PLANNING MATTERS

Quarterly Financial Planning Newsletter from Coleman Wealth

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A Farewell from Andrea

In August 2014, an incredible opportunity presented itself to me – to work as a financial planner on a preeminent wealth management team. I was, at the time, working as the senior financial planner for the firm, and the chance to work with clients directly was immediately appealing! This team, as you know, is Coleman Wealth.

Immediately, I fell into a deep learning curve none of my prior roles and experiences had prepared me for. As most new things are, this was incredibly intimidating and terrifying at first, but I grew to appreciate and embrace the novel experiences and education that I was presented with day in and day out, as part of this team.

Most importantly, I developed deep friendships with my teammates. As many of you have heard us say, we are family at Coleman Wealth. We are not just co-workers to each other. We have spent years together, laughing, learning, crying, joking, watching each other's families grow, embracing new teammates, and did I mention laughing?

In July 2018, I welcomed two new additions to my own family, Ella and Julian. Being a parent was a whole NEW learning experience, and has taught me so much already in a short 3.5 years. Balancing toddlers during COVID wasn't easy, but it did teach me a few particularly important lessons. *1)* We cannot get any time back and *2)* I'm not having any more kids(!), so I would like to try and be a present and available parent. How do you balance the demands of a full-time working lifestyle with the full-time job of being a mom?

Andrea Thompson
Senior Financial Planner

That's why my decision to leave the Coleman Wealth family this fall was so challenging. I have greatly appreciated every relationship that I have built, both with teammates and clients, and I don't take that for granted. However, I first need to honour my own deep family values and beliefs, and in order to do so, cannot continue in a full-time role as I have been for the past 7 years. Please accept my heartfelt goodbye, and also thank you, for putting your trust in me during our time together. I know that you will be in capable, confident hands with my teammates, my second family.

And lastly (I can't leave without saying SOMETHING related to life planning), I truly believe that it's important to always take stock, once in a while, of your own dreams, values and plans, and to make sure that you're still aligned with yourself. We only have one chance at this life, and not everything is in our control – but things that are, we can make those choices about, no matter what our age and stage. Check in with yourself every now and then. Take a walk. Meditate. Sit in a forest and breathe in the clean fresh air. And most importantly, love those around you until you feel like your heart will burst.

2021: That Was Interesting

As I write, the broad equity markets and our client portfolios have produced one of their best years in a very long time in 2021. And this is after coming off a reasonably good performance in 2020 in spite of the pandemic and all the chaos it brought with it.

While this is certainly gratifying, it doesn't proceed from our having been "right about the market," other than in the largest, longest-term sense. Our positions in the equity market are a pure function of their being historically best suited to your lifetime financial (and especially retirement) planning. They are never based on a view of the economy and the markets, which we continue to believe can neither be forecast nor timed. Stated another way, we aren't "right" because the market is up double digits this year, any more than we'd be "wrong" if it were down double digits. Our investment policy is the same as it's always been—even (and especially) when the market declined 34% in five weeks in February/March of 2020. Simply stated, that policy is based on two enduring beliefs:

1. That the historical long-term premium return of equities over bonds is necessary to the achievement of your most important long-term financial goals.
2. That the only way to be reasonably sure of capturing the premium return of equities is to ride out their frequent but historically temporary price declines.

I cherish the kind comments we've received in our review calls this fall regarding our recent experience. Thank you for them. But in the next breath, be assured that we can claim no credit for anything beyond making an appropriate long-term plan for you and your family, and encouraging you to stay invested through thick and thin. This we will continue to do. Thank you once again for being our clients. It is a privilege to serve you.

As we close out the year, I must also give my sincere thanks and gratitude to each member of our team. They remain dedicated and are always pushing forward to do more and deliver more to you – even through this most remarkable, and frankly bizarre, of times.

In particular, I want to thank Andrea for her years of service to us and to you. As she embarks on a new journey, where she can be more present as a mom to her beautiful twins, we wish her every success and happiness.

Looking forward to 2022, my view is that our approach should continue to bear fruit as inflation becomes more of a force and investors ought to return to some proper fundamentals. Indeed, one commentator I follow said, "*Boring is the new sexy*". If that's true, then I'm certainly well prepared!

Best wishes for a wonderful holiday with family, friends and people you love.

Darren Coleman
Senior Vice President, Portfolio Manager

Client's Corner

Inflation's Back—and That's Why You Own Equities

THE ANNOUNCEMENT ON NOVEMBER 10 THAT THE CONSUMER Price Index had soared 0.9% in October—and was up 6.2% from a year earlier—came as no surprise to anyone who'd shopped in a supermarket and/or gassed up their car recently. Inflation is back, it's very real, and it's biting into the budgets of every American household.

That's why you own equities.

Set aside for a moment the unanswerable question of how durable this inflation spike will prove to be—whether it is by any sane definition "transitory" or…not. The signs in this regard are, to put it mildly, ambiguous. Yes, headline inflation is at a 30-year high. But interest rates remain relatively subdued, and gold—which is widely believed to be an efficient short-term inflation hedge despite all evidence to the contrary—is no higher than it was a year ago. If we were headed into a prolonged period of '70s-style stagflation, both of these indicators should long since have begun sending up flares. Likewise a rising dollar, which as I write is near a 16-month high: were stagflation imminent, it should already be going south, and with a vengeance.

Set aside as well, if you can, the not insignificant fact that at about 4,650 on the S&P 500, the Index is up 24% this year. If your cost of living is up six percent, and your capital is up four times that much, you may be said not only to have hedged against inflation but to have beaten the living daylights out of it. Yet I say again: set this aside, because such short-term comparisons are for headline writers, not serious investors.

Let us instead—in search of a potentially meaningful comparison—return to the last year in which inflation ran at an annual rate of six percent for 12 months. That year was 1990.

Be assured that every single headline about inflation you've seen this year—and the text of all the accompanying reportage—mirror everything you would have been reading (and hearing) in late 1990, all but word for word. And that was a time when people vividly, personally ***remembered*** the horrors of '70s stagflation, which had crested barely 10 years earlier. Yet here's what happened:

• The S&P 500 ended the year 1990—a recession year, with war in the Gulf just days away—at 330.22. At the current level around 4,650, ***it is up 14 times***.

• The cash dividend of the S&P 500—which is what retired equity investors often use to pay for groceries and gas—was $12.09 in 1990. Data from Bloomberg estimate that for the full year 2021 it will be $61.03. ***Equity income has thus quintupled.***

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• The Consumer Price Index in December of 1990 stood at 133.8. This October—per the most recent report—it was 276.6. Thus, ***the cost of living has barely doubled***.

Allow me to summarize—not because I don't think you got it, but just because I so much enjoy doing this:

• **Mainstream equities up in value 14 times since the last 12-month CPI increase of six percent.**

• **Cash income from mainstream equities up five times.**

• **Cost of living up merely twice.**

• ***That's why you own equities for the long run.***

(Did I mention that since 1990 there have been, by my personal count, six bear markets? Did I mention that two of them—2000-02 and 2007-09—were the deepest bear markets since the 1930s? Is it possible that those episodes had very little effect on the goal-focused, plan-driven, long-term equity investor—other than as buying opportunities? I'll let you decide that, in counsel with your financial advisor, of course. End of digression.)

Why are values and dividends up as much as they are since 1990? That's simple: because earnings have increased more or less commensurately, and earnings ultimately drive equity values. The S&P 500 earned $22.65 in 1990; with a month left, the consensus forecast for this year is right around $200. And why did earnings go up that much? Lots of reasons: new products and services, technological innovation, increased productivity and expanding global markets are certainly some of the big ones. (Remember that there was as yet no internet in 1990, and that the Soviet Union still existed.)

But for purposes of this little essay's central point—mainstream

equities as a historically superb inflation fighter—the critical issue is companies' ***pricing power***. The plain fact is that very successful businesses are generally able to pass increases in their costs on to the consumer. Indeed, despite the very significant uptick in producer prices this year, the net profit margin of the S&P 500, at just under 13%, continues to be nearly as high as it's ever been, according to FactSet.

None of this should be taken as a suggestion that mainstream equities are an efficient inflation hedge in the short run. They are not. ***No financial asset is.*** But as Wharton's Dr. Jeremy Siegel concludes in his classic book *Stocks for the Long Run*, "In the long run, stocks are extremely good hedges against inflation, ***while bonds are not*** (emphasis added)."

In a sentence—with the few numerical factoids above thrown in for moral support—that's the message of this essay. If, with your advisor's good help, you can take that message to heart, I believe your path to a financially successful retirement will be that much straighter and clearer.

Sources: Historical S&P 500 Index and dividends: "S&P 500 Earnings History, NYU Stern School." Consensus 2021 earnings forecast: Yardeni Research. Consensus 2021 dividend forecast: Bloomberg. Consumer Price Index: Inflationdata.com. Current net profit margin of the S&P 500: FactSet.

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