Strong GDP Set to Accelerate in the Second Quarter

First-quarter GDP estimates came in at a robust 6.4%, with growth likely to accelerate to more than 8% next quarter. Over the coming weeks, economic activity in the U.S. will surpass its pre-pandemic high. With the Fed pumping over a trillion dollars of liquidity into financial markets annually and the Six Trillion Dollar Man (Joe Biden) proposing new schemes to run up the deficit, GDP is poised to increase at its fastest rate in decades this year. Josh Mitchell reports:

> *A burst of growth put the U.S. economy just a shave below its pre-pandemic size in the first quarter, extending what is shaping up to be a rapid, consumer-driven recovery this year.*
>
> *Gross domestic product, the broadest measure of goods and services made in the U.S., grew at a 6.4% seasonally adjusted annual rate in January through March, the Commerce Department said Thursday. That left the world's largest economy within 1% of its peak, reached in late 2019, just before the coronavirus pandemic reached the U.S.*
>
> *Households, many of them vaccinated and armed with hundreds of billions of dollars in federal stimulus money, drove the first-quarter surge in output by shelling out more for cars, bicycles, furniture and other big-ticket goods. The federal government also stepped up spending—on vaccines and aid to businesses.*
>
> *"If you had asked me a year ago where we would be today I certainly would not have said we would have recouped the pre-pandemic levels of economic activity," said Gregory Daco, chief U.S. economist at Oxford Economics. "Everything about this crisis has been unique. The speed and the magnitude of*

the contraction in economic activity was unprecedented. The amount of policy support put in place was extremely rapid."

Pandemic Spending Pushes Amazon Profits to Record

The pandemic created a perfect storm for Amazon. With more people shopping, and more people working from home using cloud services, Amazon's profits have soared. Sebastian Herrera reports for *The Wall Street Journal* (abridged):

> *Amazon. AMZN 0.37% com Inc. reported record quarterly profit as demand remained robust for its deliveries, cloud-computing and advertising businesses, capping a blockbuster earnings season for the world's largest technology companies.*
>
> *The Seattle company's profits in the year since the pandemic started exceeded $26 billion, more than the previous three years combined. Net income from January to March more than tripled to $8.1 billion, and revenue of $108 billion far exceeded the average of analyst predictions on FactSet.*
>
> *The tech giant's success in the past year has catapulted the company to new heights, after consumers flocked to online shopping during pandemic lockdowns. Amazon's dominant grip over e-commerce and continued expansion into new industries have strengthened its power, although the company continues to face challenges from regulators and some employees.*
>
> *Amazon's first quarter is typically slower than its preceding end-of-year results, which are aided by holiday shopping sales. Yet the company has exceeded expectations in recent*

quarters. It shattered sales records last year as homebound Americans turned to its delivery services. The company's stock price rose 76% in 2020.

Amazon's achievements have come as regulators increasingly scrutinize the company's market power. Congress has considered changes to antitrust laws that could make it easier for the government to challenge certain business strategies and practices or force tech giants to separate certain units. Last year, a congressional panel found Amazon had amassed "monopoly power" over sellers on its site, bullied retail partners and improperly used seller data to compete with rivals.

In a response to its critics, Amazon is raising pay for many of its employees. Herrera reports elsewhere in the *Journal*:

Amazon. AMZN 0.37% com Inc. is raising wages for its hourly employees after a majority of workers at one of the e-commerce giant's warehouses voted not to unionize.

The company said Wednesday that more than 500,000 of its employees would see pay increases of between 50 cents and $3 an hour. Amazon, which offers a starting wage of $15 an hour and employs roughly 950,000 people in the U.S., said the raises represented an investment of more than $1 billion.

The pay increase covers a variety of workers and schedules, but averaged over the total number of employees Amazon said would be affected, it would amount to about $40 a week per worker.

Amazon said its starting wage is still $15 an hour. The company declined to say what the average raise will be for workers and said that depends on factors such as how long an employee has been at the company.

> *A company spokeswoman said Amazon decided to pull forward its pay review from the fall to increase wages now. She declined to say if the raises were tied to the union election in Bessemer, Ala., but said they are related to hiring and maintaining competitiveness for workers. Amazon said it is now hiring for tens of thousands of jobs across the U.S.*

Apple Increases Its Dividend by 7% on Record High Profits

Apple Inc. raised its dividend by 7% today to 22 cents a share and increased an existing share repurchase program after results showed record-high profits. Tim Higgins reports in *The Wall Street Journal*:

> *Apple Inc. AAPL -0.60% signaled that the historic rise in sales it has achieved during the pandemic is set to continue, addressing a key investor concern as the company reported a profit that more than doubled to a record high for the first three months of the year.*
>
> *New, more expensive models of the iPhone 12 have been a hit with customers, and revenue from Mac computers and iPads also rose during the quarter on strong demand from employees and students conducting their work at home.*
>
> *Apple's fiscal second-quarter results set new highs in what could be a record-setting year for profit and revenue. Analysts predict full-year profit will exceed $70 billion, nearly a third more than last year.*
>
> *Apple shares jumped 4% in after-hours trading Wednesday in New*

> *York.*
>
> *The Cupertino, Calif. company reported a profit of $23.6 billion in the latest quarter as revenue rose 54% to $89.6 billion, far exceeding Wall Street expectations. The company also announced a 7% increase to its cash dividend to 22 cents a share and that the board had authorized an increase of $90 billion to an existing share-repurchase program.*
>
> *"We feel very good, given the results we've had in the first half of our fiscal year," Apple finance chief Luca Maestri said in an interview. "And clearly as economies start to reopen, particularly those economies where there are enough vaccines, obviously we think that should be a positive."*

Thanks to the Pandemic by 2025, America's Biggest Retailer May Be Online

According to a report by Edge by Ascential, which claims to deliver "one of the industry's most accurate and actionable sales-driving data, insights and advisory solution sets," by 2025, Amazon.com will outpace Walmart in retail sales. *Bloomberg*'s Spencer Soper reports:

> *Amazon.com Inc. will supplant Walmart Inc. as the biggest U.S. retailer by 2025, according to a new report, suggesting the e-commerce giant has too much momentum for Walmart to stop despite big investments in its own e-commerce offerings.*
>
> *By 2025, U.S. shoppers will buy US$632 billion worth of*

products at Amazon and retail afflilites including Whole Foods Market, surpassing Walmart's US$523 billion, according to the report by Edge by Ascential, which measured the value of all goods sold by each company online and in stores with the exception of gasoline. Edge by Ascential helps brands sell products online and in stores.

To assess the relative size of Amazon and Walmart, Edge used gross merchandise volume, which measures how much money shoppers spend at each company. Traditionally company size is measured by comparing revenue, but doing so in this case doesn't capture the full picture because the two companies have different models.

Amazon generates most of its sales from the approximately two million third-party merchants on its site, charging these sellers a commission that is typically 15 per cent of a given product's price. What the merchants collect doesn't show up on Amazon's income statement.

While Walmart has a growing online operation and third-party marketplace, it remains mostly a traditional retailer, buying products from wholesalers and marking them up. Most products Walmart sells show up as revenue, so by that measure Walmart will outstrip Amazon for several years.

The report doesn't include revenue from Amazon's cloud computing division or advertising sales. It includes sales from both retailer's affiliates, including Whole Foods for Amazon and Sam's Club for Walmart, but doesn't include fees for subscriptions like Amazon Prime or Sam's Club.

"The pandemic has permanently shifted consumer habits from in-store to e-commerce," said Deren Baker, CEO of Edge by Ascential. The main beneficiary is Amazon because Walmart is still playing catch-up even though it's been spending to add features to its online store, including launching a Prime-

style subscription service last year. Amazon, meanwhile, continues to build fulfillment centers around the country in an attempt to speed up delivery and erase the advantage Walmart enjoys with curbside pickup at its more than 5,000 locations.

Dick Young's Safe America Chapter III, Part I.

The People's Chemist writes, "State -of -the art science methods prove masks fail to block viral spread. Viruses are everywhere – so tiny a grain of salt is 1,000 times larger." The medical journal *Influenza and Other Respiratory Viruses* showed "no relationship between mask/respirator and protection against influenza protection."

The People's Chemist concludes, "We can rest easy knowing that the best way to avoid illness is to protect and bolster the immune system."

Over the past two years, I have assembled a package of trusted supplements that appear to be useful in bolstering the immune system.

Originally posted February 1, 2021.

The Vanguard Wellesley Way

Vanguard Wellesley is a fund we have long admired at Young Research. It was once a go-to fund for clients, readers, close friends, and even dear family members.

What gave Vanguard Wellesley Income so much appeal?

Wellesley is the more conservative and younger cousin of the Vanguard Wellington Fund—the nation's oldest balanced mutual fund.

Over its almost 51-year history, Wellesley has invested an average of 65% in bonds and 35% in stocks. The bonds are primarily intermediate-term investment-grade corporates; the stocks are dividend-paying blue-chip names.

Wellesley's Baptism by Fire

Wellesley was started in July of 1970. Not great timing for a fund with a bond-heavy allocation. Over the first 11 years of Wellesley's life, interest rates more than doubled. Remember, when interest rates rise, bond prices fall.

How did Wellesley do during one of the worst onslaughts on record for bond investors?

It performed like a champ.

Wellesley was down only twice during that 11-year period—a loss of 3.5% and 6.4%.

Wellesley is still managed by Wellington Management, but as the fund has gained heft, its universe of opportunities has dwindled to levels we no longer find appealing.

The Vanguard Wellesley Way of investing in a mix of investment-grade corporate bonds and dividend-paying stocks remains, however a winning strategy. Wellesley's 65-35 allocation has offered consistency and relative stability for conservative investors, especially those investors in the later stages of retirement.

Vanguard Wellesley Income this Century

The chart below highlights the performance of Vanguard Wellesley's 65-35 mix so far this century. With two of the worst bear markets on record, one of which saw the over-hyped Nasdaq composite fall by over 80% from its high, Wellesley marched higher with much shallower corrections.

An Open Market Alternative to Wellesley

For clients of our investment counsel firm, we have taken what Wellesley (and Wellington) pioneered and improved upon it (in our humble opinion of course).

We focus not only on blue-chip dividend payers, but also smaller high-quality dividend payers and we especially like companies that have a record of making regular annual dividend increases. We have greatly expanded our universe of available common stocks by investing in both U.S. and international dividend payers. Foreign markets are loaded with higher-yielding names.

Long-time followers and readers of *Richard C. Young's Intelligence Report* will know this common stock strategy as Young Research's Retirement Compounders® strategy.

Protection from U.S. Dollar Debasement

We have further improved on the Wellesley Way in our managed portfolios by building on my over five decades of experience following and analyzing global currency and precious metals markets.

Why? With deficits now measured in the trillions, who wouldn't want at least some protection from the ever-rising risk of U.S. dollar debasement?

Bond Investing: Opportunity and Flexibility

Our bond strategy is where you may find the most value. Buying individual bonds is not the province of individual investors. Individual investors are left out of the primary market, where new issues can come to market at deep discounts to bonds already trading on the secondary market. We participate in the new issue market on behalf of our investment counsel clients.

Importantly though, we aren't so big that we are effectively forced to build bond portfolios for clients that mirror an index. We also have free reign to invest across the fixed income markets. If long-bonds look risky or don't offer enough return, we can favor short-term bonds. If low-grade bonds are being given away, we have the ability to take them. Vanguard Wellesley maintains about the same maturity and quality portfolio regardless of how the fixed income landscape evolves.