

APRIL

Cuba: Open for Business

Stemming from disagreements during the Cold War, the United States has had an embargo on Cuba for over 50 years. However, over the last few years, relations between the U.S. and Cuba have begun to thaw, culminating in President Obama being the first sitting president to visit Cuba in nearly 90 years. Now that the end of the embargo seems like a matter of “when” rather than “if,” here is how the U.S. and Cuban economies could be impacted once political relations are fully restored.

Impact on Cuban Economy

The Cuban economy is largely dependent on external revenue. According to a study done by Texas A&M, international visitors and tourism generated \$2.0 billion for Cuba in 2010. If the travel restrictions between the United States and Cuba are lifted, the International Monetary Fund estimates an increase in American visitors from 700,000 annually to 10 million.

However, U.S. tourists are not the only ones who are interested in the embargo being lifted. U.S. companies are also looking to establish or expand their presence in Cuba. Airbnb, Netflix, and Verizon currently have operations in Cuba, and Carnival Cruise and Starwood Hotels are among those looking to start Cuban operations. The increased presence of U.S. companies in Cuba will lead to more employment opportunities for Cuban locals and inflows of money and resources towards rebuilding Cuba’s crumbling infrastructure.

Current living standards in Cuba are incredibly low, with the average worker living off about \$20 per month. According to a study from 2015, private sector employment in Cuba represented 33 percent of all employment in Cuba, which is up from 23 percent 15 years ago. These privately owned and operated companies will be exposed to millions of new potential customers from the United States. Given the influx

of American dollars to the Cuban economy, the standard of living for Cubans could see a rapid rise in quality.

Impact on the US Economy

On the U.S. side, the Texas A&M study found that lifting the embargo with Cuba will create an estimated 6,000 jobs and \$4 billion in the agricultural industry alone. Many Cubans who receive remittances from their work purchase food imported from the United States. If more Cubans were to obtain positions that supplied remittances, the Cuban government would need to increase imports to meet demand. Even with the current embargo, the United States is still Cuba’s second-largest food supplier, amounting to around \$800 million of trade each year.

The automotive industry for the United States will also see a boom, as most Cubans only have access to American cars built in the late 1950s and early 1960s. The ability to buy American-made cars once again will be mutually beneficial, stimulating both U.S. automotive companies as well as the Cuban market for new cars and vehicle servicing.

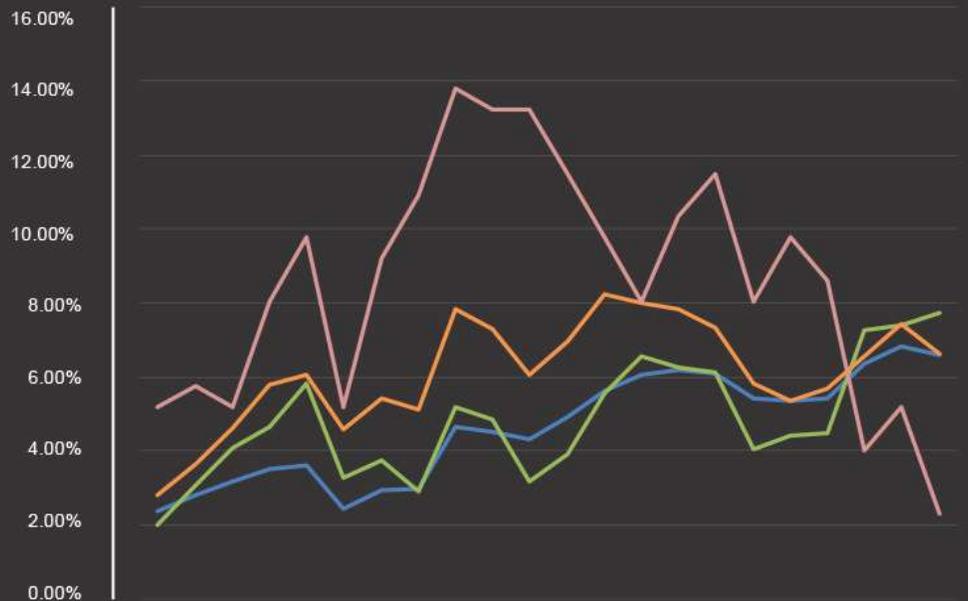
Cuba also has a vast and advanced biotech industry with pioneering treatments for diseases. Every year, around 80,000 American citizens get amputations due to diabetes. Cuba has developed a medication that reduces the risk of amputation by around 80 percent. Access to this medication would spare American citizens lifestyle difficulties and costly medical procedures for diabetes-related issues.

Provided that relations continue on their current trajectory, the long-standing embargo will be lifted sooner rather than later. While the extent of the new trade policies remains to be seen, it safe to say that there will be significant impacts on both the Cuban and U.S. economies.

the market at a glance

MARCH

■ U.S. Large Cap (S&P 500)	2,059.74 (6.60%) ▲
■ U.S. Mid/Small (Russell 2000)	1,114.03 (7.75%) ▲
■ International Large (NYSE International 100)	4,620.50 (6.63%) ▲
■ U.S. Treasuries (U.S. 10-Year Treasury Yield Rate)	1.78% (2.30%) ▲



Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

The market in action

- As part of its continuing effort to spur economic growth, the European Central Bank lowers its overnight funds rate to -0.4 percent and increases its quantitative easing program to 80 billion euros of monthly bond purchases.
- Saudi Arabia seeks an external loan for the first time in over a decade. The loan, which may be as high as \$8B, will be used to fill government deficits created by low oil prices.
- Boeing Company makes plans to cut as many as 8,000 jobs by the end of 2016. Boeing's cuts will affect jobs at all levels, from executives to floor workers.
- European stock exchanges Deutsche Boerse AG and London Stock Exchange make a \$30B agreement to link their trading systems. The deal is designed to help the two European exchanges compete with the United States.
- Credit rating agencies Moody's and Standard & Poor's downgrade their outlook on Chinese government debt to "negative," citing potential problems with growth and reform. However, the agencies did not downgrade the country's credit rating.
- The U.S. Bureau of Labor Statistics reports that 242,000 jobs were created in February. This marks 72 consecutive months of net job growth in the United States.
- Avon Products, Inc. announces plans to cut 2,500 positions and relocate its headquarters to Great Britain. The move is expected to save the company approximately \$50M in payroll and operations expenses in the United States.
- Athletic retailer Sports Authority, Inc. files for bankruptcy and announces it will immediately begin the process closing up to 40 percent of its stores and distribution centers.
- Taiwanese electronics giant Foxconn agrees to buy Japanese tech company Sharp Corp. for \$3.5B. It is the largest foreign acquisition of a Japanese technology company in history.

Keeping Up with the Joneses

People like to fit in; it's one of the simplest laws of human nature. Although we value the things that make us unique, most of us are careful to not let them make us social outsiders. There is strength in numbers, and conformity reassures us that we are making the right decisions.

Unfortunately, comparing ourselves to others can lead to real problems. Our egos can become sensitive—even irrational—when trying to protect the public image of our wealth and status. If left unchecked, the fear of falling behind our peers can destroy our financial security.

Meet the Neighbors

In a paper published by the Federal Reserve Bank of Philadelphia, economists tested and analyzed the social behavior of “keeping up with the Joneses” and the impact it could have on personal finances.

In their study, economists used six-digit postal codes to divide Canadian cities into micro-neighborhoods (13 households on average). They then observed financial changes in the neighborhoods after one of the households had won a lottery prize.

Whereas many researchers have documented the Sudden Wealth Syndrome of lottery winners (many of whom end up in financial ruin), this study instead focused on the winners' closest neighbors. The researchers wanted to know how people responded when someone else suddenly had more money to spend.

The results were clear: for every 1,000 Canadian dollar increase in the size of the lottery prize, the number of bankruptcy filings among close neighbors increased 2.4 percent in the three years following the lottery win (the base rate was .46 bankruptcies per neighborhood). This effect was greater in low-income neighborhoods where prize values were higher relative to average incomes.

What happened? When the asset sheets of the bankrupt neighbors were reviewed, researchers found that the houses had increased their “conspicuous consumption,”

spending more of their money on visible signs of wealth (rather than investments that go unseen). Accordingly, the ratio of visible to invisible assets rose with the size of the lottery winnings, suggesting that individuals were willing to spend more when their “Joneses” had won more.

Irrational Groupthink

While the study may simply confirm what many might have suspected, the irrationality of the situation is striking. Winning a lottery is not a reward or promotion—it says nothing about a person's value or rank. Why would neighbors, who know the wealth was won by luck, compare themselves to a situation they can't possibly copy? Furthermore, why try to emulate the neighborhood's one winner, when “fitting in” should mean behaving like all the other non-winning households?

The problem is that wealth and status are relative each person. Everyone has his or her own “Joneses.” When one house receives a windfall of cash and begins spending, it can set off a chain reaction. Our egos would rather let us spend too much than risk falling behind.

This arms race mentality is why the housing bubble of the last decade became so severe. It wasn't just the opportunity to make money off real estate; it was the visibility of the changing wealth. Every day, people watched their neighbors buy and improve properties, knowing that they would have to do the same just to maintain the status quo.

Forgetting About the Joneses

A little social pressure isn't necessarily a bad thing. It often provides a nudge towards positive action and helps us make good choices. But when it comes to money habits, trying to match (or exceed) those around you can lead to serious problems. Everyone's financial situation is unique, and each person defines success differently. As difficult as it is, you need to shut out the social noise and ignore what others do with their money. After all, you're trying to accomplish *your* financial goals—not theirs.

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