

Fourth Quarter 2019

Economic and Market Commentary

By Ray L. Lent, Founder, The Putney Financial Group; Chairman, Portsmouth Financial Services

Through much of human history, man lived as hunter gatherers, nomadic people living year to year, fishing, chasing game, foraging for nuts, berries and fruits. Their range changed with the seasons. They were strong, healthy people with sound bones and teeth, burning off each day an equal number of calories as they consumed. But like all humans, sometimes things could go awry. Sickness could set in, illness could occur or accidents could happen. When they did, how would the people of nomadic societies react? Would they leave the injured and simply move on to the next kill or would they try to heal the fallen and ease the pain?

A Diplomat's Story

His name is Ephraim George Squier, and historians know him as E. G. Squier. Son of an English minister and German mother, E. G. grew up in the farming community of Bethlehem, New York, a crossroads community on the western banks of the Hudson. Bethlehem prospered in the early 19th century due to its proximity to New York City, Boston and Montreal. Squier had access to books and teachers and was blessed with a keen and inquisitive mind with a special passion for antiquities. By age 20, he was writing and editing for several newspapers. Before he was 30, he and Dr. Edwin Davis co-authored a book which became a landmark piece in American scientific research. In fact, "Ancient Monuments of the Mississippi Valley" became the Smithsonian Institute's first publication.

Author, mathematician and engineer, E. G. demonstrated a rare suite of talents. Those talents were ultimately applied to the world of diplomacy. The United States government appointed him as a special charges d'affaires to all of Central America by 1849. He negotiated treaties and trade agreements as well as helped to settle border disputes in the steaming jungles of places like Nicaragua, Honduras and San Salvador.

Nearing 40 and having spent the better part of the previous 10 years away from his native soil, Squier married the love of his life, Miriam, and moved back to the United States to become the editor-in-chief for Frank Leslie's publishing house.

It's In the Blood

Successful in his new role in publishing, it wasn't long before Squier sought out new adventures, so when the opportunity arose for him to be appointed U. S. Ambassador to Peru in 1863, he jumped at the chance. Well mannered, intelligent and charming, it didn't take long before he

became a sought-after guest of local society. After a year or so, Squier found himself attending an afternoon tea hosted by a wealthy widow in Cuzco who collected antiquities. After an hour or so, the matron asked E.G. if he'd like to see her collection. With great enthusiasm, he accepted her offer and spent the next several hours examining celts and daggers, funerary pots and jadite beads. What a grand afternoon it was—gracious hostess, appreciative and educated guest viewing a remarkable collection. As evening approached, Squier was about to express his appreciation and bid the matron adieu when his hostess said she'd like him to share his opinion on one more special piece.

Out Comes the Box

Excusing herself for just a couple of minutes, his hostess returned followed by a man servant carrying a square dark mahogany box roughly the size of a small hat box. The servant carefully placed the box between them on a low-slung parlor table, then took his leave.

The hostess encouraged Squier to lift the top from the box, which he did. There nested on a pillow of black velvet was a yellowed and brown human skull. "Go on, take it out," she said. E. G. dutifully did just that, and as he cradled the skull in his hands as though it was the skull of Yorick himself, pointing to a postage-stamp-shaped opening at the back of the skull, she said, "See here. What do you make of that?" Not sure of what he was examining, E. G. he did feel that the cavity was way too uniform in shape to indicate that the opening had occurred through a fall, accident or mayhem. His curiosity was now awakened.

Querying his hostess, E. G. soon learned that she had acquired the skull years before from an antiquities dealer and friend. It had been unearthed in an ancient cemetery deep in the Valley of Yucay. With Squier's posting in Peru soon up, he asked his hostess if he could borrow the skull and take it to New York for research. She graciously agreed, and by mid-1865, Squier, Miriam and the mysterious skull were steaming their way toward New York Harbor.

Anxious to share his conundrum with the scientific community, Squier soon took the specimen to the New York Academy of Medicine for examination. The skull's exact cross hatched outlines around the opening were most certainly the work of man. In E.G.'s estimation, what was before them was the earliest known example of brain surgery dating back to late Paleolithic times, a surgery that had occurred more than 12,000 years before.

Initially, the medical community was at odds that this type of surgery should occur so early in human history. Although the procedure was well known and even had a name, "Trepanation," it was a strongly held belief that the Greeks were the ones to discover it 9,000 years after this skull was buried. Their feeling was that the opening had been done post mortem as some sort of ritual.

Time For a Second Opinion

Not satisfied with the dismissive investigation performed by the New York Academy of Medicine, Squier soon took his specimen to the noted French surgeon and anthropologist, Paul Broca. Broca had solidified his reputation internationally four years earlier when he proved through autopsy that a particular part of the brain was responsible for the known speech defect

that had inflicted his deceased patient since birth. After examining the skull carefully, Broca pronounced emphatically that this was indeed an example of early brain surgery, and that the patient had actually survived for at least several weeks as evidenced by the healing that had occurred around the skull's opening.

As though this revelation was not astounding enough, Broca shared with Squier that this practice was not unique to South America. He had seen similar examples of Neolithic Trepanations performed in the South Pacific using sharpened sea shells along with European examples where flint and obsidian were used as the surgical instrument.

This procedure exists to this day and is referred to in modern medicine as a craniotomy, a procedure often used to relieve pressure on the brain.

The Dawn of a New Age

Around 11,000 years ago, things started to change. Agrarian society started to take hold and hunter gatherers became fewer and fewer. Cultivation became the preferred way of feeding people. Now that people did not have to spend all of their energies producing food, society advanced, and some could become craftsmen and build houses and tools and produce clothing through tanning and weaving.

But as man made the transition, not all was perfect. People became weaker and smaller. They suffered from infectious diseases and dental decay. Not just to sit idly by, society looked to advance medicine to heal the sick and injured.

Early Neolithic remains show primitive dentistry was practiced more than 9,000 years ago, when decayed teeth were scraped and cleaned, with the cavity being filled with tree sap. Almost 5,000 years ago the ancient Egyptians honored Hesy-Ra, chief of dentists and physicians to King Djoser. Three thousand year old tomb paintings in Thebes illustrate early eye surgery. Soon Hippocrates in ancient Greece started the first university and taught his students the importance in medicine of objective observation.

More than a thousand years ago, the Persian physician Rhazes discovered that disease can be communicated through blood and saliva. By 1300, the Italians were producing eye glasses. Granted not all medical trends were successful; leeching and bloodletting are just a few examples of bad ideas. But in the last couple of hundred years, the medical community has learned the importance of antiseptics and sterilization; vaccines have been produced; anesthesia had been invented along with surgical procedures once never dreamed of.

What a Changed Country, What a Changed World

Today, doctors and scientists are advancing robotic surgery, the growth of artificial organs and precision medicines which allow physicians to select medicines and therapies to treat diseases based on an individual's genetic makeup. At the same time, however, global pandemics can now spread in a matter of days via jet travel, and our country is battling a self-induced opioid epidemic of staggering proportions.

When our country was first founded some 233 years ago, the average life expectancy was 38 years. (In fairness, infant mortality played a significant role in that number.) When George Washington was elected, he was 57 years old, Abraham Lincoln was 51, and Teddy Roosevelt was 46 when he won his own election for president. If you look at the political landscape today, three of the leading Democratic contenders—Warren, Biden and Sanders—have a combined age of 224 years. That’s almost as old as our country. If our incumbent serves a second term, he’ll be almost 80. If he should wind up serving a full second term.

It’s clear by the age of many of today’s politicians that people are living longer, healthier and more active lives than ever before. Without a doubt, advancements in medicine have greatly improved the human condition, but the question begs to be asked: At what cost?

Take Heed of a Dire Warning

Our 34th president was a born military leader. Born in Abilene, Kansas, he attended West Point where he played football. Graduating in 1915, he became a newly-minted second lieutenant who trained tank drivers during World War 1. By the time he made Colonel, he was Douglas MacArthur’s adjutant, serving in the Pacific. At the start of World War 11, he became a Brigadier General, soon to rise to a five-star general and supreme allied commander in Europe. He orchestrated the invasions of North Africa, Sicily, France and Germany. After The War, he served as army Chief of Staff. Without a doubt, Eisenhower was one of our country’s greatest military leaders, a distinction that makes his two greatest speeches that much more remarkable.

It’s often said that Dwight D. Eisenhower’s presidency was book ended by these two great speeches. The first came shortly after the death of Joseph Stalin. Eisenhower was only three months into his presidency when he addressed the American Society of Newspapers and Editors in Washington D.C.

At the time of his first major address to the newspaper editors, Eisenhower’s speech was one of the first presidential speeches covered by television. With the Korean War winding down and the possibility of better relations with the Soviet Union, Eisenhower warned both countries of the burden and drain of our countries resources if we continue to build up our military and stoke the fires of a Cold War. Eisenhower eloquently stated the problem:

“Every gun that is made, every war ship launched, every rocket fired signifies, in the final sense, a theft from those who hunger and are not fed, those who are cold and not clothed. This world in arms is not spending money alone. It is spending the sweat of its laborers, the genius of its scientists, the hopes of its children.”

The press referred to Eisenhower’s impassioned warning as, “The chance for peace speech.” Sixteen years later, Yoko Ono and John Lennon took the same plea and put it to music with their song, “Give Peace a Chance.”

Eisenhower’s presidency saw the Cold War deepen but also tremendous economic expansion,

school desegregation and the construction of America's highway system. On January 16, 1961, Eisenhower addressed the nation he had served so well one last time.

Televised throughout the country, Eisenhower expressed his concerns about the importance of planning for the future. He went on to warn his fellow Americans of the dangers of overspending, and especially the dangers of deficit spending. "Don't spend what you don't have." His values never strayed far from his Abilene, Kansas roots.

As thoughtful and well delivered as his farewell speech was, history remembers it for a term coined by Eisenhower when he warned the nation to guard against the potential influence of the *military industrial complex*. An unstated alliance against the nation's military and its defense industry that could sway public policy in untoward ways.

"History Doesn't Repeat Itself But It Often Rhymes."

Mark Twain

Little did we know at the time that Eisenhower's words were prophetic, foreshadowing the elements of another threatening complex that we are facing today and one that goes to the core of our current health care crisis.

Several weeks ago, one of my favorite publications, *The Economist*, featured a lead article entitled, *The Back-Pain Industrial Complex*. Using back pain as an example, the article highlighted the myriad of problems patients endured in either trying to get treatment at all, or on the opposite hand, receiving costly and unnecessary treatments. The Complex is often structured to pay more for doing things than for giving advice. The article goes on to say that, "In America, Australia and the Netherlands, insurers pay for back operations costing tens of thousands of dollars, but barely pay for physiotherapy."

We've grown into a patient society that demands a swift intervention to fix the problem. U.S. insurer Cigna keeps track of their insureds who have had spinal fusions and found that, two years later, these same insureds were in so much pain that 87% of them continued to receive treatment whether in the form of spinal injections, another procedure or pain medication.

If you were to just take back pain alone, forget about heart disease, cancer or diabetes, just back pain, and track how much America spends on it a year in either treatment or lost productivity you are looking at almost \$650 billion, roughly the size of the United States' defense budget. The article goes on to say that back pain is the main reason why Europeans drop out of the work force and a big reason why Americans get hooked on opioids.

Do you have any idea how much we spend as a nation on health care? Almost four trillion dollars a year. Over \$11,000 per capita, more than any other nation on the planet. That's almost

19% of GDP. Fifty years ago, it was just under 7%. If things keep going at current rates of increase in medical care expenses, we'll be spending nearly 50 cents of every dollar produced as a nation on health care by mid-century.

Compare the above numbers to the less than 11% spent in Canada, the 12% in Switzerland, or the 9% spent in the U.K. and you have to ask yourself, "Are we really getting our money's worth?" Keep in mind that, as a country, we spend approximately 7% of GDP on education and defense combined.

Intermission

Thanks for your patience, I'm back now. So I had been writing non-stop for the past three or four hours and decided to take a break and do some independent research. I watched one hour of the Sunday morning news channels. While channel surfing, so as not to be biased, I was reminded how "tough" Ford is, and I saw the occasional mix and match fast food deal for five bucks, but what I saw the most was Big Pharma in action.

You see, since the Food and Drug Administration approved drug ads more than 20 years ago, there has been an ever increasing onslaught of them bombarding our air waves. Here's just a sample of what I saw.

- ELIQUIST An anti-coagulant meant to treat blood clots and lower the risk of stroke
- HUMIRA A treatment for rheumatoid arthritis
- LYRICA A treatment for diabetic nerve pain
- CIALIS Well, I don't need to go into that—you get the picture

Now I'm not sure which are associated with which, but I tried to keep track of some of the known side effects which include dry mouth, bruising, dizziness, swollen tongue, fever, muscle pain, nausea, diarrhea, constipation, depression, suicidal thoughts as well as the worst side effect of all: sometimes death. You get the picture.

As though this deluge of remedies and side effects was not tedious enough to sit through, it seemed that there was an equal number of companion ads brought to you by the law firms looking for victims of Big Pharma when things have gone wrong. There were class action suits against:

- Talcum Powder Manufacturers
- Makers of Tylenol for Children
- Makers of faulty knee-replacement hardware
- An assortment of anti-anxiety meds along with an
- Assortment of suits against anti-inflammatory drug manufacturers

It doesn't take a trained social anthropologist to tell you there are terrible cracks in the delivery

of our health care here in the United States. It shows up in our costs, our neglect of preventive care and our number of uninsureds. We see it in our bankruptcy numbers due to medical reasons, and we face an opioid epidemic across America that in some cases has created addicts generations deep in the same family.

Let Me Bring It Home

These next few months you'll be overwhelmed with statistics, information, plans and accusations. It's Primary Season and Super Tuesday (March 3) will have come and gone before you get your next commentary from me. It won't be long after that that the conventions will be held and the battle lines clearly drawn. Personally, I'll be listening very carefully.

We're now in the "Roaring Twenties," a decade I believe will help define our country's health and prosperity for the next several generations to come. We cannot afford to spend nearly 20% of our GDP on health care, which if you think about it, represents 20% of all of our hard work and ingenuity only to have a system that doesn't provide the very best care to our people.

We need a system that doesn't leave some choosing between food and medicine. We can't tolerate a system where insurers could care less about rising prices in services because now they make more money by managing health plans for self-insured employers than they do by managing risk.

There's a small school back in Providence, Rhode Island, that has been around for more than 200 years. It's named for Moses Brown, an immensely successful philanthropic Quaker who founded a school where "education should foster a spirit of inquiry and ability to apply factual knowledge to solve real world problems creatively." What a wonderful and timely reminder as we enter into this next election cycle.

Don't we want all of our candidates, whether running for local, state or national office, to be capable of that type of clear headed problem solving?

Many might be despondent, given the state of political discourse these days, but tough, hard working and smart politicians do exist. They're out there. A prime example of the type of leadership necessary to help revamp our health care delivery system, a system so critical to our country's economy and well being, just passed away a couple of weeks ago. His name was Pete Stark, and he served in Congress for 40 years.

Always a forward thinker, Pete advocated for things like free employee childcare and worker buses for low paid workers long before issues like these became fashionable. Perhaps his greatest accomplishment was authoring the Consolidation Omnibus Budget Reconciliation Act, best known as COBRA. This is the act that allows workers and their families to continue to receive health coverage for a period of time after they leave a job. At close to 80, Pete advocated vigorously for the inclusion of coverage for pre-existing conditions in the Affordable Care Act,

the cornerstone of that legislation.

Yes, they are out there, clear thinkers capable of creative and effective solutions to major problems. It's our job to serve as an educated electorate and seek them out. If we don't get it right, our medical care will consume half of America's annual output by mid-century. What about our schools, what about our parks, what about national defense?

Conclusion

A hundred years ago, the 1920s proved to be a period of tremendous prosperity that ended with a self-made crash. Just like in Charles Dickens *A Tale of Two Cities*, the 1920s was "the best of times and sometimes it was the worst of times." The decade started with the last of American troops coming home from the "war that will end all wars," World War I. Regrettably, almost simultaneously, an influenza epidemic spread around the world killing more people than all of those that died in the War.

The Nineteenth Amendment was passed in the first summer of the new decade, finally giving women the right to vote. Regrettably, at the same time the country saw a revival of the white supremacist group, the Klu Klux Klan. Yes, it was the best of times, but it was also the worst of times.

For the first time, many Americans owned cars, radios and telephones. Aviation made great advances, talking pictures came into being and the jazz age was born. The decade was punctuated by change and growth. America's industry, inventions and creativity helped us gain world respect and leadership like never before.

The Roaring 20s of the 21st century can be a defining decade, one that can produce tremendous advances in America. Advancements of technology, intellectual innovation and quality of life. On the other hand, if poorly led, the 20s can prove to be a dark decade of our own doing. Times call for sound fiscal policy, regulatory policy, international relations and immigration policy, not to mention thoughtful monetary policy, attention to social equality and environmental issues. Health care is just part of the Rubik's Cube that needs to be solved.

It's with great enthusiasm and optimism that I look forward to resuming this chronicle next quarter, as we continue to hone in on the macro issues that will most affect economic and market conditions over the short-to-intermediate time horizons.

As always, I appreciate your input and look forward to our next visit.

Best Regards,
Ray Lent
RLL/dot
Enclosures