



The Best News Gets Treated Badly

For more than a decade we have witnessed a trend of borrowing more and saving less. Home equity lines, multiple credit cards, buy now and pay later arrangements – all of these have been part of a tremendous move toward increased consumption that finally seems a thing of the past.

We all know the well worn stories of over-leveraged consumers, businesses, and banks. The financial crisis of the last two years is already the stuff of legend, and rightfully so. But in some corners, the great lessons of the past decade – that we should be saving more, spending less, and borrowing less – is being seen as a negative. The reason is that reporters seem to have finally realized that if we do not borrow at the same levels as before, we cannot spend at the same levels as before, and that will be a drag on the economy for years to come. Welcome to the new reality.

The Federal Reserve just released the Consumer Credit numbers for February, and they showed that consumers shrank their credit outstanding by just over \$11 billion, which is a 5.6% annual rate of decline. The reasons cited – pessimism and caution - are guesses of course, as no one knows what each consumer is thinking, but they leave out one really big possibility – newfound frugality.

For years we have discussed what might occur once the baby boomers moved from their greatest spending years to the their greatest saving years, and how those changes would affect our national economy. It is quite possible that the recent trend toward less credit is not born out of some great dread of tomorrow, but instead is the result of rational, well-reasoned decisions made on the part of everyday consumers that their own lives are better served by saving more, spending less, and borrowing less.

If this trend continues it will most likely cause our economic recovery to proceed much more slowly than it otherwise would have, but it will also mean that our average consumer will be less in debt. That seems like a great reason to believe more in the average consumer than share in the worries of the average reporter.

Sincerely,

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