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ADVANCE CAPITAL MANAGEMENT

FINANCIAL LIVING

volume Q2 2021

A QUARTERLY NEWSLETTER FOR THE CLIENTS AND FRIENDS OF ADVANCE CAPITAL MANAGEMENT

Protecting Your Money from Inflation

There are fears inflation could rise dramatically due to extensive government spending and Federal Reserve policies in response to the Covid-19 pandemic. Too many dollars fighting over too few resources leads to higher prices.

Granted, it remains to be seen how prices will change long term as the economy recovers and things return relatively to normal. But even if inflation were to stay below the Federal Reserve's target of 2%, it is a risk to your financial assets. Even at a low 1.5% annual inflation rate, what costs you $1,000 today will cost nearly $1,350 in 20 years and more than $1,550 in 30 years.

And inflation can disproportionately affect older Americans due to differences in spending habits. Healthcare prices, for example, typically rise much higher than those in other categories.

Below are some ways to protect your financial life from inflation.

Keep stocks in your portfolio

With a potential 30-plus year retirement, you likely will want to keep some of your investment portfolio invested in stocks, which historically provide the best inflation-beating gains.

Conventional wisdom says you should invest more conservatively as you near retirement. But rather than hit the investment brakes and go from, say, a 70/30 stock-to-bond portfolio to a 20/80 portfolio, you may want to just ease off the gas. Consider investing in a 50/50 or 40/60 portfolio, depending on your level of wealth and retirement needs.

Take a lump-sum pension payout

If you're fortunate to receive a pension, you can typically take it as a monthly annuity or in one lump-sum payout. There are pros and cons to both.

While the pension annuity guarantees you a monthly paycheck, it's important to know that it may not rise with inflation. That means your pension plan may not have a cost-of-living adjustment (COLA) if you choose the monthly payout. So, you could experience a substantial loss of buying power in those paychecks over time.

By electing a lump-sum pension payout, you can invest it in an IRA. This gives you the ability to choose investments that may help your money grow above the rate of inflation. The downside, however, is that it exposes your pension money to market risk. What works for you depends on your personal financial situation and attitude toward risk.

Delay Social Security, if you have a long life expectancy

Social Security provides a COLA each year based on inflation as measured by the Consumer Price Index. But it likely won't

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Market Insights: Q1 2021

After 12 painful and unprecedented months dealing with the global pandemic, the proverbial light at the end of the tunnel is growing brighter. Yet, the potentially long-lasting social, economic and psychological damage inflicted could take years to work through.

While obstacles remain, a renewed sense of optimism is beginning to permeate the psyche of consumers and investors. All indications point to a dramatic rebound in economic growth in the months ahead.

Positive economic signs are emerging

After the devastating repercussions of nationwide lockdowns, recent trends point to a noticeable rebound in activity across a broad spectrum of the economy. First, the Institute for Supply Management recently reported that its gauge of manufacturing activity rose its highest level in over three years. Although manufacturers are dealing with lingering pandemic issues and supply-chain shortages, they are benefiting from a shift in spending, with more Americans spending money on homes and other projects.

The housing market is another bright spot in the economy. Historically low mortgages rates helped fuel a housing boom that started last year as more Americans sought more space, with homes serving as offices and classrooms during the pandemic. This demand surge has left inventories lean and pushed home prices higher. At the same time, builder backlogs remain elevated. This indicates residential construction will stay firm in the coming months and contribute to economic growth.

While positive economic signs are emerging, the pandemic scars are deep and may take years to fully resolve. The employment picture exemplifies this struggle: the nation's jobless claims remain well-above average, the unemployment rate is hovering around 6 percent, and nearly 10 million individuals remain unemployed. However, the job openings rate recently hit a one-year high. Already, job openings have increased in the construction, manufacturing and health care industries.

Federal Reserve support continues

Amidst the nascent recovery, both the Federal Reserve (Fed) and U.S. government continue to supply unprecedented stimulus to consumers, businesses and the financial system. The Fed recently reiterated their commitment to keep short-term interest rates low through 2023. It will also continue to buy Treasury bonds and mortgage-backed securities, and support credit throughout the financial system.

These combined efforts are expected to significantly help growth in the coming quarters. Yet, this free spending comes at a big cost. The federal budget deficit is expected to explode to around $3 trillion this year and stay above $1 trillion for the next couple of years. As government debt soars, interest rates have spiked and the value of the U.S. dollar has fallen by about 10 percent over the past year.

Capital market likely to remain volatile

Although investors are generally confident in the road ahead, some trepidation remains with stock valuations near all-time highs and bond yields rising. While we are concerned about valuations, there are some opportunities both domestically and around the world. Over the past decade, growth stocks have trounced value stocks. Now, value stocks are surging back while the high growth names have stalled. Further, higher interest rates and a falling dollar has helped many foreign stocks relative to those in the U.S. Finally, although low-quality or high-yield bonds come with added risk, they have held up well during the recent rise in interest rates. Looking ahead, we expect the capital markets to remain somewhat volatile as the economy works through the pandemic-related issues and valuations remain high. We continue to work diligently to analyze the environment and make strategic investment moves in client accounts as appropriate.

As always, investing in capital markets comes with some risk and uncertainty. We thank you for your continued support of our investment process as we work hard to deliver positive risk-adjusted portfolio returns to our clients. Should you have any questions, please do not hesitate to reach out to your financial adviser. ■

It is not possible to invest directly into an index. The indices mentioned in this article are unmanaged and are not affiliated with Advance Capital Companies.

Four Charts to Help You Understand Market Declines

Legendary New York Yankee Yogi Berra once quipped, “It’s tough to make predictions, especially about the future.” One could reasonably imagine he was specifically talking about the stock market.

Case in point: At the start of the COVID-19 pandemic, when it looked like the world was coming to screeching halt, the S&P 500 plummeted by around 30%. Who could have predicted then that the stock market, from its lowest point on March 16, 2020 through the first quarter of 2021, would rise by 74%?!

However, with those rising returns has come rising fears that the market has grown too much, too fast. All the investor euphoria could mean the market is ripe for a correction (a decline of 10% or more). In times like these, you may have concerns about your long-term investment strategy.

No one can accurately predict the next market correction. But these four charts offer some balanced perspective on market declines to help you avoid common pitfalls and stay on track toward achieving your financial goals.

1. Market declines are normal

Market volatility can cause imprudent behavior by filling investors with dread and panic. One thing to keep in mind: market pullbacks and corrections are common. In fact, a market correction has occurred once a year on average since 1950.

A history of U.S. market declines
Standard & Poor's 500 Composite Index (1950–2020)

Size of decline	-5% or more	-10% or more	-15% or more	-20% or more
Average frequency*	About three times per year	About once per year	About once every three years	About once every six years
Average length†	43 days	110 days	251 days	370 days
Last occurrence	October 2020	September 2020	March 2020	March 2020

* Assumes 50% recovery of lost value.
† Measures market high to market low.

Sources: Capital Group, Standard & Poor's. Returns in U.S. dollars.

2. Market declines are temporary

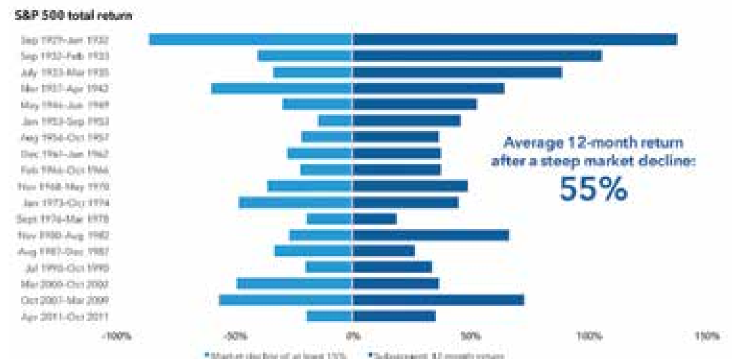
Bear markets (periods of 20%-or-greater declines) have averaged 14 months, a relatively short time compared with the 71 months of the average bull market. And while the average 33% decline of the average bear market can feel painful, missing out on part of the average bull market’s 263% return could feel even worse. It’s another reason why timing the market is so challenging and often unwise.

Cumulative price return for each bull and bear market

Sources: Capital Group, RIMES, Standard & Poor's. As of 12/31/18. Bear markets are peak-to-trough price declines of 20% or more in the S&P 500. Bull markets are all other periods. Returns shown on a logarithmic scale.

3. Markets typically recover quickly

This chart shows the average 12-month return immediately following a 15%-or-greater decline is 55%. Some of the strongest stock market returns occur after a decline when investors believe that the market has overreacted to the downturn. That’s why it often pays to remain calm and stay the course.



Sources: RIMES, Standard & Poor's. Each market decline reflects a decline of at least 15% in the S&P 500's index value, without dividends reinvested.

4. Long-term investors are rewarded

Studies show that people place too much emphasis on recent events and disregard long-term outcomes. Even amid a market downturn, remember that stocks have rewarded investors over time. You can see in this chart that even when including downturns, the S&P 500’s average return over all rolling 10-year periods from 1937 to 2020 was 10.51%.

Sources: Capital Group, Morningstar, Standard & Poor's.

Market declines can be painful to endure, but rather than trying to time the market, you often are better served by periodically reviewing your portfolio with your adviser. ■

WATCH NOW: Insurance Needs for Each Stage of Life

What type of insurance do I need? How much coverage should I buy?

Chances are, you've asked yourself these questions at least once. The hard part is that the answers change over the course of your life. Recently, Advance Capital hosted the webinar, "Evaluating Insurance Needs for Each Stage of Life," presented by partners from the Carrico Maldegen Insurance Agency.

They provided many helpful insurance tips for managing risk and protecting your family, assets and cash flow during the three major stages of life. Here are the most important coverages for each one:

1. Pre-Family
- Auto insurance
- Renters insurance
- Disability insurance
- Identity theft insurance

2. Building Family & Career
- Auto insurance with umbrella policy
- Homeowners insurance
- Home cyber & business protection
- Life insurance

3. Late Career & Retirement
- Long-term care insurance
- Life insurance

For your convenience and knowledge, we've posted a recorded version of the webinar in the Advance Capital Education Center.

Be sure to check it out here:
acadviser.com/education-center/

Protecting your Money from Inflation *(Continued from page 1)*

keep pace with particular costs that affect older consumers and that rise faster than inflation, such as prescription drugs and utilities.

One way to increase your Social Security benefit is to delay. By waiting to file, you can increase your benefit by up to 8% per year until age 70.

Keep in mind, delaying benefits means increased Social Security income later in life, but your portfolio may need to bridge the gap and provide income until delayed benefits are received. Essentially, the fewer other income sources you have and the longer your life expectancy, the more it makes sense to wait to take your benefit.

Take advantage of HSAs

A good option for covering rising medical costs is with a health savings account (HSA). An HSA is a savings and investment account available to people in high-deductible health plans (HDHP) to help pay for out-of-pocket medical costs. Along with potential investment growth, HSAs offer several tax advantages: contributions are tax-deductible, funds can grow tax-free and withdrawals are tax-free for qualified medical expenses. Plus, HSAs are not subject to RMDs.

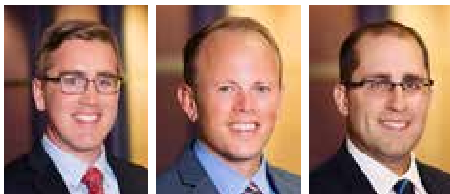
Be careful with other financial products

An annuity, for example, is attractive as a potentially guaranteed stream of income. Inflation protection though doesn't come standard in annuities. Instead, to receive an inflation adjustment with your annuity you must purchase it like an upgrade, which increases the total cost of the annuity and reduces your return.

Keep in mind, these inflation-protection strategies may not be appropriate for everyone. It is important to work with your financial adviser to determine what is best for your personal situation. ■

Congratulations!

Advance Capital Management prides itself on the talent and hard work of its staff. That's why we're pleased to announce



three of our financial advisors – Ryan Sheffer, Michael Hohf and Daniel McHugh – have been named to *Forbes* magazine's **2021 Best-In-State Wealth Advisors**.

In addition, Advance Capital's Terra Hohf has been named one of **America's Top Women Wealth Advisors** by *Forbes*.

Please join us in congratulating them for these remarkable achievements!

Investment advisory services are provided by Advance Capital Management, Inc.

Investments are not insured, and may lose money. Client should be prepared to bear the risks associated with investing. Fees and expenses apply to an ongoing investment, and over time will reduce the return of the investment.

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