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REGISTERED INVESTMENT ADVISER

FINANCIAL NEWSLETTER

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THE CRYSTAL BALL

For everything there is a season. We've all learned that at one time or another. So it begs the question, what season are we in right now? It's pretty apparent that the answer to that question is: we are in the season of change. Sometimes change is subtle like summer turning into autumn in late September. But sometimes change is so obvious that you can't miss it. That's where we are at right now, change is upon us.

From a financial standpoint, the changes most evident are coming from the government; they are coming to the tax code; to the estate planning arena; to mandates for businesses; for increased fiscal spending; to supply chain issues; to the Federal Reserve's interest rate policy; and to the every day costs for all Americans. Needless to say, there is no doubt that these changes will impact investment returns in the coming year.

So what do you do now? The first thing to do is realize that plenty of trial balloons are being floated and nothing is carved in stone, yet. Anticipation is fine but don't go overboard thinking you are sure of something when you really can't be sure. That said, here are some thoughts…

First, the stock market: It is clear that prices are high on the major market indexes. What is interesting though is that there has been an undercurrent of stock price corrections beneath the surface of the indexes for months now. That means that while the indexes are still at high levels, many stocks have already corrected and are now in bear market territory. This is not necessarily a bad thing. Remember: buy low and sell high. If the indexes do correct (and they may have corrected by the time you read this), they will be led by declines in the handful of stocks that have kept these indexes buoyed at lofty levels. Think opportunity, not disaster.

Let's say that a big correction occurs and that you look at your portfolio down 10% from its recent high level. What is going to be your mindset? Hopefully, it will be calm and relaxed because if a 10% correction causes a loss of sleep, then you have too much in the market. Don't let that happen, so make adjustments now.

We are told inflation is transitory. Maybe, but what if it's not? What if the inflation rate rises above 5% instead of staying around 2%? That would be problematic. Is it going to happen? We'll see. When investing, it is best to plan for the unexpected and be pleasantly surprised if all works out well. If inflation gets out of control, the Fed will raise interest rates and if they don't, the market will. So be careful with bonds.

Higher taxes are coming. Brace yourself for this even if you believe that only the "rich" will pay more taxes. We don't think that will be the case. That's because the most insidious tax for the middle class is the hidden tax of inflation. Prices go up. The cost of living rises. Interestingly, the government may find that by raising taxes they'll receive less revenues. Unintended consequences are clearly a risk here.

Probably the best plan of action is to realize that there will always be uncertainties. Your financial decisions should be based on your objectives. Do maintain a solid plan of action and don't waver unless your objectives change. Do maintain a cash position for money that you will need in the next 12 months and don't worry that earnings on cash are next to nothing. Do understand risk and what it might cost you to get the rewards you seek. Don't take more risk than is needed to meet your goals. Don't let your emotions dictate your actions but do seek competent advice when it's warranted. All common sense for sure, but good reminders, nonetheless. Let's all close out the year being excited about the future. We're ready.

QUOTE

"Never mistake activity for achievement."

John Wooden

WILL YOU OUTLIVE YOUR MONEY?

Here is one of the questions we get from our clients who are in the throes of deciding whether to retire: How can I make sure I don't run out of money before I run out of life? Of course, there is more to retirement than money issues. The four pillars of a solid retirement are health, family, purpose and finance. Since this is a finance question, here are our thoughts.

First off, that's not an easy question to answer. Here's how we at Albitz/Miloe tackle the issue.

We need to be clear about how much money will be needed each month to maintain your lifestyle objective. Most people know roughly how much they spend. However, close only counts in horseshoes. We need to know exactly what that number is and so should you.

Once we know the expenditure side of the ledger, we need to know sources of income. Social Security tends to be an important income source, a pension from somewhere is also important, as is any rental property income. Part time work might be an additional income source.

It is likely that you have saved money in a 401k, an IRA, and maybe you have a taxable investment portfolio. How much can you pull from your investments without depleting the principal? Typically, from a broad perspective, the rule of thumb is about 4% from your investments each year in retirement. Don't forget that the cost of living is rising and won't stop just because you are retired.

We take all those things into account and then come up with a plan of action. Coming up with a plan is great but implementing it is the key. Sticking with the plan is essential. A major part of the plan is to be flexible enough to make adjustments when things change, and they will. Reviewing the plan at least each year helps avoid surprises.

As to the other pillars of retirement, those need as much thought and planning as one does for the financial issues.

PERSONAL NOTES

Rosemarie G. – Your cheerful demeanor is so uplifting!

David S. – Your calm and personal caring is appreciated.

Barbara S. – A lot is going on, but who's tougher than you?

Jim B. – Alaska, road trips with your Dad; so cool… and we hope you are back playing golf soon!

SOMETHING TO KNOW ABOUT SERIES I SAVINGS BONDS

Investors are increasingly concerned with ways to protect their savings from rising inflation. Series I Savings Bonds are a unique asset that can meet this objective. These savings bonds are issued by the U.S. Treasury and the current annual yield is 3.54%.

This rate is comprised of a fixed rate, currently 0%, and a floating inflation rate set twice a year based on changes in the non-seasonally adjusted Consumer Price Index for all Urban Consumer (CPI-U). For current bonds, all the return is due to the inflation rate. The current semiannual inflation rate for bonds issued from May 2021 through October 2021 is 1.77%, which when annualized, equates to the current 3.54% annual rate. This rate will rise if inflation increases but can decline if inflation decreases. However, the rate can never fall below 0%.

Interest earned on Series I bonds is taxable at the federal level and tax free at the state level. The interest and principal are paid when the bonds are cashed and can be done as soon as one year after purchase. However, if you cash an I bond before it is five years old, you lose the last three months of interest. Series I bonds will continue to earn interest for 30 years if you don't cash the bonds before they mature.

Each person can buy up to $10,000 in I bonds via TreasuryDirect.gov per calendar year. They are an asset class that will provide an inflation adjusted rate of return with no risk of loss. Please feel free to get in touch if you have any questions.

COMPELLING THOUGHTS

- Imagination is a poor substitute for experience.
- Hope is a good breakfast but a bad supper.
- The first qualification for a historian is to have no ability to invent.
- If a million people do a foolish thing, it's still a foolish thing.
- A good scare is worth more than good advice.
- A soft answer may repel wrathful scorn.
- Ignorance more frequently begets confidence than does knowledge.
- The more cunning a man is, the less he suspects that he will be caught in a simple thing.
- Man is least himself when he talks in his own person. Give him a mask and he will tell you the truth.

THOUGHTS ON "CASH"

Bad things happen to the best of us, and instead of conveniently spacing themselves out, they almost always come in waves. The important thing is to have a financial life preserver, in the form of an emergency cash fund, at the ready.

Although many people agree that an emergency fund is an important resource, they're not sure how much to save or where to keep the money. Others wonder how they can find any extra cash to sock away. One survey found that 26% of Americans don't have any emergency savings at all.

How Much Money? When starting an emergency fund, you'll want to set a target amount. Three, six, or nine months of expenses is a good starting point. But exactly how much is good for you? Unfortunately, there is no "one-size-fits-all" answer. The ideal amount for your emergency fund may depend on your financial situation and lifestyle. For example, if you own your home or provide for a number of dependents, you may be more likely to face financial emergencies. If the crisis you face is a job loss or injury that affects your income, you may need to depend on your emergency fund for an extended period of time.

Coming Up with Cash - If saving several months of income seems an unreasonable goal, don't despair. Start with a more modest target, such as saving $1,000. Build your savings at regular intervals, a bit at a time. It may help to treat the transaction like a bill you pay each month. Consider setting up an automatic monthly transfer to make self-discipline a matter of course. You may want to consider paying off any credit card debt before you begin saving.

Where Do I Put It? An emergency fund should be easily accessible, which is why many people choose traditional bank savings accounts. Savings accounts typically offer modest rates of return. Certificates of Deposit may provide slightly higher returns, but your money could be locked away until the CD matures.

Some individuals turn to money market accounts for their emergency savings. Money market funds are considered low-risk securities, but they're not backed by any government institution, so it is possible to lose money. Depending on your particular goals and the amount you have saved, some combination of lower-risk investments may be your best choice.

The only thing you can know about unexpected expenses is that they're coming — for everyone. Having an emergency fund may help alleviate the stress and worry associated with a financial crisis. If your emergency savings are not where they should be, consider taking steps today to create a cushion for the future.

COMMENT ON SOCIAL SECURITY

We were asked this question by one of our clients…: "Will Social Security ever go away?" It's definitely something we've been thinking about a lot. Our conclusion is that we don't believe Social Security is going away, but without question, the powers that be are going to have to make some major changes to the current system.

The Social Security Act was signed into law in 1935 during the Franklin Roosevelt administration. It was part of the New Deal, and it was intended to supplement the income for people who were retired and for people who were unemployed during the 1930s. Over the course of the next 40 or 50 years, that program ballooned, and the payouts increased. They started covering disabilities. Survivor benefits to spouses and children were added, along with Medicare and Medicaid.

The problem was that Social Security was initially intended to supplement retirement and unemployment, but over time it became something that Americans depended on as their major source of retirement income. Fast forward to the 1980s: The government acted to increase the Social Security tax. As much money that was going out, even more money was coming in. The so-called "Social Security trust fund" was growing. However, things change. The major shift was that more people were retiring and more people are living longer; so now the payouts have actually exceeded the amount of money coming in.

If you look out over the next decade, this trend is likely going to continue. If you talk to the "financial experts" who have done studies, they predict that this trust fund will actually be depleted by 2035; maybe even sooner. What adjustments can they make? The two obvious ones would be to increase taxes that would bring in more money to Social Security or to decrease some of the benefits. Other things like raising the retirement age, changing the investment strategy of the trust fund, and investing more in stocks rather than just treasury bonds have been considered. [Geez, what could go wrong there??]

Anyway, will Social Security go away? It's doubtful, but just like anything else there are going to be modifications in the future. We have a feeling that we'll see what they come up with soon enough.

Overheard

" If you want to make a real sponge cake, borrow all the ingredients."

THE THINGS WE TAKE FOR GRANTED

The things we take for granted
The sun setting in the west
A new Bob Dylan album
A boy scout doing his best.

The thunder after lightning
The hunger after a fast
A kiss after a quarrel
Good times will always last.

The plane is going to land safely
We'll make it there on time
The singer will hit all the notes
The poet will find the rhyme.

For the children of our children
We'd crawl through dirt and weeds
We raise our hands up to the heavens
We praise God when it suits our needs.

But the truth is a different matter
And reality demands respect
The things we take for granted
Are the things we must protect.

Our humanity and our freedom
Choices made before the dawn
We take them all for granted
And just like that, they're gone.

The truck will stop at the red light
Your friend will stay your friend
You'll wake up in the morning
Your body will always mend.

A street parade on New Year's Day
Fireworks on the Fourth of July
People always happy to see you
People grieving when you die.

We'll deal with it tomorrow
There'll be joy from coast to coast
Too bad the things we take for granted
Are the things we love the most.

A STORY

Three old retired guys were talking about what their grandchildren would be saying about them in fifty years' time.

The first guy says, "I'd like my grandchildren to say, "What a great guy. He taught me a lot about life."

The second old guy says, "Fifty years from now, I want my grandchildren to say, 'He was the greatest grandpa anyone could ever have.'"

The first old guy then turns to the third and asks him, "So what do you want your grandchildren to say about you in fifty years' time?"

The third guy replies, "Me? I just want them all to say, "He looks good for his age!"

Phil's Opinions and Judgments…

On 40 Years in this Business…

Next year I'll have 40 years in this business. Despite the periodic stresses (yes, they do occur), it's a pleasure to come to work each day. We have a terrific and loyal clientele and working with the professionals at our office is priceless. While we don't control the swings in the financial markets, we do control the service to our clients, and I'll put our work ethic up against any company here or anywhere. Hopefully, you know the appreciation we have for our clients is immense. Thank you for that.

On Books…

If you are a baseball fan, you might enjoy reading The Wax Pack. It's the story of the author seeking out and interviewing the baseball players whose cards he found while opening a 1986 pack of baseball cards. While baseball is a focus, it is more a story of life and humanity. It is an easy read but quite enlightening. Come to think of it, you don't have to be a baseball fan to enjoy the book.

On Congressional Spending…

When we are told that a gigantic spending bill will have "zero cost", it is time to tell it like it is: "Ludicrous" comes to mind.

On Taking Things for Granted…

One word: Don't.

Until next time,

Phil Paul Clete Vance Sylvia

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