The Biggest Personal Finance Story of the Past 30 Years

Category : Are Your Best Interests the Same as the Financial Services Industry?

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Go to Part 2 -->>What could the biggest personal finance story of three decades be? The growth of mutual funds and ETFs?   Nope.The dot com boom and bust?   Nope.Vanishing pensions? Nope.The not-so-high quality of mortgage bonds? Nope.A 0% personal savings rate nationally? Nope. (But, that is a strong contender.)To break the suspense, the biggest personal finance story of the past 30 years has been the dramatic growth of the market capitalization of financial services firms within the U.S. equity markets!Huh? Why is this so important to personal finance? Why should I care, if the market capitalization of the financial services sector has grown dramatically? That certainly does not sound as cool as trading to beat the markets, craving hedge funds, betting on commodities futures, or even tossing Paris Hilton and Lindsey Lohan into the slammer.Well, the reason that this is so important to your personal finances is pretty straightforward. Simply put, most individuals pay far too much for financial products and services. Their continuing overpayments show up in the increasing value of financial services company stocks. People have paid far too much for years, and the industry's excessive charges have been increasing for years. (See these related articles on *The Skilled Investor* website: Controlling Investment Costs)In return, individuals receive far too little. Exorbitant and increasing investment costs, high banking fees, predatory credit card charges, excessive insurance costs, etc. simply represent a massive wealth transfer from the personal pocket books of average individuals into the coffers of the financial services industry and into the high paychecks of their employees. Name the one industry that has a reputation for high salaries and bonuses, which the media trumpets to you like this is somehow good news and worthy of envy. That one industry is the financial services industry and, particularly, the securities segment of the financial services industry. Yet, even after financial services companies have paid these huge personnel expenses and even after they have paid for all those high end commercial office buildings with shiny brass, plate glass, and mahogany furnishings, the financial industry is still highly profitable. Financial services sector profits and earnings growth rates have made this the largest sector of the S&P 500 stock market index!I hope that by now I have your attention. Understanding this situation is very important to you. Taking action to reduce the costs of financial products and services that you buy is critical to your pocketbook over your lifetime.To understand what has happened to the market valuation of the financial services sector, particularly over the last 30 years, you should view Figure 4 on page 16 of the financial study by Jeremy Siegel and Jeremy Schwartz entitled: "The Long-term Returns on the Original S&P 500 Firms." [Note that this is an Adobe Acrobat document on The Wharton School of Business website at the University of Pennsylvania. Be patient and let it load.] The next part of this series of articles will discuss the meaning of this graphic in the Siegel and Schwartz paper.Go to Part 2 -->>