Most Americans don't have enough savings

BY GAIL MARKSJARVIS
CHICAGO TRIBUNE

Most Americans don't have the money to handle common emergencies like a car breakdown or a trip to the emergency room for a broken bone.

In a national survey by Bankrate.com, 63 percent of people said they don't have the savings to cover a $500 car repair or a $1,000 medical or dental bill. Only four in 10 Americans would be able to rely on savings to cover anything beyond their usual bills.

That suggests most people are living paycheck to paycheck, with common problems such as a car accident or a sick pet upsetting their ability to pay. The survey found that only 23 percent thought they would be able to handle an emergency bill by cutting other spending.

Another 15 percent said they would cope by borrowing from their family. And 15 percent would depend on a credit card.

The findings mimic others and show that most Americans are financially vulnerable. Although consumer confidence numbers gathered each month by the Conference Board show Americans feeling good about jobs after recovering from the Great Recession, most still aren't stashing money away regularly.

A Federal Reserve study of the "well-being of U.S. households" in 2014 showed only about half of people saving regularly in a separate account like a savings account.

In December 2012, as the fear of recession was still fresh, the savings rate in the U.S. climbed to 11 percent, according to the Bureau of Economic Analysis. But it fell to 4.6 percent in August and was at 5.5 percent in November. Prior to the 2008 recession and housing crash, Americans felt secure, and the savings rate dropped to just 1.5 percent when people were dipping into their home equity like a piggy bank — a practice that got many people into trouble when home values plunged.

Since the recession, people have been rebuilding their finances after millions lost homes and jobs and had credit cards and other borrowing shut off by banks. As the pressure has eased, they've become more likely to spend.

The Federal Reserve reported in 2014 that only 47 percent of U.S. households surveyed were saving for unexpected expenses. And if Americans were fortunate enough to end up with $1,000 in extra income, almost half would spend some of it. Only 17 percent said they'd save the entire amount, while 20 percent said they'd devote the entire amount to paying down debt.

Currently, the people most able to weather an emergency are those with incomes over $75,000 or a college education, according to the Bankrate.com survey. Yet, even with incomes over $75,000, 46 percent said they wouldn't have the money to pay a $500 car repair. About 52 percent of people with college degrees said they wouldn't have $500 for the car emergency or $1,000 for an emergency room visit.

COURTESY OF FOTOLIA | TNS
Most Americans don't have access to an emergency savings account, according to a study from Bankrate.com.

The issues seem to be both financial and behavioral. The St. Louis Federal Reserve reported that the median income of the middle class was 16 percent lower in 2013 than in 1989. But studies have also shown that people who are able to save are not doing it. In a survey by the Employee Benefit Research Institute, most Americans said they could afford to save $20 a week, or $20 more a week, but they didn't think it would matter.

Research done by Annamaria Lusardi, a George Washington University economist, shows that only a third of Americans understand compounding. In other words, they don't know that if they borrow money and are charged interest, paying off their debts becomes difficult as interest builds up on old charges left hanging.

In a study just done with PriceWaterhouseCoopers of millennials, Lusardi found that 53 percent had carried over a balance on their credit cards without paying off charges fully. Nearly 30 percent were overdrawing on checking accounts.

If they had to come up with $2,000 within a month, only half thought they could do it. While many of the millennials surveyed were confronting financial challenges such as student loan debt, Lusardi found that only 24 percent demonstrated basic financial knowledge.

Canada leader talks weak loonie oil

BY DAVID LJUNGGREN
REUTERS

SAINT ANDREWS, New Brunswick — Canadian Prime Minister Justin Trudeau on Monday struck a more downbeat note than typical on the weak Canadian dollar as well as low oil prices, saying they hurt large parts of the economy.

Trudeau, pressed about the currency's new 12-year low against the U.S. greenback on Monday, told reporters at a cabinet retreat in Atlantic Canada: "Obviously the dollar and falling oil prices have a negative impact on parts of our economy, on broad swathes of our economy in many cases."

The Canadian dollar's speedy plunge to a 12-year low has fueled calls from some market and industry players for the country's central bank to hold interest rates steady, even as traders increase bets on a cut this week.

The Bank of Canada is due to announce its latest interest rate announcement on Wednesday.

BMO Capital Markets chief economist Doug Porter said Trudeau's comments "certainly thicken the plot" for the rate decision.

"The inclusion of the currency in (his) sentence is notable — obviously there is now official concern in Ottawa about the seeming one-way move in the Canadian dollar," he said in a note to clients.

Trudeau came to power vowing his Liberal government would boost the economy by running budget deficits of C$10 billion ($6.9 billion) a year for three years to fund infrastructure spending,

Pressed on Monday as to whether Ottawa might run deficits much larger than promised, he said his party was fiscally responsible.

Privately, Liberals concede the deficits will be bigger than C$10 billion, but say no final decision has been taken.

Trudeau made his comments when asked whether Ottawa might run annual deficits as big as C$30 billion.

Battered gold miners try to calm investors

BY SUSAN TAYLOR
AND NICOLE MORDANT
REUTERS

TORONTO — Gold mining companies are running a charm offensive with their biggest shareholders on the thorny issue of executive pay, keen to hold onto investors angry about generous compensation after four years of dire stock returns.

Stung by a reprimand from disgruntled shareholders in proxy votes last year, some miners are meeting investors earlier than ever to win support for compensation plans months ahead of spring "say-on-pay" votes.

Largely abandoned by generalist funds after a 44 percent drop in gold prices and 70 percent slump in stock values since 2011, the mining firms are desperate to avoid a further exodus of sector-focused funds.

"If you have say-on-pay votes against you and … you're unwilling to change, people vote with their feet," said London-based Jamie Horvat, who manages the $1.5 billion Vanguard Precious Metals and Mining Fund.

In Canada, home to more large gold producers than any other country, at least three big miners began talking to shareholders last fall about 2016 executive pay, some six months ahead of when miners typically visited investors in past years — if at all — with pay plans.

Mining executives are generally well paid, but the gold industry "is in its own class," said Steve Chan, a principal at executive compensation consultant Hugessen Consulting.

Gold executive pay surged alongside company profits as bullion prices rose nearly fivefold between 2005 and 2011, Chan said. But compensation did not typically follow profits lower as bullion declined.

Cash-strapped miners have reduced costs in every corner — selling assets, closing mines and cutting staff — but CEO pay at the biggest miners is still increasing, a late 2015 study shows.

ALEXANDROS AVRAMIDIS | REUTRES FILE
A general view of the construction site of a mine of Hellas Gold, a subsidiary of Canadian mining company Eldorado Gold Corp, in Skouries, the Halkidiki region, Greece, in February 2015.

In 2014, median total pay for mining CEOs rose 8.8 percent to $2.2 million from 2013, mostly due to bigger short-term incentives such as bonuses, said the report from recruiter Swann Global and remuneration consultant HRascent.

"The mining industry is in a world of pain and … this pain is not being felt in compensation yet," said Jeremy Wrathall of Investec bank, a study partner.

There is little correlation between CEO pay and a company's financial performance, measured by market capitalization, return on equity and other common metrics, the study said.

That conclusion is at odds with wider trends tying pay to measures such as shareholder returns. Last year, 69 percent of companies in the S&P 1500 linked compensation to performance, research firm Equilar said.

By November, several miners had called to discuss compensation plans with Joseph Foster, portfolio manager at Van Eck in New York, one of the gold sector's biggest shareholders. Miners outlined performance goals they want to use to calculate executive pay and asked for input.

"It tells me that the final product, this proxy season, will be different than past proxy seasons and we'll see stuff that's more aligned with what shareholders are looking for," he said.

If not, Foster is prepared to sell: "If it's something that's insidious and endemic within a company, then I don't have to own these companies."

Kinross Gold, the world's fifth-biggest producer, began talking to investors in September, versus November a year ago, a spokeswoman said. Eldorado Gold spoke with top shareholders around November and Yamana Gold began such talks last year.

Of the three Canadian shareholder say-on-pay votes that failed in 2015, two were at miners, Barrick Gold and Yamana Gold, which vowed to fix their pay plans. Eldorado has trimmed its executives' pay.

Goldcorp CEO Chuck Jeannes said the downturn is reflected in his equity pay, while Kinross CEO Paul Rollinson said sizeable gaps exist between potential bonus awards and final payouts.

Egregious pay may not deter all investors, some of whom may fear missing a major discovery, 1832 Asset Management fund manager Robert Cohen said.

"If one of these companies goes really well and they didn't own it, because they fussed over a CEO making a million dollars a year too much, they miss out," he said.

Fundamentals could resurface after wrenching selloff

BY RODRIGO CAMPOS
REUTERS

NEW YORK — The dramatic selloff on Wall Street through most of the past two weeks could signal a capitulation-type blowout, giving fundamentals the upper hand for the next week even as international stocks and the price of oil continued to fall Monday while U.S. exchanges were closed for a holiday.

The current slide in stock prices, which on Friday briefly dragged the S&P 500 to levels not seen in more than a year, is reminiscent in breadth and tone of drop-downs seen during the Great Recession.

The U.S. stock market was closed Monday in observance of the Martin Luther King Jr holiday.

In Europe, the Stoxx 600 index followed Asian shares lower and fell 0.5 percent after the European Central Bank said it would quiz euro zone lenders about high levels of bad loans. The price of Brent crude slipped 0.9 percent, to $28.63 a barrel, on the prospect of more supply from Iran. Prices had fallen as low as $27.67 in earlier trading.

Some argue the broad decline in U.S. stocks is warranted. In addition, the US market has not seen the kind of sell-off in high volume that signals a capitulation, and the S&P 500 could enter a bear market, more than 9 percent below current levels.

From most indications the U.S. economy is far from being in a recession, according to many market participants. The repricing in stocks could help the market shift back to fundamentals after years of focusing on the Federal Reserve and its ultra-low interest rate policy.

That is welcome news for some in the market who have seen stocks trade on variables other than economic data and company earnings.

"I actually am encouraged to see the market drop so we can just get to fair value and take it from there, then it is really determined by the path of the economy, and profits and revenues," said Jack Ablin, chief investment officer at BMO Private Bank in Chicago.

"To me, this is really a result of Fed influence, just a reversing of all this Fed intervention."

Many point to a slowdown in China's economy and its expected weight on global growth as a reason for the slide in stocks and the 12-year lows in crude oil futures.

The Shanghai index closed Friday at its lowest level since December 2014, down more than 20 percent from its November high and nearly 44 percent from its 2015 high.

"The spillover from China has been concentrated in crude oil and there are reports that commodity hedge funds have experienced a sharp increase in margin calls as the price of oil falls," said Gail Dudack, chief investment strategist at Dudack Research Group in compNew York in a Friday note to clients.

"Typical of most margin unwindings, selling will flow into equity markets since stocks are often the most liquid assets in portfolios. This explains why movements in the (S&P 500) have been closely aligned with crude oil in recent weeks."

Friday had some of a capitulation type feel, with 944 New York Stock Exchange issues hitting a 52-week low. It is only the fourth day since the end of 2008 that the number is above 900. It also was the seventh day in a row of more than 500 NYSE stocks at their lowest in at least a year, a streak not seen since October 2008 -the month following the bankruptcy of Lehman Brothers.

Major indexes fell Friday for a third consecutive week. The S&P closed at its lowest since late August while the Nasdaq Composite ended at its lowest since October 2014.

Fundamentals on tap

U.S. markets are closed Monday for the Martin Luther King holiday and on Tuesday will reopen to fresh industrial output and retail sales data out of China. Chinese GDP data is also due Tuesday, late Monday on Wall Street.

"Some of the (market) fears may be comforted if we get good numbers out of China Monday evening," said Brian Jacobsen, chief portfolio strategist at Wells Fargo Funds Management in Menomonee Falls, Wisconsin.

He said if next week's U.S. core inflation data does not surprise on the upside and manufacturing returns to expansion investors could feel more comfortable returning to the stock market.