be more Fla. House seats. Whoever redraws the map will raise his party's chances of winning more of the expanded number of seats.

LABOR

Look for more employers to help younger workers pay off student loan debts. Almost half of workers under age 35 have such debt, which averages $34,000. Contributing toward paying it down is an attractive benefit for millennial employees and gives employers another way to attract talent at a time when workers are scarce.

A new tax wrinkle makes debt repayment aid more attractive for employers. In a private ruling, the IRS has OK'd one firm's plan to make tax-deductible payments to a worker's 401(k) plan in return for the worker making student loan repayments. So employees are indirectly being helped with debt and the firm gets a tax break.

The Trump administration is cracking down on abuses of H-2B visas, passes that allow employers to bring in foreign nationals for seasonal work. Demand for the visas is strong, especially among landscaping businesses, hotels and seafood processors. Immigration officials are going to be looking for evidence that companies employing H-2B visa holders truly exhausted their hiring options among American workers and that the jobs foreigners are doing are really seasonal.

AG

Watch for large retailers to start supplying more of their food themselves, following Costco's decision to open a huge chicken processing plant in Neb. The bulk warehouse store wants more control over its supply chain to manage costs and allow it to keep selling its popular rotisserie chickens for $4.99. Costco's plan is to eventually process 100 million birds per year, yielding a third of its roast chicken.

Such vertical integration could pay off in big cost savings, allowing retailers to curb prices while still boosting profits. Retail giants such as Kroger and Walmart already own plants that produce various dairy products. Meat facilities could be next.

REGS

Although President Trump continues to tout his progress on deregulation... Environmental groups have some advantages versus the White House in their ongoing efforts to derail the Trump administration's deregulatory efforts. Flush with donor cash and teeming with young idealists willing to do pro bono work, they are winning court battles and even secured the exit of ex-EPA chief Scott Pruitt.

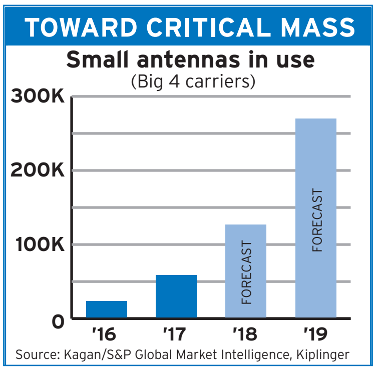
The slow rulemaking process makes their job easier. There are many hoops that federal regulators must jump through before either imposing or repealing a rule. That gives environmental groups plenty of time to file a legal challenge. The practice of forum shopping...seeking out a favorable court to impose a nationwide injunction against a rule they dislike...makes it more likely the challenge will ultimately succeed.

Among their recent victories: Blocking EPA decisions to revise, roll back or delay rules on coal ash disposal, chemical plant safety and truck glider kits.

TELECOM Businesses will soon have a shot at choosing their own toll-free numbers. For the right price. For the first time, the Federal Communications Comm. will auction toll-free numbers...17,000 of them starting with 833. Previously, digits were given on a first-come, first-served basis, so landing specific ones was tough.

Some numbers will go for big bucks, perhaps even pushing past $1 million for particularly desirable or memorable ones, such as 833-LAWYERS or 833-333-3333. For the first time, the FCC will allow private buying and selling of the 833 numbers.

Toll-free numbers are still wildly popular, despite the rise of chat apps, texting and e-mail. About 41 million toll-free numbers are in use for calls and texts.



A telecom battle is pitting Uncle Sam against localities. At issue: The swarms of small antennas being installed in cities and towns across the U.S. to carry airwaves for the next generation of cellular service, known as 5G. Though far faster, 5G signals travel shorter distances, requiring antennas to be situated close to one another. The feds are set to preempt local rules and cap the fees levied to access telephone poles, rooftops and the like. The move is a big win for cell carriers, who could save $2 billion. The FCC says the money will be reinvested in rural areas. The action is sure to hasten the pace of network upgrades, especially in well-populated cities.

But many local governments will push back intensely, citing lost revenue and lost control over telecom gear in their neighborhoods. Expect legal challenges.

SUPREME COURT There are no blockbuster cases on tap yet for the next Supreme Court term, which starts Oct. 1. The Court has agreed to hear 43 cases and will add more as the session goes on. Several major decisions that the Court punted on last term could reappear, including cases on partisan gerrymandering and religious freedom.

If it lacks a full bench, the Court may steer clear of marquee cases that could result in 4-4 ties, the same stance taken after the death of Antonin Scalia. Much hinges on Brett Kavanaugh's nomination and when a ninth justice is seated.

Partisan passions in Washington have seldom been higher than they are now amid the battle over Judge Kavanaugh's nomination. As we went to press on Friday, it *still* wasn't clear whether he can be confirmed, or even when the Senate will vote. We take no position on the accusations against him. But a couple of things seem clear:

The confirmation fight puts an even higher premium on Nov.'s Senate races. Both parties are hell-bent on being able to OK or block the president's next judicial pick. (Remember, there are still dozens of vacancies throughout the federal court system.)

The little bipartisanship there was in the Senate is gone. The mood here is ugly.

Yours very truly,

Knight Kiplinger

Sept. 28, 2018 — THE KIPLINGER WASHINGTON EDITORS

P.S. The first *Kiplinger Letter* was mailed 95 year ago, on Sept. 29, 1923. A single page of type-written forecasts on a variety of topics: Outlook for tax reform, gov't regulation of coal industry, value of the German mark, exploding growth of radio (the hot new technology), wheat exports and politicization of the Federal Reserve.

Our mission is the same today: Impartial forecasts of likely outcomes, practical information to help you manage your organization's and personal affairs.

Please let us know how we can help. Your queries are always welcome.

Kiplinger's PERSONAL FINANCE ADVISER

SEPTEMBER 2018 ▪ IDEAS TO ACT ON NOW ▪ A MONTHLY EDITORIAL SUPPLEMENT

The Best Stocks of the Bull Market

The current bull market became the longest on record on August 22, at least dating back to 1932. Standard & Poor's 500-stock index has returned a cumulative 415.9% over the run, and plenty of individual stocks have done much better. We asked S&P Global Market Intelligence to set its time machine back to the beginning of the bull market—March 9, 2009—and give us the stocks that have risen the most in the S&P Composite 1500. The Composite includes components of the large-company S&P 500, the MidCap 400 and the SmallCap 600—covering 90% of the U.S. market. The top five stocks are ASGN Inc., a professional staffing company (symbol **ASGN**; $93 share price; cumulative total return 6,386%); Netflix (**NFLX**; $364; 6,163%); La-Z-Boy (**LZB**; $33; 5,830%); United Rentals, which leases equipment (**URI**; $158; 5,092%); and WellCare Health Plans (**WCG**; $304; 4,655%). **KPFM**

Top Online Brokers

As the world of online brokers evolves, it has become increasingly difficult for firms to stand apart from one another. Their fees and commissions are generally low, their online tools are plentiful, they provide generous access to low-cost investments, and the firms' websites and mobile apps are crammed with research reports, charts and videos. But zoom in, and you'll find that each firm has something different to offer. We surveyed eight firms with a wide range of investor-friendly offerings and judged them on a variety of factors, such as commissions and fees, investment choices, research, and tools. Overall, TD Ameritrade beat Charles Schwab by less than a nose, with Fidelity and then E*Trade fast on their heels. For more on how each firm scored, visit *kiplinger.com/links/brokers2018*. **KPFM**

IRS Audit Rate

Last year's individual IRS audit rate was 0.6%, or one out of every 167 returns. But that doesn't tell the whole story. When calculating the 0.6% figure, the IRS counts only in-person exams and correspondence audits done by mail. But the agency questions many more filers. For example, it doesn't count as audits computer-generated notices about mismatches between the income and deductions reported on tax returns and the data included on third-party information returns, such as form W-2s, 1099s and 1098s. Also not counted are math error corrections and certain programs that may require taxpayers to send in documents or other information. If all of these procedures are factored in, the IRS's coverage rate for last year jumps to close to 6%. **KTL**

Make Your Money Last

How do you ensure your savings will see you through retirement? Advisers often recommend the 4% rule: Retirees in the first year of retirement withdraw 4% from their 401(k)s and other tax-deferred accounts. Thereafter, retirees increase the dollar amount of annual withdrawals by the previous year's inflation rate. This strategy is designed to make a portfolio last at least 30 years—through bear markets and bouts of high inflation.

The bucket system provides extra insurance. You divide your retirement money into three "buckets." One is for cash that you'll need in the next year or two, including major expenses, such as a vacation or car. The next bucket holds income investments and is for money you'll need in the next 10 years. The third is for money you'll need in the more distant future and contains higher-growth, long-term investments.

In addition to investments, retirees need guaranteed income. If you don't have a traditional pension to supplement Social Security, you can create one with an immediate annuity, which pays a monthly income in exchange for a lump sum. **KPFM**

Save Money on Medicare

Medicare Part D and Advantage plans are undergoing some major changes in benefits and coverage for 2019. More Part D prescription-drug plans are lowering premiums, but a lower-cost plan could be more expensive if it charges high co-payments for your drugs. Fortunately, the Medicare Plan Finder (*www.medicare.gov/find-a-plan*; available after October 1 for 2019 plans) helps you work through these calculations and see how much you'll pay for your drugs. If you have a Medicare Advantage plan (which combines medical and drug coverage), you may have new insurers to choose from, more options with lower premiums but higher out-of-pocket costs, and even some extra benefits. You can also compare these plans at *www.medicare.gov/find-a-plan*. **KPFM**

Small, Creative and Successful Bond Funds

It has been a trying year for the mammoth, cookie-cutter funds that track a bond index or otherwise seek to emulate the taxable U.S. bond and mortgage universe. More attractive are minnows—small companies that pay big dividends—such as PGIM Unconstrained Bond (**PUCAX**; 2.1% return in 2018 as of September 4; 6.3% three-year annualized return; 3.0% yield), which can invest in a variety of fixed-income assets. Another mighty mini is ICON Flexible Bond (**IOBAX**; 1.2%; 3.7%; 3.7%), which picks up investments most of its competitors can't or won't get involved in. Also obscure but sweet is Shelton Tactical Credit Fund (**DEBTX**; 5.5%; 6.1%; 5.2%), targeting low-duration, short-term, high-yield debt. Consider these satellite, not core, holdings in your portfolio. **KII**

Dividend Funds With a Twist

Broad dividend exchange-traded funds have amassed tens of billions of dollars in assets, largely because they provide easy access to large baskets of stocks at a low cost. To compete, some fund providers have launched dividend ETFs that go a step or two past plain-vanilla indexes. The funds look to offer income while focusing on slivers of the market with extra potential benefits, such as low volatility or growth from a specific sector. Dividend ETFs that "do it differently"—and that may have a performance edge—are Invesco S&P 500 High Dividend Low Volatility (**SPHD**, yielding 4.1%), ALPS Sector Dividend Dogs (**SDOG**, 3.7%), First Trust Nasdaq Technology Dividend Index (**TDIV**, 2.6%) and Fidelity Dividend ETF for Rising Rates (**FDRR**, 2.9%). **KRR**

Online Bargains That Aren't

A Government Accountability Office investigation found that many products sold by third-party sellers on popular websites such as Amazon.com and Walmart.com were counterfeit—and dangerous. Frequently counterfeited items include phone chargers, cosmetics, batteries, travel mugs, contact lenses and toothpaste. Your safest bet is to buy directly from the manufacturer's website. Otherwise, check the manufacturer's site for a list of authorized third-party distributors. If the product listing states that there's no packaging available with an item, that's a warning sign that the item is a fake. And be skeptical of an extremely low price. **KPFM**

Pump Up Gas Rebates

With the average price of a gallon of gas recently close to $3, credit cards that offer rebates on fill-ups are appealing. Among major gas-brand cards, the BP Visa is worth a look. For every $100 you spend at BP, you get a discount on your next fill-up of 25 cents per gallon on up to 20 gallons. Plus, you get 15 cents off per gallon for each $100 you spend on grocery, restaurant and travel purchases, and a 5-cent discount for each $100 spent everywhere else—except at other gas stations. Or consider using a credit card that offers points or cash back for purchases at a broad range of gas stations, such as the PenFed Platinum Rewards Visa Signature card (offering five points per dollar spent on gas) or the Fort Knox Federal Credit Union Visa Platinum card (5% cash back on gas). **KPFM**

Tax Break for Electric Cars

If you're in the market for an electric car, see if you qualify for a federal tax credit ranging from $2,500 to $7,500. The credit begins to phase out when carmakers sell 200,000 plug-in electric vehicles. Tesla recently reached that threshold, but the Nissan Leaf and Chevrolet Volt still qualify for the full credit. Congressional House Republicans tried to do away with this break last year as part of tax reform. But Senate tax writers didn't go along, and the credit survived the new tax law intact. **KTL**