[VINTAGE] FINANCIAL SERVICES, LLC

On the [MONEY]

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From the Grapevine...

The COVID-19 pandemic has dramatically changed our lives in 2020 and it's unlikely that our lives will return to our pre-pandemic normal any time soon. Some changes will be permanent and much of the economic damage due to the lockdowns will take years to remedy. It's hard to know today how things will change in the next couple years as we hopefully move beyond the threat of the virus.

For our retired and near-retirement clients, we think it is a time for caution. Three areas of concern that we have could significantly impact the retirement plans and lifestyles of our clients and other older Americans. One concern is higher taxes and we discussed that in our May blog post at https://www.vintagefs.com/covid-19-taxes/. In this issue we'll look at two others, a resurgence of inflation and lower investment returns. As always, feel free to reach out to us for guidance on your own situation.

VINTAGE NAMED TO FT 300 AGAIN

If you've been a regular reader of our newsletter over the past few years, you've seen that we've been named by several national financial publications as one of the top firms in the country. In July, we were again named to the *Financial Times* FT 300 list, a prestigious ranking of the top 300 investment advisory firms in the US. Each publication uses different criteria and *Financial Times* considered each firm's performance in six primary areas: assets under management, asset growth, compliance record, years in existence, credentials, and online accessibility.

The FT 300 list has included between five and nine firms from Michigan in recent years and this year they selected seven. This was the fourth year in a row that we've been on it and there was only one other Michigan firm to also make the list the past four years.

We've been listed by other publications as well. *Barron's* named Frank Moore, head of our team, as #12 in Michigan earlier this year on their national ranking of the country's Top 1,200 Financial Advisors. In 2019, *Forbes* put Frank at #10 in Michigan on their Best-in-State Wealth Advisors list. And *Investment News*, a national trade publication, named us as one of 17 firms in the country to win their Best Practices award last fall. They also named us as one of the Best Places to Work for Financial Advisors this year. See more on our website at www.vintagefs.com.

We're truly honored to be recognized by these publications and hope to bore you with more announcements in the future.

THE COST OF INFLATION

If you are old enough to remember Mary Tyler Moore grabbing a package of meat at the supermarket and rolling her eyes at the higher price, then you probably remember the inflation of the 1970's. If you were working back then, it probably didn't affect you very much but, for your retired family members, the 70's rising cost of living was financially devastating. Over the course of the decade, inflation averaged over 7% and the cost of living more than doubled.

Some of the factors that caused the 1970's inflation aren't pertinent today. The Arab oil embargo that quadrupled oil prices isn't a fear today as the US is much more energy independent, but other factors seem to be building that could see inflation climb to levels that we haven't seen in the past 35 years.

Over the past few months both Congress and the Federal Reserve have pumped trillions of dollars into the economy. Congress simply runs a budget deficit and adds to the national debt. At this writing in mid-August, this year's federal budget deficit is projected to be $3.7 trillion dollars and Congress is in talks to spend even more. Meanwhile, the Federal Reserve has expanded the money supply by essentially printing trillions more. While these measures have buoyed the economy somewhat, there will be a price to be paid in the future.

The national debt was already a concern. As it rises, so too do the interest payments to service it. We've been fortunate to have record low interest rates recently but if rates rise back to more normal levels and the debt increases, more and more tax dollars will be needed to make the debt payments. Though we'll never pay off the massive debt, today's borrowings will require future taxes to be diverted to pay the interest.

One way to mitigate the impact of making those interest payments is to reduce the value of the dollar. Other countries that have borrowed more than they could repay have devalued their currency which leads to inflation and sometimes even devastating hyperinflation. While we're not concerned with a South American style hyperinflation, a higher inflation rate could be seen as a solution to the ever-growing debt problem.

The most basic law of economics is that when there is an excess supply of something relative to demand then the price drops to balance the market. The Federal Reserve is creating trillions of new dollars and greatly expanding the supply of money today. While the global economy isn't simple, the more dollars there are, the less valuable they can become.

Many other countries around the world are also borrowing and printing money so the US dollar is holding up fairly well, but it has fallen over 7% in the past three months and is now 5% lower than a year ago. While a lower dollar can be good for exports, it can also be inflationary as the price of imports increases.

For our Baby Boomer clients that have saved diligently and invested well for decades, seeing the value of those savings erode may require a reduction in their standard of living. Inflation isn't like a sharp, temporary stock market drop. It's an insidious cost that slowly destroys your real income.

This year most Americans will spend a lot less money. The vacations, dining out, sports events, concerts and plays have mostly been cancelled. But as we enter the post-pandemic world, we recommend a retooled retirement plan that considers the new economic reality in which we'll be living.

LOWER RETURNS AHEAD?

As of this writing in mid-August, the Dow Jones Industrials Average sits at about 28,000, down just 2% for 2020 despite the global pandemic and the steepest US quarterly economic decline on record. Investors that held on through the 35%+ drop in stock prices in the spring are feeling better and may be hoping that the pandemic will soon be over and life will go on as it was. That may be wishful thinking.

While the value of investment portfolios has held up very well, the income they produce has dropped and the outlook isn't very good. The yield on the ten-year US Treasury bond has fallen to just 0.6% which coincidentally is the same as the rate of inflation for the month of July. The bond interest is an annualized rate while the inflation rate is just for the month. Inflation is rebounding from a decline in prices in the spring, but it will likely be much higher than the interest being paid on the bonds. That leaves investors with a negative real return on their Treasury holdings.

Corporate bonds offer somewhat higher yields but most of the higher quality issues yield less than 2% today, again leaving investors with little to no real (inflation adjusted) return. And, of course, cash yields are near zero before taking inflation into account.

Historically, stocks have offered average returns of about 10% but at today's prices the outlook there isn't great either. Michael Finke, PhD, a professor of wealth management at the American College for Financial Services, recently published an article about the outlook for stock prices over the next decade. He found that the Schiller CAPE PE ratio had a high correlation with long term stock returns over the past few decades. Given the current Schiller CAPE PE of 29.28 he projected an annual average total return for stocks over the next decade of 5.89% with a 67% probability that they would average between 4.52% and 7.26%. That would be much better than bond and cash returns, but well below their historical average.

If we accept Finke's 5.9% figure and hope that inflation stays to 2% then the real return for stocks would come in at 3.9% for the upcoming decade. Historically that real return has been about 7%.

For years, retirees have relied on Bill Bengen's "4% Rule" to determine how much they can safely withdraw from their portfolio each year without running out of money. But the 4% rule was built around higher investment returns than we are likely to see in the years ahead. If stocks and bonds produce returns 3% below their historical averages, we would need inflation at 0% or less for the rule to hold up. As we discuss in the article on the opposite page, we don't foresee that as likely.

For retirees and near-retirees, it's a time for caution. While this year's discretionary spending has likely fallen sharply, a return to 4% portfolio withdrawals in the post pandemic period may not be realistic. In the months ahead it will be a good idea to revisit your retirement planning assumptions, especially if you are considering an early retirement or facing a late career job loss. Higher taxes, potentially higher inflation and lower investment returns can significantly reduce your retirement standard of living.

Our team of fee only Certified Financial Planners (CFP®s) are here to assist you. We can help you create a viable retirement income plan and we're looking more broadly at investment options than the traditional stock/bond/cash portfolios for better investment returns. Feel free to contact us or schedule a meeting (virtual or in person) on our website at www.vintagefs.com.

VINTAGE FINANCIAL SERVICES OFFERS

Fee only investment management, financial planning,
and tax preparation.
Minimum portfolio $500,000
(401(k) balance may count toward minimum).

For a no charge, no obligation initial interview please call our office
at (734) 668-4040 or (800) 666-9237 or e-mail:
Succeed@VintageFS.com
Or visit our website at www.VintageFS.com

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Plan to succeed.

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