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Financial Solutions for the Life You Are Living and the One You Want to Live

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Is Inflation Really a Surprise?

Inflation is not fun. It seems, that everywhere you turn, everything costs more. If you are helping your child buy a first starter home or if you are trying to downsize to a smaller house in retirement, I am sure you have noticed, real estate is definitely higher. New cars cost more. Wow, even some used cars are also selling at top dollar. Every time you go the grocery store, you pay more, if you can find what you want! Air travel and hotels cost more. If it cost more to keep an employee, that cost will get passed on to the consumer. Energy prices have also risen. The price of oil has doubled in less than two years. If you recall my Summer 2020 newsletter, I mentioned that as of April 20, 2020, a barrel of oil could not be sold. There was such a glut at the time. The gluts have disappeared, and people are back to their previous driving ways and now paying for it. Higher energy prices are like a higher tax on individuals, corporations, and municipalities.

Is inflation really a surprise? I'm actually surprised its not a little bit worse. Still, the 7% recorded in December was a bit of a shocker. We have had unprecedented federal and state spending. There has been an avalanche of cash available to most eligible taxpayers from the IRS. There has also been a huge stimulus to businesses. The FED reserve took unprecedented actions to generate/ restart the economy after the huge layoffs in March and April of 2020. First, it moved the Federal Funds rate to almost zero. Mortgage rates followed suit, and again refinancing cranked up again. It also launched massive purchases of debt securities called QE or Quantitative Easing. All in all, the FED took more than a page from the '08-'09 Recession Playbook. Their actions were massive and touched almost all parts of the U.S. economy. Lastly, many individual and corporate balance sheets have done extremely well. When this happens, spending increases. When spending increases, and supply is tight, there is only one way for prices to go. The Fed believes the economy is now on stable ground. This is pretty amazing, considering what we have gone through after the COVID pandemic. Unemployment is low and the GDP (Gross Domestic Product) has recovered nicely. With positive economic news, the Fed will slowly start to raise interest rates. The Fed is also looking to trim their massive balance sheet.

What does all of this mean for the economy AND for the markets? The economy always slogs through, regardless of the circumstances, even with the current headwinds of inflation, higher interest rates, and major government expenditures. The economy during COVID showed us once again that it can navigate through any-

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A Budget for College Students

Many students will first handle money without parental supervision during college. To help keep expenses down and avoid conflicts, you might want to develop a budget to guide your child's spending. As you go through the process, consider the following:

- ✔ Develop a preliminary budget for the first couple months of college. After your child has lived on his/her own for a couple months, you can develop a more realistic budget.
- ✔ If your child has trouble sticking with the budget or can't account for large sums, have him/her keep a journal for a couple of weeks that details all expenditures.
- ✔ Consider providing your child with a debit card rather than a credit card, which makes it harder to overspend.
- ✔ Explain the basics of credit cards. Make sure your child doesn't use a credit card as a means to overspend.
- ✔ Have your child provide you with a written monthly comparison of his/her actual expenses to budgeted amounts. ❍❍❍

Is Inflation?

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thing. The economy will continue to perform. The markets are getting their first dose at the end of the prolonged easy money policy. This has presented challenges for both fixed income and for equities. Yes, bonds and stocks have had a tough start to year 2022. The good news is, we have seen this movie before. Regarding bond funds, the prices temporarily go lower, but eventually they rise as does the interest rates/yields of the underlying bonds. This helps in retirement to have a higher yield (income), yet it does not happen overnight, but it does happen. In equities, we have had a pretty healthy pullback. As investors, we can be accustomed to recent bias, and often get taken back when we see negative numbers. This is typical and perfectly normal to feel this way. This is another reason to keep a diversified portfolio. Different sectors move up and down, and this is why we do not get too excited and follow the herd in one particular investment. The number one performer one year, could easily become subpar the next year. It is too early to determine winners and losers for this year; for instance, Small Cap companies performed amazingly well during the first ten months of 2021, only to give a large portion back during the last 90 days. You always want to look at fundamentals and not what did well 'lately.' Investing is always a long-term commitment whether you have 30 years until retirement, or you are currently retired. The reason is even during retirement, you do not take all of your investments out at one time. A typical withdrawal rate should be in the range of 3 -5%. This percentage increases during down markets and reduces when markets are up. On the accumulation side of investing, if you are able to add funds during the ups and especially the down days, months, and, yes, even years, this is how wealth is created.

A stabilization factor is the use of COLA's. Higher inflation has also led to higher COLA increases from social security and those receiving pensions. Staying even is better than falling behind, hence that is the purpose of what a COLA increase is intended to do. There is a belief that inflation numbers will be reduced by the end of this year. Lower inflation will lead to lower annual raises for your fixed income.

So, yes, we are living with clear evidence of inflation; we see actions by governmental, financial institutions, and corporations. However, what it all means is to continue to apply the basic tenets of investing. Patience is probably the best course of action today. This applies to investing in the market or if you are in the need of an item that is in high demand. It may be worth waiting for, most things are. :)

Sincerely,

Andrew D. Wade, CFP®

President

Assessing Your Risk Tolerance

While investors want the highest returns possible, returns compensate you for the risks you take — higher risks are generally rewarded with higher returns. Thus, you need to assess how much risk you are willing to take to obtain potentially higher returns.

However, this can be a difficult task. It is one thing to theoretically answer questions about how you would react in different circumstances and quite another to actually watch your investments drop in value. What you are trying to assess is your emotional tolerance for risk, or how much price volatility you are comfortable with. Some questions that can help you gauge your risk tolerance include:

✔ **What long-term annual rate of return do you expect to earn on your investments?** Your answer will help determine the types of investments you need to choose to meet that target. Review historical rates of return as well as variations in those returns over a long time period to see if your estimates are reasonable. Expecting a high rate of return may mean you'll have to invest in asset classes you aren't comfortable with or that you may be frequently tempted to sell. A better alternative may be to lower your expectations and invest in assets you are comfortable owning.

✔ **What length of time are you investing for?** Some investments such as stocks should only be purchased for long time horizons. Using them for short-term purposes may increase the risk in your portfolio, since you may be forced to sell during a market downturn.

✔ **How long are you willing to sustain a loss before selling?** The market volatility of the past several years will give you some indication of how comfortable you are holding investments with losses.

✔ **What types of investment do you own now and how comfortable are you with those investments?** Make sure you understand the basics of any investments you own, including the historical rate of return, the largest one-year loss, and the risks the investment is subject to. If you don't understand an investment or are not comfortable owning it, you may be tempted to sell at an inopportune time. Over time, your comfort level with risk should increase as you better understand how risk impacts different investments.

✔ **Have you reassessed your financial goals recently?** Periodically, your financial plan may need to be revamped. Otherwise, you may find you won't have sufficient resources in the future to meet your goals. Based on your current investment values, determine what needs to be done to meet your financial goals. You may need to save more, change or eliminate some goals, or delay your retirement date.

✔ **Do you understand ways to reduce the risk in your portfolio?** While all investments are subject to risk, there are some risk reduction strategies you should consider for your portfolio. These strategies include diversifying your portfolio, staying in the market through different market cycles, and investing consistently. ❍❍❍

Start Budgeting

Almost no one enjoys the process of analyzing and budgeting expenditures, but inefficient and wasted expenditures can be major impediments to accomplishing your financial goals. It is difficult to manage your money if you don't know how much you have or where it is going. Consider these steps when developing your budget:

1. Identify how you are spending your income. Review an annual period so you determine regular monthly expenses as well as irregular, periodic expenses, such as insurance premiums, tuition, and gifts. Much of the information can be found by examining canceled checks, credit card receipts, and tax returns. Total expenses in categories that make sense for your lifestyle. If you can't account for more than 5% of your income, take a closer look at your cash purchases. Keep a journal tracking every penny you spend for at least a month.

2. Evaluate your expenditures. If you find it tough to find money to save, critically review your expenditures. Consider these tips:

✔ Find ways to save at least 10% of your income. Almost all expenditure categories offer potential for savings. With essential expenses with fixed amounts, such as your mortgage, taxes, and insurance, you may be able to refinance your mortgage, find strategies to help reduce taxes, or comparison shop your insurance to reduce premiums. Essential expenses that vary in amount, such as food, medical care, and utilities, can usually be reduced by altering your spending or living habits. For instance, you can actively shop for food with coupons, exercise to get in better health, or put energy saving light bulbs in the house. Discretionary expenses, such as entertainment, dining out, clothing, travel, and charitable contributions, typically offer the most potential for spending reductions. Dining out four times a week? Reduce it to two, go to less expensive places, and save the difference.

✔ Limit the use of your credit cards, especially if you're not paying the balance in full every month. Not only do credit card balances carry high interest charges, but credit cards tend to encourage impulse spending. Use cash or a debit card, which automatically deducts purchases from your bank account.

✔ Resolve not to purchase impulse items or items over a certain dollar amount on your first shopping trip. Go home, think about it for a couple days, and then go back to purchase the item. Often, you'll decide you don't really need it.

✔ Delay the purchase of large items. For example, instead of purchasing a new car every two or three years, keep your car for four or five years.

✔ If you're really serious about reducing expenses, consider moving to a less expensive house. Not only will you reduce your mortgage payment, but you will save on other costs.

3. Prepare a budget to guide future spending. You may want to start by setting a budget for a couple months, tracking your expenses closely over that time period. You can then fine tune your budget for an annual period. Some tips to consider include:

✔ Don't include income in your budget that is uncertain, such as year-end bonuses, tax refunds, or gains on investments. When you receive that money, just put it aside for saving.

✔ Set up enough expenditure categories to give you a good feel for your spending patterns, but not so many that it becomes difficult and time consuming to monitor your progress.

✔ Make your budget flexible enough to handle unforeseen expenditures. Nothing goes exactly as planned, and your budget should be able to deal with emergencies. Be sure to include large, periodic expenditures, such as insurance premiums or tuition.

✔ Don't be so rigid that your family is afraid to spend any money. Everyone in the family should have a reasonable allowance.

✔ Find ways to make the savings component of your budget happen automatically. Get the money out of your bank account and into an investment account before you have a chance to spend it.

The money you have available for saving is a direct result of your spending habits. Use a budget to control your spending so you can maximize your savings. Please call if you need help with this process. ❍❍❍

Avoid These 401(k) and IRA Mistakes

When it comes to saving for retirement, many people take a set-it-and-forget-it approach. But not paying attention to your 401(k) and IRA accounts could cause you to miss valuable savings opportunities. Avoid these seven mistakes:

✔ **Not contributing enough to get your full employer match**. If your employer matches your contributions to your 401(k) plan, you should try to stretch enough to at least meet their maximum match amount.

✔ **Neglecting to maximize your contributions**. While you may not be able save up to your 401(k) contribution limits (for most people, that's $20,500 in 2022 plus an additional $6,500 catch-up contribution for those over age 50), you should save as much as you are able. If there's any extra room in your budget, consider dedicating that money to retirement.

✔ **Playing it too safe by investing in an overly conservative way**. If you only choose safe investments like cash or CDs, you run the risk of inflation outpacing the low returns.

✔ **Not reviewing your investment allocation regularly**. Your asset allocations will inevitably need to change as you age. This means you should review your portfolio at least on an annual basis.

✔ **Not taking advantage of catch-up contribution options**. Once you turn 50 years old, you have the chance to catch up a bit and your maximum annual contributions go up another $6,500 for a 401(k) and $1,000 for your IRA.

✔ **Forgetting about old retirement accounts.** If you've changed jobs, there is a chance that you left an old 401(k) plan with your former employer's plan provider. Of course, the money is still yours, but it may not be doing as much for you as it could if you rolled it into an account you are actively managing now.

✔ **Taking too much of a do-it-yourself approach**. Managing your own retirement planning can be confusing if you do not have the knowledge and skills to make the best choices. Seeking the help or guidance of a financial professional can remove the doubt and emotion from your investment decisions and ensure you are on track for retirement. ❍❍❍

Is Out-of-State Tuition Worth It?

Out-of-state colleges are significantly more expensive than going to a school in your home state. There are few factors to consider in deciding if it is worth it:

The first factor is cost. According to the College Board, the average costs of tuition for the 2021-22 school year is $10,740 for state residents at a public university and $27,560 for out-of-state residents (Source: *Trends in College Pricing and Student Aid 2021*).

The second factor is comfort. The transition from high school to college is a big one and being in a completely new city without a support system can be a daunting change. As a family, you should discuss how your student reacted to other changes in their life, such as switching to a new school or moving to a new town. Some will easily do well, while others will not. It is important to be honest with yourself as to what your real comfort level will be.

The third factor is your area of study. The expense may be worth it if you have a specialized area of study that is only available at an out-of-state school, or if a specific university's program is exceptional. ❍❍❍

"The happiest people are those who do the most for others. The most miserable are those who do the least."

~ Booker T. Washington