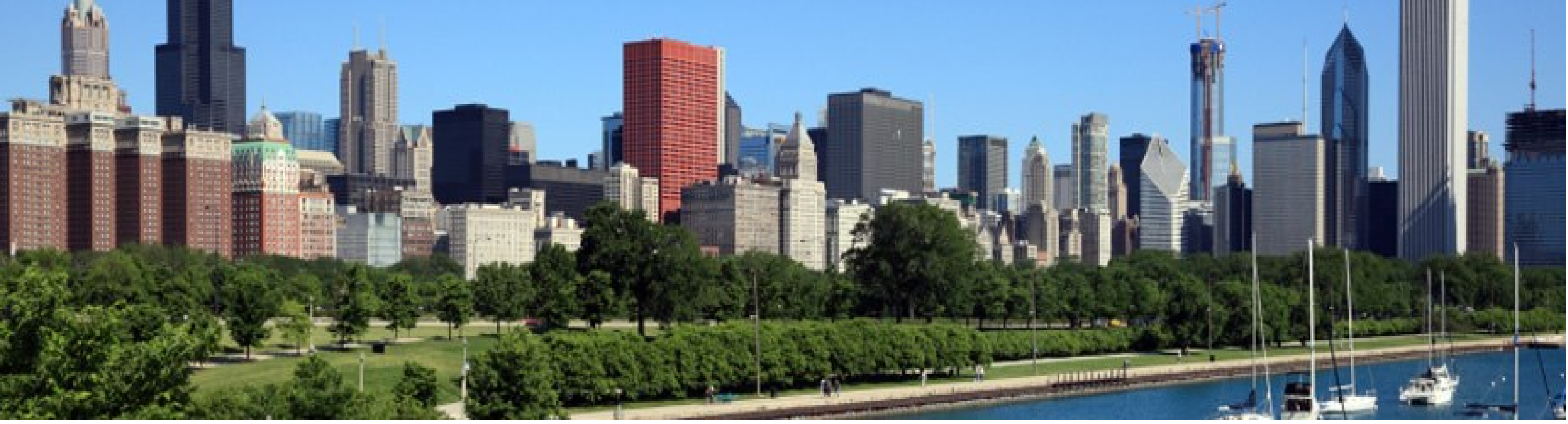

Liberty Asset Management, Inc.

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The US trade deficit

It has been a turbulent year for major stock market indices. There were wide fluctuations as both economists and common investors speculated how recently announced tariffs on aluminum and steel exports would affect the domestic and global economies.

Reasoning for the tariffs

These tariffs are being considered to theoretically reduce the significance of trade imbalances that the U.S. maintains with other countries. The prevailing thought is that these extra fees for importing American goods and services would end up generating more capital to be infused in the domestic economy.

This information, in conjunction with President Trump's willingness to engage in "trade wars" with countries that export more goods to the U.S. than they import, is making many individuals ask: What is a trade deficit, and what does it mean to the domestic economy?

What is the trade deficit?

A trade imbalance is when a country imports more goods and services than it exports. Though trade imbalances are measured in value rather than quantity, the two can be correlated. A trade deficit can occur for a number of reasons, including a shortfall of domestic assets to satisfy consumer demands and a population that has enough disposable income to buy discretionary international goods and services.

A brief history of the domestic trade deficit

The U.S. has incurred consistent trade deficits nearly every year since the middle of the 1970s. The margin of these trade deficits, however, have exponentially increased since the early 2000s. At that point, there was an increase in government borrowing to fund ever-growing national expense requirements. The increase in demand of materials to fill these needs led to a greater amount of imports than exports.

Is the trade deficit bad for the American economy?

Determining whether a trade deficit is "good" or "bad" depends on many factors, including personal fiscal ideology and the health of both the domestic and global economies. For many economists, exporting more during a recession is preferable in order to increase international demand and value for domestic goods and services. In an expansion, however, importing goods may be more preferable, as it keeps prices relatively low and fosters economic activity.

The aforementioned is evidenced by examining the trade deficit breakdowns of the last 10 years. The trade deficit has shrunk in times of economic hardship — such as following the 2008 recession — because there is less financial flexibility to spend on imported goods.

There are those who are incredibly concerned about what the long-term trade deficits mean for the domestic economy. Some financial professionals believe that long periods of sustained deficits will result in an overreliance on borrowing, which could have myriad negative consequences.

Moving forward

Economists are skeptical about whether amassing significant trade deficits will cease anytime soon. Though job growth has been strong for the last few years and unemployment is at nearly historic lows, it is unclear as to what the prospects are for strong domestic growth in physical production. Though the current, long-running bull market may be losing its momentum, it has certainly been a prosperous rise since the depths of the recession.

The market at a glance

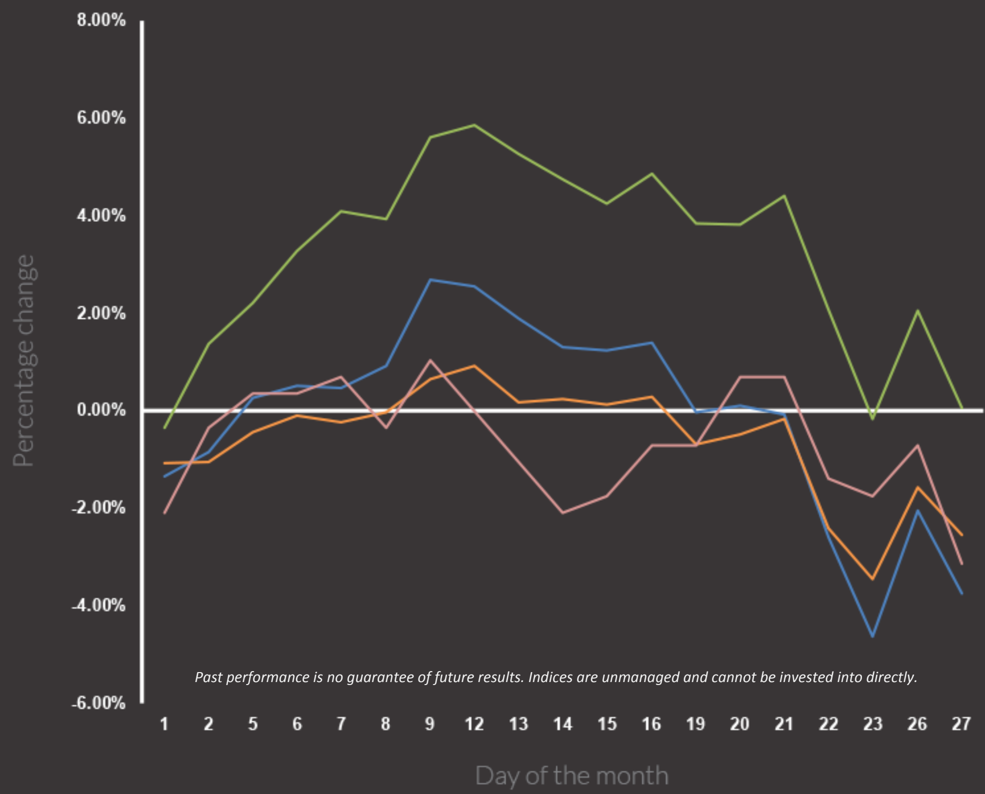
March

U.S. Large Cap
(S&P 500)
2,640.87 (-2.69%) ▼

U.S. Mid/Small
(Russell 2000)
1,529.43 (1.12%) ▲

International Large
(NYSE International 100)
5,654.92 (-1.03%) ▼

U.S. Treasuries
(U.S. 10-year Treasury yield rate)
2.74 (-4.53%) ▼



The market in action

- Coming off a month where investors were becoming increasingly skeptical of the ongoing bull market, the Bureau of Labor Statistics reported that jobless claims fell to their lowest in nearly 50 years.
- The senate passed a bill that avoided a government shutdown until at least September. The bill, which included a spending package that exceeded $1.3 trillion in funding, was signed into law before the deadline on March 23.
- Just months after filing for bankruptcy, prominent toy retailer Toys R Us is closing all of its stores in the United States after 70 years in business. Reasons for the collapse include a high amount of debt and an inability to increase its revenue amid big box retailers and online shopping competitors.
- Stock valuations for Facebook fell 7 percent on March 19, representing the largest one-day decline in the six years since the company's IPO. The tumble came after reports that the social media powerhouse "improperly shared" data of over 50 million users.
- After years of controversy, infamous pharmaceutical figure Martin Shkreli was sentenced to seven years in prison for fraudulent activity. In addition to the sentence, Shkreli must abdicate ownership in Vyera Pharmaceuticals and turn over $5 million in cash, a painting by Pablo Picasso, and a one-of-a-kind Wu-Tang Clan album.
- According to a new study from GoBankingRates, about 42 percent of Americans have less than $10,000 earmarked for retirement and are subsequently "at risk of retiring broke." From the same survey, almost 19 percent of Millennials have nothing saved for retirement.

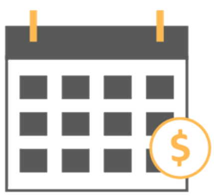
Know your financial math

In addition to tax filing season, April is Mathematics Awareness Month. This is a great time to review some useful math tricks to improve your short-term budget and long-term financial plans.

It is important to remember that the following equations are simple estimations and are not to be treated as precise technical calculations. Each equation can be influenced by a number of factors and do not take your personal financial situation into account. The formulas are meant to provide a rough estimate, not an exact projection.

Income – expenses = surplus or deficit

This is the easiest place to start. By subtracting all planned expenses from gross income, you find the total surplus or deficit you have each month. If you find you are running a deficit most months, you need to cut your expenses down, find a way to boost your income, or some combination of the two.



Cost x 12 = annual expense

Another easy formula is how to calculate the cost of a monthly expense over a whole year; this is an important insight for any budget. Paying $8 a month for a subscription may seem cheap, but you may reconsider if you realize it is costing you $96 over the course of a year.

Cost of 1 gallon of gas x 500 = annual gas expense

The EPA estimates that the average car owner uses about 500 gallons of gas a year (but can be as much as 700 if you drive a truck or SUV). Volatile gas prices make it impossible to project your exact gas expenses for a year. This formula, however, makes it easy to understand the effects of a fluctuation in gas price: For every cent devaluation of gas, you could expect to save $5 annually.

72 / percent of return = years to double

Have you ever wanted a quick estimate of how long it takes for money to double? Try the “Rule of 72.” Just divide 72 by the annual growth rate of your account, and you get an approximation of how many years it takes to double.

(Example: Six percent growth would be 72/6 = 12 years to double).

If using this formula for an investment account, remember that the market is unpredictable and average market performance does not guarantee future returns. Investments can be subject to losses, which will significantly change their nominal rate of return.

(Years of ownership + 1) x .10 = car depreciation percentage

Although there are some major outliers, most new cars depreciate around 10 percent when driven off the lot and another 10 percent each year they are driven (for the first five years). So when looking at new cars, remember that most lose their value fast. Without a down payment, you will likely be underwater on the loan for the first year or two.

Mortgage x (.03+(Rate x .75)) = annual mortgage cost

This equation is a bit more complex, but it is pretty handy for people wondering how their rent cost compares to a 30-year mortgage. Take 75 percent of the expected mortgage interest rate and add 3 percent to get the annualized rate of repayment. If you multiply this number by the initial mortgage amount, you get the annual cost.

For example: A 30-year mortgage issued at 4 percent would have an annual repayment rate of .03+(.04×.75) = 6 percent. If the mortgage was for $200,000, you would pay ($200,000×6 percent) = $12,000 per year (or $1,000 a month) to stay on the 30-year schedule.

Keep in mind that this is an estimation of the mortgage costs only and does not include home insurance, mortgage insurance, property expenses, or any of the other various costs of owning a home.

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