

Who Are Those Guys?

In the 1969 movie *Butch Cassidy and the Sundance Kid*, a relentlessly effective posse tracks the title outlaws. Butch and Sundance try various subterfuges to shake the posse from their trail, but without success. Watching the posse shrewdly ignore yet another deception, Butch comments, “I couldn’t do that. Could you do that? Why can they do it? Who *are* those guys?” This scene came to mind recently after several conversations with people who experience jealousy and resentment observing the lifestyles and purchases of others around them and repeat Butch’s question to us.

Envy is never attractive, especially in others. It is particularly futile, considering that it alone among the seven deadly sins confers no accompanying pleasure upon the sinner. Still, we understand the sentiment. Unless you are poor or very rich, it seems as if many of your peers are living a more luxurious life – you thought you were doing pretty well, but somehow others appear to be doing better. The primary anxiety of modern times seems to be “everyone is getting rich but me.” What explains this?

The foundation of this angst may be merely an illusion; your perception of the opulence and extravagance enjoyed by others is just that, your perception, not reality. We tend to be blind to our own indulgences, and your neighbors and peers might be observing you, wondering how *you* manage to do it, just as you are wondering the same about them. Remember high school? Everyone seemed to believe that the other people were the cool kids. Like many of our problems, the envy issue could reside mostly between our ears.

But what if something else is going on other than a national bout of individual self-esteem issues? One explanation could be wealth generated by the stock market from entrepreneurs or recipients of appreciating stock options. While this might have

explained the issue 10 years ago in the ebullient 1990s stock market, it seems a bit out of date now.

Sigma's principals are of a certain age at which they "remember" the Great Depression, despite their being born in the mid-1950s. We listened to parents and grandparents tell so many stories about what it was like in the 1930s that the impact of the Depression is hard-wired in us. When we were growing up, if we asked about a neighbor's purchase of a fancy new car or vacation home, we received one of two stock answers from our parents about how the neighbor could do it: (1) "family money"; or (2) "they're in debt."

With respect to family money, we assume it explains the newspaper feature about the retired librarian renovating his historical 12,000 square foot mansion, bringing back the original Italian marble accents. Still, there are only so many people lucky enough to have family money, so we do not believe this fully explains the envy epidemic. That leaves us with "they're in debt." Boy, are they (we) ever. Total credit market debt in the United States now totals 338 percent of GDP, about double the percentage from 20 years ago. With the advent of easily obtainable equity lines of credit, consumers have borrowed based on rising home values to finance their lifestyles. As a result, owner equity as a percent of home values is now at an all-time low. In other words, homeowners have borrowed money on their homes at a faster rate than home prices rose in the boom. Since home values would reflect improvements, leading to little change in the ratio, we believe this means that the owners are consuming the borrowed cash rather than remodeling.

"In the past year and a half I have been in a hundred or more [night clubs] and I'll swear that nine-tenths of the people I saw were having the time of their lives spending their uncashed stock market profits. It struck me that these people had acquired the worst habits of the idle rich, without the riches."

*-Traveling salesman, quoted in
1930 by Edwin Lefevre*

The stock market boom in the 1990s created a wealth effect tempting people towards more free-spending ways. That boom came to a bad end in the subsequent bear market, but real estate prices took off just in time to create a new wealth effect that was even more pernicious: It encouraged people to turn their houses into the equivalent of an ATM machine and spend the resulting cash on their lifestyles. Particularly affected are

those born after the middle of the baby boom lacking the "memories" of hard times embedded in Sigma's principals and their peers. This unwarranted free-spending is nothing new - just replace "stock market" with "real estate" and the 1930 observation in the quote box could be in today's paper.

Early in the movie, Butch offers to give Sundance's girlfriend a ride on a bicycle, a newfangled contraption at the time. She asks Butch "Do you know what you're doing?" and Butch replies "Theoretically." We fear that theory may collide with hard reality for those whom you have been regarding with jealousy. If you would like theoretical and practical investment help to aspire to the habits and the means of the idle rich, contact us at (503) 419-3938 or visit www.sigmainvestment.com. You may risk the envy of your neighbors and peers, but if you notice this and want to be kind, just send them to us as well.