

WEEKLY MARKET UPDATE

November 23, 2020



How much did that turkey cost in 1913?

We would like to start off by wishing everyone a happy and healthy Thanksgiving. This is going to be a different Thanksgiving than we've had in the past, but let's all make the best of it. Sales of Ibuprofen may be down, as there will be less injuries from high school varsity "legends" trying to re-live their glory in their annual Turkey Bowl. Hey, we found one good thing already!



Speaking of good things on the medical front – another Monday, another vaccine. AstraZeneca and Oxford University said their vaccine is as much as 90% effective in their trials. So that currently gives us 3 vaccines all 90% and higher efficacy. Johnson & Johnson is still out there, as are some other vaccine companies going through current trials. We will continue to watch these trials and the follow-on manufacturing capacities.

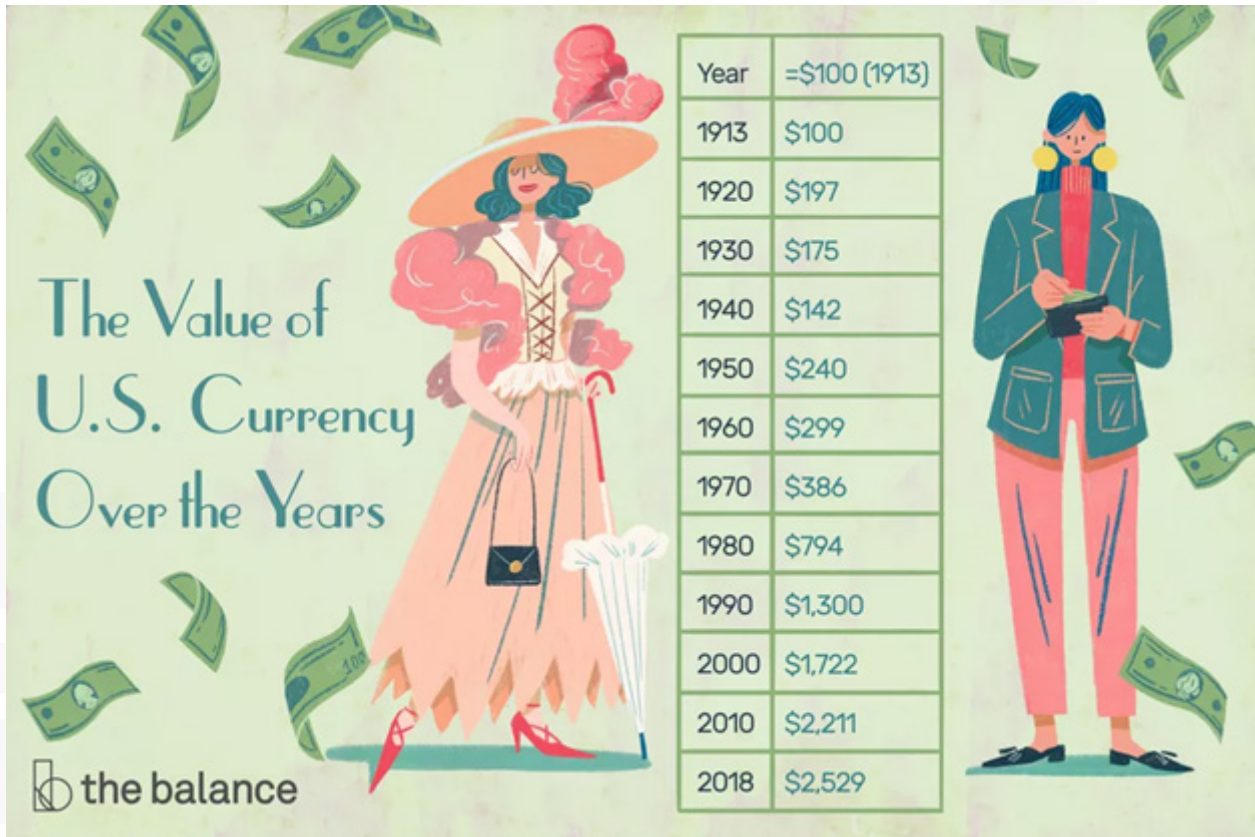
Today I will try and keep it short. We talk so much about inflation and the loss of purchasing power over the course of retirement. We focus on that in our financial planning, as it is one of the major risks associated with reaching your retirement goals. Often inflation is all around us and it happens slow enough that it is hard to see, so I thought I would try and give you some perspective of the purchasing power of the dollar.

The first chart is a view of what it cost for goods over the course of time. This chart is started in 1913. Why that year you ask? That is the year the Federal Reserve came into existence. Now if you've been paying attention, you know I'm no big fan of the Federal Reserve. If you remember from a past blog, the Federal Reserve is "owned" by its member banks – JP Morgan, CitiGroup, Morgan Stanley, etc. From the outside looking in, the Fed is trying to keep its dual mandate set by Congress, that being 1) Full employment and 2) price stability. So I know what full employment is, but what is price stability?

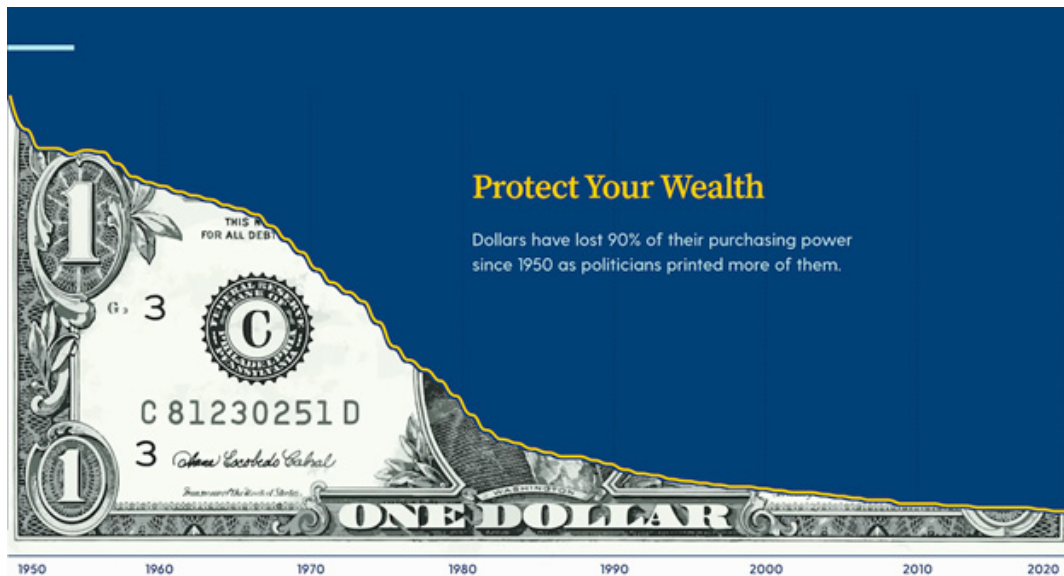
Price stability is to make sure inflation doesn't get too far out of whack, either too high or too

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low. But wait a minute, what's not said is that price stability is absolutely designed to have 'low' inflation. The slow, insidious loss of purchasing power.



You can see above that you can essentially buy for \$2,529 the same amount of goods or services as \$100 in 1913 when the Fed began. 25 times more money over a bit more than 100 years, or an average of 3.12% per year. Like the markets, inflation doesn't go up by the same amount every year, but for most of us it helps to assign a simple number to a long string of rising prices. If we flip that number over, we find that the dollar has gone down by 96% since 1913. Let's look at it another way.



Just since 1950, the dollar has lost 90% of its value. If you remember the 'Rule of 72', it says divide any number into 72 and that's how quickly it doubles (or in this case halves). 3 into 72 is 24. So, every 24 years, you will see your money buy half as much stuff. Put another way, you will need twice as much money on a monthly basis to maintain your same lifestyle. For most of us, if we retire at 65, there is a high likelihood that we will be in retirement for at least 24 years. If we need \$5,000 a month today to live, we will need \$10,000 a month in 24 years. This is where most people make an error in their planning. Most people are linear thinkers and if we need \$5,000 a month now, we simply project that out forever.

Now, maybe you can do that for a few years and not notice that things are getting increasingly tighter, but 10 or 15 years down the road it is highly likely that you will notice the money that previously afforded you a comfortable lifestyle all of a sudden doesn't go as far as it used to. The trick is to factor that in from the beginning.

As always, we welcome your comments and questions. This is the part where we usually close with a comment about leaning into our model, being mindful of risk, etc. This week we're just thinking about leaning into that turkey and pumpkin pie. We hope you have a splendid holiday, and that you don't miss too much the opportunity to talk religion and politics with relatives you only see once every year or two!

By the way, all else equal (which it certainly is not!)...that 18-lb free range bird from Whole Foods you are deep frying on Thursday would have cost you about \$1.42 back in 1913, according to the numbers above.

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