BKMWM Newsletter June 2021

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1) Planning Process Vital

"If you fail to plan, you plan to fail!"
-Benjamin Franklin

The majority of our clients have allowed us to help them create a plan. The initial planning process and regular reviews can take a lot of time and effort for both clients and advisors. However, plans have proven time and time again to be invaluable. They help us determine:

- Portfolio/investment mix
- Retirement spending and distribution strategies
- Savings and accumulation strategies
- Social Security timing
- Cash flow/budgeting
- Business sales and transitions
- Tax strategies
- Life insurance
- Estate planning strategies
- Charitable giving and gifting
- College funding
- Long term care insurance
- Disability insurance
- Liability management

Having a plan in place prior to the pandemic has proven to be vital. We are confident that it resulted in better decisions and better outcomes. Reviewing plans allowed us and our clients to put information in front of emotion. During the depths of the pandemic panic last year we were able to stress test and monitor results consistently. We could see which clients' plans might need some tweaking, and which simply needed to stay the course. From there we could to take prudent action and/or reach out to reassure clients that their perception was worse than their financial reality.

If you don't yet have a plan in place, we would be honored to help. Please contact us to start the process.

"If you don't know where you are going, you'll end up someplace else."
-Yogi Berra

2) Money: Spend It, Save It, Invest It

I (Bill Berrall) recently talked to a retired financial advisor and former colleague. We discussed the challenges of giving sage advice in an era of very low interest rates, massive government stimulus and longer life expectancies. We agreed there are only three things you can do with your money:

i. Spend it.
ii. Save it.
iii. Invest it.

Early in my career (late '70s/early '80s), saving money in a money market fund earned 17% interest. Of course inflation was over 10% and tax rates were much higher. Yet, the returns on your savings were attractive for very little risk. At 17%, your money would double in 4.23 years. In the early 1980's, I remember banks advertised you'd have a million dollars in your IRA by investing $2,000 for 40 years and compounding your money by saving in FDIC insured CDs at 12%.

Currently money market rates are about 2/100'ths of 1% and even 10 year bank CDs pay only about 1%. At 1% interest compounded annually, your money doubles in 72 years. Saving in cash, money markets and CDs may be wise for funds with which you want no or low volatility. Yet, they are not currently a good wealth builder.

Therefore, it is no wonder that many investors have moved much of their savings into real estate, junk bonds, commodities, stocks, cryptocurrencies and just about every investment class attempting to get higher returns. Until competitive rates are available on "safer" savings, and/or world economies again slow, riskier assets may continue generating much investment demand. Just know that like the market panic ended last spring at crazy low asset prices, at some point the optimism and bull markets in riskier assets will also end. You cannot get the higher returns that riskier asset classes have historically offered without the potential for seeing significant, often temporary, valuation reductions. The higher stocks rise, the more cautious and diversified we should become.

For now, many dividend paying stocks yield more than long term bonds and cash. Those stocks also have inflation hedge potential from growing profits and dividends. However, prudent asset allocation might consider having cash available to invest in bonds and CDs should rates rise and/or stocks and other riskier assets decline. Given the massive government stimulus and low rates, inflation concerns are growing. An allocation to more commodities and other inflation hedge assets may be prudent for a portion of your portfolio. They may not pay much or any income but could continue appreciating as other asset classes weaken.

3) Inflation

In our February newsletter we discussed the mounting concerns from economists over the threat of inflation. This time we will discuss the counterpoint.

It is not unusual for prognosticators to overestimate the speed and potency of future trends in any field – just ask anyone from the 1950's about their rocket cars and jet packs. It is often no different when it comes to inflation, which has been persistently over-predicted by economists. Below are several reasons why today's inflation may be little more than a fleeting concern.

a) Problems tend to work themselves out when they are known in advance. The 2007-2008 financial crisis occurred, in part, because not enough people realized the dangers mounting with sub-prime mortgages and collateralized debt. In the case of present inflation; however, everyone is talking about it to the point that Fed Chair Powell is regularly fielding questions on the subject.

b) Inflationary catalysts such as low interest rates and government spending have been with us for over a decade and thus far inflation has been minimal. The following chart suggests that deflation has been working against inflation.

Source: Bloomberg, 31 December 2007 to 31 January 2021, as of 15 March 2021.

d) Much of the actual inflation we have seen in 2021 is due to the very low base of 2020. This may be easier to conceptualize by looking at a similar concept with interest rates. Interest rates have been trending upwards this year. Ten year Treasury rates are up 79%, but do we have high interest rates? No, we just had such incredibly low interest rates to start, so any slight tick up represents a very large percentage increase.

e) The spike in demand for goods and services as a result of the reopening may be more muted than many assume. Among the developed world, only the U.S. is primed to emerge from the pandemic any time soon. Places like Europe and Japan are nowhere near where we are in terms of reopening, economic recovery and vaccine distribution. While localized inflation in just the U.S. certainly can happen, global stagnation should act as a cap. Even more important is the fact that the impact of reopening is likely to be short-lived. After the levee breaks, the pent up demand should eventually level out.

In our view, long-term anti-inflationary pressures (technology and productivity gains, slowing global population growth, and continued globalization) are likely to keep inflation in check. With that said, there is a possibility that inflation is more than transitory. Therefore, it is reasonable for investors to consider ways to protect their portfolios. Commodities, and Treasury Inflation Protected Securities (TIPS) may be prudent. For those who can stomach the volatility, the best long-term strategy to combat inflation has historically been assets whose future revenue streams are linked with domestic currency values. i.e.: stocks and real estate. Please contact us to discuss your investment plan.

4) Paying Your Adult Child's Expenses?

Most clients became financially secure through hard work, sacrifice, prudent savings and investment. Sometimes they ask, "How can I be 'fair' to my children both today and when I pass?" They enjoy helping their children and grandchildren but do not want them to be too spoiled or not value hard work and thrift.

The answer is different for everyone. However, to help teach young adults prudence and personal money management, here are some things you might consider shifting from your payment to theirs:

- Subscriptions
- Cell Phone bills
- Car insurance
- TV and streaming services
- Their portion of on-line shopping services
- Their portion of non-dining hall food bills for college students
- Subsidies for above average housing costs (upscale apartments) following graduation

Some parents help their teenage children get debit cards-without overdraft protection. The children fill the card with their own money. That helps limit their spending. Parents and their children may benefit from having a written budget. Completing it will show you both where funds are being spent. It can help distinguish between necessities, wants, and things you may be subsidizing. Contact us for budgeting tools.

Finally, while perhaps not ideal for parents or their adult children, moving home until a job is attained saves money. And living at home again may be incentive enough for the child to find the job that supports them and the lifestyle to which they aspire.

5) Financial Abuse

Our practice has seen firsthand examples of financial abuse over the years. Be aware of some of these red flags of possessive or controlling behavior*:

- Shutting someone out of financial decision-making
- Demanding control of paychecks
- Taking control of all financial passwords
- Guilting someone else into paying their excessive bills
- Running up debts in someone else's name without their permission
- Preventing someone from earning their own income or attending school to further their future opportunities
- Taking advantage of an aging parent or grandparent's financial situation
- Threatening to commit suicide because of something someone else has done or might do (such as filing for divorce)
- Blaming another for the abusive behavior or acting like it's not really happening

If you are aware that you or someone you love has been impacted by financial abuse there are resources available to help:

National Domestic Violence Hotline – 800-799-SAFE (7233)
National Network to End Domestic Violence – www.nnedv.org

Source: www.thehotline.org

Financial advisors whose mission is to positively impact lives.

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CAR-0521-02575