What Determines Future Success?

Fall is just around the corner and students of all ages are back in the classroom. For high school upperclassmen, the new year means constant reminders that high GPA and ACT/SAT scores are the key to future success. But how much do academics actually influence future careers and earnings? Let's examine the impact different factors have on future success.

GPA

According to a study from the University of Miami, on average, for each full point students raise their GPA, men can increase future earnings by 12 percent and women can increase future earnings by 14 percent. A higher GPA indicates better study habits, work ethic and functional knowledge, which generally lead to more lucrative career opportunities. The study also found that the probability of graduation—which is strongly correlated with higher income—roughly doubles with each full point increase in GPA. Developing good habits in high school can set a student up for success in both college and post-educational life.

Standardized Testing Scores

Standardized tests, like the ACT and SAT, have long been a benchmark for college admission. However, many are now questioning standardized test scores' effectiveness in measuring success. Not only do these tests have no proven correlation to future success, a study conducted by William Hiss, the former dean of admissions from Bates College, show that those who submit ACT/SAT scores are just 0.6 percent more likely to graduate than those who don't submit scores. The study also showed that the average college GPA of submitters is only 0.05 higher (on a 4.0 scale) than non-submitters. Because of this, over 850 colleges and universities (about 16 percent of the total number) in the United States are either devaluing or entirely overlooking ACT/SAT scores.

College Major

Not all college majors are created equal. Majors that require specialized technical knowledge, specifically in the applied sciences, typically lead to higher future earnings than more generalized fields. According to a 2009 study from Indiana Wesleyan University, there is a strong correlation between the "risk" of a major and future earning potential. "Risk" is associated with particularly difficult or competitive majors. A college major that requires specific training or is more exclusive typically reduces competition and leads to higher pay than more common majors. However, some majors, regardless of skillsets, have limited job openings and may limit future opportunity.

Level of Education

The Bureau of Labor Statistics shows that approximately 69 percent of 2015 high school graduates enrolled in higher education. This considerable majority of people seeking higher education can make a master's degree or a doctorate key in separating a student from the rest of the pack. According to information from the Georgetown Center on Education and the Workforce, a graduate degree typically leads to a salary increase of 30 to 50 percent. Yet there are tradeoffs that must be evaluated when considering graduate degrees. Continuing to take on loans, delaying the ability to earn money and the market for an advanced degree all determine whether the higher potential earnings will actually increase your long-term success.

Overall, data suggest college majors and level of education are the key deciding factors in future earnings, while GPAs can boost income via collegiate success. Although standardized test scores have little direct impact on future earnings or business success, they do coincide with the strong work ethic and study habits needed to complete college programs. By developing these skills early, students prepare for both higher education and post-educational life. In most cases, a person will have a successful career for the same reason they were successful in school, not just because they were successful in school.

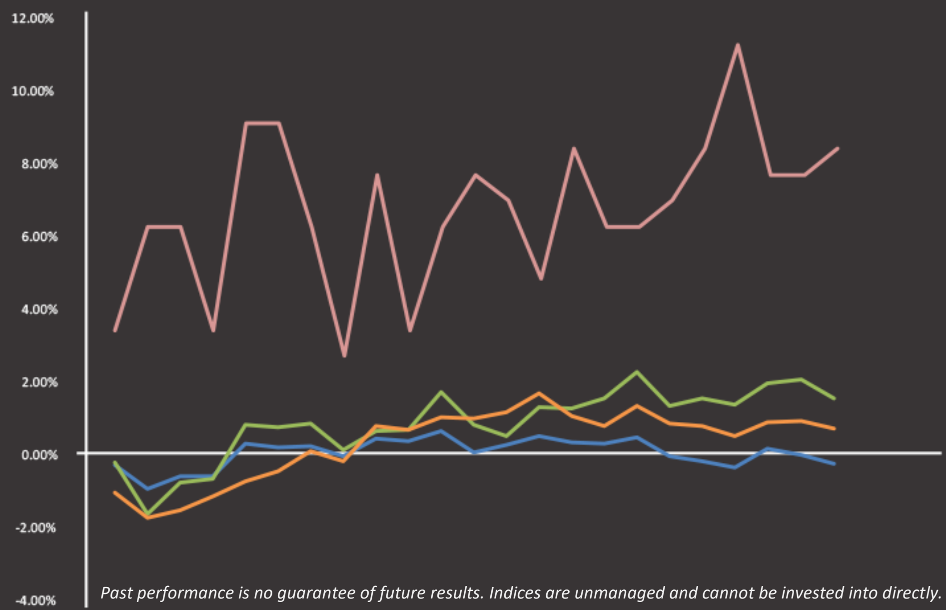
the market at a glance
AUGUST

U.S. Large Cap
(S&P 500)
2,170.95 (-0.12%) ▼

U.S. Mid/Small
(Russell 2000)
1,239.91 (1.64%) ▲

International Large
(NYSE International 100)
4,849.29 (0.82%) ▲

U.S. Treasuries
(U.S. 10-Year Treasury Yield Rate)
1.58 (8.22%) ▲



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

The market in action

- The Bureau of Economic Analysis reports that personal consumer expenditures increased by 0.3 percent in July, hitting analyst consensus and indicating growing strength among U.S. consumers.
- The European Commission rules that Apple Inc. owes $14.5B in back taxes for its business operations in Ireland. The claim was quickly rejected by both Ireland and Apple, which brokered a favorable tax relationship when Apple selected the country as the location for its European headquarters.
- The Japanese government approves another stimulus package: $73B in new and increased government spending. Many analysts were unimpressed by the program; Japan has spent hundreds of billions of dollars in monetary and fiscal stimulus in recent years in failed efforts to end decades of slow economic growth.
- A number of healthcare insurers—including major players Aetna, Inc. and United HealthCare Services, Inc.—announce plans to exit many unprofitable Affordable Care Act (“Obamacare”) marketplaces. The departures are expected to sharply decrease competition in many markets, potentially leading to greater health insurance costs.
- Wal-Mart Stores Inc. purchases online retailer Jet.com Inc. for $3.3B in an attempt to combine and enhance the companies’ individual efforts to compete with Amazon.com.
- Department store Macy’s tops analyst expectations for Q2 but announces plans to close more than 100 store locations as it focuses on operations in only its most successful branches.
- The U.S. Department of Labor reports that nonfarm productivity fell at a 0.6 percent annualized rate in Q2 2016. This marks the third consecutive quarter of decreasing hourly output per worker—the longest stretch of quarterly declines since 1979.
- Technology giant Cisco Systems Inc. reveals a plan to reduce its global workforce by almost 7 percent, cutting approximately 5,500 positions from all over the world.

Housing Market: Selling Less for More

Even after nearly a decade, the effects of the U.S. housing bubble have yet to leave the market. While the broader economy continues to reestablish itself, millions of current, former and potential homeowners have struggled to determine the importance of property and define what it means to have a household.

This period of uncertainty has created a cautious housing market that shuns bubble-like excess. But just because a market has avoided returning to a bubble, it doesn't mean things are "normal." For the vast majority of Americans, the current mix of housing data from the U.S. Census Bureau makes things seem stranger than ever.

Surprising Lows

Since the housing bubble burst, the percentage of Americans that own homes has plummeted. The reported homeownership rate sits at 62.9 percent for June 2016, a long way from its peak of 69.2 percent in 2004. That figure ties the record low set in 1965 and may continue to drop in the coming years.

Accompanying the low ownership rate are low sales of existing homes. While existing home sales have strongly rebounded from the bottom of the crash (2010), the numbers have begun to flatten or slowly decline in most areas. In July 2016, sales occurred at a seasonally adjusted annual rate of 5.39 million units, a 1.6 percent decrease from a year before. Analysts did not expect existing home sales to return to peak 2005 rates (over 7 million units annually) for several more years; however, the expectation was that the improving economy would drive steady sales growth.

Continued Growth

Despite the drops, it's difficult to argue the housing market is getting worse. There are clear signs of housing's expansion and improvement.

Home prices have shown the most positive growth, advancing an average of 5-10 percent annually since 2012, with a 5.7 percent increase from June 2015 to June 2016. According to price indexes, many homes in the United States have nearly recovered the nominal prices they held before the crisis. (Adjusted for inflation, these prices are still far below their peak values.)

Although existing home sales have stayed low, sales of new homes are surging. Seasonally adjusted sales of new homes have climbed to their highest level since October 2007, increasing in all but two of the past 12 months and growing more than 31 percent from July 2015 to July 2016. Because developers are no longer willing to keep excess inventory, availability of completed homes has been limited and more buyers are turning to properties that are still empty or under construction.

Does this Make Any Sense?

Like any other market, housing is driven by supply and demand. Unhinged demand during the housing bubble created huge valuations, even though the supply of properties exceeded the number of families that could actually afford to live in them. Today, demand is low, but the supply of available homes has slipped even lower. With interest rates at historic lows, sellers can push prices higher without buyers seeing any significant change to their monthly mortgage payments.

Most markets correct prices quickly, but housing changes slowly; the decision to buy a property is not made overnight, and houses take several months to plan and build. Although rising interest rates and the continued construction of new homes are expected to increase supply, decrease demand and slow price growth, there are still millions of people that may return to homeownership and boost demand as the memory of the bubble fades.

No one knows what the future holds for housing. While the reports and data paint an odd picture of things as they are now, the recovery is still at a crossroads. We will just have to be patient as the market finds its way to a new normal.

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