

Weekly Commentary

September 13, 2010

The Markets

If you had an extra \$1,000, would you use it to reduce debt or would you spend it on something discretionary?

How Americans answer that question may significantly impact economic growth over the next few years, according to an August 20 report from Federated Investors. If Americans decide to focus on debt reduction that could keep a lid on economic growth in the near term, but would likely be good for the economy over the long term. Conversely, if Americans start spending freely, it may boost short-term growth, but it might delay our day of reckoning and make it worse down the road.

Another factor that comes into play here is demographics. The leading edge of the much chronicled Baby Boom generation is now in its mid-60s and their peak spending years are behind them. When this group hit their peak spending years back in the 1980s and 1990s, the U.S. economy and stock market roared. Now that the cohort is entering their 60s, their spending is slowing down.

Generation X follows on the heels of the Boomers, but their numbers are significantly smaller so they won't be able to pick up the slack.

From a longer-term demographic perspective, the good news is that Generation X is followed by the Millennials. Influential authors William Strauss and Neil Howe define the Millennials as people born between 1982 and 2001. At about 85 million strong, the Millennials are even larger than the Baby Boom generation, according to *Advertising Age*. As the Millennials reach their peak spending years, we could possibly see another economic resurgence in roughly the 2020-2040 period, according to HS Dent, an economic research and forecasting company.

Demographics help define potential longer-term trends and are useful in putting the current economic environment in context. And, with demographics in mind, Americans may be more likely to save that extra \$1,000 instead of spending it on the latest gizmo.

Data as of 9/10/10	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.5%	-0.5%	6.4%	-8.6%	-2.2%	-2.9%
DJ Global ex US (Foreign Stocks)	0.1	-1.5	3.2	-8.4	1.5	1.6
10-year Treasury Note (Yield Only)	2.8	N/A	3.3	4.3	4.2	5.8
Gold (per ounce)	0.5	12.9	25.8	21.0	22.7	16.4
DJ-UBS Commodity Index	0.5	-2.6	7.8	-7.0	-4.1	2.0
DJ Equity All REIT TR Index	-1.8	18.4	34.5	-3.5	1.7	10.5

Notes: S&P 500, DJ Global ex US, Gold, DJ-UBS Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT TR Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable or not available.

“ANYBODY WHO THINKS MONEY WILL MAKE YOU HAPPY, HASN’T GOT MONEY,” according to billionaire David Geffen. Now we have a new scientific study that helps quantify the connection between money and happiness.

Researchers Daniel Kahneman and Angus Deaton of Princeton University analyzed data from the Gallup-Healthways Well-Being Index and tried to determine how income affects an individual’s emotional well-being and overall life satisfaction. They measured emotional well-being as an individual’s day-to-day level of happiness (e.g., how much enjoyment, laughter, smiling, anger, stress, or worry they experience each day,) while overall life satisfaction was measured as an individual’s satisfaction with their life in general.

Here’s what they found.

As a person’s annual income rises up to about \$75,000, their emotional well-being, or day-to-day happiness, rises, too. But, beyond \$75,000 in annual income, there was no additional boost to day-to-day happiness, according to the researchers’ article published in the *Proceedings of the National Academy of Sciences* and reported by *Inc.* magazine.

What’s the key to \$75,000? According to LiveScience.com, “The researchers suggest that making anything more than \$75,000 no longer improves a person’s ability to spend time with friends, avoid pain and disease, and enjoy leisure time--all factors involved in emotional well-being.”

Ah, but more money does increase overall life satisfaction. According to the *Inc.* article, “With every doubling of income, people tended to say they were more and more satisfied with their lives on a 10-point scale--a pattern that continued for household incomes well above \$120,000.”

Do these findings match your life experience? Let us know what you think.

Weekly Focus – Think About It

“An object in possession seldom retains the same charm that it had in pursuit.”
--Pliny the Younger

Best regards,

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