May 2013 Commentary
An Uneven Recovery

With the stock markets hitting record highs one would think that Americans are back on top. Unfortunately, this is not the case.

According to analysis from the Pew Research Center published in April the powerful stock market recovery from the 2009 lows through 2011 lifted the net worth of the top 7% of American's by 28%. Sadly, the bottom 93% of all Americans actually witnessed their net worth decline by 4%.

During this run the top 7% saw average net worth climb from $2.5 million to $3.2 million. Conversely, the rest of the country experienced a decline from $140,000 to $134,000.

This bifurcation of wealth was further confirmed by a report released by the St. Louis Federal Reserve on May 30th. This report showed the average U.S. household has recovered a mere 45% of wealth lost during the 2008 – 2009 recession. As an interesting point of observation, this was quite a different outcome than an earlier Federal Reserve report that estimated Americans had regained 91% of their net worth.

The St. Louis Fed report points out that their findings are not adjusted for inflation, population growth or the nature of the wealth.

However, it is pretty obvious that the focal point of the recovery has been participation in the stock market.

The St. Louis Fed report stated that about 65% of the increase in aggregate household wealth is due to rising stock prices. This has disproportionately benefited the wealthiest households as approximately 80% of stocks are owned by the wealthiest 10% of the population.

In comparison, the wealth of most lower and middle income Americans is tied up in their homes—not stocks.

Fortunately, homes have experienced better than 10% price appreciation in the past year; however, they are still about 30% below their peak. Making matters worse, the entire "social experiment" in which all Americans should own a home has completely reversed with home ownership now at the same level it was at in 1997.

Lower and middle income Americans have also been most affected by job losses and cuts in purchasing power. As such, we question the efficacy of the Federal Reserve's "Zero Interest Rate Policy" in helping the average American—but also confess that if we ran the Fed we are not sure what other options could have been deployed.

Needless-to-say, the average American is still suffering as it is proving continuously difficult just to pay their daily bills—let alone build net worth.

Understanding that 70% of GDP is comprised of consumer spending, we question the strength of an economic expansion going forward. The average person may have funds for absolute necessities—but little else. Long term, as the Baby Boomers march towards retirement we have to believe there are many difficult days in front of us.

Knowing these things, we carefully tread forward.

Sincerely,

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