*Newsletter* Spring/Summer 2025

# The Philadelphia Area Chapter

***Newsletter for the Philadelphia Area Chapter of BetterInvesting - Volume 5 Issue 1***

## President's Corner, Spring/Summer 2025:

In the first quarter of 2025 tariffs were levied on USA trading partners which touched off a tariff war. Tariff war worries, weakness in consumer spending, recession fears, and declining earnings estimates drove the market lower. Investors continued to pull back from equities and seek safety in Cash, Gold and Treasury bonds. A death cross had occurred. That's when the 50-day moving average drops below the 200 days. It's not very useful as a market timing tool but it does show that the selloff is likely to continue for an extended period of time.

The BetterInvesting principles can be used to sort out unstable investment and identify investments that will weather the storm and continue to perform over the long run.

**Jerome Smith, President**
**K-21 Chapter of BetterInvesting**

## Congratulation to the Philadelphia Area Chapter Anniversary Clubs for 2025

| | |
|---|---|
| **Institute for Economic Development of Children** | **5 Years** |
| **HST Investment Club** | **10 Years** |
| **Money Maker Investors** | **30 Years** |
| **Women's Investment Network (WIN)** | **30 Years** |
| **Spring Gove Investment Club** | **35 Years** |

## Philadelphia Area Model Investment Club

**PAMIC**

**The Philadelphia Area Model Investment Club is open to guest and opened to you becoming a member of the club. The meetings are held the second Saturday of each month from 9:30am12:00pm. The meetings are held virtually and in October it will be held in person at the Giant Super Store at 315 York Rd, Willow Grove as well as Virtually. To join virtually the link is below.**

**Philadelphia Area Model Investment Club**

**Please join my meeting from your computer, tablet or smartphone.**

https://meet.goto.com/461688397

**You can also dial in using your phone.**

Access Code: 461-688-397

United States: +1 (646) 749-3122

**Get the app now and be ready when your first meeting starts:**

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# The next set of Free Webinars will be published in the Fall/Winter Newsletter and will be sent out on Interspire in July/August

# Article

## Irina Clements

## Inflation

Remember paying just $2.50 for a dozen eggs? Or perhaps you're a homebuyer, watching mortgage rates more than double over about the same period?

These two economic forces—prices on the one hand and interest rates on the other—represent a fundamental push-and-pull that shapes the economy and influences our daily lives.

Inflation, or the general increase in prices over time, makes the cost of goods and services—like a carton of eggs—more expensive, eroding the purchasing power of your money. Meanwhile, higher interest rates, which determine the cost of borrowing, can also make loans for large purchases, such as automobiles or homes, more expensive.

Central banks, such as the U.S. Federal Reserve (Fed), often raise interest rates to “cool things down” when inflation heats up. Increased borrowing costs due to higher rates should lead to decreased spending by consumers and businesses alike, which, in turn, should help moderate the rate of price increases. By understanding this economic dynamic, you can better manage these financial shifts, whether adjusting your shopping budget or reassessing your investment portfolio.

While technological changes have made items like personal electronics and communications services cheaper over the years, essentials like healthcare, education, and housing costs keep rising. The Fed has focused on maintaining a 2% target inflation rate per year because this level is thought to encourage economic growth while avoiding excessive price increases.

As prices rise, inflation effectively reduces the purchasing power of money because a dollar today just doesn't buy as much as it did, say, 10 years ago. Economists still debate the exact causes of inflation, but the evidence points to multiple factors, including monetary policy decisions, the demand for new loans, employment and gross domestic product growth, supply chain disruptions, wage growth, and even psychological elements like expectations and consumer confidence.

Economists monitor inflation using various measures:

- **Consumer price index (CPI):** The CPI is the most commonly used inflation yardstick. The U.S. Bureau of Labor Statistics monitors all manner of goods and services ranging from breakfast cereal to haircuts to college tuition, which they then weigh according to normal spending behaviors before calculating price changes from the preceding period.
- **Personal consumption expenditures (PCE) price index**: The PCE is the Fed's preferred inflation gauge. While CPI maintains a static basket of goods and services for measurement purposes, PCE adapts its contents based on consumer substitution patterns when prices rise. The PCE rate, therefore, usually tracks below the CPI's readings.
- **Producer price index (PPI)**: In contrast to CPI, PPI measures price changes from the seller's perspective. Higher costs for manufacturers and wholesalers usually lead to eventual increases in consumer prices. As such, the PPI functions as a sort of precursor for potential consumer inflation.
- **Core Inflation**: Core versions of CPI and PCE exclude food and energy prices, which move less predictably because of weather conditions, geopolitical events, and seasonal changes. The Federal Reserve generally means core PCE when they discuss "underlying inflation."

Interest rates essentially represent the cost of borrowing money, expressed as a percentage of the amount borrowed. For example, if you need to borrow $1,000 for two years and the interest rate is 5%, you'd have to pay $50 per year (or $100 total). If interest rates rise to, say, 7%, your yearly interest charge will increase to $70 ($140 total).

Higher interest rates naturally lead to decreased demand for borrowing money, which, in turn, slows the pace of inflation by reducing overall demand and mitigating upward pressure on prices.

The initial response from consumers to rising interest rates is often a decreased willingness to finance major purchases such as homes, vehicles, and household appliances. At 3% mortgage rates, a family might be able to afford monthly payments for a $300,000 home, but 6% could make the same property unaffordable. When borrowing costs increase, businesses, too, tend to delay their growth plans and reduce capital expenditures, which can result in job losses and lower wage growth.

The increase in interest rates also makes servicing variable-rate debts (such as credit cards and ARMs) more costly for households, forcing many Americans to cut spending on other things further to afford the higher interest payments.

Alternatively, when the economy is experiencing a downturn or recession, and inflation is perceived to be low, the Fed may lower interest rates, increasing the supply of money available to borrow at a lower cost, hoping to stimulate the economy, resulting in higher inflation.

Inflation targeting is a monetary policy mandate where a central bank, such as the Federal Reserve, publicly sets an explicit target for the annual inflation rate.

In 1996, Fed Chair Alan Greenspan faced a thorny question posed by then-Fed Governor Janet Yellen (who later became Fed chair as well): She asked, "How much inflation is acceptable? “After considerable debate, Greenspan and his colleagues quietly settled on 2% as the magic number—though they wouldn't publicly acknowledge this target for years. This inflation target, while somewhat arbitrary in hindsight, was chosen because research suggested that a small, positive amount of inflation greases the wheels of commerce without eroding purchasing power too severely. Zero inflation might sound ideal, but it would leave no buffer against deflation—price decreases that could be a potentially more destructive force to the economy as consumers delay purchases, waiting for ever-lower prices.

Today, the 2% inflation target remains the guiding star of many nations' monetary policies.