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**Live for Today and Plan for Tomorrow**

# OUR MODERATION ECONOMY

**T**here's nothing to worry about in this number: the inflation rate rose from 2.5% to 2.7% in July, which is above the 2% target that the Federal Reserve Board is targeting, but clearly far more moderate than some of the dire predictions around the tariff increases. It's worth remembering that three years ago, during the aftershocks of the Covid epidemic, the consumer price index had risen from 1% to 9%. The economy has been (as the chart shows) recovering from that bout of inflation first quickly, now more gradually, and this appears to be a blip on the chart.

For all the recent controversy about employment statistics, the bottom line there is that the unemployment rate in July was unchanged

at 4.2%. There were revisions of the May and June numbers, which launched some political controversy (and one more person added to the unemployment rate), and suggested that firms were not hiring aggressively over the summer.

The inflation numbers were boosted by sharp upturns in rental rates and housing. The employment situation is more interesting. We are living through a very tight labor market, but for high school and college graduates, the picture looks a bit different. By some estimates, people looking for an entry level job make up 85% of unemployment. One possible factor is that artificial intelligence may be handling the back office and rote data management work that is

typically given to new hires as they 'learn the system' in their first couple of years with a company. According to a report from the Handshake jobs platform, more than half of this year's college graduates feel pessimistic about starting their careers in the current economy.

#### Sources:

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# PRIVATE EQUITY AND CRYPTO REJOICE

The Department of Labor appears to be giving a bright green light to private equity investments and crypto options in our nation's 401(k) plans. Both industries have long salivated at the idea of gaining access to the trillions of retirement plan assets, but there was always a tricky barrier: the rules of the Employee Retirement Income Security Act, more commonly known as ERISA.

You can get an idea of what ERISA requires from the people who manage defined contribution plans on behalf of employee participants from the original 2020 Department of Labor memorandum about these investments that live on the fringe of respectability. It read, in part, that the plans were free to include private equity as an investment alternative in the plan, so long as the inclusion was made "solely in the interest of the plan's participants and beneficiaries, and with the care, skill, prudence and diligence ... that a prudent person acting in a like capacity and familiar with such matters would use in

the conduct of an enterprise of a like character and with like aims."

The question always was: would a prudent person offer unsophisticated employees an 'opportunity' to invest in a pool of money which has not yet told its investors where it is going to deploy said money, whose fees are somewhat opaque and outrageously higher than an index-hugging ETF, and which would only be seeking money from the plan if it couldn't raise the capital it needed from more sophisticated wealthy investors who passed on the opportunity?

In 2021, the DOL added that private equity investments tend to be more complicated than more traditional ones, and that some of the fiduciaries governing these plans might lack the necessary expertise to properly evaluate them.

Whoa! This (seemingly reasonable) assessment was met with shock and horror by the Wall Street and Silicon Valley dealmakers who are buying up companies using other peoples' money, hoping to win

quick profit. The White House got involved, sending a directive to the DOL, which removed the 2021 guidance with extreme prejudice, saying that it would have "a chilling effect on the market," and that it "took a dismissive view of alternative assets and the capabilities of plan fiduciaries."

The new directive also opened up crypto (another 'alternative asset') as another possible 401(k) investment option, provided it was done prudently. It's helpful to remember that bitcoin, the most stable of the thousands of coins on the market currently, has been anywhere from 3.8 times to 10 times as volatile as the S&P 500—and very few prudent investors would recommend a retirement allocation exclusively in the index.

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