



The Spend-Save Imbalance – Has the Worm Finally Turned?

- Gary Klaben

Hemlines go up and down. The stock market goes up and down. Gas prices go up and down. Trends. We see them everywhere. Fortunately, there was one trend that switched from a very disturbing trajectory after the 2008 financial crisis – *spending!*

Who has not yet seen the 1990 Hollywood blockbuster movie, “Pretty Woman,” that launched Julia Roberts’s career? Not many. It is one of those feel-good movies about girl-meets-guy, guy-gets-girl, girl and guy live happily ever after...or, maybe I’m thinking of Cinderella? Richard Gere plays Edward Lewis, a ruthless billionaire who softens when he meets Vivian Ward played by Julia Roberts. Vivian is a down-on-her-luck Hollywood prostitute who is elevated to elite social status for a week. She adapts her behavior. She changes her ways. She reverses the direction of her life. Richard Gere also had co-starred in the 1982 “An Officer and a Gentleman” opposite Debra Winger, who was similarly swept off her feet (literally) in another iconic Hollywood reversal of fortune. Ahh, if it were only that easy in real life!

Back to reality.

Prior to the 1980s, the Greatest Generation of my parents lived through The Great Depression, fought World War II, and started the biggest economic expansion in our country’s history. There was one more thing they had in common – *saving!*

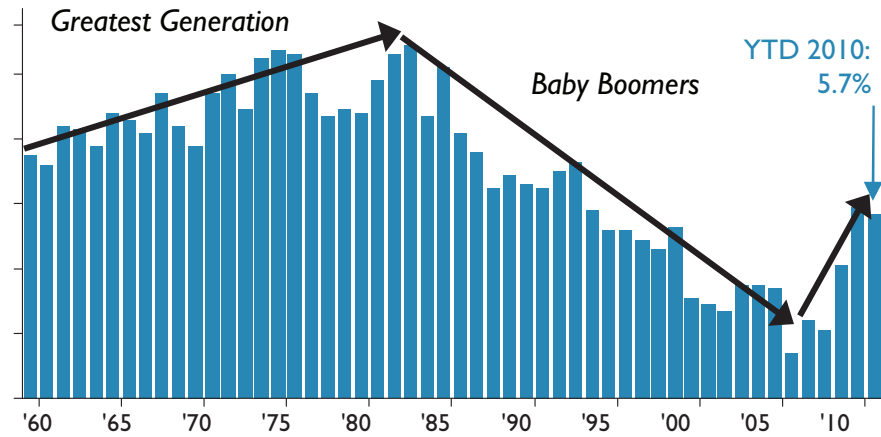
That’s right, save for the future, save for a rainy day, save for a home, a car, furniture... one of those new-fangled television sets. They even had a system for saving and spending – “the apron method.” Yes, dad would cash his paycheck and mom would place cash in 10 to 15 pockets of an apron for electric, gas, groceries, Christmas Club, Savings Bonds and other items.

They also did one thing that was quite different from their Baby Boomer children – save first and spend second. When it comes to money, this is the one common characteristic that I’ve been able to pinpoint regarding my clients from this Greatest Generation. They saved first, then spent the rest. I can identify no other universal reason why most ended up with a nice nest egg by retirement age.

This is what’s so troubling about the Baby Boomer generation. We spent first and saved second. By the way, this technique never works, because inevitably there’s nothing left after the spending is over.

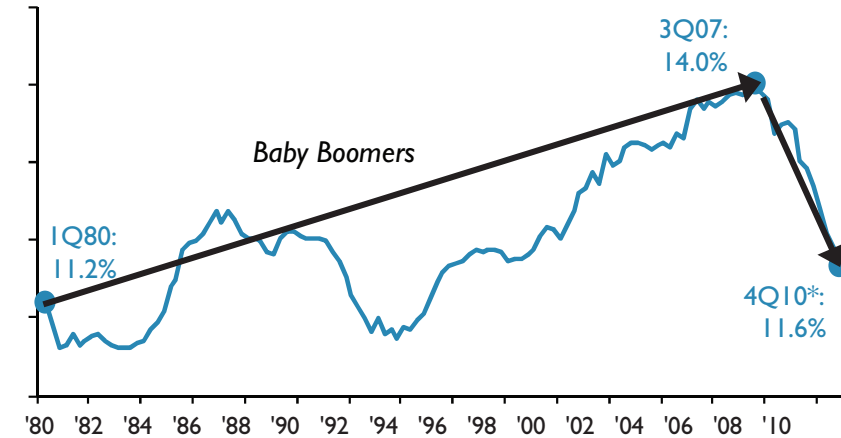
Personal Savings Rate

Annual, % of disposable income



Household Debt Service Ratio

Debt payments as % of disposable personal income, seasonally adjusted



Source: BEA, FRB, J.P. Morgan Asset Management. Personal savings rate is calculated as personal savings (after-tax income – personal outlays) divided by after-tax income. Employer and employee contributions to retirement funds are included in after-tax income but not in personal outlays, and thus are implicitly included in personal savings. Savings rate data are as of November 2010. *4Q10 Household Debt Service Ratio is J.P. Morgan Asset Management estimate. All other data are as of 3Q10.

This saving-first trend began with the Greatest Generation in the 1950s and lasted through the early 1980s. We know this trend was in place because throughout this period the average middle-class American saved 10% annually. But then an interesting thing started to happen in the early 1980s: unabashed consumerism. Yes, we Baby Boomers, who were solidly ensconced in the work force by the 1980s, took advantage of credit cards, mortgages and home equity lines of credit, making it ever easier to consume through the new millennium.

Of note, this was not politically based. Credit eased up during the Clinton administration, followed by the same easy money during the Bush presidency. Both Presidents are Baby Boomers, having been born in the first wave after the war. The curious thing is: as Baby Boomers began to dominate the private and public sectors, their value system permeated and altered America's social, economic and political decisions. We made it EASIER to spend than to save.

By the mid-2000s, this trend was out of control.

So much so that the national savings rate actually dropped to 0%. That is correct. Nothing was being saved for the future! This all makes perfect sense. It simply is not possible to save and also go from a one-car garage to three, an average home of 1,200 square feet to 2,500 square feet, one car to three cars, one trip a year to multiple trips annually, and on and on. "There is always tomorrow. Spend, spend, spend!"

Then the hangover...and what a doosie.

Lehman Brothers failed, then AIG and the big banks had to be rescued to the tune of \$600 billion. As it stands today, we have thrown \$2 to \$3 trillion at the massive debt overhang and, knock-on-wood, it would appear we have

weathered this storm. But what a shock to the system! Who amongst you in the fall of 2008 did not worry once or twice that The Great Depression was happening again? We got lucky; it was “only” a Great Recession. Now, if we recall the “Three Little Pigs” nursery rhyme...

“Little pig, little pig, let me in!”

“Not by the hair on my chinny-chin-chin!”

“Then I’ll huff, and I’ll puff, and I’ll blow your house down....”

You know that irresponsible little pigs and a big bad wolf are perilously close in the food chain, separated only by building-material decisions: straw, sticks or bricks.

Either save up for bricks to thwart a ravenous wolf, or pay the piper.

Ironically, it was our grandparents who partied through the Roaring Twenties only to spend the next decade struggling to make a living. They abused debt as well. It seems history does repeat itself.

The 1929 stock market crash and ensuing economic shock to the system was long overdue. Afterward, something very interesting happened. Americans tried to save and cut back on spending. Fast forward to the previous four recessions since 1980. After each downturn, enabled by politically induced easy money, Americans pursued a spending frenzy. The latest recession, though, reveals a major seismic shift in economic tectonic plates. The “routine” U.S. spending frenzy hasn’t repeated. So, we currently find ourselves in a painful slow-growth economy with a jobless recovery.

What happened?

I have enough money to last me the rest of my life, unless I buy something.

- JACKIE MASON

Maybe it was as simple as finally waking up from one too many parties with the realization that Tomorrow is Today. I don’t know for certain, but what I do know is: Our clients, our friends

and our family are saving more and spending less. Now, don’t take my word for it. Take a look at the saving/spending chart. What you’ll notice is a long downward trend in savings from the early ‘80s through 2008. Also, you see increasing debt over the same period. Then, over the past two years, a switch has magically flipped on and the reverse has occurred. There has been a quantum shift, but not only a money shift, but a value shift as well.

We started noticing this shift in early 2009. Clients changed their attitudes toward consumption and consumerism in general. Buying decisions were based more on need rather than want. And it not only changed for the financially middle- and upper-class groups, but for the very wealthy as well. The private jet and yacht business took a huge hit and has not yet recovered to pre-financial-crisis levels. Even extremely wealthy families stopped overconsuming. It is no longer fashionable to buy a gas-guzzling SUV. It is costly to operate and is not “green.” Prior to the crisis, restaurants could depend on a certain level of patronage on Monday through Thursday, but since then have had to cut back drastically or close due to reduced weekday traffic. “Staycations” – vacations at home instead of traveling; holding onto



cars longer; buying used items through Craigslist or other aggregators versus purchasing new: In example after example, *daily life is changing*.

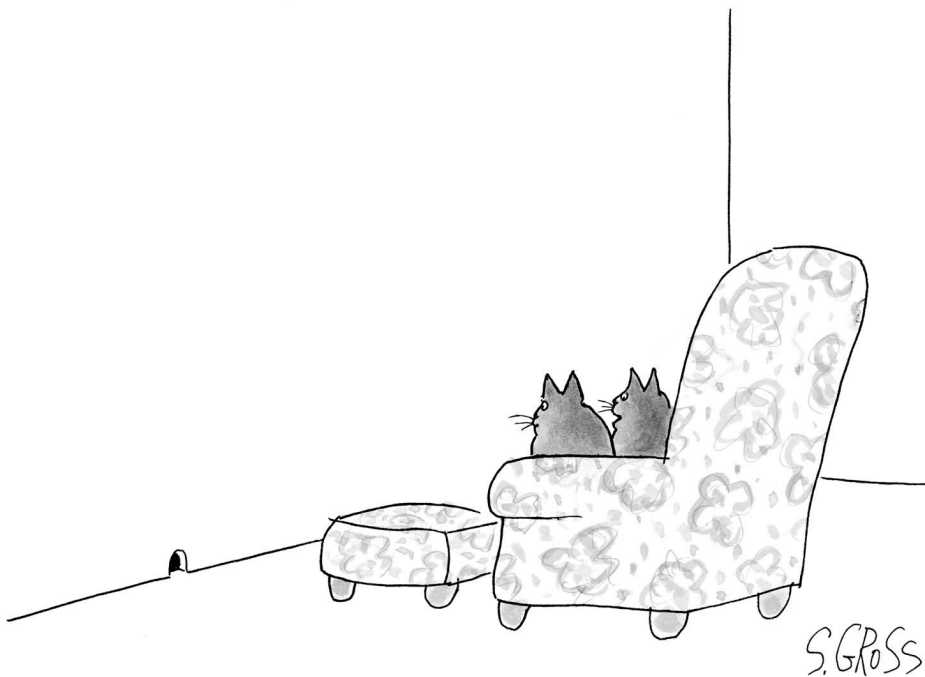
These are anecdotal observations by us and others we know. But research statistics exist to back up these claims.

Recently, I happened upon Brand Asset Consulting, an organization that does research through Young & Rubicam Brand Asset Valuator (BAV). Over 1 million consumers in 50 countries were recently surveyed on 70 brand metrics. This study is not just about brand awareness, but also what people value about these brands. It is about the role of consumer values, attitudes and behaviors.

Behaviorally, we are retreating from unabashed consumerism to old-fashioned values. We are now more mindful of what we buy rather than mindlessly consuming. Our focus on community, connection, quality and creativity has gained as well. We want to do business with companies that have kindness- and empathy-based awareness. The recent BAV survey saw a remarkable personal-interest spike in kindness and empathy brand awareness of 391%. We value greater quality, up 124%, and want companies to be

more socially responsible, up 53%. Kindness-and-empathy was the largest increase ever recorded over the past two decades that BAV has been collecting data.

The recent shifts do not just involve one sector of our population. Young and old, the middle class and wealthy are united in this newfound purpose. The BAV report also highlighted our civic distrust and the need for more transparency. As you may know, Congress' approval rating is near the record low of 26%. We, the American people, began our austerity program at the end of 2008, but we are still waiting for our federal, state and local governments to do the same.



“Now, isn’t this more fun than spending money on dinner and a movie?”

Government’s attitudinal shift finally seems to be getting underway. We have a long debt-diseased recovery road ahead of us.

Ultimately, the saving/spending shift is very good news. As one who reviews economic statistics on almost a daily basis, this is quite a dramatic shift. Americans, at long last, are again embracing what made us a great nation, starting with the Industrial Revolution and then through the microchip-driven Information Revolution.

With today’s increasing shift away from irresponsible, mindless, unrelent-



Kevin T. Coyle

ing, at times arrogant consumerism, we are finally noticing a healthy move toward meaning, value, purpose, quality and connectedness. Thank goodness for this trend! Not a moment too soon! This re-focusing and re-purposing of our nation’s emphasis and energy suggests a more thoughtful future caring for our communities and taking seriously our position as a role model to the world.

Bluntly put, we simply got too caught up buying everything our hearts desired, with little value to show for it. We bought boats and bling instead of investing in boots and bricks. And the big bad wolf came calling.



Edward J. Kelly, Jr



Gary W. Klaben

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2700 Patriot Blvd., Suite 440, Glenview, IL 60026
847 441-5644 | toll free 800 480-7913 | fax 847 441-5258
www.coyleasset.com | email camco@coyleasset.com

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