Wealth Enhancement

Economic Vibes: A Positive Take!

My last article, *Why the Economic Vibes are Off* was an opinion on why 75% of the surveyed population detailed in a Wall Street Journal article did not think they could increase their standard of living. The article had a tone that was not upbeat because of the nature of the topic with an analysis of consistently high costs for shelter, healthcare and education. My wife, accurately as usual, let me know that people prefer a happy ending. She wanted a prescription for the disease and not just a diagnosis.

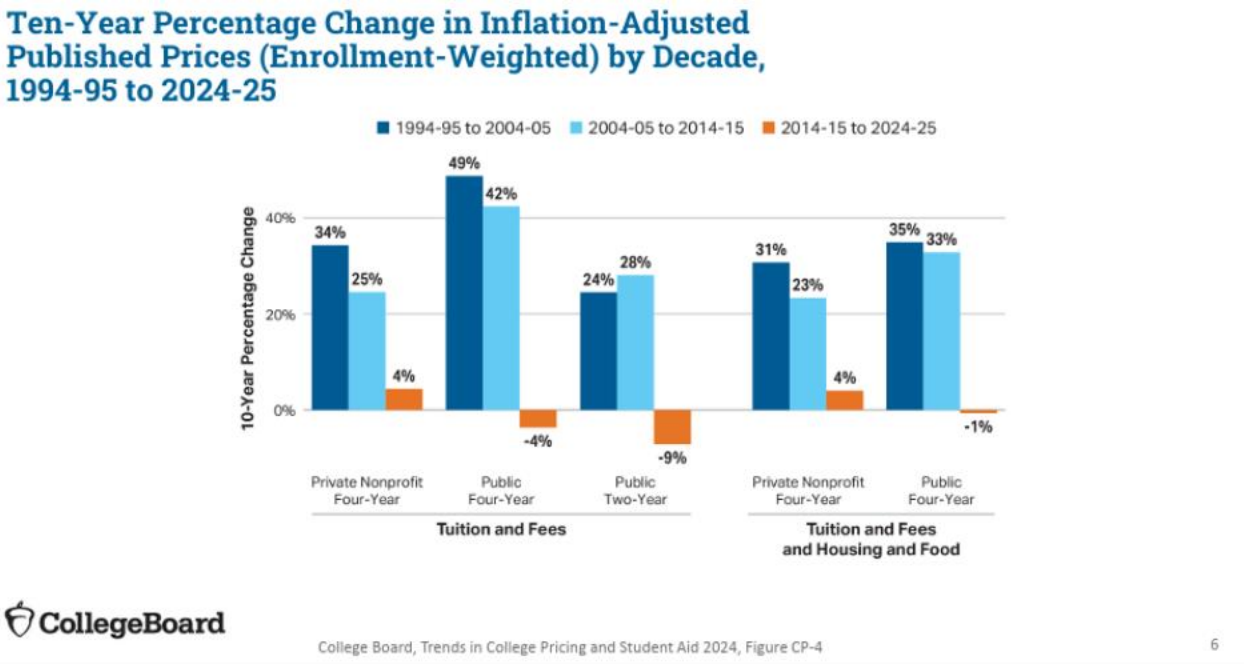
Recent Good News

Medical care price growth meaningfully slowed from its long-term trend. The 10-year CAGR is 2.71%, 5 year 2.2%, and the 3 year is just 1.8%. Hospital services, physicians' services and prescription drug growth have seen very little increase over the last three years. Medical care CPI prices only reflect out of pocket costs and the expansion of Medicare, Medicaid, and ACA subsidies have reduced those costs. And to keep my wife reading, I'll spare you the less cheerful data on employer health insurance costs.

On the shelter front, I highlighted the post-COVID increase I suspect has largely driven the pessimism illustrated in the WSJ article. According to Redfin, there is some loosening in the market. There is 10.1% more inventory for sale than this time last year, homes are staying on the market longer, and price reductions are more common. Additionally, the average rent price has risen by less than 1% over the last 12 months according to apartments.com, although that data is very location dependent.



Finally, higher education prices are accelerating at a slower pace although still faster than inflation. According to the college board, the most recent 10-year period only saw inflation adjusted 4% growth of a Private Nonprofit 4-year college cost while public colleges grew less than inflation. That is in stark contrast to the gains seen in the prior 10-year periods measured.



Capital Class: Prescription for Inflating Prices

While recent data has shown some improvement, the long-term trends are clear, and I would caution you to get too excited over a small year-to-year change. The most powerful step a person can take is joining the capital class where investments tend to compound at much greater rates than prices or wages. If you want to be more intentional in your savings or you're not sure where to start look at these seven practical ways I took control of my savings.

Smart Money Moves: 7 Practical Ways to Save Big and Live Well - Retirement Daily on TheStreet: Finance and Retirement Advice, Analysis, and More

Let's say you followed some of these tips and saved $10,000 by September of 2015, investing it in the S&P 500. That capital would be worth $40,810 today. The median sale price in the United States on a home is $439,419. I put down 5% on my first real estate purchase (and could have done less). That capital would be enough for a down payment today on the median house with nearly $20k left for closing costs, furnishing and a proper housewarming party.

That housing scenario assumes that you did not save anything additional in those 10 years while your initial capital was earning that real estate purchase, which does not seem reasonable. Let's assume that you were able to save $1,200 a year or $100/month, which seems possible for most with even modest lifestyle changes. That

savings, invested in the S&P 500, would be worth an additional $28,180 by today, which would be a great jumpstart to funding a 529 plan that would have a value of nearly $230,000 in 22 years without any additional savings – a good start.

On the medical care front, most expenses are incurred after the age of 65 when Medicare is available. That provides time for compounding investments for the costs that are not covered, which can be significant. HSA accounts could help as it is triple tax advantaged (no tax on invested principle, gains, or withdrawals). Hopefully, while your capital compounds for eventual health costs you have employer subsidized healthcare and a reasonable buffer to cover unexpected interim costs.

Hope, Strategy and Optimism

We can hope that the costs of these major lifestyle expenses continue to ebb. I really hope they do for my own sake. Hope is not a plan though. The best way I know of increasing my standard of living is finding ways to save without sacrificing lifestyle. A close friend of mine once described my lifestyle as Country Club hobbies for someone who abhors Country Club prices. That lifestyle has allowed me to join the capital class and stay ahead of the fast-growing expenses that are necessary to increase our standard of living. Count me in with the 25% that are optimistic about raising their standard of living. To my wife, life is pretty good, I think it will only continue to get better, and I hope this positive message resonates with all.

This information is not intended as a recommendation. The opinions are subject to change at any time and no forecasts can be guaranteed. Investment decisions should always be made based on an investor's specific circumstances. Investing involves risk, including possible loss of principal.

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