
BKMWM Newsletter July 2026

Topics:

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1) What Are Stocks?

When most people picture the stock market, they picture a screen full of numbers flashing red and green. That picture makes stocks feel like betting — pick a number, hope it goes up.

A more accurate picture is this: a share of stock is a small ownership stake in a real, working business. And a business is essentially a machine — a combination of people, tools, brands, and know-how that produces goods and services other people are willing to pay for.

When you buy a share, you're not buying a number. You're buying a fractional claim on that machine and everything it produces, now and into the future.

"Stuff" vs. the machine that makes the stuff

Stuff is all the physical things we consume — food, fuel, cars. Stuff is useful, but it depreciates. It gets used up, wears out, or goes out of date. On its own, a pile of stuff doesn't grow.

A machine that makes stuff is different. A bakery isn't valuable because of the loaves sitting on the shelf today; it's valuable because it is a "machine" that can make bread tomorrow, and the day after, and for years to come. The bakery is worth far more than its current inventory.

Companies are sophisticated versions of that bakery. A consumer-products company is a machine that makes household goods. A software company is a machine that makes digital tools. A utility company is a machine that makes electricity. **Owning the machine means owning a slice of everything it will produce in the future — not just what it made recently.**

Owning productive businesses has historically been one of the most reliable ways to build wealth over long periods: you're not holding a pile of depreciating stuff, you're holding a machine that, with proper reinvestment, improvement, and maintenance, will continue working and producing for years to come.

2) Importance of Owning Stock

The past several years has seen the rise of a handful of new concerns for investors, from threats we hadn't seen in years such as inflation and global trade contention, to those we've just plain never seen like the impact of Artificial Intelligence.

Risks like these – especially ones we are less familiar with – understandably tend to make investors cautious. And when investors are cautious, they tend to consider volatility, and view equities as risky and cash and Treasuries as safe. Framing risk in this way, however, may be misplaced and costly

With many of the concerns we face today being potentially inflationary, it may be more prudent to instead frame risk in terms of long-term buying power.

If you invested \$100 in the S&P 500 roughly 100 years ago, it would have grown to \$2,245,066. Adjusting for inflation, however, your real value in terms of buying power has only grown to \$120,214 in 1926 dollars¹. Still a nice return.

Compare that to U.S. Treasuries, which would have grown to only \$595 in terms of buying power² (graphed logarithmically below for visibility).



From the chart, you can see that Treasuries would have protected you in the short-term during the Great Depression, but in the long run would have been extremely costly when trying to keep up with rising prices.

A dirty secret of the stock market is that a significant portion of returns are simply inflation. Inflation is the dollar dropping in value, and when stocks are priced in dollars, the amount of dollars a company is worth adjusts upwards to match the company's/machine's underlying, real world value.

While we think of our portfolios in terms of dollars, what we really own are the assets behind those dollars. This helps protect us from currency movements like inflation, because the value is in the asset/machine itself, regardless of what happens with the currency you price it in. This can be contrasted to other income streams, such as corporate bonds, Treasuries, and savings accounts, in which the value is derived from the future cash flows, and entirely dependent on currency valuation.

Similarly, if you are concerned about the threat of AI negatively impacting jobs and creating a top-heavy economy, you would likely be better positioned as an asset/machine owner, able to benefit from AI-driven productivity growth, than as a wage earner, subject to loss of income and declining value of that income. Please contact your advisor to discuss the impact this may have on you.

1) Based on the Consumer Price Index (CPI) per the Bureau of Labor Statistics, <https://www.bls.gov/cpi/data.htm>

2) Based on 10-year Treasuries.

3) Gambling vs. Investing: What's the Difference?

It's never been easier to chase a quick win. Gambling apps, prediction markets, and a growing universe of cryptocurrency exchanges surround us with gamification and the promise of fast, easy gains. It's worth remembering that gambling and investing are not the same thing.

Gambling is a game of chance — typically a short-term bet on a binary outcome. Investing is a longer-term strategy built around your financial goals, aimed at owning assets/machines that give you a claim on future cash flows and business performance.

Both involve risk, but they differ in four fundamental ways: ownership, expected return, time horizon, and how decisions get made. Investing is an informed, probabilistic approach to building wealth. Gambling is a chance-based activity with negative expected returns. Recognizing the difference is one of the simplest ways to protect yourself from financial harm and stay on track toward long-term security.

So if you find yourself worried about missing out on the latest hot IPO, tempted to dial your portfolio's risk up or down on every swing in oil prices, or anxious about how next week's interest-rate decision might move markets, it may be a sign you're focused on short-term noise instead of long-term strategy.

Here's what the long term actually looks like. The odds of a positive return rise the longer you stay invested.¹ Looking at any single month between 1928 and August 2025, the S&P 500 was positive about 62% of the time. Stretch that to a year and the figure rises to 75%. Over five years, 89%. Over ten years, 95%. And over any 20-year period, the S&P 500 has historically delivered a positive return 100% of the time. You simply can't say that about gambling.

If the daily noise has you second-guessing your plan, let's talk. We can help you tune out the speculation and refocus on the goals — and the decisions — that are actually within your control.

1 [How investing and gambling are not the same | Charles Schwab](#)

2 [Investing vs gambling: Key differences | CFA Institute](#)

4) Tax Forecasting

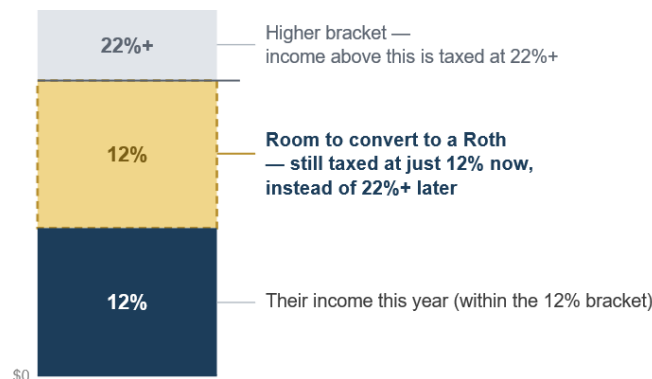
Taxes often feel like a once-a-year event. But by the time you file your return, most opportunities to reduce your tax bill have already passed. The key decisions happen throughout the year.

It's helpful to use a tax forecast, a forward-looking estimate of your taxable income, so you can take action before it's too late.

Consider this example: A couple retires at age 64, before claiming Social Security and before required minimum distributions from their IRA begin. Their income is unusually low that year, leaving significant room in a lower tax bracket. By strategically converting a portion of their traditional IRA to a Roth IRA during this window, they can pay taxes at the current lower rate rather than a potentially higher rate later when Social Security and RMDs increase their taxable income. Without planning, this valuable tax bracket "room" goes unused.

Filling the Bracket in a Low-Income Year

A Roth conversion can put the unused room in a lower tax bracket to work.



Hypothetical illustration. Tax rates shown are examples; your brackets and situation may differ.

This proactive approach informs many other important decisions, such as:

- Timing capital gains realizations (potentially at a 0% rate)
- Deciding when to claim Social Security or pensions
- Determining the optimal order for withdrawals from retirement accounts
- Strategically timing charitable contributions and required minimum distributions
- Avoiding unexpected Medicare premium surcharges

These financial elements are interconnected; a change in one area can significantly impact the others.

Your BKM Financial Advisor can analyze your investments, income sources, and current tax situation to develop a personalized tax forecast and timeline. Together, we can identify tailored strategies to optimize your financial outlook. Let's schedule a conversation before year-end.



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