

# Market Observations November 2017



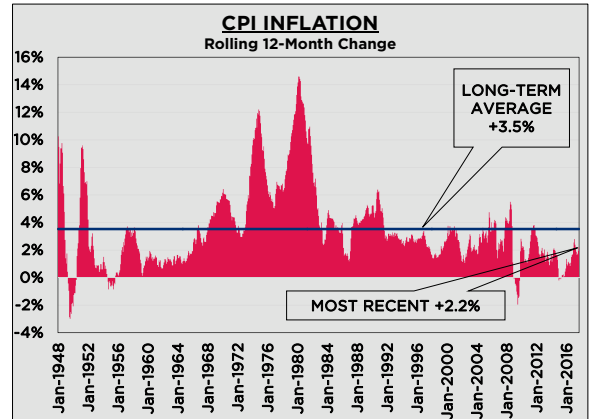
## THE COST OF LIVING

The expenditures we choose and the relative prices of these expenditures determine our personal costs of living. Changes in prices, especially increases (i.e., inflation) influence our expenditure choices. While the Federal Reserve targets policy at a broad measure of inflation, price changes vary widely across categories of goods and services. At the same time expenditures vary across age ranges. A review of these variances and their interactions can provide perspective.

### Perspective

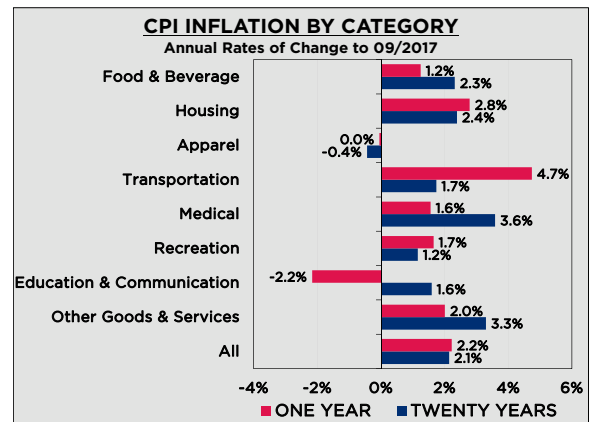
The Federal Reserve's current policy objectives are "maximum employment and 2 percent inflation." **Chart I** shows rolling 12-month rates of inflation as measured by the Consumer Price Index ("CPI") over the past seventy years. As can be seen, there have been major trends in this index around a long-term average of 3.5%. Maintaining inflation at a lower level is desirable to avoid the potentially distortive impact that high inflation can have on investment, production and spending decisions.

Chart I



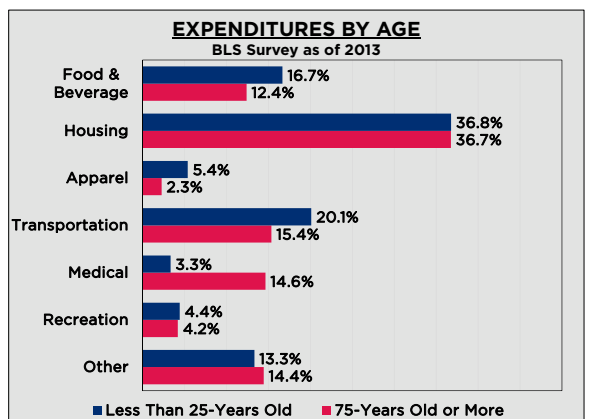
Inflation varies by category of goods and services. **Chart II** shows rates of inflation by broad categories over the past year and the past two decades. These inflation patterns reflect in part economic trends. For example, declining Apparel prices both near-term and long-term are evidence of the impact of global trade on apparel production and pricing. The price decline of Education & Communication reflects the impact of technology improvements on the latter. Information and information processing represent over 3% of the overall CPI and their prices have fallen -6.1% in aggregate over the past year.

Chart II



Conventional wisdom holds that expenditures vary by age. This variance can be seen in **Chart III** where expenditures by category are displayed for the younger and older segments of the adult population. Differences even among broad categories are notable. The younger cohort spends relatively more on Food & Beverage, Apparel and Transportation. The older cohort spends significantly more on Medical.

Chart III



## Investment Implications

Standards of living reflect goals, horizons, financial resources and expenditure preferences. Costs of living will vary by expenditures chosen and relative rates of inflation for respective expenditure categories. To enhance standards of living, investors must strive for portfolio returns in excess of inflation. The potential for achieving such returns can be enhanced by appropriately diversifying portfolios among lower-risk fixed-income investments with total returns in excess of inflation and higher-risk stock investments from which growth can exceed inflation over time.