

Celebrating 34 Years in 2022

Inflation and Growth

2022 Kick Off Newsletter

January 6, 2022

“Begin, be bold, and venture to be wise.”— Horace

I could not begin a financial review of 2021 without deviating first to sports for a moment to mention how proud I am as a former Bearcat football alumnus to see the University of Cincinnati in the final four for the National College Football Championship. Congratulations to Coach Fickell and the Bearcat team for an outstanding and historic year on the gridiron.

Now to the financial, a robust economy with rising wages and abundant jobs, coupled with increasing stock and housing markets, should make most Americans feel pretty good; but surging inflation, nationwide labor shortages, increased crime, a wide-open southern border, the seemingly never ending COVID-19 pandemic (and subsequent government response) and the disheartening and embarrassing withdrawal from Afghanistan have left many apprehensive as we enter 2022⁽⁵¹⁾⁽³⁹⁾⁽⁴⁰⁾⁽¹⁵⁾⁽⁹³⁾⁽¹¹⁶⁾⁽¹³⁾⁽¹³⁵⁾⁽¹⁵³⁾⁽¹⁶²⁾. Although we will not address the political issues identified above directly within this financial newsletter, it is important to point them out as it may impact business and consumer sentiment as well as policy objectives sought by politicians in the 2022 mid-term elections that may ultimately impact the financial lives of Americans.

From a financial viewpoint, we remain optimistic, expecting moderate growth in the economy and markets for 2022. We anticipate the inflationary environment to continue to increase through the first half of this year before beginning to recede by mid-year 2022 as Fed monetary policy continues to reduce quantitative easing (bond buying with printed money) and begins to increase interest rates. Economic growth and financial performance should derive more from fundamentals than government policy as in recent years⁽¹³⁾. Supply chain disruptions should begin to ease with more workers going back to work coupled with a global economic full re-opening as we head into the second half of 2022⁽¹³⁾.

Inflation and Economic Growth

After two years of government actions that impacted the economy and markets, initially to shut down the economy and subsequently by implementing massive stimulus through fiscal and monetary policy, 2022 is expected to be driven by long-term growth fundamentals as the most important driver of economic and financial performance⁽⁵⁾⁽¹⁶⁷⁾. Corporate profits are at an all-time high due in part to temporary government stimulus and spending⁽¹⁶⁷⁾⁽⁶⁹⁾⁽⁷⁶⁾. However, lower unemployment coupled with a lower worker participation rate and an increase in job openings may lower corporate earnings going forward as wages increase⁽¹⁶⁷⁾. Brian Wesbury, the Chief Economist at First Trust, believes corporate profits will decrease versus 2021 due to continued wage increases, but still expects 10% corporate profit growth in 2022⁽¹⁶⁷⁾. Worldwide economic growth is slowing as Central Banks begin to gradually reduce monetary stimulus⁽⁵⁾. The International Monetary Fund (IMF) is forecasting global growth for 2022 at 4.9%,

with the U.S. growth at 5.3%, 4.3% in Europe, and China at 5.6%⁽⁵⁾. However, economists at Capital Group believe the U.S. will grow near 3%, Europe 4.5%, and China much less than the 5.6% the IMF is forecasting⁽⁵⁾. WisdomTree Investments believes growth in the U.S. will be front loaded in the first part of 2022 at roughly 4%, then moderating back to 2.9% for the second half of 2022, while Transamerica and First Trust are predicting 3% GDP growth in the U.S. this year⁽⁶⁾⁽³⁾⁽¹⁸⁾. Vanguard expects U.S. GDP growth at 4%, Europe at 4%, China at 5%, and the emerging markets to advance 5.5%⁽³⁸⁾. Europe is experiencing energy shortages which may impact economic growth as 1) the transition to green energy sources has not been as reliable as originally projected, 2)

depleted energy inventories ensued, and 3) slow delivery of natural gas from Russia have all contributed to inflation within the energy sector⁽¹⁾⁽²⁾.

The COVID 19 “Omicron” is significantly milder and has presented with less symptoms and hospitalizations thus far than previous variants⁽¹⁷⁰⁾⁽¹⁶⁴⁾. The anticipated therapeutic pills from Pfizer and Merck, which treat COVID-19 after the onset of symptoms, should by mid-year be widely available which may decrease the COVID-19 impact on labor force⁽¹⁾⁽³⁾⁽⁷⁴⁾. Omicron appears to affect the lungs less than previous versions of COVID-19 and seems to be focused in the throat and nose of those infected⁽¹⁷⁰⁾. COVID-19 cases are at record highs, but deaths and hospitalizations are down as Omicron is more contagious and affects those vaccinated more so than previous variants but is milder⁽¹³²⁾⁽¹⁷⁰⁾⁽¹⁶⁷⁾. Sadly, the supply of current treatments for COVID-19 such as monoclonal antibody infusions, which are supplied to each state by the Federal government, are in short supply in many states⁽¹⁶⁸⁾. COVID-19 and the resultant state and federal mandates should have less significance on the lives of Americans during the next year⁽¹⁶⁷⁾.

The economists at Capital Wealth Planning - and the consensus view - believe the Federal Reserve Bank (Fed) may increase rates three times in 2022, each 25 basis points; plus they expect the Fed will end the quantitative easing program in the first half of 2022⁽¹⁶⁴⁾⁽¹⁶³⁾⁽⁶⁾⁽⁴⁰⁾⁽⁷⁷⁾⁽⁹²⁾. Economists at First Trust disagree that the Fed will raise rates three times in 2022, although believing they should, but predicting only two 25 basis point increases, citing the current dovish composition of the Fed Board⁽¹⁶⁷⁾. Economists at Morgan Stanley and Vanguard project the Fed will wait until the fall of 2022 to raise interest rates, although they acknowledge the Fed may be forced to act sooner if inflation continues to rise⁽¹⁶⁵⁾⁽³⁶⁾.

Keep in mind some inflation is good. The Fed attempts to target 2% inflation for the economy so that companies can increase prices, increase wages and enhance profitability⁽⁵⁾. Additionally, banks and commodities-related companies need some inflation as they struggle in a low-interest, low-inflation environment, plus healthy companies within those sectors are vital to a growing economy⁽⁵⁾. Without inflation a deflationary environment may develop which has been historically much tougher for Central Banks to successfully address⁽⁵⁾. Historically sustained periods of accelerated inflation are rare and when moderate inflation (below 6%) occurs, the stock and bond markets have performed relatively well with positive returns as posited by Capital Group⁽⁵⁾.

Supply chains should begin to normalize during the second half of 2022 as the excess demand from massive government stimulus diminishes, but chips for automobiles, smartphones and laptops are likely to be the last to fill backorders even with the expected enormous increases in production of these chips to meet demand⁽¹⁶⁴⁾⁽¹⁶⁷⁾. Business inventories are beginning to rise after dramatically declining in 2020 and the first half of 2021⁽¹⁶⁷⁾. Our economy is projected to move toward what is considered full employment, a 3% unemployment rate, by the end of 2022 assuming we experience modest economic growth in the U.S. and in the developed countries throughout Europe and Asia as our major trade ‘supply chain’ partners⁽¹⁶⁴⁾⁽¹⁶⁷⁾⁽¹⁰²⁾⁽¹²¹⁾. Keep in mind, labor shortages are inflationary by not only driving up costs, but they also restrict growth as the business is not running at maximum capacity⁽³⁹⁾⁽⁴²⁾⁽⁵²⁾⁽⁸⁹⁾⁽¹⁴¹⁾.

Geopolitical tensions are a wildcard that could disrupt global supply chains if frictions escalate past diplomacy such as China’s bullying of Taiwan and Russia’s threatening of Ukraine⁽¹⁶⁴⁾⁽¹³¹⁾. Either of these could cause short-term disruption in the markets and global supply chains; however, the fundamentals at present in the market and economy would be expected to prevail in the long-term⁽¹⁶⁷⁾⁽³⁾. A wildcard that is not discussed much is the potential for governments of non-authoritarian countries, which includes the U.S., through their political and monetary efforts, to overstep in their effort to direct economic activity to affect climate goals and social equality⁽⁹⁾⁽¹³³⁾⁽¹⁴⁷⁾. This may diminish the role markets play in the allocation of resources

thus the potential for supply and demand mismatches, inflation, and volatility within markets and economies⁽⁹⁾⁽⁹⁶⁾⁽¹²²⁾.

U.S. household wealth increased more than \$32 trillion since the beginning of the pandemic due to excess saving, equity investment gains, and home value increases⁽⁵⁵⁾. Additionally, the Fed has purchased over \$4 trillion in bonds as part of its quantitative easing program, plus Congress has provided more than \$5 trillion in relief for the pandemic to citizens and



businesses⁽⁵⁵⁾. The result has been ‘too much money chasing too few goods’, not to mention shortages created by the shutdowns to parts of the global economy, as well as the ensuing labor shortage due to paying workers not to work⁽⁵⁵⁾. All this worked to magnify inflation over the last year⁽⁵⁵⁾. You know the story, but how we get back to a normal inflationary environment is the task the Fed has in 2022⁽¹⁵⁰⁾.

The toughest challenge in the U.S. is inflation which is currently running at a high near 7% for the headline number, and a 5% core rate which excludes food and energy⁽¹⁶⁴⁾⁽¹⁰⁾⁽⁴⁶⁾. Inflation acts like a hidden tax as it decreases the amount of money a consumer has to spend and an investor has to invest (43). The surge inflation cost the average American \$3,500 in 2021 in additional expense as compared to what they would have spent in either 2019 or 2020 according to a Penn Warton University of Pennsylvania Budget Model analysis released on 12/19/2021⁽⁴⁴⁾⁽⁹⁰⁾. Inflation is here to stay for a while and has not been this high since 1982⁽⁹⁸⁾⁽¹⁰³⁾⁽¹²⁴⁾⁽¹⁴³⁾. Nothing proved temporary about inflation during 2021 as it continued to rise with Fed Chief Powell repeating that it was transitory and would subside, until it didn’t, then he stopped using the term⁽¹⁶⁵⁾⁽³⁴⁾⁽⁵⁶⁾⁽⁸⁸⁾⁽⁹⁷⁾. Economists at Capital Wealth Planning believe the projected path for inflation is to increase through spring and then begin to subside as the Fed becomes more defensive with interest rate increases and the tapering of quantitative easing⁽¹⁶⁴⁾. Economists at Capital Group and Vanguard believe it could take more time for inflation to begin to subside, possibly late in the year, but they do not expect inflation to get out of hand as we witnessed in the U.S. in the late 1970s and early 1980s⁽⁵⁾⁽³⁶⁾. Further, they believe inflation will remain in the 2%-4% range for the next few years once the current spike we are experiencing begins to subside⁽⁵⁾⁽³⁶⁾. The challenge for the Fed, as they work to stave off rising inflation, is how much to increase rates, and how fast, as they do not want to stall the economy by doing too much, too fast. Ultimately, they need to get inflation in check without stalling out economic growth, but some feel the Fed has already been behind the eight ball with this objective⁽⁴²⁾⁽¹⁰⁰⁾⁽¹¹³⁾.

Capital Group describes inflation as chewing gum; it is sticky and flexible⁽⁵⁾. The sticky inflation can stay around longer and includes categories such as rent, insurance and medical expenses which have experienced increases in 2021⁽⁵⁾. The flexible inflation includes such items as food, energy, and automobiles, and although flexible inflation has risen faster in 2021 than the sticky inflation, it tends to be more temporary⁽⁵⁾⁽¹⁵⁸⁾. Obviously, we will be monitoring the sticky inflation closely as we move into 2022, as we are presently at a 40-year high with inflation⁽⁵⁴⁾⁽⁵⁾⁽¹¹⁴⁾. There is some good news to report on the inflation front. The University of Michigan Survey of Consumers indicates that while demand for big-ticket items such as homes, large home appliances, and automobiles has remained strong, some consumers are choosing to wait for a better buying opportunity as they anticipate supply will catch up with demand and prices will stabilize or decline, and this may be significant in stopping inflation from accelerating further⁽⁵⁷⁾⁽⁸⁷⁾⁽¹⁴⁴⁾.

As we enter 2022, it is still possible that the President’s Build Back Better plan to increase entitlements and taxes gets passed in Congress but is stalled at present and appears unlikely⁽¹⁶⁷⁾⁽⁵⁾⁽⁷³⁾⁽⁷⁸⁾. The proposed Build Back Better legislation includes regulatory issues that may affect corporate earnings and has the potential to considerably affect economic growth over the next several years⁽³⁾⁽¹⁰⁴⁾⁽¹⁴⁸⁾. However, a smaller bill may be achievable early, but voting for tax increases later in a mid-term election year is a tough task, especially with inflation confronting voters⁽¹⁶⁷⁾⁽¹²⁵⁾. Brian Wesbury, the chief economist at First Trust, believes the mid-term election in November 2022 could limit the ability of the Biden Administration to get much done in the last two years of his Presidency if he loses a majority in either the House of Representatives or the Senate⁽¹⁶⁷⁾. Mid-term election history as well as the 2021 election returns in the Virginia and New Jersey as well as President Biden’s sinking approval numbers indicate this may be likely; thus no new tax increases, likely gridlock, and any new legislation enacted in 2023-2024 would have to be bipartisan to pass which may be favorable news for the market and economy⁽¹⁶⁷⁾⁽⁵⁾⁽⁴⁹⁾⁽⁹⁹⁾⁽¹¹⁰⁾⁽¹³⁶⁾.

It is estimated by Tim Wang of Clarion Partners, a leading real estate management firm with over \$65 billion in assets and Expertise in commercial and residential real estate, that the United States has a deficit of near 5.5 million single family homes and rental units with the consequent demand and lack of supply pushing up housing prices and rental rates⁽¹⁶⁶⁾⁽⁸³⁾. T. Rowe Price economists believe pent-up demand for housing in the U.S. should fuel new construction⁽¹³⁾⁽²⁶⁾⁽⁷⁹⁾. Migration across the U.S. is underway with work-from-home flexibility, families leaving metro areas on both coasts for affordable suburbs, and tax friendly climates⁽¹⁶⁶⁾. The demand for multifamily housing in such cities as Charlotte, North Carolina and Austin, Texas have increased dramatically, outstripping supply⁽¹⁶⁶⁾. By contrast, the U.S. has an excess of brick-and-mortar retail real estate and shopping malls due to increased e-commerce shopping⁽¹⁶⁶⁾. The demand for industrial e-commerce

warehouses and life sciences facilities, which are critical to gene therapy and vaccine innovation, are in high demand⁽¹⁶⁶⁾. Higher costs for construction materials are expected to continue, especially with the passage of President Biden's Infrastructure Bill and the expected increase in demand for project materials⁽¹⁶⁶⁾.

Markets

Despite supply-chain issues, the spread of COVID variants, historically high inflation, and the uncertainty of increased taxation, the Dow Jones Industrial Average ended the year at 36,338.30, up 19.05% for 2021⁽¹⁶⁴⁾. The S&P 500 ended the year at 4,766.18, up 27.22%, and the NASDAQ closed at 15,644.97, up 21.39% in 2021⁽¹⁶⁴⁾⁽¹⁶⁹⁾. However, it is important to point out that the preponderance of returns within each of these capitalization weighted indexes are coming from just a hand full of the largest mega-cap stocks⁽¹⁶⁵⁾⁽⁵⁾⁽⁸⁴⁾. Capitalization weighted indexes provide larger companies more weight within the index, as opposed to an equal weight index which provides equal weight to all companies within the index. The top ten companies within the S&P 500 Index represent 30% of the index, and in aggregate, the returns for these ten companies were roughly 46% in 2021⁽¹⁶⁵⁾. This market leadership is led by U.S. based internet related businesses in e-commerce, cloud computing and interactive media⁽⁵⁾. This may be important because history reminds us that when returns are coming from just a few mega-cap stocks versus the broad market it may portend a market downturn⁽⁵⁾. However, a look at the S&P 500 equal weight index for last year reveals a return of 29.63% which is slightly higher than the capitalization weighted index at 27.22%⁽¹⁶⁹⁾.

The Russell 3000 Index measures the performance of small, medium, and large stocks within the U.S. on a broader basis, and although it is a capitalization weighted index, the top ten holdings only represent 24% of the total index⁽¹⁶⁵⁾. It may be significant to note that although the index increased 25.66% during the prior year, more than 50% of the 3000 indexed companies dropped 20% from their respective highs during 2021 by the year end⁽¹⁶⁵⁾⁽¹⁶⁹⁾. To round out our review of the investable markets for 2021, the Bloomberg U.S. Aggregate Bond Index dropped -1.54% during 2021 while the MSCI EAFE International Index of foreign equities gained 11.78%, and the MSCI Emerging Markets Index fell -2.22%⁽¹⁶⁹⁾. The Wilshire U.S. Mid-Cap Equity Index increased 18.45% and the Wilshire U.S. Small-Cap Equity Index advanced 19.17% during 2021⁽¹⁶⁹⁾.

As we look forward to 2022, Goldman Sachs and JP Morgan have return expectations for the S&P 500 of between 5.5% and 6.5% for the year while others such as Morgan Stanley see the S&P 500 declining in 2022⁽¹⁶⁵⁾. Vanguard expects equities to advance 2%-4.5% in 2022⁽³⁸⁾. However, First Trust is more bullish based on their Capitalized Profits Model and predicts a 10% return for the S&P 500 in 2022⁽²¹⁾. Blackrock believes global stocks will deliver positive returns with global bonds delivering slightly positive to slightly negative returns for 2022⁽³⁴⁾. Historically during mid-term election years, equity returns are lower than the historical average plus markets tend to be more volatile than non-election years, especially in the first several months as political uncertainty and political noise generates a lot of attention⁽⁵⁾. Charles Schwab recommends diversification and rebalancing of portfolios, especially across and within equity asset classes, may be essential for investors coming off a strong year for equities in 2021, as we begin the New Year 2022⁽¹¹⁾.

"There will come a time when you believe everything is finished; that will be the beginning" –Louis L'Amour

Infrastructure in the U.S.

The American Society of Civil Engineers has given the U.S. a "C" grade for the current state of our infrastructure⁽⁵³⁾. The need to modernize U.S. infrastructure may seem obvious to Americans as we live, work and travel our beautiful country. However, we may have taken the first step toward moving our report card up a notch, as Congress passed and President Biden signed, the bipartisan \$1.2 trillion "Infrastructure and Investment Jobs Act" on November 15, 2021⁽¹⁷¹⁾. This legislation includes \$650 billion for already allocated funding for infrastructure projects⁽¹⁷¹⁾. The legislation also includes \$550 billion for twelve new spending priorities, including roads and bridges (\$110 billion), power grid (\$73 billion), railways (\$66 billion), broadband internet (\$65 billion), drinking water (\$55 billion), resilience and climate change (\$50 billion), airports and waterways (\$42 billion), public transit (\$39 billion), environmental protection (\$21 billion), transportation safety (\$11 billion), electric vehicles (\$7.5 billion), and electric buses and ferries (\$7.5 billion)⁽¹⁷¹⁾.

Critics of the newly enacted Infrastructure and Investment Jobs Act focus on the details of each part of the legislation that

include 27 pilot programs aimed at future control of the transportation system, including what people drive, vehicle-to-grid 5G technology with tracking and kill switches installed, access to transportation with a per-mile fee, and the expansion of light rail, autonomous vehicles, electric buses and truck lines, all directed to reduce traffic and reduce carbon emission on the roads⁽¹⁷¹⁾⁽¹⁵⁵⁾⁽¹⁵⁹⁾.

China

China is experiencing an oversupply of housing at present due in part to highly leveraged property developers⁽¹⁶⁶⁾⁽⁷⁰⁾. The resultant collapse of Evergrande, one of its largest real estate developers, has reverberated throughout its economy⁽¹⁶⁶⁾⁽⁷⁰⁾. To counter the economic impact, China is redirecting capital into other sectors, such as high-tech manufacturing, to increase GDP and avoid stagflation⁽¹⁶⁶⁾⁽³⁹⁾. This is important because real estate is roughly 29% of China's GDP, unlike the U.S. and Europe in which real estate is 15-18% of GDP⁽¹⁶⁶⁾. Additionally, Chinese household net worth is 70-80% invested in real estate, as opposed to U.S. households which generally hold 25% of net worth in real estate⁽¹⁶⁶⁾.

Capital Group and Vanguard economists believe the China's growth may slow dramatically in 2022 below the consensus 5.6% rate forecasted by the IMF for three reason: first, credit is tight in the real estate market due to the housing oversupply⁽⁴⁾⁽⁷⁰⁾. Second, consumer confidence has not recovered from the COVID-19 outbreak, income growth has stalled in the lower-middle class, and retail sales growth has slowed with anticipated tax increases that are expected to hit the upper middle class as part of the government's Common Prosperity agenda⁽⁴⁾⁽¹⁾. Third, industrial profits have declined with the excess capacity in steel due to the housing crisis⁽⁴⁾⁽¹³⁴⁾⁽¹³⁹⁾. The Chinese government has options, but they are limited as the national debt, not counting the estimated hidden debt from official government disclosures, is estimated at more than 100% of GDP and rising⁽⁴⁾.

The Chinese government can lower interest rates as the current benchmark rate is 4%, but that may stimulate the part of the economy they are attempting to divert funds away from, the real estate and infrastructure sectors where oversupply and leveraging have adversely affected the Chinese economy recently⁽⁴⁾. Capital Group believes the current CCP General Secretary, Xi Jinping, is willing to take the short-term pain of lower growth for the private sector for their long-term strategic objectives for electric vehicles, environmental protection, semiconductor production and defense weapons to achieve their long-term goal to be the strongest nation and with the most advanced technology by 2035-2040⁽⁴⁾⁽¹⁶³⁾⁽⁷⁰⁾⁽⁷¹⁾⁽⁷²⁾⁽¹²⁷⁾.

Electric Vehicles

Jonathan Curtis from Franklin Templeton's equity group describes electric vehicles (EVs) as "brilliant smartphones on wheels" that are attracting capital not only in new EV manufactures such as Tesla, but traditional carmakers that are transitioning to EVs and aggressively investing into battery technology, such as General Motors⁽¹⁶⁶⁾. Additionally, capital is moving into innovation and technology that play a role in these new EVs, such as software subscriptions for autonomous driving and broadband access⁽¹⁶⁶⁾. It is a tough call for most traditional internal combustion engine manufacturers to transition to EVs, even though the future of gas engines seems may be on the decline, because the profitability for gas-powered vehicles has never been higher than at present⁽¹⁶⁶⁾. Traditional car manufactures must gage the pace of transformation to EVs so they can be competitive with innovation that consumers will want, while also remaining competitive and profitable in the traditional gasoline-powered market at present⁽¹⁶⁶⁾.

Student Loan Debt

Nearly 43 million people have student loan debt in the U.S., and 35 million qualified for the CARES Act student loan payment freeze which began in March of 2020, and extended multiple times including the December extension, until May 2022⁽⁶²⁾⁽⁶⁴⁾. For those displaced by the COVID-19 shutdowns it was a lifesaver, and for those who could otherwise make payments it allowed them to take advantage of saving and to pay down other debt⁽⁶²⁾⁽⁶⁴⁾. With the total amount of student loan debt outstanding at \$1.59 trillion, two recent surveys sheds light on the borrowers' plight and potential for default on these loans⁽⁶⁴⁾⁽⁶²⁾. The Student Debt Crisis Center surveyed more than 33,000 student loan borrowers with 88% revealing they will have trouble making payments once they resume, and worse, 21% say they will never be able to make payments⁽⁶²⁾. TIAA published a survey of 800 borrowers who qualified for the CARES Act loan freeze with 95% saying they will have difficulty making



payments once they resume, but the most shocking is 57% of respondents in the survey have balances that exceed \$50,000, and roughly 25% have balances that top \$100,000⁽⁶²⁾.

In addition to the CARES Act student loan payment freeze, Congress has stepped up to assist in two ways for borrowers: first, employers can provide employee student loan re-payments on a tax-free basis up to \$5,250 per employee per year until 2025 as part of their employer tuition assistance programs⁽⁶⁴⁾⁽⁶²⁾⁽¹¹⁸⁾. Second, the Public Service Loan Forgiveness program which was enacted in 2007 under the President George W. Bush Administration and recently enhanced and simplified under the President Joe Biden Administration, is a promise to provide debt relief to support the teachers, nurses, firefighters, and others serving their communities by cancelling loans after 10 years of public service⁽⁶²⁾⁽⁶⁴⁾⁽¹⁷²⁾. To qualify under the program, a worker needs to be employed full-time for ten years at a Federal, state, local or Tribal government organization, or a 501(c)(3) organization, or a not-for-profit organization that provides specific public services, such as public education or public health and make minimum payments on their government loans (The Direct Loan Program, The Federal Family Education Loan Program, and the Federal Perkins Loan Program)⁽⁶⁴⁾⁽⁶²⁾⁽¹⁷²⁾.

Happiness in Retirement

Michael Finke, a professor of wealth management at the American College of Financial Services and a researcher in the areas of retirement spending, life satisfaction and cognitive aging, has conducted the “Health and Retirement Study” from 1994 through 2018 of 20,000 retirees and has determined there are three core elements he calls the “Three Pillars of Life Satisfaction in Retirement”⁽⁴¹⁾. The first pillar is money, although it is only significant in as much as you have enough to do what you really want to do in retirement and to accomplish the goals you have set forth⁽⁴¹⁾. The second pillar is the relationship you have with your spouse, family, friends and community, and the third pillar is health⁽⁴¹⁾.

Dr. Finke stresses that each of these three pillars requires an investment during your working years to best ensure that each of these pillars are foundational in retirement⁽⁴¹⁾. To illustrate, during your working years it is vital to invest a portion of each dollar earned to provide the necessary increasing income stream needed in retirement, to invest in your health through lifestyle, diet, and exercise to live healthier in retirement, and lastly, to invest time with your spouse, friends, family and community to add depth to your relationships in retirement⁽⁴¹⁾. Buying a new car, new home, joining a country club, or any big-ticket expense was only a source of happiness if it strengthened one of the three pillars⁽⁴¹⁾. As an example, if you join a country club and get involved with new friends, or if you buy a new home to downsize and it increases financial position, or if you move to warmer climate for health, these may provide happiness because each strengthen one of the three core pillars to retirement happiness, or so the study findings indicate⁽⁴¹⁾.

Unhappiness in retirement may stem from any one of the above pillars lacking strength, but the number one finding in Dr. Finke’s study for unhappiness in retirement was an adult child failing to launch fully and in need of financial support⁽⁴¹⁾. A surprising finding in the study was that your relationship with children, even on a close and frequent basis, was not a greater source of happiness than relationships with your spouse and peer friends⁽⁴¹⁾.

LW GamePlan

Our **Leshnak Wealth Portfolio Models** are not immune to declines in global markets nor do we have a crystal ball, but neither do any of the market analysts and forecasters. Our belief is that our LW Portfolio Model construction has positioned us for potential resilience in most environments and situates the portfolio to possibly take advantage of market mispricing. We see no need to change course or modify the overall asset class allocation due to market corrections, or sudden market shocks unless a fundamental change in the underlying outlook for the domestic or global economy has diminished or brightened verses our expectations. As the ancient Buddhist proverb states “If we are facing in the right direction, all we have to do is keep on walking”. Corrections and pullbacks can be expected to last shorter periods on average compared to the bull markets they take reprieve from, as the greed present turns to fear and shakes out those investors who are not fundamentally based in their convictions.

The **LW Portfolio Models** are globally diversified and strategically constructed with core equity positions in small, medium, and large cap equities, each straddled by momentum-based and value-based investment positions. We believe



adding momentum-based investment positions using technical analysis offers the opportunity to allow current market trends to play out while also providing the flexibility to potentially reduce exposure when market trends retreat. We also believe adding value-based positions puts us in the position of the “turtle”, in the proverbial tortoise verses the hare scenario, over the long-term with equities. Value-based investment involves buying securities whose shares appear underpriced by a form of fundamental analysis. Additionally, we believe that by combining value and momentum strategies across diverse markets and asset classes may result in significantly higher risk-adjusted rates of returns based on the academic research conducted. Lastly, we prescribe dividend yield from all our equity investment positions so that no matter what markets are doing day to day, we have dividends continuously coming into the portfolio. Our fixed income blueprint for the portfolio consists of allocations to core domestic, foreign core, strategic investment grade, inflation protected, and high yield bonds. Overall, we evaluate investment positions in seven asset classes including domestic equities, foreign developed stocks, foreign emerging market equities, domestic bonds, foreign bonds, cash equivalents, and alternative assets such as real estate, commodities, gold, natural resources and infrastructure for inclusion within our overall asset allocations. How much of each asset class, if any, we hold in these asset classes is based on your unique risk tolerance, financial resources and personal goals and objectives.

As your financial fiduciary, the Leshnak Wealth team cares deeply about your financial well-being and will monitor for rebalancing opportunities that may add value to your portfolio, or to be defensive as conditions might warrant. We know that as your advisor, the trust you bestow upon us is built and maintained on three pillars; doing what we say we will do, assisting with planning for and achieving your financial independence, and providing unbiased advice with your best interest at the forefront. As always, please call with questions or if you wish to discuss your specific portfolio in greater detail.

–Bob Leshnak, January 6, 2022

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