September – October 2023

Money Moxie®

5 Acts
of the Economic Play

SMEDLEY FINANCIAL SERVICES, INC.®

Trusted Since 1982

Guessing Your Way Through Retirement

Few financial planning areas carry as much weight as retirement planning. Setting yourself up for a comfortable retirement is the culmination of years of hard work, discipline, and smart financial decisions. However, a rather alarming statistic has recently come to my attention: Forty-three percent of workers guess how much they need to retire rather than basing it on current expenses or using a retirement calculator.

At Smedley Financial, where we specialize in retirement planning, this statistic is not just a number; it's a concern that warrants a closer look.

Retirement should be a time of relaxation and enjoyment, free from the worries of financial instability. Relying on guesswork to determine how much one needs to retire can lead to unexpected and unpleasant surprises. It's akin to setting sail without a compass – you might drift aimlessly or, worse, find yourself in treacherous waters.

Why do so many workers opt for guesswork over a more calculated approach? One possibility is the need for more financial literacy. Understanding how to calculate your retirement needs can be daunting, and many people simply don't know where to start. That's where a trusted financial advisor can provide invaluable guidance.

Another reason could be procrastination. People often underestimate how much they'll need in retirement, thinking they can always save more later. However, time flies, and the sooner you start planning, the better prepared you'll be.

We firmly believe in the power of precision when it comes to retirement planning. By assessing your current expenses, factoring in inflation, considering your desired lifestyle in retirement, and accounting for potential healthcare costs, we can develop a tailored retirement plan that puts you on the path to financial security.

Guessing your way through retirement planning is akin to steering a ship in a storm without navigation. To ensure a smooth voyage, it's essential to consult a financial expert and take a proactive approach to securing your financial future. We provide the expertise and guidance you need to help you retire confidently. Please don't leave your retirement to chance; let's chart a course together to help you set sail on a comfortable retirement.

Mikal B. Aune, CFP®
VP of Wealth Management

Upcoming Podcasts

SFS releases new Power Up Wealth podcasts on timely and timeless financial principles. In the coming weeks, we will be doing a deep dive into each article written in this newsletter. Subscribe wherever you get your podcasts or listen at SmedleyFinancial.com.

Am I Going To Be Okay?
Part II

By Parker Thompson

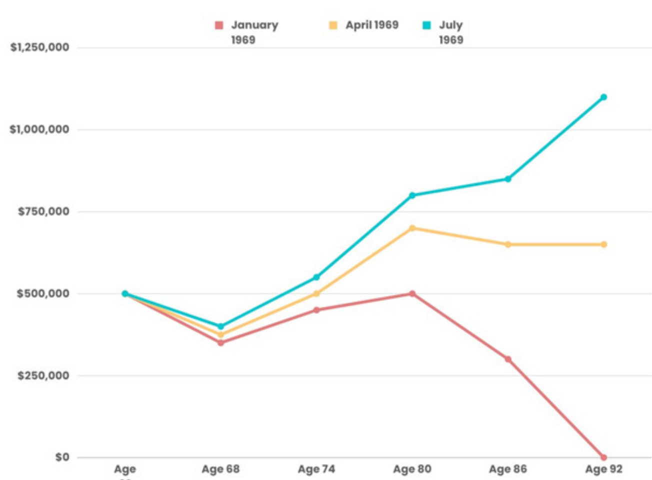
In this series, we are exploring the financial risks retirees must navigate. In Part 1, we explored bear markets and the sequence of returns risk.

Predicting your first 5-7 years of retirement is impossible, especially with investment markets. Planning to retire at the perfect moment is naïve, considering all the black-swan (unpredictable) events that we have no control over.

Timing of Retirement
Let's start with an example that shows an astounding disparity between three hypothetical individuals who retired at different times.

Three people retired in 1969, one in January, another in April, and the last in July. How did their nest eggs fare over the next 30+ years? (These retirees faced a decade of high inflation, which echoes our recent struggles with inflation.)

One retiree runs out of money, one maintains, and one has a portfolio that grows. Keeping all else equal, like distributions and inflation rates, the only difference is the time when they retired. Even three months can make a huge difference.



The Power of Losses
Losses can be more powerful than gains. It takes a larger return to recover from a loss. For example, a 10% loss needs an 11% gain to recover. A 25% loss requires a 33% gain. And a 50% loss needs a 100% return to get back to even.

This problem is exacerbated when adding distributions to the mix, which is the case for retirees. A 20% loss without a distribution (meaning you are not taking out any money) needs 25% to recover. With a 4% annual distribution, at least a 56% return is needed to get back to even. A 5% distribution rate requires a 67% return.

Many retirees do not have a choice when taking out money because the IRS mandates a required minimum distribution at a certain age. This usually equates to about 4% of tax-deferred assets.

Inflation
Many people call inflation the "silent killer" because it is not the first thing we think of as a risk to lifestyle. Over the long run, though, this can ruin a retirement plan.

Inflation has been included in all our examples thus far and should be a part of every financial plan. Inflation is a rise in the cost of living every year.

If inflation is at 2-3% and you earn 7-8% annually in your portfolio, you are keeping up. The difference is a real gain. However, if inflation gets up to 7%, 8%, or 9%, like we saw last year, it is hard to keep up. You will likely burn through your money faster and risk running out of money too soon.

Knowing that we depend on that income in retirement can be a little scary. We prefer that it grow and sustain us throughout retirement. Crucial measures need to be taken in a well-drawn-out plan. That is exactly what we do here at Smedley Financial, and we'd be happy to sit down and explain the nuts and bolts to you in person.

Tune in for Part 3 in the next newsletter.

5 Acts
of the Economic Play

By James R. Derrick, CFA®

Starring

The Federal Reserve — U.S. Presidents — U.S. Senators and Representatives — American Consumers
Stimulus Induced Demand — Supply Shocks — Inflation — Interest Rates — De-Globalization — Savings & Debt

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The modern world works tirelessly to shape natural cycles into linear progress. Finance is no exception. The U.S. government has increasingly sought to control economic cycles. Intervention seems successful but brings a host of unintended consequences.

Traditional cycles are illustrated with four acts. Our act, "Party On!," is a rare addition. It places emphasis on the necessity of unpredictability. In real time, no one knows with certainty how quickly we will move ahead in the story. When too many actors skip ahead, the cycle can stall for months or even years. It moves on when everyone and everything have played their roles.

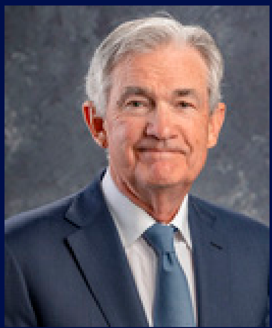
Like "The Boy Who Cried Wolf," the story progresses with several false alarms–some positive and some negative. Then, the final surprise. The difference here is that our story never truly ends. It starts over with a new life and greater opportunity.

Act I
Send Out Invitations

The government borrows and spends. More money circulates in the economy. Low rates encourage innovation. The struggling economy finds positive momentum. The act begins with doubt and ends with optimism.
(Examples: 2003, 2009, 2020)

Act II
Get This Party Started

Everyone, including the government, should pay down debt and save extra. Some do. Most increase spending. All are disappointed when the prices of goods and services go up. It ends when the Federal Reserve (Fed) acknowledges inflation.
(Examples: 2004, 2011, 2021)



Act III
Take Away the Punch Bowl

The job of the Federal Reserve is to take away the punch bowl just as the party is getting started. When inflation gets too high, it does just that. The Fed raises short-term interest rates. Beware if these move above long-term rates, but do not panic and aggressively buy bonds. Act III ends when something breaks (or almost breaks), and the Fed blinks.
(Examples: 2006-2007, 2022-2023)

Act IV
Party On

The Fed becomes less aggressive, and inflation creeps up again–a little or a lot. This makes bond investors nervous. Some sell, and long-term interest rates rise back above short-term rates. It looks like a "soft landing." This act can last months and can be surprisingly good for stocks, but it is too early for bonds. Act IV ends with higher commodity prices and higher interest rates.
(Examples: 2008, 2023)

Act V
Clean Up and Start Planning

Long-term rates are finally getting close to short-term rates. Higher rates slow the economy. Unemployment rises. Lessons are learned. This may be a good time to buy bonds as rates come down and we start planning for Act I again.
(Examples: 2008, 2024?)

Cycles Happen. Embrace Them.

Americans have endured 50 recessions since the founding of our country. That is approximately one every five years. In recent decades, we have stretched the periods of growth out, but I do not believe we can remove the cycle or control it perfectly. We have lessons to learn, both personally and as a nation. Perhaps it would be better to accept the inevitability of these cycles and embrace the opportunities they present.

The United States currently finds itself in Act IV. The end of Act III came with the British crisis of October 2022 and the banking crisis of March 2023. Both had a significant impact on government action. They led the Fed to pause quantitative tightening (removing money from financial markets) and slow interest-rate hikes. The U.S. government tried skipping ahead to Act I with stimulus in mid-2023. So, we find ourselves stuck in Act IV. We will stay here until long-term interest rates rise. We should be watching inflation as it may be the catalyst for rising rates. If we are wise, our nation will cut its deficit when inflation is high. We see the opposite.

In the end, we will find ourselves at the beginning. If we handle it correctly, we will have improved our national, corporate, and personal finances. We should emerge wiser and stronger. ***We may even learn that the only thing scarier than completing the cycle would have been not completing it.***

*Research by SFS. Data from the Federal Reserve Bank of St Louis. Investing involves risk, including the potential loss of principal. The S&P 500 index is widely considered to represent the overall U.S. stock market. One cannot invest directly in an index. Diversification does not guarantee positive results. Past performance does not guarantee future results. The opinions and forecasts expressed are those of the author and may not actually come to pass. This information is subject to change at any time, based upon changing conditions. This is not a recommendation to purchase any type of investment.

The Global Reserve Currency and De-dollarization

Part 3

By Jordan R. Hadfield, CFP®

Part 1 and Part 2 can be found on our website and in previous issues of the SFS Money Moxie.

Since 1944, the United States dollar has officially been the world's reserve currency. With the recent weaponization of the dollar, the rise of inflation, and our government's ever-growing national debt, some believe the world economy will crown a new global currency. Is de-dollarization truly a threat, or is it merely fear-driven speculation?

What qualifications must the issuer of the global reserve currency have?

It is not easy to become the issuer of the world's reserve currency. Although many countries are fighting for the opportunity, most of them fail to meet the lowest possible standards to even be mentioned in a superficial conversation on the subject.

A reserve currency is crowned collectively by the governments of the world. Because the issuer of the global currency plays an enormous part in global economics, reserve currency status is taken very seriously. Characteristics required to hold reserve currency status include:

- **The government must be a trusted power among world leaders.**
- **The country must have a strong military and advanced defense capabilities.**
- **The country must have deep and liquid bond markets.**
- **The country must have a long history of stable currency operations, capable of handling trillions per day in trade.**
- **The country must have a stable and trustworthy banking system, capable of handling several hundred thousand transactions per second.**

The countries of the world that check all these boxes can be counted on one hand. China, Russia, and every country in the Middle East are not among them.

Economic Sanctions and Dollar Weaponization
In an effort to coerce a change of behavior, an economic power can levy sanctions against the government, citizens, or businesses of another country. Sanctions come in a variety of forms and can include things like freezing financial assets, preventing international trade, and restricting access to central banks.

Countries opposed to the United States often find themselves between a rock and a hard spot. If they wish to have access to the global reserve currency, they must abide by the international laws imposed by the West. This method of control is viewed unfavorably by the enemies of the Western world. They would love to create a system that allows them to act without economic consequences. However, that is not a system that world governments will support.

The United States, Europe, and other G7 allies have recently issued crippling sanctions against Russia due to their invasion of Ukraine. This has severely impacted the Russian economy and has forced them to find ways to trade in a currency other than the U.S. dollar.

The BRICS Alliance
Brazil, Russia, India, China, and South Africa are an informal group of emerging markets that are seeking to establish greater ties between their nations to stimulate economic expansion and increase trade. Argentina, Egypt, Ethiopia, Iran, Saudi Arabia, and the United Arab Emirates have all recently been invited to join the alliance.

Some have speculated that the BRICS countries are moving to replace the dollar. With Russia's current inability to use the dollar, their motivations are clear and pressing. Other BRICS countries would love to replace America as the global financial powerhouse, but none of these countries meet the qualifications to issue the reserve currency.

Leslie Maasdorp, the vice president and CFO of the New Development Bank, a financial institution created by BRICS, recently stated that "there are no current plans to create a common currency."

Currently, the BRICS only account for 16% of all global trade, with over half of their trade reliant on the U.S. dollar.

Digital Currency Takeover
There is a tremendous amount of false information and speculation regarding digital currencies. This bad information drives two extremes: fear and high-risk investment. Although both government and private sectors are researching the possibilities and benefits of digital currencies, there are no plans to replace banknotes. The need for physical currency remains high.

Much of our financial system is already digital. However, some of the underlying technology is pre-1950. The use of newer technologies, including a digital currency, could improve efficiency and reduce transaction costs. The government is not trying to take over the banking system or control private assets. It is attempting to develop technologies that will run alongside our physical currency to improve our financial system. Cash will not be eliminated anytime soon.

Conclusion
All current data points to a strong U.S. dollar in the global economy. In addition, there are no viable reserve-currency alternatives. Fluctuations in the dollar's strength are normal, but de-dollarization is not a major concern. The dollar will eventually be replaced, but for now, it is the uncontested king and will rule for many years to come.

Your SFS Team

Smedley Financial Services, Inc.® is an independent registered investment advisory firm. We work for our clients. Our wealth managers have the flexibility to implement our financial plans, retirement plans, and income distribution plans using strategies that work toward each client's needs and goals. We work with individuals, businesses, and family estates. We provide financial solutions for your life.

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- Managed Accounts
- Indexed Investing
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Stocks and Bonds
- Alternative Investments

Family Protection
- Term Insurance
- Whole Life Insurance
- Universal Life Insurance
- Variable Universal Life Insurance

Retirement
- Social Security Maximization Strategies
- Medicare Supplement
- Guaranteed Income (Annuities)
- Lifetime Income Planning

Disability (Injury)
- Short-Term Disability Insurance
- Long-Term Disability Insurance

Elder Care
- Long-Term Care Insurance
- Hybrid LTC

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- 401(k) Plans

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