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Dear Clients and Friends:

When I was growing up, everyone had a clear idea of what it meant to be in the middle class. You saw it on black and white television -- Father Knows Best, Leave It to Beaver, The Adventures of Ozzie and Harriet, My Three Sons, and The Danny Thomas Show. This was how TV depicted normal life in America, with nice homes, good cars, and no money problems.

These families didn't seem rich, but they certainly weren't poor. They were comfortable.

Today, about half of all Americans consider themselves to be in the middle class. But with Bankrate.com reporting that 63% of us don't have enough savings to pay for a $1,000 emergency, how can anyone with virtually no money be in the middle class?

Some economists suggest a different way of looking at this, which shows how much our ideas about money have changed in the last fifty years. The new paradigm is that people who have a good income but no cash reserves are considered "middle class." For that, we can thank a well-functioning financial system. The notion is, since Americans have nearly instant access to credit, they don't need savings.

In a way, the availability of credit allows us to save after an emergency, rather than in advance. We're living in the age of consumption. Most people don't want to tighten their belt as they go, setting money aside for a rainy day or retirement. Instead, they use all their disposable income raising children or maintaining lifestyle. When a crisis arrives, they scramble to find a source of funds, often relying on credit. Then, and only then, they cut back on spending to repay loans. It's like saving in arrears.

Under this new definition, we've expanded the middle class to include people who enjoy a good lifestyle and have a decent FICO score, even if they haven't set money aside for a rainy day. As Bob Dylan said, "The times they are a-changin'."

Regards,

Chuck

Charles M. Shackelford