July 2021

Dear Clients and Friends,

CONGRATULATIONS NATE EIX, CERTIFIED FINANCIAL PLANNER™

Nate has successfully met all his requirements to be a CERTIFIED FINANCIAL PLANNER™. Nate's education at Ball State and focus on financial planning met all the required coursework for the CFP®, and those areas are: General Principles of Financial Planning, Education Planning, Risk Management and Insurance Planning, Investment Planning, Tax Planning, Retirement Savings and Income Planning, Estate Planning, Financial Plan Development, and Personal Conduct and Regulation.

Nate passed the comprehensive exam in March and recently met all his work requirements for his designation. WealthPoint now has five CFP®s, on our team, and we are happy and excited for Nate.

WHAT ABOUT INFLATION?

With over $5 trillion of government spending to stimulate a pandemic economy, plus zero percent interest rates by the Federal Reserve, we have gotten many questions about inflation. Specifically, will we see higher inflation, what the ramifications are on one's investment portfolio, and what actions should be taken.

The first question is easy to answer partially: we are already seeing it. We can see it in food, gas, lumber, car prices, etc. There is debate on if this is a short-term blip or if there will be continued sustained rising prices. Each month we review the market's expected inflation, which we define as US Treasury bonds minus TIPS (Treasury Inflation Protected Securities). Our last review shows the collective market's expectation for 5-, 10-, and 20-year inflation to be between 2.2% and 2.4% over these time periods. This is normal to low inflation. While the market may not be right, people putting their money where their mouth is seems more valid than most writer's opinions.

What are the ramifications to one's investment portfolio? Over time, we know stocks provide the best hedge against long term inflation risk. Josh Bentz wrote a good blog post on this subject that can be found on our website at https://wealthpointadv.com/an-examination-of-inflation/, and in the post he shows stock market returns during the high inflation years from 1973-1984.

Spoiler alert: stocks did quite well. We know inflation is prices on the things we buy going up, and if companies can raise prices on goods and services and still sell the same amount, it makes sense their stock prices would rise due to their good financial performance. That has been the case so far in 2021 with excellent stock market performance. Having a diversified stock exposure is the key ingredient to long term returns that outpace inflation.

DIVERSITY AND BALANCE IN A PORTFOLIO

You may notice that I did not address bonds and their performance if we have higher than expected inflation. While I do not think bonds will fare well in such an environment, there are two reasons I think it is important to continue to own them. First, as noted above, the market does not anticipate high inflation and we should not base a plan on something with a low probability. Second, it is not bond's job to outpace high inflation times. This is what stocks are for! The definition of a diversified portfolio is to follow the adage "Don't put all your eggs in one basket!" - which means owning different types of asset classes that behave differently. During an unexpected event like high inflation, we cannot expect everything we own to perform well. What we do want is some things which do very well to offset the things that do not do as well. This is the classic example of a balanced portfolio.

Think about your portfolio like a teeter totter on a playground. Bonds are on one end, and stocks on the other. If the amounts on each end are relatively similar, all is good. But if there is only weight on one end, it does not work. A very bond-heavy portfolio is not well equipped to handle a high inflation environment. Normally when people are invested in that manner it is because they are very conservative and risk averse. However, and unfortunately, a bigger risk may have been unintentionally added which is your assets not outpacing inflation to maintain your standard of living. On the other extreme, an all-stock portfolio is much more sensitive to market volatility. For someone young saving for retirement who has not accumulated large sums this is perfectly fine. For someone two years from retirement who has accumulated enough to accomplish all their financial goals, it is not. Everyone's balance is different depending on their needs, and if you would like to meet and review your investment plan and make sure it is still appropriate, we are always happy, willing, and able to do so.

I hope you are enjoying your summer and possibly taking some long overdue trips that were put off last year. If any of your family or friends would like a second opinion on their financial plan, we would be happy to hold a complimentary meeting and provide one.

Sincerely,

Brent M. Walker, CFP®