



WASATCH
CAPITAL MANAGEMENT OF
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"YOU REALIZE YOU REALLY WEREN'T SUPPOSED TO TRY TO KEEP UP WITH THE KARDASHIANS?"

APRIL 2021

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SHOW ME THE MONEY**
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Show Me the Money -Article by Mark Lazar

***There's no such thing as a free lunch.* Milton Friedman**

Stock and commodity indices are sharply higher in 2021. This is partly due to the not-surprising drop in COVID cases and subsequent easing of lockdown measures, but mostly due to the expectation of unprecedented government spending.

According to the [CBO](#), US GDP will be ~\$22 trillion in 2021. The federal government will collect \$3.5 trillion but will spend ~\$7.1T, not including some portion of the proposed \$2T infrastructure bill. This flood of cash will boost economic growth to north of [6% YOY](#), inflate stock, real estate and commodity prices, and create a toxic environment for bonds and cash. But the trillion-dollar question is; does government spending increase prosperity or is it simply a [zero-sum game](#)?

Item	YTD Change
Dow Jones Ind Avg	7.76%
S&P 500 Index	5.77%
EAFE Foreign Index	3.19%
Barclays Agg Bond Index	-3.37%
10-Year Inflation Forecast	2.37%
2021 GDP Growth Forecast	6.3%
Unemployment Rate	6.2%

**Market index data as of 3/31/2021*

Where does wealth come from? To boil it down to a single word: innovation. The printing press, the cotton gin, the steam engine, the electric light, the assembly line, the automobile, semiconductors, the internet, 3D printing, and cloud computing, to name a few, created massive shifts in productivity, simultaneously increasing [output](#) and decreasing costs. In other words, boosting productivity, which enables consumers to purchase a widget for less money.

Shifts in technology and innovation allow manufacturers to produce their stuff better and cheaper. Technology is deflationary and destroys the price of goods and services over time. Below is a chart comparing the cost of six items over thirty years. Besides the dramatic drop in price, both in nominal and real dollars, the quality improved exponentially as well.

Item	1988 Price	Inflation Adjusted	2018 Price
Color printer	\$995	\$2,126	\$175
Personal computer	\$1,400	\$2,991	\$400
1,000 MB hard drive memory	\$9,900	\$21,134	\$0.00005
Internet access	\$27/hour	\$57/hour	\$55/month
Big screen TV	\$3,000	\$4,600	\$700
Cell phone	\$2,500	\$3,850	\$550

[The Motley Fool](#)

To illustrate, imagine an isolated island village with ten inhabitants, all of whom live in a cave. The villagers spend the majority of their waking hours hunting, spearing, cleaning, cooking, and eating fish. In a flash of brilliance, one weaves a fishing net and discovers she can use this new technology to catch all of the fish in a single hour that the village eats in an entire day. Overnight, the other nine villagers are out of work ([creative destruction](#)). No longer needing to spend his days fishing, another villager learns how to grow fruits and vegetables to trade for fish. Not wanting to be left out, one learns how to make sandals and do likewise. Another begins to fashion garments. Another pottery. One discovers a way to store and deliver fresh water to each hut. One learns how to create medicines and healing salves from the local flora. One learns how to make ale and wine. One learns how to make bread. And another learns how to make small boats that can be used travel to the other side of the island, where there is another village with entirely different goods and services that they are willing to trade. Seemingly overnight, the prosperity and subsequent standard of living of the village is increased exponentially, and it all started with a single idea.

The government never has and never will create wealth. Wealth creation only occurs in the private sector and does so for a profit motive. [Keynesian demand-side economic policies](#)—which confiscate capital from the private sector, either today or in the future—intended to boost output and full employment, were conceived at a time when the UK was running a budget *surplus* and debt to GDP was [8%](#). Keynes never in his wildest dreams envisioned a developed nation with [\\$28 trillion](#) in national debt, and 130% debt to GDP.

In the 1996 movie, *Jerry Maguire*, Cuba Gooding Jr.'s character, Rod Tidwell, when asked what he wanted, famously responded, "Show me the money." As evidenced by history, the current trajectory of imprudent [deficit spending](#) and [money printing](#) leads to weeping and gnashing of teeth in the long run. In the short run, however, the market wants to *see the money* and both Uncle Sam and the Federal Reserve are happy to oblige. But government spending never has and never will create wealth or increase prosperity. The oft-touted [multiplier effect](#), can and does create wealth in the private sector, but does not in the public sector. If it did, logic dictates that no government would ever experience a recession or depression, as they could simply spend their way to prosperity indefinitely. Unfortunately, there is no such thing as a free lunch. At some point, you have to pay the bill.

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Wasatch Team Updates



Mark

Mark & Savina hiking in Alpine



Stan

Birthday dessert at Bear Lake house. Daughter Kambrie turned 20 and Stan turned 21!



John

John out for sushi at his favorite restaurant, Sapa.



Beth

Beth at her daughter's lacrosse game

Michelle

Michelle enjoying time with her dog Stella





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