September – October 2022

Money Moxie®

Positional Advantage

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Economic Cycle Shows America Is Moving Forward

"In this world, nothing is certain except death and taxes." This famous quote from Benjamin Franklin excludes another certainty that I have observed: economic cycles. Right now, many Americans are in a bad mood. Inflation is at generational highs, and confidence is approaching recessionary levels. And now the values of homes are beginning to fall. This is all normal.

At the recommendation of a good friend, I have been reading *Boom and Bust* by William Quinn and John Turner. The authors explore speculative cycles in world history. Many of us are familiar with the Dutch Tulip Mania and the South Sea Bubble. Of course, we lived through the dot-com bubble. I want to bring our focus to the powerful lessons of the British bicycle craze.

The bicycle was invented in Germany around 1817. In the beginning, it was heavy, slow, and dangerous. One early model was known as "The Bone Crusher." However, by the 1880s, technological improvements had made it fashionable, especially among British women.

Steel manufacturing made the bike frame lighter and stronger. Chains made it possible to move at higher speeds with smaller front tires. Smaller front tires made crashing less dangerous, and pneumatic tires made the ride much smoother. In 1890 alone, there were 595 patents in England for bicycle manufacturing, and by 1896, there were 4,269—representing 15% of all new patents that year.

In 1895, 70 bicycle-related companies existed. By the end of 1896, there were 363. In the first 6 months of 1897, another 238 were founded. Many were available to investors on local stock exchanges. It seemed impossible to comprehend the limitless era of growth coming in the industry.

The bubble deflated in 1897 like a punctured tire. Of the 141 companies with stock available to the public, only 21 made it through the next decade. While some investors suffered significant losses, the world benefited. The bicycle we ride today is very similar to that designed by the British in the 1890s. The technological improvements were an integral step toward inventing the motorcycle, the automobile, and the airplane. A few of the surviving companies went on to be manufacturing leaders in those industries. And one, Raleigh, still makes world-class bicycles today.

The end of a cycle can be painful, and we are experiencing it right now. However, progress endures. Currently, the Federal Reserve is making sure we get a slowdown to bring inflation down. It has all the tools it needs, and it will succeed. It is all part of the process of innovation and creation. We should get through it better than we were before the previous cycle began.

James

James R Derrick, CFA®
Chief Investment Strategist

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. So please tune in to learn more and to get to know our experts at SFS. Subscribe wherever you get your podcasts or listen at SmedleyFinancial.com.

Positional Advantage

By Jordan R. Hadfield, CFP®

I love the game of chess. For more than a millennium, the game has challenged and inspired those who study it. Chess requires not only evaluation and calculation but also visualization and creativity. Of the three phases of the game, I believe the opening is the most impactful, and this is the phase where you establish your position.

Retirement planning is a lot like the game of chess. Both require planning for the long-term while navigating short-term threats. Both depend on a good strategy, ingenuity, and ongoing analysis. And if you end up with a bad position in either chess or retirement, you will discover that you have no good options.

I often hear people say, "I'm close to retirement and want to protect my investments. I should therefore change my allocation to conservative." This decision may create more problems than it prevents. It is not unlike a chess player saying, "We have entered the endgame, and I am winning. I will therefore take my queen off the board to protect her."

What needs to be understood about stocks, or market risk, is that it is your most powerful piece. If used properly, that piece can provide significant protection. If that piece is removed from the board, minor threats can become major. On the other hand, too much exposure to market risk can result in short-term threats pressuring checkmate, and retirement is a game you can't afford to lose.

The two main threats to a retiree's portfolio are inflation risk and market risk. Interestingly, conservative investments decrease market risk, and market risk decreases inflation risk. In other words, to reduce your total risk exposure, you must maintain a properly balanced portfolio. Removing one risk entirely only increases the other, which can lead to disaster.

So how does a retiree properly position their portfolio? The strategy that we believe is superior to all others is called Income for Life. It exposes assets to market risk based on the time horizon. Short-term assets that will be used within a five-year period have little to no stock market risk. This portion of your portfolio offers protection from downturns in the stock market but does not protect against inflation.

Money that is not needed for more than five years can tolerate more volatility. We introduce these assets to slightly more market risk, which reduces inflation risk. Money that is not needed for more than ten years can safely withstand greater market risk still. This portion of your portfolio has a higher growth objective, further reducing inflation risk.

By dividing your portfolio into segments based on time horizon and then investing those segments to achieve different goals, we can help keep you in a great position throughout retirement. We believe this is the best way to significantly reduce both overall risk and your chances of being checkmated.

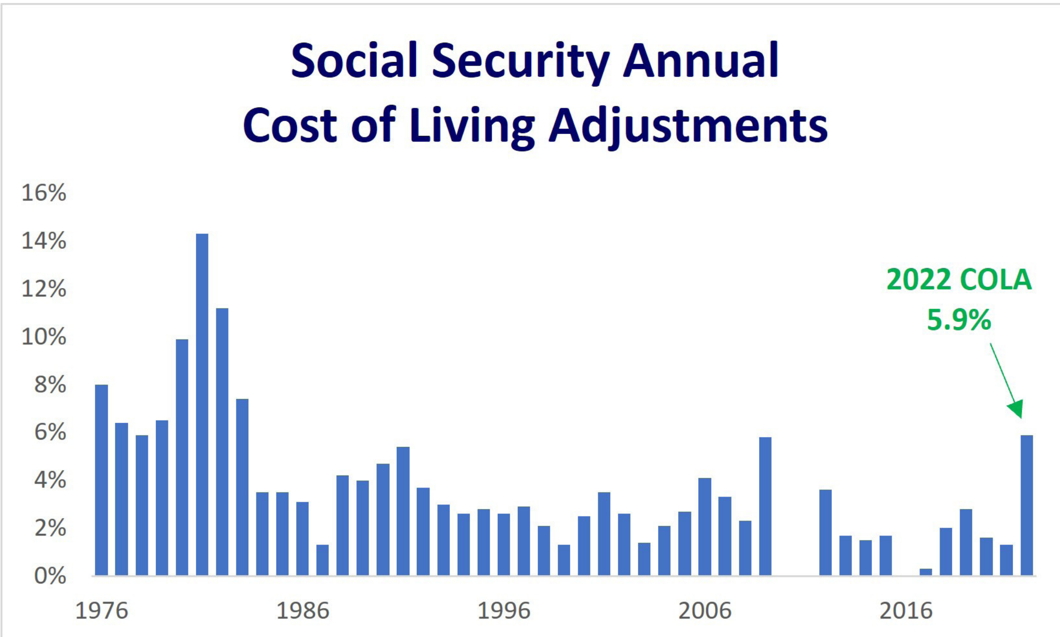
For a more in-depth conversation about Income for Life, watch for a new episode of the Power Up Wealth podcast titled "Positional Advantage" in the next few weeks.

Keeping Up With Inflation

By Sharla J. Jessop, CFP®

Social Security cost of living adjustment (COLA) for 2023 is expected to be a big one. In fact, it will likely be the largest increase in more than 40 years. This is welcome news for anyone who is relying on Social Security benefits.

While the official COLA, announced by the Social Security Administration, will be released in October, it is anticipated to be upwards of 8%. The exact amount is based on a calculation that includes the 3rd quarter CPI-W – not available until October 13th.

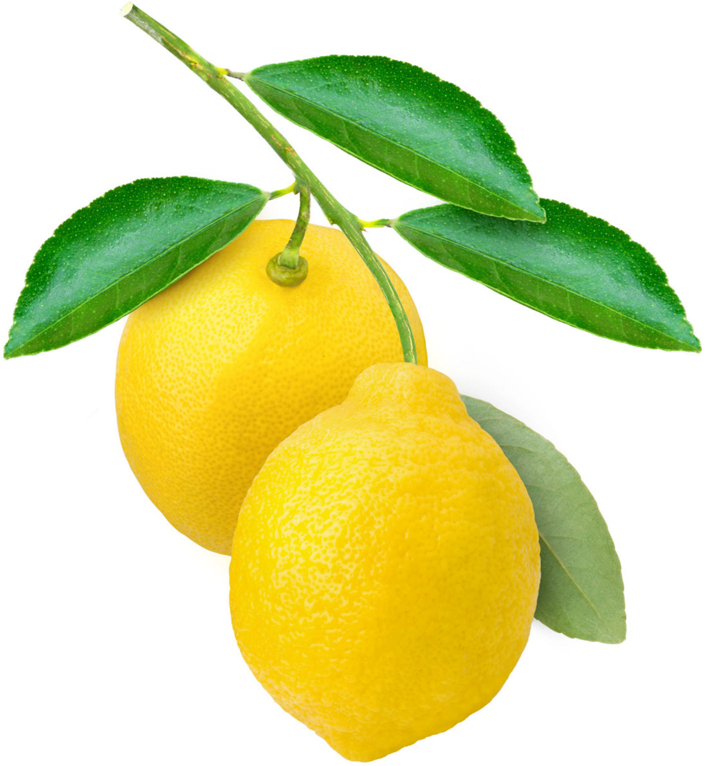


Although the large COLA sounds like a boon, it will merely cover the increased cost experienced by seniors. Inflation is impacting everyone, but those living on fixed incomes, such as Social Security, are hit especially hard. Food alone has increased 11% (eating at home). If you are eating out, prices have increased 13%. The cost of medical care, which is used more as we age, has increased by 6%. Unlike someone who is working and will get pay increases over time, seniors receive incomes that are locked in and do not always increase. As the costs to cover life's necessities edge up, it becomes more challenging to maintain a comfortable standard of living.

Fortunately, Social Security is designed to keep pace with inflation. As inflation goes up, so will benefits. Increases are determined based on an average of the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), a subset of the Consumer Price Index (CPI).

The chart above shows the annual Social Security COLA over the past 46 years. While the anticipated 2023 increase seems huge, during the early 1980s, when inflation was high, there were years when the Social Security COLA exceeded 11%. Conversely, there were years following the Great Recession when we were facing no inflation, and there was no increase in benefits.

Workers looking to retire are contemplating the best time to begin their Social Security benefits. The answer is complex and determined by many factors specific to their financial situation. The upcoming COLA is so large that it introduces a new variable for those about to reach full retirement age. Once the benefit stream begins, it is locked in and cannot be changed. You want to get this right. For this reason, it is vital to understand your options. Our wealth management advisors can assess your situation and create a plan to help you maximize your Social Security benefit.



The Power of Tax-Loss Harvesting

By Mikal B. Aune, CFP®

Stocks have been on a roller coaster ride this year, leaving some people wondering if there is a way to make lemonade out of lemons. If you have non-retirement stocks/assets, you may be able to save on taxes by doing tax-loss harvesting before year-end.

Tax-loss harvesting works by selling both the asset that has a gain and an asset(s) that has a commensurate loss to offset or eliminate any gain. This can potentially have large positive impacts on your taxes.

For example, you might be holding onto a stock because it has large gains, and you can't sell it without a large tax implication. This can either be in your portfolio or your company stock (as long as it isn't restricted like RSU's or Stock Options). If you have another stock/asset that is down, now can be a good time to sell both assets in order to reduce or limit your taxes.

Some things to keep in mind

• Tax-loss harvesting only works for non-retirement accounts/assets. It doesn't work for 401(k)s, IRAs, or Roths.

• In normal years, you must pay taxes on interest, dividends, and realized capital gains in your non-retirement accounts. Tax-loss harvesting only applies to realized gains/losses or assets that were sold during that year.

• If you sell a stock or mutual fund at a loss, you cannot buy the same stock/mutual fund back for at least 30 days. If you buy back before 30 days, you trigger wash sale rules that annul the loss. Consider purchasing a stock/fund that is similar but not "identical," or wait until the 31st day to buy it back..

• You first offset short-term gains with short-term losses and long-term gains with long-term losses. (Short-term means held less than a year, Long-term means held longer than a year). Net losses of either type can then be deducted against the other kind.

You can use up to $3000 of net capital loss to offset ordinary income. There are times when it is advantageous to realize short-term losses vs. long-term losses and vice versa.

• This works with all assets, not just stocks. For example, it works with real estate, where you can sell one property at a gain and offset it by selling another property at a loss.

Tax-loss harvesting is a great way to potentially reduce your tax bill. If you wonder if you can benefit, contact one of our Private Wealth Managers for a tax planning session or contact a qualified CPA for tax advice. SFS

**SFS does not offer tax advice or prepare tax returns.*

WISE WOMEN
Growing Knowledge and Wealth

By Lori B. Taylor, CFP®

Part of writing my thesis in graduate school involved researching the retirement landscape in the United States. I was astounded at that time that few Americans were adequately preparing for retirement. I also discovered that financial literacy was low, especially for women and minorities. A lack of financial literacy is shown to be correlated with lower retirement savings and wealth.

Financial literacy is a set of skills and knowledge that allows individuals to make informed and effective decisions with their financial resources. Without this knowledge, poor choices are made, including the unwise use of credit cards, failure to save or plan for emergencies, being subject to scams or unfavorable loans, and not taking advantage of retirement accounts or employer matches.

The FINRA Investor Education Foundation and the Department of the Treasury created a National Survey to assess financial literacy among U.S. citizens. The results of this study show a large majority of Americans fail to understand critical concepts that would help them build wealth and prepare for retirement. These shortcomings are most acute for women, the less-educated, and older individuals.

Three questions from this study are listed to the right. Questions 1 and 2 are answered correctly by about 65 percent of the study population. Question 3 is only answered correctly 50 percent of the time. Only about 30 percent could answer all three of the questions correctly. Take the quiz and see if you can answer all three questions correctly!

In the coming issues, I will discuss topics related to financial literacy designed to increase understanding among our clients, especially our women. A quiz will be included to test your own knowledge and help you improve your understanding. This will be a great opportunity to expand your knowledge regarding basic financial principles.

FINRA
Literacy Quiz

1. Suppose you had $100 in a savings account earning 2 percent interest a year. After five years, how much would you have?

a. More than $102
b. Exactly $102
c. Less than $102

2. Imagine that the interest rate on your savings account is 1 percent a year and inflation is 2 percent a year. After one year, would the money in the account buy:

a. More than today
b. The same as today
c. Less than today

3. Buying a single company's stock usually provides a safer return than a stock mutual fund.

b. True
b. False

Answers

Question 1 - compound interest question. If you earn 2 percent interest per year on $100, you receive approximately $2 per year ($100 x .02). Over five years, you would earn roughly $10 ($2 x 5), so you would have more than $102.

Question 2 - inflation question. If inflation is a higher percentage than the gain you are earning on your savings/investment account, the amount in your account buys less goods and services than last year.

Question 3 - diversification question. It is always riskier to buy just one company's stock than to buy a mutual fund that owns many different companies' stocks.

Market Timing vs. Time in the Market

By Parker Thompson

Tiffany, Brittney, and Sarah invested $200 a month in an S&P 500 index fund for 40 years. Strictly buying and holding while reinvesting dividends, they all used different times to jump into the market. All three went through five (now six) market crashes. Who was better off after 40 years?

Tiffany Top

Tiffany has the worst market timing. She saved her $200 a month, waited, and invested when she felt good, which turned out to be right before each crash. She would invest and instantly watch her investment lose 20-30%.

Brittney Bottom

Brittney was nearly perfect. She saved her $200 a month, waited, and invested at the bottom of major market downturns, pulling off a practically impossible feat.

Sarah Steady

Sarah was a bit different. She set up her account, invested $200 a month for 40 years, and never looked at it again, investing throughout all the ups and downs. When she retired, she got online access and glimpsed at her balance for the first time.

Results

Each of these friends invested the same $96,000 over their lifetime.
Tiffany ended up with $764,020.
Brittney ended up with $1,128,332.
Sarah ended up with $1,336,329.

What is most intriguing about this scenario is that it's just simple math based on the stock market returns over 40 years—no tricks or wild assumptions. One assumption to point out is the 3% savings rate given for money waiting to be invested. This is generous and still not enough to beat Sarah.

This could easily be used to promote the great benefits of dollar-cost averaging, which is the accomplishment of a lower price per share paid on average for a stock or fund because of a regular, systematic investment. That's a whole other topic worthy of its own time.

A great takeaway from this story is the attitude investors should have toward investing. Think for a minute how often we worry about timing the market: when to get out, when to get back in, and the right time to invest. What becomes paramount over time is consistency, patience, and diligence.

Credit: Schneider, J. (2019, June 1). How to Perfectly Time The Market [web blog]. Retrieved September 16, 2022, from https://www.personalfinanceclub.com/how-to-perfectly-time-the-market/.

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 the strategies that work towards each client's needs and goals. We work with individuals, businesses, and family estates. We provide financial solutions for your life.

Wealth Accumulation
•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

Employers and Self Employed
•Health Insurance
•401(k) Plans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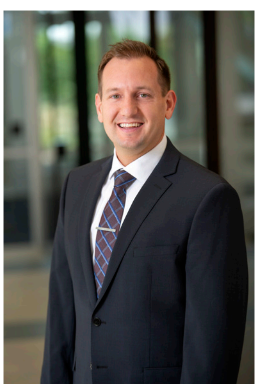
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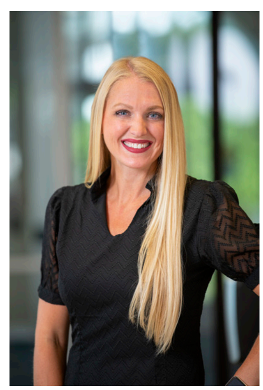
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