Capital Asset Management, Inc.

Helping People Make Smart Decisions About Money

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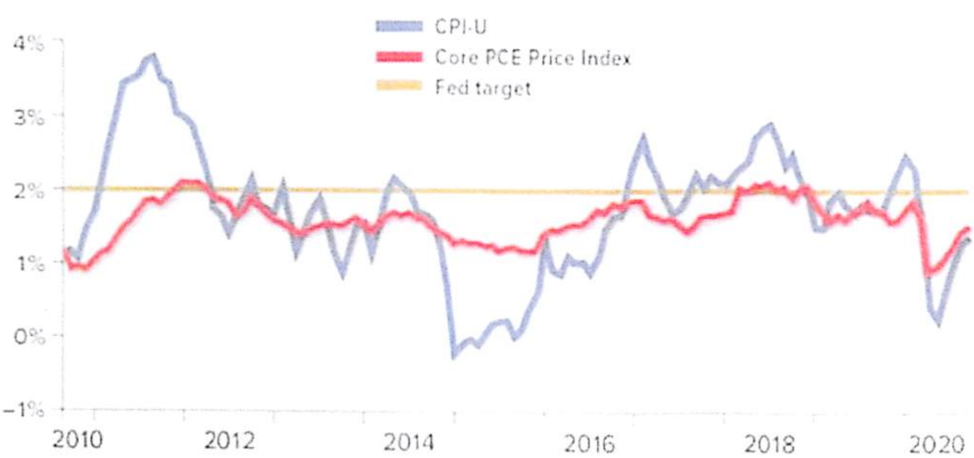
Different Inflation Measures, Different Purposes

The inflation measure most often mentioned in the media is the Consumer Price Index for All Urban Consumers (CPI-U), which tracks the average change in prices paid by consumers over time for a fixed basket of goods and services. In setting economic policy, however, the Federal Reserve Open Market Committee focuses on a different measure of inflation — the Personal Consumption Expenditures (PCE) Price Index, which is based on a broader range of expenditures and reflects changes in consumer choices. More specifically, the Fed focuses on "core PCE," which strips out volatile food and energy categories that are less likely to respond to monetary policy. Over the last 10 years, core PCE prices have generally run below the Fed's 2% inflation target.

Monthly percentage change over previous year



Sources: U.S. Bureau of Labor Statistics and U.S. Bureau of Economic Analysis, 2020 (data for the period September 2010 to September 2020)

Sequence Risk: Preparing to Retire in a Down Market

"You can't time the market" is an old maxim, but you also might say, "You can't always time retirement."

Market losses on the front end of retirement could have an outsize effect on the income you receive from your portfolio by reducing the assets available to pursue growth when the market recovers. The risk of experiencing poor investment performance at the wrong time is called *sequence risk* or *sequence-of-returns risk.*

Dividing Your Portfolio

One strategy that may help address sequence risk is to divide your retirement portfolio into three different "baskets" that could provide current income, regardless of market conditions, and growth potential to fund future income. Although this method differs from the well-known "4% rule," an annual income target around 4% of your original portfolio value might be a reasonable starting point, with adjustments based on changing needs, inflation, and market returns.

Basket #1: Short term (1 to 3 years of income). This basket holds stable liquid assets such as cash and cash alternatives that could provide income for one to three years. Having sufficient cash reserves might enable you to avoid selling growth-oriented investments during a down market.

Basket #2: Mid term (5 or more years of income). This basket — equivalent to five or more years of your needed income — holds mostly fixed-income securities, such as intermediate- and longer-term bonds, that have moderate growth potential with low or moderate volatility. It might also include some lower-risk, income-producing equities. The income from this basket can flow directly into Basket #1 to keep it replenished as the cash is used for living expenses. If necessary during a down market, some of the securities in this basket could be sold to replenish Basket #1.

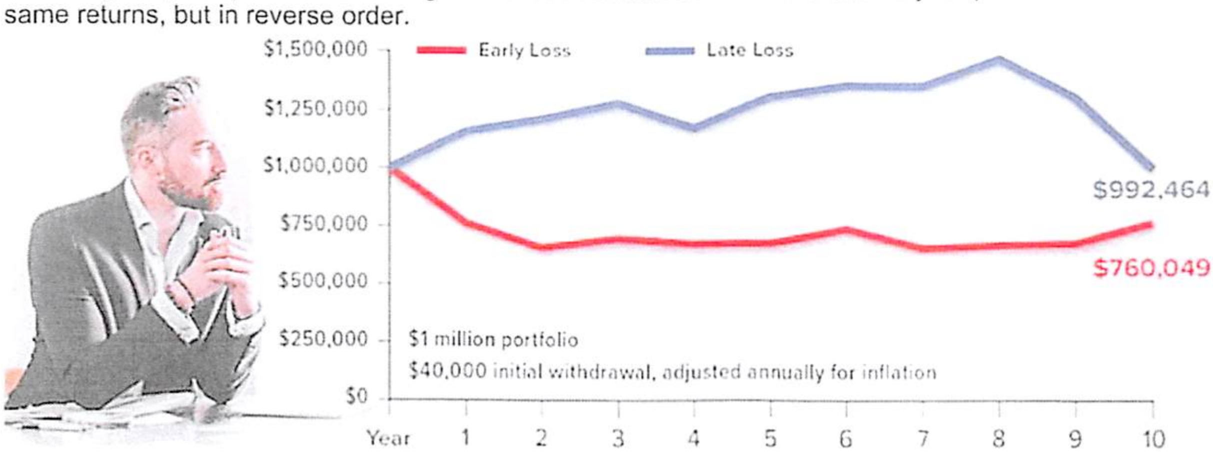
Basket #3: Long term (future income). This basket is the growth engine of the portfolio and holds stocks and other investments that are typically more volatile but have higher long-term growth potential. Investment gains from Basket #3 can replenish both of the other baskets. In a typical 60/40 asset allocation, you might put 60% of your portfolio in this basket and 40% spread between the other two baskets. Your actual percentages will depend on your risk tolerance, time frame, and personal situation.

With the basket strategy, it's important to start shifting assets before you retire, at least by establishing a cash cushion in Basket #1. There is no guarantee that putting your nest egg in three baskets will be more successful in the long term than other methods of drawing down your retirement savings. But it may help you to better visualize your portfolio structure and feel more confident about your ability to fund retirement expenses during a volatile market.

All investments are subject to market fluctuation, risk, and loss of principal. Asset allocation does not guarantee a profit or protect against investment loss. The principal value of cash alternatives may be subject to market fluctuations, liquidity issues, and credit risk. Bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve higher risk.

Early Losses

A significant market downturn during the first two years of retirement could make a big difference in the size of a portfolio after 10 years, compared with having the same downturn at the end of the 10-year period. Both scenarios are based on the same returns, but in reverse order.



Sequence of returns

Year	Early loss	Late loss
1	-20%	20%
2	-8%	8%
3	12%	9%
4	3%	-5%
5	7%	15%
6	15%	7%
7	-5%	3%
8	9%	12%
9	8%	-8%
10	20%	-20%

Assumes a $40,000 withdrawal in Year 1, with subsequent annual withdrawals increased by an inflation factor of 2%. This hypothetical example of mathematical principles is used for illustrative purposes only and does not represent the performance of any specific investment. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included. Actual results will vary.

Watch Out for These Financial Pitfalls in the New Year

As people move through different stages of life, there are new financial opportunities and potential pitfalls around every corner. Here are common money mistakes to watch out for at every age.

Your 20s & 30s

Being financially illiterate. By learning as much as you can about saving, budgeting, and investing now, you could benefit from it for the rest of your life.

Not saving regularly. Save a portion of every paycheck and then spend what's left over — not the other way around. You can earmark savings for short-, medium-, and long-term goals. A variety of mobile apps can help you track your savings progress.

Living beyond your means. This is the corollary of not saving. If you can't manage to stash away some savings each month and pay for most of your expenses out-of-pocket, then you need to rein in your lifestyle. Start by cutting your discretionary expenses, and then look at ways to reduce your fixed costs.

Spending too much on housing. Think twice about buying a house or condo that will stretch your budget to the max, even if a lender says you can afford it. Consider building in space for a possible dip in household income that could result from a job change or a leave from the workforce to care for children.

Overlooking the cost of subscriptions and memberships. Keep on top of services you are paying for (e.g., online streaming, cable, the gym, your smartphone bill, food delivery) and assess whether they still make sense on an annual basis.

Not saving for retirement. Perhaps saving for retirement wasn't on your radar in your 20s, but you shouldn't put it off in your 30s. Start now and you still have 30 years or more to save. Wait much longer and it can be hard to catch up. Start with whatever amount you can afford and add to it as you're able.

Not protecting yourself with insurance. Consider what would happen if you were unable to work and earn a paycheck. Life insurance and disability income insurance can help protect you and your family.

Your 40s

Not keeping your job skills fresh. Your job is your lifeline to income, employee benefits, and financial security. Look for opportunities to keep your skills up-to-date and stay abreast of new workplace developments and job search technologies.

Spending to keep up with others. Avoid spending money you don't have trying to keep up with your friends, family, neighbors, or colleagues. The only financial life you need to think about is your own.

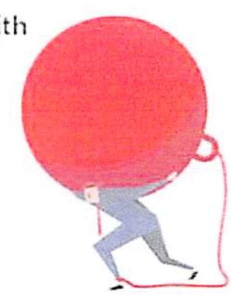
Funding college over retirement. Don't prioritize saving for college over saving for retirement. If you have limited funds, consider setting aside a portion for college while earmarking the majority for retirement. Closer to college time, have a frank discussion with your child about college options and look for creative ways to help reduce college costs.

Using your home equity like a bank. The goal is to pay off your mortgage by the time you retire or close to it — a milestone that will be much harder to achieve if you keep moving the goal posts.

Ignoring your health. By taking steps now to improve your fitness level, diet, and overall health, not only will you feel better today but you may reduce your health-care costs in the future.

The Weight of Too Much Debt

Approximately 70% of workers with non-mortgage debt say their debt has impacted their ability to save for emergencies and retirement, with 40% saying their debt is a "minor" problem and 21% saying it is a "major" problem.



Source: Employee Benefit Research Institute, 2020

Your 50s & 60s

Co-signing loans for adult children. Co-signing means you're 100% on the hook if your child can't pay — a less-than-ideal situation as you approach retirement.

Raiding your retirement funds before retirement. It goes without saying that dipping into your retirement funds will reduce your nest egg, a significant tradeoff for purchases that aren't true emergencies.

Not knowing your sources of retirement income. As you near retirement, you should know how much money you (and your partner, if applicable) can expect from three sources: your personal retirement accounts (e.g., 401(k) plans and IRAs); pension income from an employer; and Social Security at age 62, full retirement age, and age 70.

Not having a will or advance medical directive. No one likes to think about death or catastrophic injury, but these documents can help your loved ones immensely if something unexpected should happen to you.

Four Tips to Help Avoid Burnout While Working from Home

The coronavirus pandemic has completely changed the corporate landscape. Many companies have transitioned to having a majority of their employees work from home. As a result, long commutes, office lunches, and face-to-face meetings could be a thing of the past.

Even when the pandemic eventually subsides, working remotely may be here to stay. According to a recent survey, three-quarters of adults who are able to work remotely would like to continue doing so at least one day a week after the pandemic is under control.[1]

While working from home has its advantages (e.g., no commuting costs, more flexibility), it also comes with certain challenges (e.g., lack of home office space, dealing with distractions at home). Often these challenges can make it difficult to have a healthy work/life balance. That's why it's important to take steps to help avoid burnout while working at home.

Here are some tips to help you stay on track.

1. Carve out a dedicated workspace. Ideally, your work-from-home setup should be located where you can avoid interruptions or distractions. If you don't have a spare room to use for your workspace, try carving out an area for your "office" wherever you can — even a dining room table or a desk in the corner of your bedroom can work.

2. Stick to a routine. Just because you aren't going into an actual office each day doesn't mean you should change your normal workday routine. Keeping a set schedule can help you stay focused and allow you to disconnect and wind down once the workday has come to an end.

It can take time to adjust to working from home, but you will eventually fall into a routine that works best for you and allows you to maintain a healthy work/life balance.

3. Break up the day. It's easy to forget to take breaks when your workspace is in your home. Going for a short walk, running a quick errand during lunch, and standing up to stretch once in a while will help you recharge and decompress throughout the day.

4. Stay connected. Working from home means you have less opportunity to interact regularly with your co-workers, which can feel isolating. That's why it is important to stay connected by using the technological resources that are available to you (e.g., video conferencing, instant messaging).

1) Morning Consult, 2020

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Doug's World

The following line is from my January 2020 Doug's World:

"2020! Woohoo, a new decade. The last one was pretty good. I hope this one is as well."

So……..

January Greetings!

2021! Woohoo, a new year. The last one sucked. I hope this one is better.

You just have to laugh to keep from crying. Thankfully, most aspects of business in 2020 were really good, but just about everything else invoked a "WHAT THE HECK" in my mind and often out loud. Fortunately, as of this moment, nobody in my immediate family has had the virus. Also, nobody in the immediate family of anyone working here has had it either. Of course, extended families and friends have had several cases, but all have recovered to the best of my knowledge.

My ability to travel was seriously impacted in 2020. I was actually in Mexico celebrating my wife's birthday when this all hit in March. We were just happy to get home at that point. There were no other big trips in 2020. We hit Galveston a few times in the year, but that was limited by having the building itself, plus our unit separately, undergo a fairly significant remodel in the second half of the year. Also, it was really hard to hold our breath for the 60 minute plane ride down there. The airline had empty middle seats earlier, but now we are back to just fill 'em up.

I plan, I mean hope that we can get away some in 2021 at least to Galveston. I'm pretty sure that will occur because I can always drive down for longer stays. It's a nine hour drive, so you don't do that just for a weekend. With all the early quarantining we did and the later time when we lost power for two weeks, our ability to work remotely grew and is pretty strong now. Maybe I can call you while sunning on the beach.

Like a lot of people, we did some home projects during 2020. Thus, if staying home is what has to be, I'm good with that too. Just let it be warm. I'm much more of a warm weather guy. All of my projects were outdoor and patio improvements: therefore, if 2021 is to be a repeat of 2020, you should be expecting the plagues of locust and frogs.

DOUG OLIVER

Justin's World

My kids have been asking for a dog for years. Tiana, our youngest, is a major animal lover. Nicki and I have looked into pets for the kids over the years, but never felt it was the right time. In October, my daughter, Lanie, put together a power point presentation on why we should get a dog and not just any dog, but specifically a Cavapoo (King Charles Cavalier – Poodle mix.)

The presentation was impressive, and Nicki and I decided it was time to become dog owners. After we decided we would get a dog we looked at each other and asked, "how do you buy a dog?" I did a little research and found some places that bread Cavapoos. The first two places I called had 12-18 month waiting lists. The third place said they did not have any, then paused and said they did have one, but he was disabled, one of his legs was shorter than the others, but he was free to a good home. We gladly took him in!

The kids had no idea we were even entertaining the idea of a dog. I had kept my "absolutely no animals" act going during and after Lanie's presentation. One evening in late November, Nicki called the kids downstairs and I calmly walked in the door holding this adorable little pup. The kids went crazy!

He has been so much fun. He loves playing in the snow, playing fetch with his stuffed animals, and cuddles up with us while we watch tv at night.

Even though Nicki and I each had family dogs growing up, we were never dog people. Dobby has won our hearts, and after only two months we cannot imagine life without him. Every morning when I come out of the bedroom, he runs to me and we play fetch and wrestle around for 5-10 minutes. I love this time with him, and it gets my day started with a smile.

Happy New Year!

Justin J. Klein, CFP®

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Stephanie's World

January 2021,

Woah, what a year! Like many of you, I was glad to see 2020 go. I have big hopes for the new year and I sure pray it doesn't disappoint. That being said, 2020 taught me a lot. Probably the most valuable of those lessons was regarding expectations.

For a type-A personality like myself, there's nothing I love more than a good solid plan. Just ask my husband – I. Plan. Everything. Dinner, I've got a plan. Weekend project, I've got a plan. Extracurricular activities, shuffling the kids to and from, homework, I've got a plan. I probably also I have a corresponding check list or vision board to go with each of those plans. Overkill? Absolutely! But it's just how my brain works. I need structure and organization.

All of that to say, 2020 turned my over planning-list making-organized world upside down! I could plan until the day is long, and BOOM, 2020 would do what it did best and change my plans. So, I learned pretty quick (ok, admittedly, it took a few months) that if I didn't want to go crazy, I needed to put my expectations in check. So that's what I did, and boy has it been freeing. Onward and upward from here!

These two cuties have kept me on my toes and kept me smiling (mostly). Find your reason to smile this year. ☺

So, what now? Well, in keeping our expectations in check, the motto for 2021 is "go with the flow". Fitting, right? Nonetheless, I've still established some goals for the new year. I thrive on accountability, so here they are:

1. A health focused lifestyle – time to kick the unhealthy habits that 2020 developed and get back in the grind.

2. A (no expectations) family vacation – safe travel to a place where we can re-energize as a family and focus on the 4 of us.

3. CFP professional designation – start the grueling process of qualifying and preparing for the CFP board exam. Let's do it!

If you're so inclined, please feel free to share your 2021 goals with me. I would genuinely love to hear what you'll be focusing on this year. Regardless, I wish a prosperous, healthy, and FANTASTIC New Year to each and every one you. Cheers!

Stephanie

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