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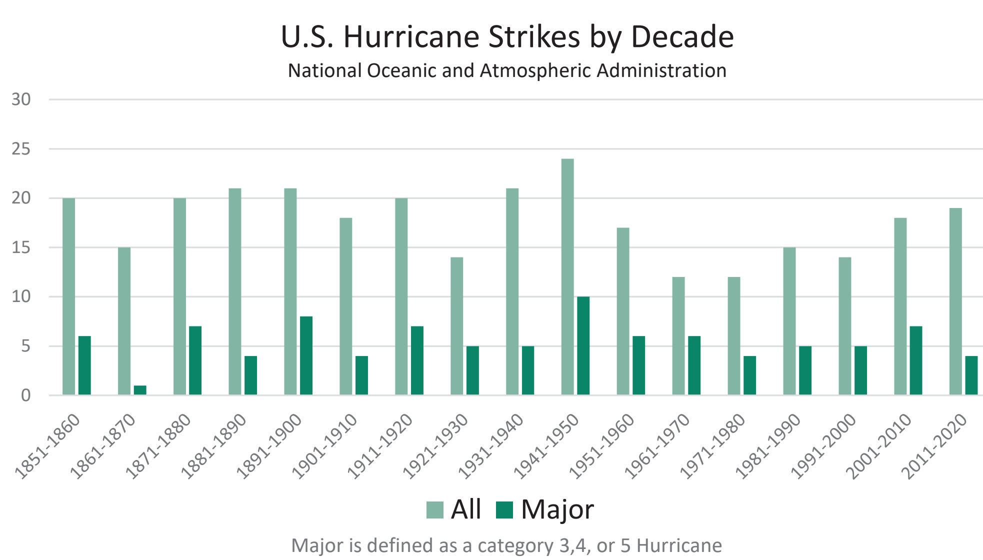
Beware of "Lonely Numbers"

In his excellent book “Factfulness”, author Hans Rosling warns readers to beware of lonely numbers. A lonely number is a number that seems impressive (and could be either large or small) but lacks any context. We are subjected to lonely numbers all the time and we can do ourselves a favor by always looking for another relevant number to compare it to for context. As an example, take this CNBC.com headline from February 6, 2024: Credit card debt hits “staggering” $1.13 trillion.

Well, $1 trillion certainly is a large number. Put in the perspective of time, one trillion seconds is equal to 32,000 years. So, over a trillion in credit card debt must be bad, right? Federal Reserve data as of the end of 2023 shows that total Househould Net Worth in the United States stood at about $147 trillion dollars. That means total credit card debt is only .76% of total Household Net Worth. *[source: https://fred.stlouisfed.org/series/BOGZ1FL192090005Q]*

Yes, the amount of credit card debt (or auto debt, or mortgage debt, or pick-your-debt) is at all-time highs, but so is the total value of things that people own. To give some context to debt, and whether it really is excessive, we want to know whether the total debt relative to household net worth is increasing or decreasing. Turns out, over the last roughly 75 years, it’s decreased by more than half. Household debt as a percent of net worth was over 15% in the early 1950s. The number declined steadily hitting an all-time low of just below 5% in the wake of the 2008 financial crisis. It has since creeped up slightly and is now around 7%.

Lonely numbers can be found everywhere. The reporting of extreme weather-related events such as hurricanes might provide another example. Accompanied by video of property destruction and a panel of experts we automatically assume that these events are at all-time highs. But are they? See the chart below from the NOAA.



Source: https://www.nhc.noaa.gov/pastdec.shtml

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It looks like the number of events, particularly those classified as major, has been fairly steady over the decades. What has been increasing is the number of people living in areas prone to hurricane landfalls and the ability of those people to serve as citizen journalists. Florida, South Carolina and Georgia all had double-digit percentage population growth from 2010 to 2020. *[source: https://www.iii.org/press-release/triple-i-population-growth-drives-hurricane-loss-trends-071422]* More people means more property destruction and damage because those pesky humans want restaurants, shops and bars next to the homes they built in tidal zones. Time and inflation increase the amount of damage as well. A $500,000 house destroyed by a hurricane 10 years ago is probably a $1 million house destroyed today.

Lonely numbers also appear in the stock market. On January 19th of this year, the S&P 500 hit a new all-time high, surpassing its previous high set on January 3, 2022. **Headline: STOCKS TRADE AT RECORD HIGH ON.** It's not uncommon for people to think they should exercise caution when they learn that the market is at "all-time highs". In reality, January 19th was the 1,345th time that the S&P 500 had traded to a new high and it continued to do so this year. Investors tempted to cash out on new highs are likely sacrificing future returns.

[source: Birinyi Associates bulletin 1/19/24]

Remember what business the media is in. It's primarily the capture-your-attention business, and to do so, they often rely on fear and great big scary lonely numbers. Always look for context. The business of investing requires discipline and patience and an understanding that the only really relevant Rate of Return is the one that helps you achieve your personal goals.

Monetary Policy

Why haven't higher interest rates slowed the economy? It seems there has been a lot of talk about a recession that has yet to materialize. Recently many market and financial pundits have been looking at the personal savings rate as a harbinger of recession. From 2010 to 2020, the savings rate was at or above 5% and it has recently fallen to 3.6%. The 65-year average is more like 8.5%. In March of 2020, when the world shut down, it skyrocketed briefly to 30%. *[source: https://fred.stlouisfed.org/series/PSAVERT, US Bureau of Economic Analysis]* The argument is that in the current environment people are saving less which won't bode well for the economy. So far, no one has told the economy. Unemployment remains low, GDP growth is above expectations, and the stock market keeps hitting new highs. There is no doubt that we are all feeling the effects of inflation, but the lower savings rate could simply be a function of monetary policy.

From 2010 (in the wake of the Great Recession) to 2020 the Fed kept interest rates extremely low. They started raising them slightly in 2016 and hit a peak on the Fed Funds rate of 2.5% in 2018 before cutting them again in 2019 and then effectively going back to 0% with COVID. *[source: https://fred.stlouisfed.org/series/FEDFUNDS, Fed Board of Governors]* The sharp increase in the savings rate in 2020 was pure panic followed by an extraordinary amount of stimulus dollars that initially had no way to be spent. To illustrate how monetary policy may be the influencing factor on the savings rates, let's assume that for most of the years before the recent interest rate hikes savers could earn .5% on their cash. One-half percent. Money market funds now pay 5%. That's a 900% increase in the interest earned on savings. Put another way, $100,000 of savings earned $500 annually vs. $5,000 today. $1 million of savings was needed to generate what $100,000 does today. A low interest rate environment punishes savers, forcing them to reserve more to generate needed income and thus increasing the demand for money. Today's lower savings rate could simply be a result of higher interest rates. Less is needed to generate the same amount of income so more is available to spend on goods and services.

It's also important to note the effect this has had on company balance sheets. In ultra-low interest rate environments, it pays to leverage things and borrow money rather than spend cash. And that's just what many companies did. A larger cash reserve earning 5% over the past year added to profits without any extra effort on the part of the company.

This dynamic is the reverse of common thinking about monetary policy. The Fed lowers rates to stimulate the economy by making the cost of money cheap, thus expanding credit. Then they raise rates to slow the economy by making the cost of money expensive and tightening credit. That has worked in some areas such as mortgages (applications are down 15% year over year) *[source: https://www.mortgagenewsdaily.com/data/mortgage-applications]* but the savings rate could be reflecting monetary policy as a stimulant rather than a depressant.

Left to right: **Kate Absec,** FPQP®, Senior Registered Associate; **Brad Dugdale,** Senior Vice President, Financial Advisor, Portfolio Manager; **Stephanie Brunner,** Client Associate; **Darin Hayes,** CPFA, CWS®, Senior Vice President, Financial Advisor, Portfolio Manager.

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Odds and Ends

• We have heard from some clients that they started receiving paper statements, trade confirmations and prospectuses after our recent website upgrade. If you have experienced this, let us know and we can give you instructions to reset your preferences.

• If you made an IRA contribution for 2023, you will receive a form 5498 usually by the end of May. This is for informational purposes only and no action is required on your part. We are required to file this form with the IRS and we provide you a copy.

• Please remember that we will always call you and get a verbal confirmation whenever there is a request to move money between a bank and D.A. Davidson. We want to verify that it is really you making the request if something comes to us via email.

• Reminder that IRA and 401(k) contribution limits have increased. For 2024, IRA maximum contributions are $7,000 plus an additional catch-up contribution of $1,000 for individuals age 50 or older. 401(k) limits have increased to $23,000 plus an additional $7,500 for age 50 or older.

Team Tidbits

Brad:
Daylight saving time marks a nice shift in activities in our house. The extra sunlight at the end of the day lays groundwork for many activities. Grilling, golfing, and spending time with friends and family are high on the list. Shariae and I traveled to New Orleans for a Davidson event and had a nice time. The food was amazing, along with the music. Little Bella turned two. Two? Way too fast. She has been a delight and brings a new energy to the household. I have developed a new activity: Cooking! My family are often the test subjects for many new recipes I find on Instagram. We are looking forward to summer.

Darin:
Teagan is wrapping up her first year at the University of Idaho and is thriving. She will stay in Moscow this summer because she got a job analyzing wolf DNA in a lab with some grad students. We'll miss having her at home but are super proud of her motivation and independence. She already has an apartment lined up for next year as well. I plan to get the boat out of storage and in the water in early May and hope the weather has warmed up a wee bit by then. We do have a rafting trip planned for the summer. We'll be doing the Main Salmon this summer. We'll put in near the confluence of the Middle Fork and the Main and take out before Riggins. About 80 miles right through the middle of Idaho. Can't wait. We're loving the extra daylight and the chance to spend more time outdoors.

Kate:
Hello Spring! We've been waiting for you! Seems like there is always something to do and always something to report. Terry and I celebrated our 38th wedding anniversary in Phoenix at the NCAA Final Four tournament. I love this man beyond measure and he always has an adventure up his sleeve. There were 75,000 people in the venue. Too many for us. We navigated in and out of the venue with their terrific organization but I must be getting old as the PHX traffic moves WAY too fast for this country bumpkin. Anyway, it was a bucket list item and we've checked that box.

We came home to magnificent weather and are busy getting the lake house in summer condition. Lots of raking pine needles/cones (Terry's arch nemesis) and beach fires which we love. I took a tumble on a recent hike so it was good for me to continue moving while working. On a positive note, I beat my 'personal record' on the hike but came down the mountain looking like I'd been mugged. All in the name of good health?! Ugh.

Our next adventure will take us to see old friends in Colorado Springs and then nearly 2 weeks in Great Britain/Scotland/Wales/Ireland. I'll report about it in our next newsletter and I'll toast D.A. Davidson and all our magnificent clients and friends with a Guinness. Be well and happy spring to everyone.

Steph:
I don't have much to update right now. Just looking forward to some nicer weather to enjoy with my little family. I'm still studying away for my next licensing exam, which has been more cumbersome this time than I expected. I'm at the halfway point with the materials and hope to be done before summer arrives! Dawson is her normal silly self and continues to grow and change with each passing day. She is loving riding her balance bike and tends to cruise faster than I can keep up! I have a feeling that will never change…and I absolutely love it. Anyway, I hope you all have a great spring! As always, stay classy, my party people.

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