Accumulating Interest

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THE OFFICE WILL BE CLOSED ON THE FOLLOWING DAYS:

November 26 & 27
Thanksgiving

December 25
Christmas

January 1
New Years

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Is there a specific topic you would like for us to discuss? Don't be shy.

Contact us:

info@bandcfinancial.com

A Word from the Investment Department

by Adam Howard, CFP® and Jessica Schmidt

The Importance of Understanding Inflation

You might have heard the saying, "A dollar today is worth more than a dollar in the future." This is a popular quote regarding the time value of money. It illustrates the idea that a dollar in the future will not be able to buy the same value of goods and services as it does today. Consider, for example, the cost for a dozen grade A eggs in 1980 averaged $0.84, while the average price for the same type of eggs in 2019 was $1.54. Since, to our knowledge, these newer eggs did not come with any additional bells-and-whistles, the reason the price nearly doubled in that time frame came down to one factor—inflation.

What is Inflation?

Plain and simple – inflation is the rate at which the price for a good or service rises over time. Due to this rise, a dollar in today's terms would buy less than it did in prior years.

Savings

This principal of inflation not only affects goods and services, but also financial goals. Inflation has a strong impact on retirement savings, education savings, home/vacation savings, etc. To explain how inflation affects your savings, let's look at an example: You have $100 today. There is an item you want to purchase for $100, but instead you keep the cash in your house for one year. If inflation during the year is 5%, and you want to buy the $100 item from the prior year, it will now cost you $105.

Here at B&C Financial Advisors, we help you plan for these various expenses by creating what is known as a Cash Flow Analysis. This report is comprised of your total assets, any planned contributions or withdrawals, the time horizon for your investments, an agreed-upon rate of return, and an inflation figure. The analysis shows a visual representation of the likelihood of reaching your financial goals and whether you will outlive your money. This is based on a set of parameters which are subject to change and are routinely updated throughout the planning process. For those familiar with this report, we factor inflation into the calculation in the form of a cost-of-living adjustment (COLA).

There are several reasons for factoring inflation into your financial plan, including:

1) To make sure your assets are keeping up with inflation;
2) To ensure your retirement/financial goals are met considering the assumed inflation rate; and
3) To account for the increased costs of future purchases (weddings, homes, cars, etc.)

Hedges Against Inflation

There is no perfect hedge against inflation risk, but there are a few options to mitigate the impact inflation plays in your personal and financial life. Some of these options are listed below:

1) Reallocate Your Portfolio: While past performance does not guarantee future results, historically the stock market has outpaced inflation. Therefore, reallocating a portion of your portfolio out of bonds and into dividend paying stocks may help protect your portfolio from being outpaced by inflation.
2) Buy Gold: Gold has been considered an inflation hedge for many years. This asset can be a shield against a falling dollar. As inflation rises and wears down the value of the dollar, the cost of gold rises as a result. However, gold is not the perfect hedge against inflation. When we are in a rising inflation environment, the central bank of the U.S. (The Federal Reserve, or "The Fed") tends to increase interest rates as part of monetary policy. Holding onto an asset that pays no yield, such as gold, is not as valuable as holding onto an asset that does. This correlates with our first option of putting a larger percent of your money into dividend paying stocks.
3) Purchase TIPS: Treasury inflation-protected securities (TIPS) are a type of U.S. Treasury bond indexed for inflation to protect investors during those higher inflationary times. TIPS payout a fixed rate semiannually, but the principal value is reset according to changes in the Consumer Price Index (CPI). Currently, these bonds do not imply exceptional returns, but if the inflation rate does increase, they are likely to outperform treasuries and many other fixed income assets.
4) File for Social Security Strategically: Social Security income has a built-in inflation hedge, as payments are adjusted for changes in the CPI each year. This is more impactful for some people, depending on the size of their social security payment relative to their monthly or annual cash needs. Another factor that can be used to "hedge" against inflation as you age is to delay filing for Social Security which increases the monthly payment from social security.

The Federal Reserve Vs. Inflation

The Fed recently gave vague guidance on how they will monitor inflation in the future. It has decided to let inflation run higher and unemployment go lower before it will look to tighten these conditions to more normal levels. In the past, the Fed has used different tools and rules to help them decide when to tighten or loosen monetary policy. However, these guiding "rules" have not worked perfectly in the past, and the Fed is looking to modify their arsenal to a certain extent.

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Since January of 2012, the Fed has had a clear inflation target of 2%. That all changed with Fed Chair Jerome Powell motioning the Central Bank will allow inflation to go above its 2% target by an unspecified amount for an undetermined period before tightening monetary policy again. The Fed adopted an average inflation targeting strategy that attempts to achieve above-target inflation to compensate for periods of below-target inflation. This sounds somewhat simple, but without a formula to define an average, the Fed's interpretation of average is subject to change. This new shift is aimed at advancing inflation after years of falling short of the 2% target and as a result hurt the central bank's ability to help fight recessions. The Fed will meet again in September, hopefully giving more guidance on their long-term approach and how this change will influence near-term policy.

If inflation is not included in your financial plan, the total amount you have estimated you will need to reach your goals may fall short. Therefore, we feel it is prudent to factor inflation into your planning scenarios to avoid this potential setback.

North Florida Junior Golf Foundation

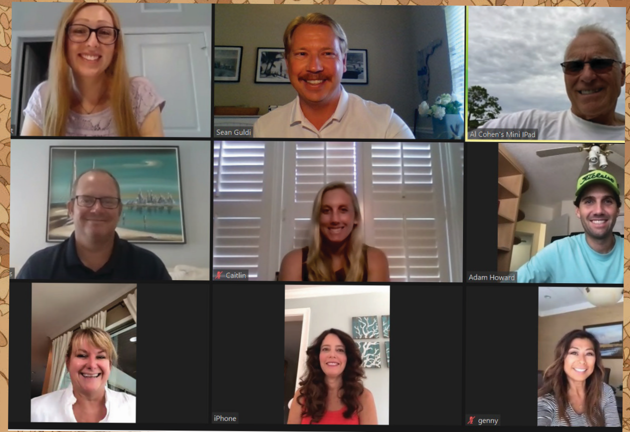
Over the summer, B&C Financial Advisors was proud to sponsor two local junior golf tournaments put on by the North Florida Junior Golf (NFJG) Foundation. On June 29th, Investment Manager Adam Oerther and Administrative Assistant Caitlin Howard attended the Jacksonville Open at Jacksonville Golf & Country Club, cheering on all the talented junior golfers and giving out golf-themed gifts on behalf of B&C. Then, on July 20th, they headed out to Timuquana Country Club for the Timuquana Encounter tournament, where they set up a Closest-to-the-Pin contest—the closest shot was just 2'2" from the hole!

B&C Financial Advisors has been a proud sponsor of the NFJG since 2017. The foundation's values of integrity, honesty, and fairness closely align with the values of B&C, and B&C looks forward to continuing to support this wonderful organization in the years to come.

If you'd like to learn more about the NFJG, visit their website at www.nfjg.org.

Keeping up with B&C

Chief Investment Officer Sean Guldi is expecting a baby boy November 20, 2020!



The B&C team during a Zoom meeting.

Jacque Bos, CCO went to Oklahoma City to spend time with her granddaughters

Investment Manager Adam Howard with a family friend during Snapper season.

Show us Your Pets!

B&C would love to see the pets that are keeping you company during quarantine! Please send your pictures to caitlin@bandcfinancial.com to be featured in the upcoming newsletters!

Investment Manager Adam Oerther's dog, Ted, who loves the B&C Stress balls!

Annuity Series – Part 1: What is an Annuity?

by Adam Oerther, CFP®

Those who watch daytime television may be all too familiar with scenes of people leaning their heads outside their windows, shaking their fists at the sky, and shouting the phrase, "It's my money, and I need it now!" Others may be familiar with the more recently portrayed scene of everyday citizens breaking out into an opera song about having a "structured settlement" and needing cash now. As these totally normal, everyday scenarios play out on their screens, viewers may find themselves wondering, *what are these "structured settlements," and why can't these people get their money?*

The "structured settlements" being referenced by the actors in these commercials are better known as **annuities**. While these commercials are part of a clever marketing campaign, they highlight a few important characteristics of these often complicated and misunderstood financial products. In our first of three blog posts dedicated to demystifying annuities, we will explore the definitions of some common annuity terminology.

Annuity

An annuity is a contractual agreement between an insurance company and the buyer of the contract for the insurance company to provide the buyer with a steady stream of payments over a predetermined period of time (hence the term "structured settlement"). The amount and duration of these payments can vary, as each annuity contract can have several different terms and conditions associated with it than another annuity contract, even if those contracts are issued by the same financial institution.

Fixed vs. Variable

Annuities can be structured as either fixed or variable. A fixed annuity, as the name suggests, provides the annuity owner with consistent, fixed payments determined. A variable annuity, on the other hand, provides irregular, variable payments based on the performance of underlying sub-accounts (stocks, bonds, money market funds, etc.) into which the annuitant's assets are invested.

Immediate vs. Deferred

An immediate annuity allows the annuity owner to receive payments almost right away, typically within one month of purchase. This type of annuity can only be purchased with a lump sum, as opposed to smaller payments made over time. With a deferred annuity, on the other hand, the insurance company invests the money contributed by the contract owner until the owner decides to begin taking regular payments, a process known as “annuitization.” Deferred annuities typically have a clause stating the annuity owner can cancel the annuity early and receive a lump sum, though there are often early withdrawal penalties involved that need to be considered and understood.

Pure Life vs. Period Certain

A pure life annuity, also known as a lifetime annuity, pays a benefit to the annuitant until the annuitant’s death. The contract owner’s estate or beneficiary receives no benefits following this death. With a period certain annuity, the contract owner can specify when the benefit will start and how long it will last, typically a period of 10, 15, or 20 years. If the annuitant dies before the end of this period, their estate or beneficiary receives the remainder of the payments.

Rider

Riders are special provisions that can be added to an annuity contract, giving the annuitant—or their beneficiaries—certain benefits that are not attached to the original contract. Each of these provisions increase the complexity and overall cost of the annuity, adding as much as 1 percent or more to the annual cost. Examples of annuity riders include guaranteed minimum living benefits, such as a guaranteed minimum withdrawal benefit (GMWB) or cost of living adjustment (COLA), and guaranteed minimum death benefits, such as a death benefit rider, which provides an annuity owner’s heirs with at least the amount of the premium paid into the annuity (or the amount of the premiums paid that are remaining).

Examples

Using the definitions above, we can begin to explore the types of annuity contracts available to consumers, such as:

1) *Immediate fixed annuity with 10 years certain* – In this annuity contract, the annuitant provides the insurance company with a lump sum upon purchasing the annuity. The insurance company provides the annuitant a fixed monthly payment, which is guaranteed for the longer of the annuitant’s life or 10 years. If the annuitant dies before the 10-year period is completed, the annuitant’s estate or beneficiary receives the remainder of the payments.
2) *Deferred fixed pure life annuity with a COLA rider* – In this annuity contract, the annuitant makes a single payment (or series of payments) to the insurance company. The annuitant receives fixed payments sometime in the future, and the payments increase if there is an increase in the cost of living. Payment cease upon the death of the annuitant.

In the next article in the series, we look at some of the advantages and disadvantages of annuities.
To read part 2 visit our website at https://www.bandcfinancial.com/2020/08/25/bc-financial-advisors-annuity-series-part-2-pros-cons/

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