

The Tyson Smith Group

of Raymond James

Wealth Management Insights
February 2014



Tyson's Commentary

Yours and Mine are Different

Each month, the Federal Government releases CPI (Consumer Price Index) data. The CPI is an index that tracks the cost of a specific set of goods and services that a typical household purchases on a regular basis. The difference in the cost of those goods and services from month to month gives us an indication of the direction of prices. If those goods and services are more expensive, then prices have gone up and we're experiencing inflation. If those goods and services are less expensive, then prices have gone down and we're experiencing deflation.

The problem, however, is that you and I don't purchase the exact same basket of goods and prices on all goods don't move at the same rate. For example, if gas at the pump goes from \$4.00 a gallon to \$5.00 a gallon, that's a \$1.00 increase which is the equivalent of a 25% hike in gas prices. At the same time, a gallon of milk may also cost \$4.00 but increase to \$4.40. That may seem like a big jump on milk but it really only represents a 10% increase.

Now let's take this a little further. Let's assume two neighbors live next door to each other, make the exact same amount of money and drive cars that get the exact same mileage. To keep the math easy, we'll say \$2,000 per month income and 20 MPG. Neighbor #1 drives 12 miles a day to work and 12 miles back home for a total of 24 miles a day or 504 miles a month (assuming 21 work days per month). Neighbor #2 drives 3 miles a day to work and 3 miles back home for a total of 126 miles per month.

To drive 504 miles at 20 MPH, Neighbor #1 buys 25.2 gallons per month. At \$4.00 per gallon, he's spending \$100.80 of his \$2,000 income per month. Roughly 5.04% of his monthly income goes to pay for gas. By contrast, Neighbor #2 buys only needs 6.3 gallons of gas to drive 126 miles and only spends \$25.20 or 1.26% of her income.

Question: If the price of gasoline increased by 50% how would these two neighbors be affected differently?

Answer: Neighbor #1 will now be paying over \$150 a month and Neighbor #2 will be paying only \$37. Neighbor #1 now spends 7.5% of his income on gas and Neighbor #2 still spends less than 2%. In other words, Neighbor #1 would take a bigger hit because gasoline represents a larger percentage of their budget.

Although it's important to know and understand what the CPI means, it's more important to know your Personal Rate of Inflation. We recommend that our clients track all their expenses on an ongoing basis in order to determine their cost of living and if budget adjustments need to be made. Even though the CPI rate of inflation has been fairly low lately, we have seen some clients experience cost of living increases in excess of 12% per year. Granted, those are extreme cases but very real.

If you've recently been asking yourself "Where did it go?" when you reach the end of the month or pay period, I suggest tracking your daily spending and comparing it month to month. You may be surprised at what you find.

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Economic Numbers

As of close on 12 February 2014

- DJIA 15,963 + -3.70% YTD
- S&P 500 1,819 + -1.57% YTD
- NASDAQ 4,201 + +.59% YTD
- 10 Year T-Note 2.849%

Client Announcements

1099 Mailing Dates:

January 31 - end packets 1099-R and 5498s if applicable

February 14 - original 1099s

February 28 - amended 1099s and those delayed due to specific holdings

March 14 - Final Mailings

Please contact Karrie Bowerman to schedule a conference call or face to face meeting so we can review your portfolio.

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