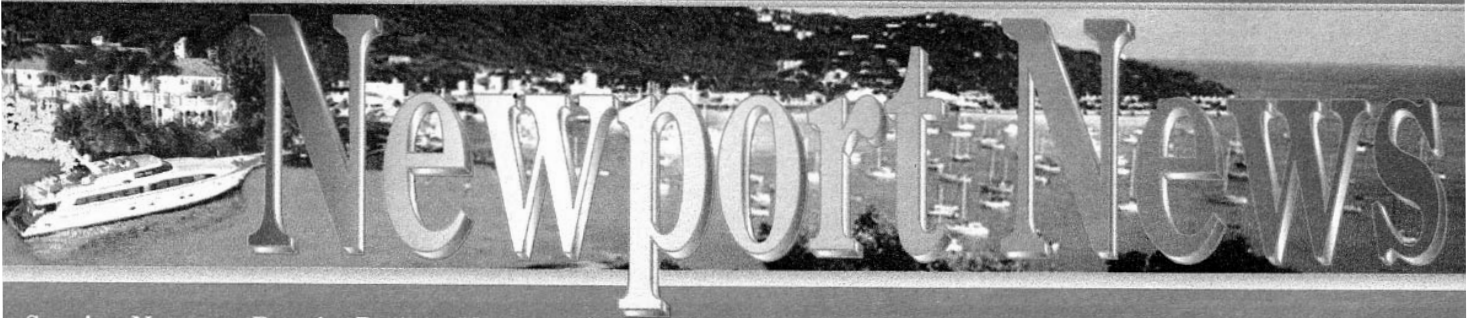


Since 1907 The Only Weekly Newspaper Exclusively For The Newport Beach Area



Serving Newport Beach, Balboa, Newport Coast and Corona del Mar

May 4, 2007

DO AMERICANS SAVE TOO MUCH?

Financial Advice by Stephan Peasley

Exclusively for Newport News



I know you won't be shocked if I tell you that you can't believe everything you read, even if it comes straight from the U.S. government. The latest misleading information from Washington D.C., which was splashed in headlines across the country, was that our national savings rate has hit the lowest level since the Great Depression.

That's just not true. Americans now have one of the highest savings rates in the nation's history – and probably in the world. It all comes down to how you define "personal savings" and the government's definition is just plain idiotic.

The Department of Commerce reported in late January that our national savings rate was negative .5%. Of course, they have the statistics to prove it and their statistics are correct. There is just one small problem; they are ignoring trillions of saved dollars.

The most obvious omission is that the national savings rate, as the agency's Bureau of Economic Analysis (BEA) calculates it, ignores all capital gains, stock investments or contributions to Individual Retirement Accounts and 401(k) retirement plans. I am not kidding! All that money you have been putting away in IRAs or 401(k) plans for years and the growth of that money as it appreciates is not counted as savings. What's even more mind-boggling, when you take money out of a 401(k) it's considered consumption and counts against the national savings rate!

The current definition of personal savings, as stated on the BEA Web site at www.bea.gov, is the amount left over from disposable personal income after expenditures on personal consumption, interest payments and net current transfer payments. In other words, how much of your after-tax income – minus all your expenses – is available for you to spend.

To add insult to injury, that is not all that the commerce department fails to consider when it reports what Americans are actually saving. A lot of people, especially here in California, have built their personal wealth by investing in a home and watching its value appreciate over time. Guess what? That's not a legitimate form of savings either,

according to the government.

I have a client and a friend who recently retired. He worked at United Parcel Service and over the years he acquired enough UPS stock that his portfolio at retirement was worth \$1 million. Now to the government's way of thinking, he didn't save a dime. At the same time, my client has about \$400,000 in equity in his home. Of course that is not savings, either. In fact, any capital appreciation is not counted as personal savings by the commerce department because they are considered volatile and not readily available to spend until you sell the asset.

Now that's just plain nonsense. What the government really ought to be telling us is how much personal wealth is being accumulated in America. In dollars and cents, there is at least \$2.4 trillion accumulated in our nationwide 401K accounts.

So what is our true personal savings rate? Ken Fisher, who has been writing *Forbes* magazine's "Portfolio Strategy" column for over 20 years, said in the April 16, 2007 issue that if the government counted capital gains we would have a 23% savings rate in America. That is a far cry from the negative .5% the commerce department is claiming when it tells us we don't know how to save and no doubt better than the savings rate in most countries.

So you can ignore those Chicken Little predictions that the economic sky is falling because consumers are tapped out and have no money to spend anymore. Even a softening of housing prices isn't likely to wipe out our real savings and lead to a recession. Americans are just too smart for that, even though the government thinks we still keep our money hidden under the mattress.

Stephen G. Peasley is president of KPP Financial, a registered investment advisor, with a common sense approach to successful investing. He also hosts the radio show *InvestTalk*, which is aired in San Francisco, San Diego and online at www.investtalk.com.