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FOCUSED ON WHAT MATTERS MOST.

Charting a Path Through Uncertain Times

When people feel like they have a lot of control over their lives, uncertainty is a mild irritant at worst, and a fun challenge at best. The uncertainty of what you're going to do when you wake up in an exotic hotel and your vacation day is completely unplanned is one of life's joys. However, the uncertainty of what you would do if you lost your income, or someone got sick, or your expenses suddenly increased is one of life's great anxiety-inducers. The global pandemic has both made us more aware of the uncertainties that are always present, as well as introduced a threat to our lives over which we can only have a small amount of control. Both of those things have increased most people's anxiety over the past eighteen months. We haven't even touched on ever vitriolic political in-fighting, mega droughts in the US and around the world, an ever-warming planet, and fires that can be smelled two thousand miles away for those lucky enough to be that distant, to name just a few.

Our brains have yet to evolve beyond the point where they're worried less about where the bear is and more about where the blueberries are, so what are we to do, those of us still wired to worry? What are we to do in times that seem so uncertain, and where the future looks so much less predictable than it used to? How do we combat the financial anxiety associated with threats to our well-being?

FINANCIAL PLANNING.

That's not just a topic header, that's also the answer to the question. We know of no better tool for reducing anxiety and combating the effects of uncertain outcomes than financial planning. There are a lot of stress reduction techniques, and we know there is value in using simple, routine ways to lower your stress levels. However, if you are not addressing the root cause of your anxiety, then stress reduction techniques can only last so long and go so far. We would argue that very few of the anxieties that keep us up at night do not have a financial component. There are some that are not primarily about finances, especially those related to our health, but even those usually have some financial component whether they involve a reduction in income, or an increase in expenses, or both. When you boil so many of our worries down, they relate to either not enough income or too many expenses.

To reduce and possibly eliminate the stress of financial uncertainty from your life, defining what it is that keeps you up at night, quantifying its possible effects, and then taking action to reduce or eliminate those effects is the best way we know to reduce that uncertainty. Most financial planning is done during relatively easy moments, where you can focus on maximizing your income to save and invest for your goals while you feel your future is relatively certain; you're going to have this income, it's going to increase by X% per year, you're going to save Y% from it, and those savings are going to grow by Z%, year after year until you retire. However, financial planning is just as effective in answering the question: **"What happens if something goes wrong?"**

REDUCTION IN INCOME

For example, the obvious worry not only for those not yet retired, but also for many retirees is what would happen if you were to have your income reduced, or outright lost your job or some other major source of income? Some of the questions going through your head may include:

Could I still maintain my current level of spending, or would I have to reduce it?

- Which expenses could I reduce or eliminate?
- Which expenses, if any, would actually increase?

How would it impact my financial goals?

- Would I have to delay or eliminate some of them?
- Which ones?

How much of a cash reserve would I need to survive an income loss of a given amount for a given amount of time?

- Do I already have that much?
- How long would it take to build my reserves to that level?

What would happen if I were forced to take a job that paid less?

- How would that affect my financial goals?
- What changes would I have to make to still be able to maintain my lifestyle and still achieve my goals?

These are some of the many things that would be considered, and SHOULD be considered, for any type of job loss planning. Anyone who has ever worried about having their income reduced can relate to all the thoughts that go through your head, all of the imagined hardships and sacrifices. You can absolutely feel the stress of knowing life is going to change for the worse, but imagine if you knew you didn't really have to worry at all. Or imagine that you already had a game plan for this possibility and you knew you would be able to manage it. Now imagine how much more sleep you would get by knowing you did not have to worry as much. Do not underestimate the adverse health effects of prolonged stress and sleeplessness, and do not underestimate the benefit of taking action to reduce or eliminate those potential health effects before they ever happen.

INCREASE IN EXPENSES

In a lot of ways, increased expenses are the other side of the coin from decreased income. At the end of the day, they both result in not enough of one and too much of the other. However, the uncertainties associated with increased expenses can cause anxiety that feels different from the uncertainties around a reduced income. For example, anyone who is worried someone in their family is going to get sick has both the worry around a loved one's physical well-being as well as the potential for financial insecurity should healthcare expenses increase. In this situation, as in many others associated with increased expenses, some potential questions to answer include:

What is the specific situation that could increase my expenses?

- What are all the expenses that may increase as a result of this situation?
- By how much could the situation increase my expenses?
- Could I absorb those increased expenses and still save toward my goals?
- Which expenses could be reduced and by how much?

What financial goals may be affected?

- Would the solution be to reduce the financial target associated with the goal, or increase the timeframe I am saving for the goal?

Is it possible the situation leading to the increased expenses could also decrease my income, like if someone has to quit their job to care for someone?

- By how much would it reduce my or someone else's income?
- Which expenses or goals may be affected by a reduction in income?

How much would I need to have saved in order to survive the increase in expenses and possible decrease in income?

- How much would it cost to transfer some of the financial risk to an insurance company?
- How much of the cost could be transferred and would I still be able to continue saving toward my goals?

Of course, just like with reduced income, we could go on and on and on with the potential questions to answer to better prepare you for a specific scenario that would cause your expenses to increase. The process to create a game plan to help you overcome an increasing expenses scenario starts with your defining what it is that would cause your expenses to rise, and then looking at all the areas of life that scenario would impact. By planning for that possibility ahead of time, you would know the likelihood of your financial security remaining intact should the feared situation arise, and you would know what you could do ahead of time to overcome any adverse financial outcomes related to the specific situation happening. Despite not knowing the probability of whether or not something WILL happen, we absolutely have the ability to plan for what WOULD or COULD happen.

Nothing reduces anxiety like taking positive action. Having a Plan B ready to roll should something happen is an extremely comforting situation entirely within our control. Whether it's the risks of a large phenomenon like a global pandemic, or a changing climate that affects us all, or something very specific to your individual income source, or the health of a family member, or any other potential thing that could go bump in the night, financial planning can help you be ready for that possibility and provide you the comfort of knowing you are prepared for what you fear. Addressing the possibility before it arises gives you an invaluable head start should your fears be realized. Now, we are not suggesting you go out of your way to find something to fear, but we are telling you that we are not just here for you in the good times, but especially in the times you need help, including before you might.

Capital's Been Winning at Labor's Expense

If there's one thing that most people would agree on, it's that having an economy that benefits both the worker and the business owner is a good thing – the best of both worlds. There is opportunity for those who want to risk their capital in pursuit of greater financial success as well as for those who want to earn a good living with the security of a steady job. Unfortunately, this ideal balance between capital and labor proves elusive. Without going into a long white paper as to why this is the case, we'll simplify by saying that when conditions exist that favor one over the other, those benefiting most gain power and govern in a way that perpetuates the imbalance. Today, those with the power and money are those most closely tied to large corporations and capital markets. As a result, laws, policies, and actions have generally favored the large corporations and markets as well as the perpetuation of their profitability.

This isn't inherently bad, except for the fact that it tends to leave others behind, which is exactly what it's doing. Trends are very hard to spot in the moment, but if we look back 20-25 years, the one relating to capital and labor becomes clear to see. The drive to maximize profits leads to offshoring of products and labor. This hurts manufacturing jobs here at home. Capital markets (stocks and bonds) benefit as a result of the increased profitability leading to markets becoming central to our economy and culture. Markets get too expensive and crash. This hurts those with the capital (those with assets). The Federal Reserve and government coordinate to arrest declines by lowering interest rates, spending lots of money (by borrowing and growing debt levels), and bailing out corporations. Markets go up again drawing in more and more capital and making those with assets even wealthier. Now markets are so central to our culture that we depend on them for our wealth, retirement, and general sense of financial well-being. Those with assets and wealth want to protect them by any means possible which has perpetuated the policies and actions that have led to the imbalance and dependency on markets in the first place. Meanwhile, those with fewer or no assets have been left behind. Policies that support capital markets and corporate profitability generally don't favor them. A purposeful and intentional effort to create inflation in order to keep global economies and markets from crashing being one of the most clear and egregious examples. Increasing the cost of living for the average person on purpose makes very little sense and only serves to widen the wealth gap.

So why is this important? Because it creates context for much of what we're seeing in the world today. Riots, social movements, political and social divides. These don't happen to the extent they are now when there is greater equity and fairness across society. This is important to understand because it can help us find actual solutions to the issues of the day rather than allow the anger, blame, and messaging to be confused, defused, or deflected. It's also important because it can inform where we may be headed. Those in power tend not to give it up easily. Corporations, individuals, and governments will continue to act in ways that perpetuate the status quo. Fractions and divisions continue – things can get ugly. This has tremendously important implications for markets and your portfolio. What seems a bullet-proof investment strategy today could become a fatal one very quickly if the volatility and unrest we're seeing in this battle between capital and labor bleeds into capital markets. Our sense is that it's just a matter of time; and believe it or not, this gets us to the optimistic part of all of this.

The way cycles work is that they tend to get worse before they get better. Cold days get colder when we're in December, the sniffles can turn to fever before the fever breaks. Regardless of where we are in this socioeconomic cycle, and whether things need to get worse before they get better, they will get better. Markets will again be investable for our children at some point, homes more affordable, and the cost of living more comfortable. We'll get there. Part of getting there will most likely resemble prior points in history where power and wealth transitioned incrementally from capital to labor – the 1930's and the 1970's. In the former, asset prices deflated tremendously creating a more level playing field for all. It got ugly, but in the end, most would agree that more of the wealth and opportunity moved to the middle. The 1970's were different in that there wasn't a large wealth divide coming in, but there was a twenty year period of capital markets doing very well – to the point where valuations, policies, and actions supporting them were relatively extreme. One could argue that the inflation that ensued in the 1970's was partly due to the efforts made to maintain the capital markets and related socioeconomic status quo. Regardless, markets experienced multiple crashes in the 1970's as it turned out to be one of the worst decades for stocks in a very long time. To make matters worse, we also got inflation. It was difficult, but again, it led to a much more balanced environment as we moved into the 1980's and set the stage for two of the best decades in stock market history.

And so what does the trip to greater balance look like this time around? In our opinion, it probably resembles parts of both of those prior periods in that capital markets stand a very good chance of declining significantly and commodity prices, particularly precious metals prices, could do very well. When and how much is a fool's errand, but both history and common sense lead us to these potential outcomes. The shift back in the direction of labor will most likely be partly driven by uncontrollable market forces that exert themselves most strongly at price and valuation extremes, and the rest by social pressure. Corporations and profits would not benefit from this shift, hence the likely pressure on markets. With the Federal Reserve (and other central banks) support for markets scrutinized more heavily for its part in the wealth divide, continued rescues and bail-outs would be less certain.

On the other side of the investment coin, when capital flees the markets that are now re-pricing (falling), it tends to go into things that provide more certainty and safety; particularly if those things are reasonably priced. Government bonds and precious metals are typically on that short list. If inflation is present, precious metals and commodities tend to be at the top of it. Both did well in the 1930's where inflation wasn't a problem, whereas in the 1970's only precious metals and commodities (not government bonds) did well because there was unusually high inflation to contend with. However, regardless of whether inflation becomes a problem this go round, precious metals seem poised to benefit from the transition. To what degree depends on how much of a problem inflation turns out to be.

Part of navigating this transition successfully for our clients requires us to realize and accept the fact that regardless of how diligent we've been analyzing the data, studying history, and applying common sense, things could play out differently – either because we failed to see something properly or for reasons outside of our control. Nothing is certain. Although an outcome may be extremely likely, it is rarely certain. Some of the questions we ask ourselves to make sure we're seeing things in the right light and not succumbing to myopia or existing biases are:

- Am I being open-minded to alternative facts, scenarios, viewpoints?
- What is the risk/reward of our given viewpoint or strategy?
  - What is the reward if we're right relative to the risk of loss if we're wrong?
  - Can we still obtain some reward even if things play out differently?
- Am I willing to change my viewpoint as the data changes?

As it turns out, asking ourselves these questions with respect to non-financial issues might also be appropriate, especially given the context of the bigger picture transition we're in the midst of. In a world that's angry, confused, and extreme as a result of the historic imbalance between capital (those with wealth) and labor (those generally without it), it's easy to get distracted. Whether it's because we've been spun around and made dizzy, mistreated, or lulled into complacency and a false sense of security within our investment portfolio, the more objectively and clearly we can view reality moving forward, the better off we'll be. Especially in the midst of a generational transition that should leave the world a much calmer, kinder, and more balanced place in the end.

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