CURRAN VIEWS

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Looking Back to the '70s

by Thomas Curran

I was 33 years old when the first oil crisis began on October 17, 1973. Soon after gas was being rationed, resulting in very long lines at the gas pumps. In addition, gas could be purchased on either even or odd days of the month depending on the last digit of the car license plate.

In May 1973 gas cost about 39 cents. By June 1974 it cost about 55 cents. Prior to OPEC's formal organization in 1973, the price of oil was about $3 per barrel. Afterward the price rose immediately to $3.65. In 1974 oil reached a high of almost $12 a barrel.

My biggest concern then was not being able to buy gas. It was not the price. I remember having to plead with a gas attendant to please sell me gas. My family was vacationing when I realized I did not have enough gas to reach home. It was not my day to buy gas under the terms of rationing. I had my wife and three small children in the car with me. Fortunately, the attendant sold me a few dollars of gas so I could get home safely.

Now I do not worry about being able to buy gas, but I am bothered by the high price. In the 1970s I had to carefully plan travel around the rationing rules. Today I try to save a little money by doing things that only a few months ago I would have thought to be unthinkable.

Yes, I forced myself and family to endure colder house temperatures this past winter. This summer I am not using the air conditioning as much. But the biggest change is the gas I use in my car. The gas cap says use only premium unleaded. I am using regular gas. If you would like to know about the car's performance since I made the change about two years ago, call me.

Is there an energy crisis in fact or is it simply an emotional reaction to high current prices? The answer is it may be a little of each.

Let's look at an assortment of prices of necessities in 1970 when median household income was $8,734.

Cost of a new home	$26,600.00
First-class stamp	6 ¢
Gallon of regular gas	36 ¢
Dozen eggs	62 ¢
Gallon of Milk	$1.15

Today our median household income is about $48,201, but we pay considerably more for almost everything.

Cost of a new home	$206,000.00
First-class stamp	42 ¢
Gallon of regular gas	$4.05
Dozen eggs	$2.19
Gallon of Milk	$2.99

Let's try to put the cost of energy in perspective relative to the cost of living in general. Compared to 1970 everything costs more. The question is how much more?

First consider our median household income. We make about 550% more. So how much more does it take to buy essentials?

Cost of a new home	770% more
First-class stamp	700% more
Gallon of regular gas	1125% more
Dozen eggs	350% more
Gallon of Milk	260% more

The annual inflation rate in the United States from 1970 through 2007 was about 4.75%.

For the items we are considering the annual rates were:

Cost of a new home	5.67%
First-class stamp	5.40%
Gallon of regular gas	6.75%
Dozen eggs	3.44%
Gallon of Milk	3.00%

While prices increased annually at 3% to 6.75%, household income increased at about 4.7%. Noteworthy is income very nearly matches the inflation rate. The real change in wages and earnings is approximately zero.

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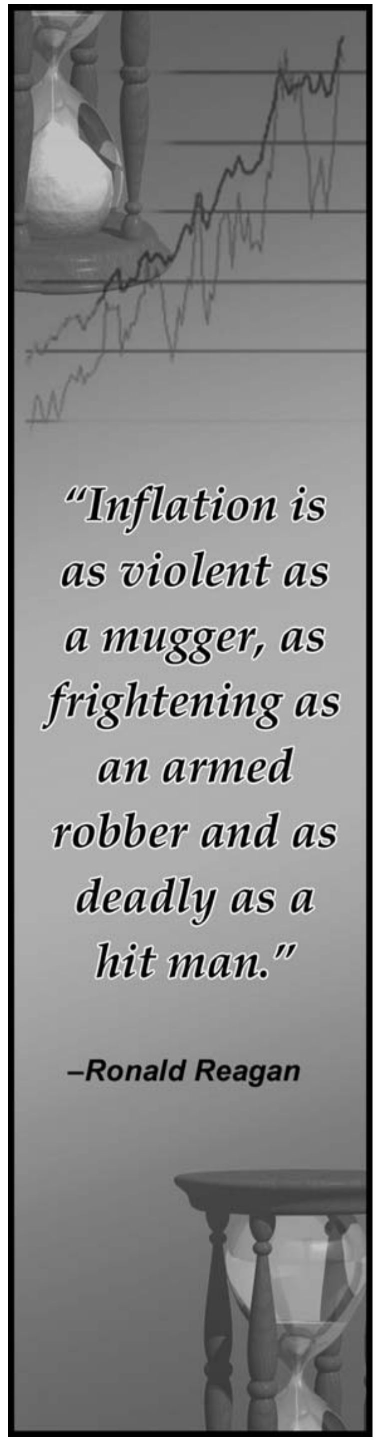


Looking Back to the '70s (Continued from page 1)

At the same time, almost everything else increased in price at much higher rates over inflation.

What can we conclude from a very limited sampling of costs over a specific time period?

First and foremost, prices rise over the long-run. Price increases correlate to the inflation rate. It is obvious and generally accepted by everyone. What is not as obvious is a short-term adjustment to the period measured can result in dramatically different results.

For example, if we were to compare the increase in the cost of gasoline for the 35 year period ending 2005 instead of 2007, we would have reported the following:

Gallon of regular gas	$2.25

The annual inflation rate from 1970 would have been about 5.37%. The inflation rate for the United States over the 35 year period through 2005 was about 4.9%.

The problem regarding energy over the past two years rests with the sharp increase in the price of a barrel of oil from about $50 to more than $130 as I am writing the Views. As a result there is a widespread fear caused by the possibility for even higher prices.

No one knows with certainty what the price of oil will be next year or even next month. However, we do need to remind ourselves that $100 per barrel oil was widely predicted in the 1970s during and after the first real energy crisis. We all know it eventually happened but the price was less two years ago when adjusted for inflation. Today it is more. Most importantly, oil was significantly cheaper during almost the entire 37 year period we considered when adjusted for inflation.

Make no mistake; I am not making a case for dismissing the energy challenge. It is real, in my opinion, and will continue to be extremely important in both domestic and foreign policy strategies. However, the current crisis is not likely, in my opinion, to be long lasting just as it was not in the 1970s.

As I see it, the collective efforts of business, government and individuals will prove to be too strong for oil price increases to go on unchecked because high prices will cause significant reductions in demand for energy.

Business solutions through new technologies will continue to have an impact on the way we drive and our overall consumption of fuels. Hybrids that seemed to have only a modest impact on improving fuel economy are now much more economical to the pocketbook with gas selling at $4+ per gallon.

Wind farms and smart thermostats are becoming more attractive with each increase in the cost of fuel. Even very economical cars that many considered too small, like the Toyota Prius, may become the transportation of choice. Technology advances are being viewed today with much more acceptance than they were only a few months ago.

Government and public transportation is gaining in popularity. The numbers using public transport are up everywhere.

Business will do their part and government will do their part. However, the most important contributions must be made by the people. If we do not conserve the battle for the world's resources it will be much more costly for us as individuals as well as for our nation. As a nation we live in houses that are bigger than we need and drive cars and trucks bigger than we can actually afford. As a nation we live beyond our means consuming too much, investing too little and, ironically while doing so, we are living too long.

But the most important reason energy prices will not climb much higher is we will use less because it is too expensive. Many have no choice but to conserve. Those who are more fortunate are more likely to elect voluntarily do so.

For example, I cluster my errands rather than drive to get only one done. If I do not need the dry cleaning I wait until I have something else to do in the same area. Before the big increase in gas prices, I would simply get in the car and go. I turn down my thermostats in the winter and I turn them up higher in the summer. I have two cars and I drive the smaller more frequently. From talking to people I am learning that more and more of us are conserving energy.

I am more efficient and my guess is you are as well. National consumption of gasoline is down about 3% in the first quarter and it will probably be down again in the second quarter. Prices will fall as demand declines relative to supply. It happened in the aftermath of the energy crisis in the 70s and it will very likely happen again.

Many countries subsidize the cost of energy. India recently announced a reduction in their national energy subsidy which amounted to an approximate increase in price equal to about 10%. Moves by other countries subsidizing energy are likely.

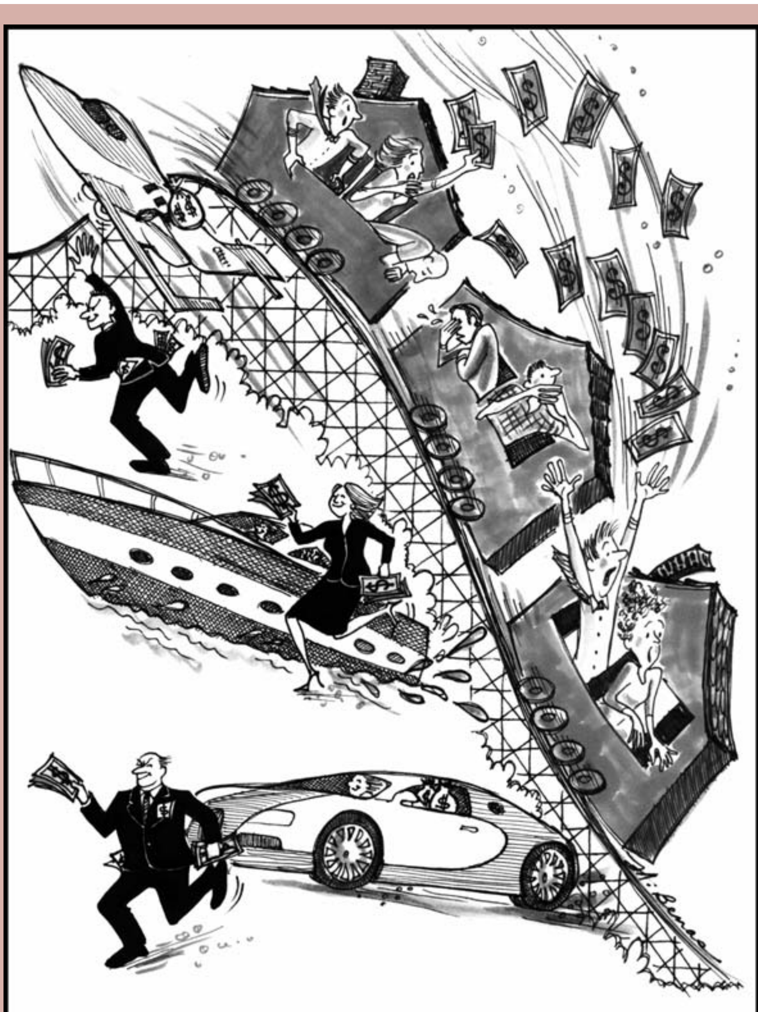
At Curran, we view inflation as the biggest threat to our financial security, particularly in retirement. There is nothing more important for a successful retirement than aligning inflation against a sound forecast for producing cash flow throughout our lives. For many of us it means making hard decisions while we can to get lifestyle expenses in line with a reasonable income that is likely to last. For some it means cutting expenses and/or working beyond age 65.

The likelihood of living to age 95 is daunting. When I look back at the retired life of Peg's and my grandparents and parents, it is clear they did not live as I visualize our "golden years." In fact, they really did not live that long. Most died in their 60s. Only two lived into their 80s.

They all enjoyed defined benefit retirement plans that would have paid them a retirement even if they had lived into their 90s. Sadly, they did not live that long. I do believe either Peg or I will live long lives and unlike our parents and grandparents, we do not have a guaranteed income to rely upon. We, like you, will by necessity be required to fund our own retirement income.

I believe the next 20-30 years is likely to be an "adventure" if inflation advances at rates like those in post World War II America. For all of us, extra vigilance and discipline is required.

Tom



For the last few years, I have had the desire to express my thoughts regarding the market and economy visually. These thoughts would often come to me randomly as ideas and I remained frustrated that I lacked the artistic ability to express them.

Recently, I teamed up with a local Albany illustrator and now have found an outlet to communicate some of the impressions that the market and economy have left on my psyche. The thoughts presented depict my interpretation and opinion. I hope that you share with me your thoughts (good or bad!) on my first attempt. I welcome your calls and e-mails and thank you for allowing me another outlet to share my thoughts with you.

Illustrated by Jeanne A. Benas

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When to Take Social Security

by Andrew Black, Wealth Management Strategist

If you are approaching retirement or already in retirement, one of the very first decisions to make is when to apply for Social Security benefits. Anyone approaching age 62 can be certain they will be given plenty of advice from all directions on the subject. While the underlying decision is not very complex, the reasons people take benefits early or delay can be very personal and unique.

What People Do

More than 50% percent of all men and women begin taking Social Security at age 62. By age 66 (full retirement age), more than 90% of all men and women are receiving benefits.

What People Should Do

Exhaustive research has been done to test every permutation of the Social Security debate. Based on research from Alicia H. Munnell and Mauricio Soto of the Center for Retirement Research, the decision can be boiled down to some simple advice. Married women should take benefits early. Single women and married men should take benefits late. This advice comes from the assumption that married women will probably outlive their husbands, and single women will live long enough to make waiting for a larger benefit worthwhile.

What You Should Do

Generalizations and research opinions are a great place to start. However, as in many of the financial decisions we face, personal factors come in to play. Since all of the analysis revolves around assumed life expectancies, personal health issues and family genetics that impact longevity are driving variables. Whether the larger wage earner was male or female will also impact the analysis. Retired couples may also be more concerned with maximizing survivor benefits for a spouse than immediate income.

Many people are also concerned about the viability of the system itself. It has been evident for decades that Social Security is facing a long term financing shortfall. Increasing the funding of the current system, or cutting benefits are the only options for long term success. The political opposition to suggesting either of these options is extreme. Long term instability of the system can drive people to take what they can get now.

Please use us as a resource when approaching this decision. Your personal health and finances may dictate much different action than someone that appears to be in the same situation.

Addressing the Need for Long-Term Care

Long-term care costs can challenge the security of your retirement income. In June, Curran hosted a luncheon featuring Kathleen M. Toombs of Toombs & Meier, a law firm specializing in Elder Law and Medicaid Planning. Those clients who attended the luncheon commented on the value of the information presented and the ability to ask questions on Medicaid planning and private insurance. We have posted the summary of the information presented by Ms. Toombs on our website for your review.

We also encourage you to listen to our recorded conference call featuring Andrew Black, Curran's Wealth Management Strategist and Esther Palmer-Rathbun, our Tax, Trust & Estate Advisor as they review the financial implications of self-insuring, traditional long-term care insurance and discuss alternative long-term care financing using life insurance.

Go to our website at www.curranllc.com and click onto Media and select "Addressing the Need for Long-Term Care."