

Clark Kendall: In Montgomery, aim for better 'net' economic results

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By Clark Kendall

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As an investment professional and financial planner, one of my goals is to empower each of my clients to take responsibility for his or her financial future and make the often tough choices needed to ensure the brightest possible outcome.

Recently, I attended the Chartered Financial Analyst annual conference in Singapore. This conference was a marvelous opportunity to listen and learn how leading investment professionals from around the world use creative skills and talents to meet the financial goals and objectives of individuals and families.

During one of the conference sessions, Paul Dickinson, the founder and executive chairman of the Carbon Disclosure Project, shared a story about the World Health Organization's distribution of free mosquito netting to villages in South Africa. Members of the WHO project team found that only 20 percent of the mosquito netting given out for free was actually used by the villagers.

Two years later, Dickinson's organization used "micro loans" to South African small business owners, in the amounts of \$250 to \$2,000, to subsidize sales of mosquito nets to individuals and families for as little as \$1 per unit. CDP found that when an individual paid for the netting, he or she was more likely to understand and realize the benefits of owning the netting.

After selling the netting, CDP found the utilization rate jumped to more than 80 percent. The lesson learned, for investment and financial planning professionals, is that getting individuals to help themselves is truly the best way to help people get ahead financially.

In Montgomery County, meanwhile, our public school system provides more than 50,000 subsidized lunches daily for approximately 150,000 students. A

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third of our county students receive free or reduced priced meals. Like the free mosquito netting in South Africa, I wonder whether the Montgomery County school system is doing all it can to empower individuals and families financially. Are we giving away mosquito netting?

The same philosophy applies to a recent proposal in Annapolis to increase the minimum wage to \$10 per hour by 2015. Proponents see this as a way to lower the perceived increasing disparity between highly and non-highly compensated individuals in the state and county. At the same time, Maryland allows individuals to collect as much as two years of unemployment benefits. Again, thinking about those folks in South Africa, are we doing all we can to incentivize individuals to act in their best interests to help themselves?

On one hand, Montgomery County is one of the wealthiest counties in the country, and we don't want to have huge differences between the haves and have-nots in our community. But, on the other hand, we should want to help individuals to help themselves. Is raising the minimum wage and giving individuals two years of unemployment benefits the right way to do this?

During the CFA conference, I also listened to Joseph P.H. Fan, professor of economics and finance at the Chinese University of Hong Kong, describe the relatively high financial and business cost of transferring business and wealth assets from one generation to the next in Asian markets. According to Fan, Asian culture places a relatively high importance on passing family businesses and assets from one generation to the next. In Asia, it is desirable to transact business with organizations that have "family relationships."

I can't help think that in the Asian markets, people like Steve Jobs and Bill Gates would never have been able to become the great business leaders they became because neither was born into a privileged family. Jobs and Gates rose to the top of the business world because they were smart, worked hard and were ambitious. What makes America great is the ability for an individual to start at the bottom of the economic and social ladder and, in most cases, through education and hard work, achieve whatever success he or she desires.

At times, I worry that Montgomery County has too many incentives for individuals not to act in the best interest of the overall community.

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At the present time, Maryland and Montgomery County have imposed a relatively high tax burden that encourages some successful individuals and companies not to live and operate businesses in our state and county. Thus, over the past several years, Montgomery County has incentivized high-income individuals and businesses to leave the county and state and move to neighboring Howard and Fairfax counties.

Those counties, with lower marginal tax burdens, have had relatively stronger economic growth as measured by GDP. It is interesting to note that, even though their respective marginal tax rates are lower, the gross tax revenues for Howard and Fairfax County have grown at a faster rate than Montgomery County's because of stronger economic growth.

When all is said and done, Montgomery County needs to strive to grow by attracting and retaining the brightest, smartest and hardest-working individuals from around the world to make our county the best place to live, work and play. But to achieve this "net" result, county lawmakers and policy makers will need to come up with a more empowering mix of social and economic incentives.

Clark Kendall, founder of Kendall Capital Management in Rockville, has more than 30 years of experience in investment management and wealth management strategies.