"SCRATCH, SCRATCH"

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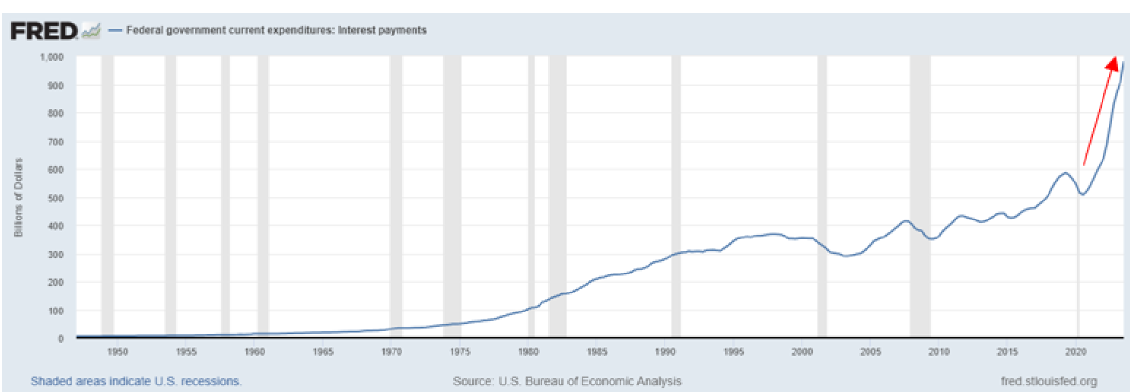
By Brahm Satov

It seems these days that heroism is becoming more rare, but in April 2023 the world lost a hero, in the late great, Harry Belafonte (Harold George Bellanfanti Jr.). Scratch, Scratch, was one of his songs, along with other known favorites like, Day-O, and Island in the Sun. What some may not know about Harry, is that he joined the Civil Rights Movement in the 1950's and he was responsible for creating positive change. He became one of Martin Luther King's closest confidants as well as helped organize the song, "We are the World", a multi-artist recording to raise funds for Africa. (Source: National Museum of African American History & Culture, Harry Belafonte, Actor and Activist). Years ago, the term scratch, was used to refer to money, back when people borrowed less of it.

I was reminded recently and this is something that I wrote about quite some time ago, but I thought I would revisit: It was not that many years ago, when it was commonplace to see one person working in a family, and for that one individual to afford a home, put the kids through school, as well as save for retirement. Fast forward to today, whereby most households have two income earners and although this “should” have doubled the income coming into the home, many families are having trouble buying a home, paying for the kids education, as well as saving for retirement. Some people have called this period of time, a period of productivity improvements and economic progress, I am wondering, if we should call it that.

For many, I think that they have forgotten how to save. It seems that instead of saving for a car, a home, retirement, or even a rainy day, consumers are just adding to their debt. One problem with the recent rise in interest rates is that when interest rates rise, mortgage renewals and lines of credit become more expensive to carry. Eventually, for those with this kind of debt, disposable income falls, sometimes to the point where it becomes uncomfortable. Now, for those who have saved, have no mortgage, and enough put away for retirement, I commend you, well done, but you are not in the majority.

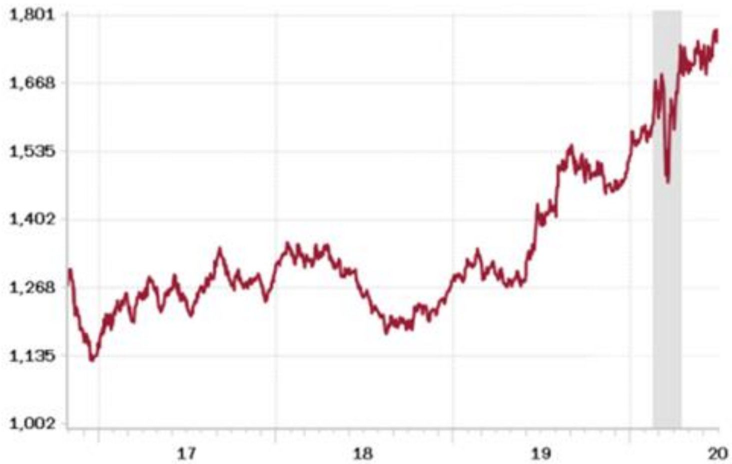
Even governments have become poor savers. Governments in the past, spent their way out of recessions, and then recouped in better economic times. Unfortunately these same governments have dismissed the second part, saving. The U.S. has tried to prolong economic growth through massive spending, unfortunately, it is debt spending, so in essence the US economy that once spent to help get it out of recessions, has been spending, even when the economy is growing. As a result debt has ballooned and interest payments have as well.



Currencies, all currencies, devalue to gold over an extended period of time. Moreover, in times of rising uncertainty, I believe one could consider holding some gold and silver. This includes not just rising hostility and warfare, but also debt challenges for countries. As the probability of currency uncertainty rises, gold should be a beneficiary as these currencies devalue.

CHART 1: Gold Price

United States
($ per ounce)



Shading indicates recession
Source: Haver Analytics, Rosenberg Research

For those wondering if they should use their excess funds to pay down debt or to invest, generally when interest rates rise and the economy is weakening, the former is the better option, that is paying down debt. Look when mortgages are charging over 6%, the after tax cost to pay that is considerably higher, for some it may be in the 12% range in terms of before tax income. In other words, if you owe $1 million in debt, and are paying 6%, the interest cost is $60K/year. To earn that $60K, higher income earners may need to make, $120K just to cover the interest. ($120K income minus taxes (estimated at 50%)). Keep in mind for most, interest payments are paid with after tax dollars.

Most already know that Warren Buffett is frugal, but few could argue that he does seem to have the recipe for success. I believe some may have forgotten Warren Buffett's suggestions, "Do not save what is left after spending, but spend what is left after saving." And perhaps more importantly, "don't spend more than you make". (Source: 2023/05/08/ Warren Buffett to Avoid Major Mistakes). Given the rising prevalence of two income families, I find it interesting to note that many households are struggling to spend less than they make. Given the spike in inflation and associated rising costs, including food costs and rent, I do understand that it has become more difficult. However, a rising debt burden can become problematic, especially as interest rates rise. It is not just consumers that should be cautious of rising debt levels, it is also our governments. Just like families that accumulate too much debt, so can governments, and for countries interest payments can balloon and this can create economic and currency instability.

I believe the Canadian economy has already weakened a great deal and a recession, if it is not here already, while not a certainty, will "likely" be here soon. We know that higher rates slow the economy and that it takes quite some time, on average 26 months for this tightening to filter through the economy. That means by mid-2024, we should see the aftereffects of higher rates. Inflation will likely continue to cool, but for many, food, interest and other costs have already become so expensive that they have seen their disposable income diminish and for countless, debt to accumulate. In other words, for many they just don't have enough scratch and it has become more difficult to scratch out a living. Scratch, scratch.

Thank you for taking the time to read this, please feel free to e-mail me any feedback or comments.

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