

The Kiplinger Letter

FORECASTS FOR EXECUTIVES AND INVESTORS

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Dear Client:

Washington, May 2018

The opioid crisis has grown even more dire since we wrote you about it last autumn. More people are dying of overdoses. New, synthetic opioid drugs are more potent than prescription pills or heroin. Addiction poses an even bigger worry for businesses that are already struggling to find enough workers.

OPIOID ABUSE

Most employers are alert to the problem. But too many are still unprepared for it.

One survey says that 70% of firms have felt some effect of Rx drug abuse on their workforce...absenteeism, impaired performance, addicted family members, etc. But 80% don't have a drug-free workplace policy in place.

The financial costs of opioid misuse are steep:

An estimated \$95 billion in 2016 alone, from the hit to employer health plans, lost productivity, etc. Opioid abuse has probably removed 1 million people from the workforce in recent years...a huge drain.

Working-age men are especially vulnerable to getting hooked. It's a particular worry for employers such as builders, manufacturers, trucking firms, etc., which tend to hire a lot of young to middle-aged men.

What employers can do to fight the scourge: Set strong drug-free policies.

That means: The right to search workspaces for drugs. Explicitly forbidding employees to show up high. Banning possession, use or distribution of drugs on the job. And, perhaps, setting up drug treatment plans for workers who test positive for opioids.

Make sure your drug tests check for major opioids, including synthetic ones, such as fentanyl and carfentanil. Traditional test panels don't cover many of them.

Work with health insurers to curb opioid prescriptions. Require enrollees to try nonopioid pain pills before an opioid can be prescribed. Cover physical therapy, chiropractic treatment and other nondrug approaches to relieving pain. Require folks who do get opioids to fill scripts at one pharmacy...no shopping around for extra pills.

Train supervisors to spot signs of addiction...mood swings, nausea, anxiety...

And to direct addicted workers to the help they need in order to get sober.

Above all, educate workers on the dangers and encourage them to seek help.

Research shows that destigmatizing addiction gets better results than shaming people.

As for government action, there are some promising moves in the works.

Congress just OK'd \$6 billion in new funding to curb opioid abuse. Likely initiatives include more help for local law enforcement and funding for overdose rescue drugs. Lawmakers also want to give the Food and Drug Admin. more power to crack down on illegal opioids entering the U.S. from abroad and to curb supplies of prescription pills.

Some states are exploring innovative ideas, too. A N.H. program, for instance, will certify employers as "recovery-friendly workplaces" if they adopt promising policies for helping their workers get clean, so more folks can get back to gainful employment.

ECONOMIC FORECASTS

GDP growth

2.9% in '18,
up from 2.3% in '17

Interest rates

10-year T-notes ending '18 at 3.3%,
rising from just below 3.0% currently

Inflation

2.6% at end of '18,
from 2.1% in '17

Unemployment

Ending '18 at 3.8%,
down from 4.1% currently

Crude oil

Trading from \$60 to \$65
per barrel in June

Business investment

Increasing 7% in '18;
rising trade tensions a worry

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**U.S.
ECONOMY**

First-quarter GDP growth of 2.3% isn't spectacular. But don't sell it short. A growth pullback was bound to happen, given the big surge in consumption in the fourth quarter of last year. Shoppers couldn't maintain the pace without a break. There's ample cause for optimism about the rest of 2018. Incomes rose swiftly in the first quarter, and firms are building inventories in anticipation of stronger sales. The year as a whole is still on track for solid expansion of about 2.9%.

RETAIL

One victim of the chilly weather this spring: Retail sales. Cold and snow have weighed on sales of seasonal goods from clothing to gardening equipment in many areas east of the Rockies. Places suffering from particularly cold weather, such as the Upper Midwest and Great Lakes region, will continue to see weak sales in May before winter finally relents and shoppers venture out in normal numbers.

Sales ought to rebound smartly whenever the weather finally does improve. Folks who put off purchases this spring will still have the intention and the cash to splurge this summer. Many will make up for lost time once the mercury rises.

CHINA

China's economy continues chugging along. First-quarter GDP growth, at 6.8%, came in higher than expected and shows that China is still an engine of growth for the global economy, despite its gradual slowing over the last decade.

But note that Chinese growth depends heavily on debt. Its debt-to-GDP ratio has almost doubled since the Great Recession and now stands at a whopping 282%. (That's far higher than 105% for the U.S., which is no stranger to debt financing.) Unlike many other countries, China has a large pool of domestic savings to tap and so relies less on foreign creditors. But debt-fueled expansions can't last forever.

Policymakers in Beijing face a tricky balancing act: Slowly curb lending as they shift the economy from dependence on investment spending to consumption, without tightening credit so much that debt-laden businesses fail and spark a crisis. So far, they seem to be succeeding. But any misstep could undermine the economy.

U.S.-China trade tensions are starting to take a toll on some businesses. Washington's tariffs on imported steel and aluminum are causing price increases for builders and manufacturers, which in turn are charging their customers more. So far, the direct effects are modest. And there have been hopeful signs of late that Washington and Beijing will work out their trade differences. But more firms are citing the uncertainty as a worry and rethinking some of their spending plans.

FINANCE

A federal financial watchdog is turning more docile under its new director. The Consumer Financial Protection Bureau used to get heavy criticism from the financial industry for its aggressive regulation of auto loans, credit cards and other forms of consumer credit. Now, under interim director Mick Mulvaney, the CFPB is sharply reducing enforcement activities and going easier on lenders... a big shift from its early days, when conservatives say the agency overstepped its role.

Look for more easing of the agency's regulatory agenda. The White House is recommending that Congress shrink the CFPB's reach, curb its enforcement power, and make the agency more accountable to both lawmakers and the president.

INVESTING

The feds want to hold brokers to a higher standard for serving customers. The Securities and Exchange Comm. is proposing a rule requiring brokers to disclose to their clients key facts about any potential conflict of interest they have when giving financial advice...such as when recommending an investment product.

The proposed rule is less strict than another agency's standard. The DOL... Dept. of Labor...previously issued a fiduciary rule requiring that retirement planners act in their clients' best interest. That standard has been mired in court challenges.

The new proposal has met with a sigh of relief from the financial industry. But critics say it doesn't go far enough to protect investors from biased financial advice.



FEDERAL DEBT

Rising deficits will balloon the public debt as the Federal Reserve hikes rates to combat inflation, which drives up the government's debt servicing cost. The Treasury is already spending \$316 billion per year just on interest payments. Expect the federal debt to near \$29 trillion by 2028, double today's level. The debt will almost equal GDP...96% of the projected U.S. economy...in a decade. Federal bean counters warn of fiscal crisis spurred by the higher rates that investors will demand from Uncle Sam to keep financing profligate spending. That could ignite inflation and leave Congress with less room to boost spending to address economic downturns, pay for military action or respond to emergencies. Washington seems generally oblivious to the danger posed by mounting debt.

HUMAN RESOURCES

The Trump administration will be tougher on uncompetitive employer behavior than past administrations. The Dept. of Justice could launch criminal probes against companies that collude to make workers stay put with pay pacts or refusals to hire, which violates antitrust laws. The tech sector will be the most scrutinized. The Obama administration filed civil suits and settled with several tech firms. Beware of what you say to competitors, as oral agreements are also *verboden*.

Gender-based pay disparity born of salary history may be unconstitutional. Ultimately, the Supreme Court will have to decide, as courts are splitting on the issue. In the interim, states and cities are passing laws against using salary history in hiring. Firms should review hiring policies and drop salary queries from applications and interviews. Teach hiring managers and recruiters what they can ask candidates. Use salary ranges based on factors such as experience instead of past pay. Ask how much a job candidate expects to be paid to determine position suitability.

ENERGY

Federal regulators will reexamine gas pipeline permitting rules for the first time in 20 years amid unfavorable court rulings and environmentalists' concerns. The Federal Energy Regulatory Comm. expedited pipeline approval to industry praise, but an appeals court ruled it must reassess how much air pollution pipelines contribute. Tougher regulations could curtail investment in new natural gas infrastructure.

Congress is working quickly to protect electric utilities from cyberattacks amid evidence that Russia has targeted key plants, including water and nuclear plants. Bills making their way through the Capitol would foster public-private partnerships aimed at physically protecting electricity providers, pipelines and natural gas facilities, for instance, as well as bolstering their virtual security. Some should pass by year-end.

WORKER SAFETY

A new rule limiting more workers' exposure to silica...sand...kicks in June 23. The construction sector has been under the controversial rule cutting exposure to silica dust in half since Oct. Regulators likely will go easy on enforcement at first, giving employers time to adopt fixes. The fracking industry has an extended deadline, June 2021, to comply. Dust-busting measures such as respirators and better ventilation will save the lives of 600 workers annually, according to federal safety experts.

ARMS SALES

The White House is working out the kinks in its plans to export more arms. Drone makers, which now can sell directly to foreign countries without review, are big winners. But even they are still restricted by treaty...from exporting drones that carry heavy loads over long distances, for example. Treaties aside, several agencies must agree to changes. Key vacancies on President Trump's national security team have hurt progress. And the State Dept. objects to selling to human rights violators. Lawmakers can still block specific sales, as Sen. Bob Corker (R-TN) did last year in response to the dispute between Qatar and its neighbors, including Saudi Arabia.



LEGAL
POT

Hemp is poised to make a comeback as a cash crop. A strong bipartisan push on Capitol Hill aims to legalize growing hemp, a close relative of marijuana that has thousands of industrial uses, from rope and food to auto parts and paper.

The plant will likely be taken off a federal list of controlled substances via a law being fast-tracked by Senate Majority Leader Mitch McConnell (R-KY). States will have the authority to regulate the plant's cultivation and sale, and its farmers will be eligible for federal crop insurance. When the OK arrives, farming will flourish.

The potential market for homegrown hemp is huge. One data point to note: Domestic retail sales of imported hemp products hit nearly \$600 million in 2015.

CUBA

For the first time in nearly six decades, the leader of Cuba is not a Castro. Last month Miguel Díaz-Canel inherited power from President Raúl Castro, who, along with his brother Fidel, had ruled the nation with an iron grip since 1959.

Relations between the U.S. and Cuba will stay tense, with President Trump taking a tougher stance toward Havana than President Barack Obama, who aimed to normalize diplomatic relations and ease trade and travel barriers. Trump's actions include restricting some travel and banning certain direct financial transactions.

Trump has kept some Obama-era reforms intact, though. The U.S. Embassy in Havana is still open. Cruise ships can dock at ports. Direct flights are still OK.

But his harder stance ensures that a further thaw isn't in the cards.

TRAVEL

Don't be surprised if you're stuck waiting longer in airport security lines. The TSA...Transportation Security Admin...has rolled out tougher screening of all carry-on items. All electronics bigger than a cell phone will be X-rayed separately and travelers may be asked to remove food, powder and even books from their bags.

The goal is to thwart terrorists trying novel ways of concealing explosives.

The enhanced security comes just before the busy summer travel season.

Note that fliers enrolled in TSA's PreCheck program won't be affected by the changes.

TECH

More companies are bound to ditch online passwords. But there's a cost. The Fast Identity Online Alliance, a group working on better log-in security, recently unveiled new, hardware-based security standards. Instead of a password, you have to use a thin, thumb-drive-size gizmo to identify yourself. It costs about \$20 and works quickly when you tap it on a phone or tablet, or insert it into a PC port.

Physical security keys...already in use...will gain steam. Log-in devices will entice more firms into leaving passwords behind and thus boost online security. Companies that have offices in multiple cities and have workers using many devices are especially well-suited for the upgrade. Yubico's keys can connect with a USB port or through a short-distance wireless signal and work with a slew of major web apps.

Note some of the hottest new tech occupations in heavy demand, thanks to the spread of technologies such as artificial intelligence and robotics:

Machine learning engineers and other programmers working with AI.

A whole new generation of software developers is needed to enable smart machines to learn from reams of data and figure out how to do complex tasks autonomously.

Robot specialists to oversee teams of robots and help people work with them.

Data scientists, for whom job postings have risen sixfold since 2013.

Blockchain developers...highly sought in financial centers such as Boston.

Yours very truly



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KIPLINGER'S

Personal Finance Adviser

MAY 2018 ■ IDEAS TO ACT ON NOW

Is the Stock Market Correction Over?

After reaching an all-time high in January, Standard & Poor's 500-stock index sank 10.2% through early February, putting the broad market index in official correction territory (a drop of between 10% and 20% from the peak). The index recovered but failed to get back to its previous high before sinking back to the correction low point in early April, and it has mounted an unconvincing rally since then. Even if stocks claw their way back to the old high, we can expect another correction in short order. The market still has plenty to worry about, including a trade war with China, a real war in Syria, rising interest rates and inflation that is starting to creep higher. But investors shouldn't cash out. The consequences of leaving even an aging, jittery bull market too early can be costly. Manage volatility with a diversified portfolio that holds domestic and international stocks and emphasizes sectors that tend to do well late in the game, including materials producers and processors, technology firms, and industrial companies.

The Best Rewards Card for You

If you're not taking advantage of a rewards credit card, you could be leaving a heap of money on the table. If you prefer a simple cash-back card, consider Citi Double Cash. You'll earn 1% back each time you make a purchase and 1% when you pay the bill, for a total of 2% on everything you buy. For travelers, the PenFed Pathfinder Rewards American Express card offers two attractive benefits: a reimbursement of up to \$100 for a TSA Precheck or Global Entry application fee every five years, and a \$100 annual credit toward incidental fees with 11 airlines. Chase Sapphire Preferred (\$95 annual fee, waived the first year) pays out two points per dollar spent on dining and travel purchases (one point on everything else), and points are worth a strong 1.25 cents apiece when you redeem them for travel bookings through the Chase Ultimate Rewards travel portal. Spend a lot on groceries? Amex Blue Cash Preferred (\$95 annual fee) offers 6% cash back on up to \$6,000 spent per year at the supermarket, 3% back on gas and department-store purchases, and 1% on other spending.

New Medicare Cards on the Way

In April 2018, Medicare began sending recipients new cards that don't display Social Security numbers. Instead, the new cards have a unique 11-digit Medicare identifier. Medicare will finish mailing the cards by April 2019, and the time frame for delivery depends on your state (find out about the schedule for your state at www.medicare.gov/newcard). Beware of scams. There's no charge for the card, and Medicare won't ask for your personal information before sending it.

Earn Up to 11%

With interest rates on the rise, the prospect of earning higher yields will appeal to many investors looking for income. But rising rates also devalue older, lower-yielding bonds, as well as some stocks and other securities that rise and fall largely in tandem with the fixed-income market. To help you navigate the new terrain, we found plenty of income-investing ideas. For example, high-quality investment-grade bonds have low credit risk and are yielding 3% or more. Vanguard Total Bond Market ETF (symbol BND, trading at \$79 and yielding 3.1% as of May 1) is a solid choice for a diversified bond holding. "Junk" bonds carry higher yields but pose a greater risk of default. Vanguard High Yield Corporate (VWEHX, 5.4%) plays it safer than most by focusing on higher-quality junk bonds.

Preferred dividend stocks are typically issued with fixed dividends, so the securities tend to act as bonds do. An easy way to buy in: exchange-traded funds that own a mix of such stocks. Check out iShares U.S. Preferred (PFF, \$37, 5.4%) and PowerShares Preferred (PGX, \$14, 5.8%). Among the highest-yielding securities, master limited partnerships (MLPs) come with risks, but investors can find bargains now. Green Plains Partners (GPP, \$17) yields 11%.

Where to Take Cover in a Trade War

The markets have been jittery over the potential for a full-fledged trade war. Although we can still avoid pitched economic battle, now is the time to prepare your portfolio in case the worst happens, says *Kiplinger's Personal Finance* columnist James K. Glassman. Consider investing in utility companies that provide gas and electricity. Nearly all the energy sources that power the utilities' generators are domestic, and utility companies based here serve the U.S. market almost exclusively. Duke Energy (DUK, \$80) and Exelon (EXC, \$40) look attractive. The internet will almost certainly remain a tariff-free zone, which means clear sailing for companies such as Netflix (NFLX, \$313) and Salesforce.com (CRM, \$123). If U.S. farmers and ranchers face growing barriers to selling their goods abroad, then prices at home should decline in the short term as supplies of meat and the grains that feed U.S. livestock rise. That's good for restaurant chains, including McDonald's (MCD, \$163).

Damage Control for Your Facebook Data

In the wake of news that Cambridge Analytica, a data analytics and political consulting firm, gained access to the personal information of up to 87 million Facebook users, Facebook announced plans to prevent further misuse of user data. It is rolling out easier-to-use tools to help you manage your information, but many users remain concerned about the information Facebook is collecting and how it's being used. You can see much of the information Facebook has collected about you by clicking the small arrow in the upper right corner of your Facebook page, selecting "Settings" and then "Download a copy of your Facebook data." Facebook will e-mail a link to download your archive. Want to delete your account? See our guide at kiplinger.com/links/quit.

Tax Scams Targeting Seniors

Beware of a nationwide phone scam regarding taxes. The callers, who claim to be IRS employees, will often alter the caller ID readout to make it appear that the phone call is coming from the agency. But it's actually fraudsters who are pressuring victims to pay up, usually through a wire transfer or prepaid debit or gift card. Seniors and low-income individuals are especially at risk from these scams. The IRS wants you to know that it doesn't make unsolicited calls to people to tell them they owe taxes or are due refunds. If you get one of these calls, hang up immediately, notify Treasury inspectors at 800-366-4484 and file a complaint with the Federal Trade Commission.

Hackers Hit Loyalty Programs

Points and miles in loyalty accounts are worth tens of billions of dollars, and crooks are catching on. To prevent theft, create unique user names and passwords for your loyalty accounts, and change your passwords regularly. Use two-factor authentication if your loyalty program's site offers it. If the site is not encrypted, don't log in to it (the web address of a secure site starts with "https"). To help spot fraud quickly, sign up for any available alerts of account transactions, and check the balances in your loyalty accounts at least monthly.

Protect Your Home

Reduce the risk of costly damages from natural disasters by strengthening your home against destructive forces. Depending on your state, municipality and insurer, you may qualify for grants or insurance-premium discounts to offset part of the cost of such upgrades. If you live in a region prone to hurricanes, seal all openings from wind and rain. That may include installing roof shingles with extra layers of protection and reinforcing windows and doors. If your home is to the side of rather than directly in a tornado's path, the same techniques will help your home survive. In the event of a direct hit, a safe room saves lives. If earthquakes are a threat, check whether your home has a "cripple" wall—which can collapse during an earthquake—between the foundation and the floor of the house. The most common earthquake retrofit braces the cripple walls with plywood and bolts the house to its foundation.

Report a Name Change

If you've recently changed your name because you got married or divorced, be sure to let the Social Security Administration know. The name you put on your federal income tax return must match Social Security records. Mismatches can cause delays in the IRS processing your return. Go to www.ssa.gov/ssnumber or call 800-772-1213 for the details on the documentation you need and to apply for a replacement Social Security card.