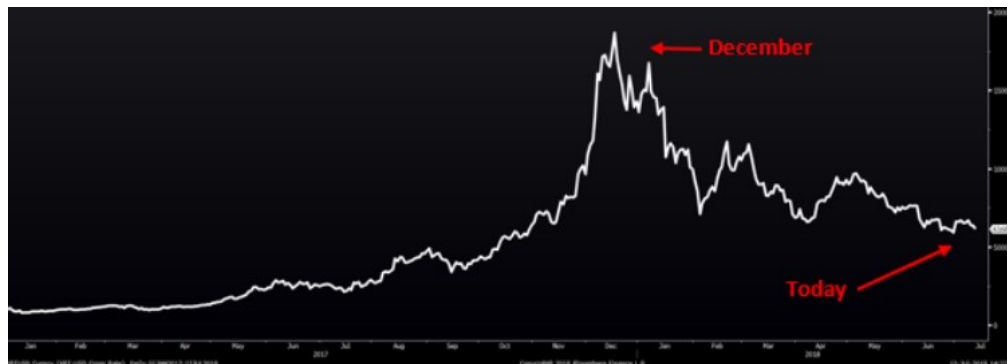




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## World Trade and the World Cup

In our December Investment Commentary, [Cryptocurrencies and Cheeseburgers](#), we noted that Bitcoin was a tad bit speculative—as a reliable currency or as an investment. Our sentiment hasn't changed and its price activity this week (down 8%) prompted us to re-visit Bitcoin.



When we wrote about it in December, Bitcoin was trading over \$16,000. This week? It's closer to \$6,200, down more than 60% in seven months. And it's probably safe to say Bitcoin's price decline is not over.

Whenever we're asked about the merits of investing in Bitcoin, we always advise our clients to travel to Las Vegas instead—because in Vegas you get free drinks when you gamble.

Economically, the biggest global issue as of late is a potential trade war between the United States and China. Initially, Trump was promising to place tariffs on goods from dozens of countries. Then he started making one exception (Canada) after another (Mexico) and another (almost all the others). And now it's pretty much focused on China.

China has been rather notorious for stealing our good ideas, also known as Intellectual Property. And as the country's economic ambitions have changed from "Made in China" trinkets to "Made in China" medical devices and semiconductors, its threat to U.S. technological leadership has become very real.



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The White House has vowed to use whatever means necessary to “even the playing field,” which it claims has been very uneven for a long time. They see a strategic angle when it comes to trade. Simply put: we buy more of China’s stuff than they buy of ours . . . and their economy depends on selling stuff to us.

When a 25% tariff is added to their goods, we buy less. And vice versa. But because we buy more of their stuff than they buy of ours, we have bigger muscles . . . and are starting to flex them. Just Wednesday, Trump announced a \$200 billion list of Chinese goods that could be subject to tariffs in a few weeks. China is expected to retaliate, but since they import only \$140 billion of American goods, they cannot match the threat. They will perhaps find other ways to try to punish American companies.

America is positioned to win this war for the reasons mentioned above. But winning doesn’t mean we are better off. Trade wars typically result in higher prices for consumers with no added value. Both sides are being punished, just one more than the other.

What’s interesting is how these tariffs are applied and who feels the pain. While the U.S. has started applying tariffs to high-tech goods from China, the Chinese tariffs are striking where it hurts the Republican Party politically: Beijing has targeted many agricultural products, which will directly affect areas represented by senior Republicans. For instance, soybeans, which are America’s biggest export to China, are included, and they just so happen to be grown in red states.

Since the potential tariffs were announced, companies with business tied to international trade have been preparing for the worst. Many have decided to ship goods ahead of schedule based on tariff deadlines. We may see a one-time bump in Q2 GDP as this business is pulled forward from Q3. Don’t get too excited about that.

We saw a very tangible example of this in the story of *Peak Pegasus*, a cargo ship carrying soybeans from the United States to Dalian, China. If it reached its destination before 5 p.m. on July 6th, it would avoid the 25% tariff. Thousands watched it race across the Pacific, cheering the ship on, but alas, it did not make it in time and currently sits idle in the harbor.

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The unemployment rate rose from 3.8% to 4% in June, which at first glance sounds bad. But the economy *added* 213,000 new jobs. The increase in the unemployment rate is actually positive news because so many people previously not looking for work decided to start the job search again. Those people, earlier not part of the unemployment calculation, are now included, driving up the unemployment rate. This is good for the economy. Bad news is sometimes good news in our world.

The graph below shows the difference between job seekers and job openings. When it dropped below 1 in March, there were officially more job openings than people available to fill them.





Basic economics dictates that when you have a low supply of something (job candidates), with all else equal, the price of that something (wages) goes up. But this hasn't happened . . . yet. Wage growth has been positive, but barely.

Either workers aren't qualified for the jobs available (and no amount of pay is going to magically make them qualified) or they aren't able to move to where the jobs are.

Low wage growth lends itself to low inflation, a belief we have held for a while and continue to hold.

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Sometimes the sporting world imitates life. As Donald Trump has been creating some distance between the U.S. and its long-time NATO allies, the U.S. men's soccer team found itself completely left out of the FIFA World Cup.

While realizing there is virtually no correlation between Trump's behavior and World Cup results, we still are baffled that, with a population of 325 million, the U.S. could not assemble a group of players that could beat Panama, which has a population of roughly the same size as Los Angeles.

Meanwhile, all four teams in the World Cup semifinals are European.

It appeared for a moment that England would make it to the championship game to be played Sunday. Alas, itty-bitty Croatia (population a tad higher than Panama's) beat England in overtime and will play France for the championship.

And at the moment it appears that Brexit is still going to be completed this year, but, like the World Cup, could it be turned back in overtime? We doubt it, but then we doubted Croatia, too.

Stay tuned.



At BCWM, we have watched interest rates ratchet back down after hitting peaks in March. The 30-year U.S. Treasury Bond is back below 3%, just like we thought. You might see it occasionally peak its head above 3%, but we think staying low is a greater likelihood than rising much above 3%.

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