

# A Squirrel's Tale

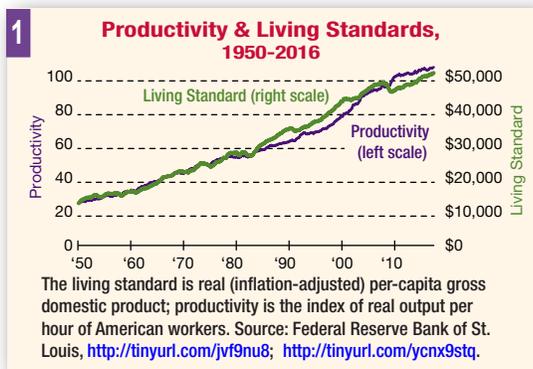
By Bill Dickneider

Fox was trotting along one day when it spotted a vine of juicy grapes growing up in a tree. It loves grapes, so it jumped as high as it could to pull some down. Not even close, it grumbled. So it leaped again — and again and again. But after repeated efforts, its legs grew tired, and the grapes seemed even higher. “They’re probably sour anyway,” cried Fox, walking away in defeat.

Hearing Fox’s displeasure, Squirrel hollered down from the tree, “The problem is your productivity!”

Fox froze and looked up into the tree. “My what?” asked a puzzled Fox upon seeing Squirrel.

“Your productivity!” exclaimed Squirrel, scurrying down from the tree. “Your efforts aren’t producing any grapes. You’ve got to do better.”<sup>1</sup>



“But I can jump only so high,” snarled Fox.

“Think outside the fox,” advised Squirrel. “How about a tool that would enable you to reach higher?”

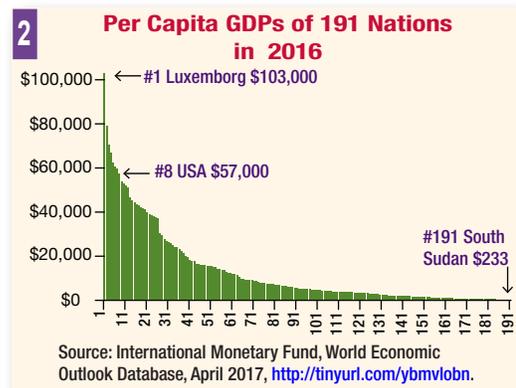
“Like what?” wondered Fox.

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“I don’t know,” answered Squirrel. “That’s for you to figure out. But if you increased your productivity, your leaps would produce more grapes and you’d raise your standard of living. My favorite website, Nutcracker Sweet, showed me how Americans have increased their productivity and living standard over the years. Here’s one of their charts I saved on my iPad (Chart 1).

“Looks impressive,” admitted Fox, “but I’m not human.”



“Don’t we have some things in common with people?” asked Squirrel. “Most of what you and I want, we’ve got to produce. So if we want more, we’ve got to produce more. Let me explain by sharing the rest of the story I learned. One point that stood out is how high the living standard is in America.<sup>2</sup> For example, here’s another chart from Nutcracker” (Chart 2).

“Are you saying that Americans are able to consume more because they produce more?” asked Fox.

“Exactly,” said Squirrel. “But it took many decades of saving and investing to raise their productivity to support their higher living standard.”

“Do you save?” wondered Fox.

“Sure,” said Squirrel. “Instead of eating all the acorns I find, I bury some so I’ll have food in the winter. By consuming less today, I have more for tomorrow. But although I’m saving, I’m

not investing. If I bury 10 acorns, I'll have only 10 when I dig them up in the future. My savings aren't growing. It's like people putting their savings under their mattresses."

"How could you make your savings grow?" asked Fox. "You're not going to plant acorns like a farmer, are you?"

"In a way I am," answered Squirrel. I plan to grow my saved acorns by selling them and investing the cash in financial assets like stocks. If my stocks pay dividends or if I can sell them later at higher prices, then I'll be able to buy many more acorns than I saved."

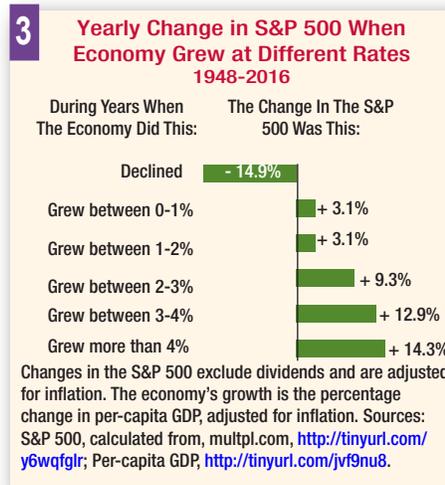
"Foxes are clever, you know, so I'm aware that stock prices can also fall and eat up your savings like scavengers raiding your buried acorns."

"Stocks are risky," agreed Squirrel, "but over the years they've offered superior returns for one's saving. They've been able to do that because they enable savers like me to invest in the growth of the economy."

"I'm listening," said Fox.

"Well, the Nutcracker website explained it this way," said Squirrel. "The stock market helps identify which companies are most likely to use savers' money productively. It does so because stock prices reflect buyers' and sellers' best estimates of each company's prospects for growth. Companies with favorable prospects usually have higher or rising stock

prices that enable those businesses to attract funds from banks and the stock and bond markets. By investing the funds in new buildings, equipment and technologies, companies make themselves and their workers more productive. Companies' earnings and workers' wages and benefits can then rise.



"Savings, investment, productivity and living standards. I'm beginning to see how they all fit together," exclaimed Fox.

"Here's how I see it," said Squirrel. "When I buy stocks, I'm putting my savings to work in the economy's growth. But at the same time the return I earn depends on the economy's growth. Check out this chart, for instance (Chart 3). It shows that over the years faster growth of the economy has generally meant higher returns from stocks.

Stronger growth brings more jobs and income for workers and higher earnings for successful companies. These companies become more attractive to investors, who then bid up their stock prices. As a stockholder in these companies, I can earn a higher return and share some of the gains."

"I think I'll start saving so I can invest in the stock market, too," said Fox. "In future years I'll be able to buy lots more grapes. That should beat all my jumping efforts by leaps and bounds."

**To Think About**

- ✓ This *Crash Course* video explains why some nations are much wealthier than others. Do you think Squirrel would agree with the explanation? Why or why not? <http://tinyurl.com/ycfj79hw>.
- ✓ Is your education an investment that will increase your future productivity and living standard? Explain.
- ✓ This video identifies ways to save and invest in order to build your own personal wealth. Which methods would you be likely to use? Explain. <http://tinyurl.com/q4nyazi>.
- ✓ In recent years, labor productivity has grown about 1 percent slower than its average over past decades. Do you think the following video suggests that this slowdown would be important to you if it continued in future years? Why or why not? <http://tinyurl.com/y6w6e8hs>.

1. Productivity is the amount of something produced per unit of time or other resource expended. Riley can produce 10 loaves of bread per day, but Madison can produce 20, so Madison's productivity is twice that of Riley's.

2. There are various ways of measuring the standard of living, but one of the most popular is the amount of a nation's total production divided by its population. Total production is measured by gross domestic product (GDP), so dividing GDP by population yields GDP per person (per-capita GDP).