



Can Education Bubble?

It's no secret the cost of higher education is rising. The National Center for Education Statistics (NCES) calculates that the total, inflation-adjusted cost of the average college (public and private) has climbed over 50 percent in the last 15 years. Despite this price jump, the NCES also reports that enrollment at colleges and universities grew 32 percent during that same time.

And that concerns some people, who think the rapid growth in higher education looks a bit like an unsustainable bubble.

The Obvious Investment

The biggest concern for higher education is the staggering amount of debt it now requires. According to the Federal Reserve Bank of New York, the total student debt in America has quadrupled since 2004, rising to about \$1.2 trillion dollars (only mortgages hold more total debt). It's estimated that around 70 percent of students now graduate with loans, each graduate averaging around \$29,000 in debt.

Like most debt, student debt is an important tool. Federal and private student loans have given millions the opportunity to attend college and build a better career. In 2013, it was found that college educated adults between 25-34 years old earned double the average full-time salary of people in the same age group with only a high school education (\$48,500 compared to \$23,900). Statistics also show that graduates average drastically lower unemployment rates than those with less education (NCES). These clear benefits seem to indicate education is far from being a speculative investment.

Future Prospects

However, these income and employment facts are not as clear as they seem. Graduates may have double the average income, but that average includes doctors, engineers, lawyers, investment bankers and any other career that typically pays well. That means there are many graduates earning significantly below the \$48,500 average.

The unpleasant truth is that many degrees do not provide good career opportunities. Today, many graduates end up spending

SEPTEMBER

years working in positions that neither require college degrees nor pay enough for them to cover their student loans. Currently, about 11.5 percent of student loans are in serious, 90+ day delinquency. By comparison, the peak mortgage delinquency rate during the housing crisis (2010) was only 8.9 percent (NY Fed).

As college graduates have migrated to jobs that do not require a degree, many employers developed a default preference for workers with more education. This has turned the college degree into a differentiator at all job levels. More and more, a college degree—any degree—is becoming a minimum requirement for all professional jobs.

With this in mind, the current trajectory of college looks unsustainable. There is a popular belief that everyone should borrow money to follow the obvious way of making more money. Although education is certainly a unique investment, the situation certainly resembles what happened with margin accounts during the dot-com bubble and subprime mortgages during the housing bubble.

Education Dot-com

No one knows what the future will bring to higher education. Society has been steadily increasing its education requirements for centuries, and the current college growth spurt could simply be a natural step in that direction. But whatever happens, a student with a good plan has nothing to fear.

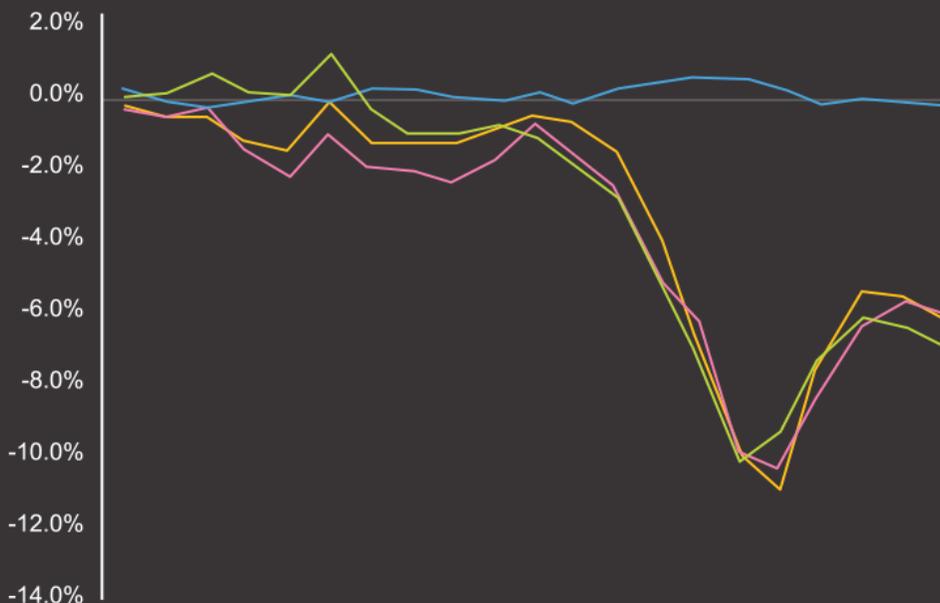
In 1999, NASDAQ became a bubble because people didn't care which tech stocks they owned. Though many companies and investment accounts ended up going bust, businesses like Amazon and Apple still went on to thrive and provide huge returns to their investors.

Bubbles overvalue bad investments; they don't take value away from good ones. Students who study hard, choose meaningful programs and apply their knowledge will always find success and reap the benefits of a lifelong investment in themselves.

the market at a glance

AUGUST

■ U.S. Large Cap (Dow Jones Industrial Average)
16,528.03 (-6.57%) ▼
■ U.S. Mid/Small (Russell 2000)
1,159.45 (-6.40%) ▼
■ Foreign Large (MSCI EAFE Index Fund)
59.97 (-7.43%) ▼
■ Bond Market (Barclays Aggregate Bond Fund)
108.92 (-0.53%) ▼



Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

the market in action

- Following panicked selling in the Chinese stock markets, global investment volatility jumps and stock indexes throughout the world plummet for three days before starting to rebound.
- The U.S. Commerce Department revises the U.S. GDP growth for Q2 significantly, raising it to an annualized rate of 3.7 percent from 2.3 percent.
- Puerto Rico defaults on its government debt for the first time in its history. Many analyst anticipated the default—the commonwealth has been in a persistent economic recession and holds roughly \$70B in debt.
- In a 3-to-2 vote, the Securities Exchange Commission (SEC) approves a rule that requires most publicly traded companies to disclose the ratio of the chief executive's pay to that of the average employee.
- Google Inc. restructures itself, splitting into multiple entities under a single holding company, Alphabet Inc. The change is part of an effort to better manage Google's massive number of services and investments. Alphabet's new subsidiaries include Google, Google X, Google Capital, Nest Labs, Google Fiber, Google Ventures and Calico.
- Target Corp. reaches a deal with Visa Inc. over costs created by the retailer's massive credit card data breach in 2013. Target says they have agreed to reimburse Visa up to \$67M.
- The Federal Reserve Bank of Dallas names Robert Steven Kaplan, a former Goldman Sachs banker, as its new president. Kaplan replaces Richard Fisher, who held the position for 10 years.
- Berkshire Hathaway makes the single largest purchase in its company's history, acquiring Precision Castparts Corp. for over \$32B.



Saving Money on Homeownership

Last month, we looked at ways tenants could save money and combat rising rent prices. But if you're one of the millions of Americans that owns a home, saving money on rent may feel like an irrelevant skill. Fortunately, there are plenty of ways for you to save on homeownership.

Saving During the Buy

Right House, Right Neighborhood – Any realtor will tell you that location plays a huge role in determining home value. However, a good location can have costs beyond the home price. Property taxes can vary wildly between suburbs. Saving hundreds or thousands a year could be as easy as looking just a few blocks from your target neighborhood.

Keep an Eye out for Easy Fixes – An overgrown yard, dirty basement or tacky wall colors can drive down the cost of a house even though yardwork, cleaning and restyling were things you were likely to do anyway. If you're willing to do a bit of work, you can get a good house below its asking price while picky buyers are looking elsewhere.

Check Your Taxes – Buying a new home can come with new tax opportunities—especially if it's your first home or you plan to make major improvements. When tax season comes around, be sure you're getting your maximum benefits, even if it means seeking professional tax advice.

Saving while Owning

Get it Green – If you haven't considered energy efficient appliances, improved windows or better insulation, you need to review your utilities budget and find out how much you could save each year. If saving energy isn't enough, you could make your own by buying or leasing solar panels. Green homes save money and have higher property values.

Refinancing – An obvious option to most homeowners, refinancing a mortgage provides a way to save on interest or

restructure repayments. Refinancing isn't always a good option, though; a refinanced mortgage needs to provide savings large enough to offset the costs it incurs.

Early Repayment – In most cases, mortgages allow you to repay the principal early without penalty. If you have extra money from a bonus or tax refund, consider putting it towards paying off your mortgage. For a mortgage charging 4.5 percent interest, every \$1,000 paid early will save you \$550 in interest over the next 10 years.

Light Right – Old incandescent and halogen bulbs use up lots of energy, most of which becomes heat. Using energy efficient LED lightbulbs and/or installing skylights (window or tube) will reduce the electricity needed to light a room while also cutting down on your air conditioning costs.

Saving When Selling

Only Stage the Key Rooms – Improvements can greatly improve resale value, but there is no need to spend big on every room. The kitchen, main living room and largest bedroom are the areas that tend to convince people of a home's value. Focus your upgrades on those spaces; not every room of a house needs to dazzle prospective buyers.

Be Patient – If you are certain of your home's value, don't feel pressured by a realtor to offer a discount. Realtors are there to help you, but they also work on a commission system that rewards high turnover. Dropping \$10,000 from a list price barely affects their cut and allows them to move on to selling a different house. Be sure that any discounts are justified by market demands.

Get Friends to Help Move – Hiring a moving service can be much faster and more convenient than moving yourself, but it will cost you thousands. For the price of providing lunch, you may be able to convince friends and family to help you load or unload a moving truck you rented yourself.



Matthew Staub
matt.staub.pcm@comcast.net

(717) 633-9541
www.pilotcapitalmanagement.com

195 Stock St Ste 124
Hanover, PA 17331

This article was written by Advicent Solutions, an entity unrelated to Pilot Capital Management, Inc.. The information contained in this article is not intended to be tax, investment, or legal advice, and it may not be relied on for the purpose of avoiding any tax penalties. Pilot Capital Management, Inc. does not provide tax or legal advice. You are encouraged to consult with your tax advisor or attorney regarding specific tax issues. © 2015 Advicent Solutions. All rights reserved.