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Wealth Matters Newsletter

May 2021

Investment Challenges of the Affluent Investor

High net worth investors face investment challenges that some would consider unique to their financial status. The fundamental tenets of investing apply equally to them as with any other investor, but the affluent investor needs to be mindful of issues that typically arise only from substantial wealth.

Let’s examine a few of these:

Being Too Conservative

When an individual has more assets than they think they’ll ever spend, there can be a tendency toward conservative investment. This may result in lower long-term returns that may shortchange the impact of bequests to charities or the wealth that will transfer to the next generation.

Collectibles

The affluent have a tendency to invest in their passions, and many collectibles have performed well over the years. However, one common mistake is not keeping up-to-date appraisals on record, which may have adverse consequences with regard to estate liquidity and taxes.

Concentrated Equity

Some senior executives accumulate large stock positions in the company that employs them. This creates a unique risk and potentially can be managed in several ways.

DIY Mentality

Some wealthy investors have achieved a high level of success in their careers, in large measure due to their intelligence, hard work, and self-confidence. This very success often carries over to the belief that building or managing successful enterprises is not dissimilar to managing great wealth. But it can be quite different, requiring a whole different body of knowledge and experience.

Too Many Professionals

Affluent investors often place their investment assets with multiple professionals, thinking that better results will arise from that. However, many of the key needs for larger portfolios, such as risk management and tax efficiency, will suffer since there is no overarching view into the larger picture of an individual’s entire portfolio. The independent actions by separate professionals, all with the best of intentions, may actually give rise to suboptimal outcomes.

With increasing wealth can come even more unique challenges beyond those covered by this discussion. Consequently, affluent investors are encouraged to seek professional guidance that may be best suited for their particular needs and circumstances.

If you are working with or looking for an advisor, make sure they offer a collaborative approach for the other professionals in your life. Some areas of your financial plan may require you to work with other professional advisors, such as estate planning attorneys, accountants, or loan officers. If these advisors are already in place, we will welcome the opportunity to collaborate so that your big-picture goals are maintained. If the need arises for a professional you are not yet working with, we will make recommendations from our network of excellent professionals. When you work with Searcy Financial, our network becomes your network. We can coordinate the efforts of all involved, monitor progress, and help keep all parties on track to achieve your goals.

Footnotes:

1. The value of collectibles can be significantly affected by a variety of factors, including economic downturns or markets that have little or no liquidity. There is no guarantee that collectibles will maintain their value or purchasing power in the future.

2. Keep in mind that the return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

Big Retirement Questions: What If Inflation is High?

There are many retirement questions we hear over and over, so we know these are the major questions that weigh heavy on the minds of future retirees. Let’s discuss one big retirement question: What if inflation is high?

Inflation is defined as a general increase in prices for goods and services in an economy over time.

It would take roughly $26.98 today to buy something that cost a dollar in 1913. It's hard to wrap your head around the idea of 2500%+ inflation, so here's another way to look at it. When you were a kid, how much did a pack of gum cost? A dime? A quarter? How much does it cost now? If you can even find a single pack of gum, it'll cost you a buck, a buck fifty. That's the power of inflation.

Even though inflation has been historically low over the last few years, it’s still silently eroding the buying power of your investment returns each year. Retirees need to worry about inflation because it’s likely that inflation will go up in future years to revert to its historic norm of around 3 percent. It’s also important to note that some forms of inflation are higher than others. Healthcare costs and college expenses are two areas in which inflation is much higher than the average.

Fortunately, there are some strategies we can employ to help fight the effects of inflation over time.

Traditionally, investors have gradually reduced their exposure to growth-oriented investments. like stocks. as they got closer to retirement, relying on fixed income investments. like bonds. to provide income. However, low interest rates, longer lifespans, higher healthcare expenses, and other factors have led advisors to prefer a more balanced portfolio that includes enough growth potential to fight the effects of inflation.

One of the chief benefits of stocks is their returns tend to outpace inflation over the long term. To ensure your portfolio returns can fight inflation, it’s a good idea to have enough exposure to equities.

Now, keep in mind that inflation is just one factor that we consider when developing investment strategies for our clients. It’s impossible for us to make any concrete recommendations without knowing more about your personal circumstances, needs, and future goals. Every asset class has its own special risks to consider and it’s important to speak with a professional before making any important investment decisions.

One of the benefits of active management is that we are always monitoring the larger market environment and seeking investments that will perform well in inflationary or low inflation conditions.

We are always trying to strike a balance between risk and return. Today’s markets are volatile and many investors, burned by big portfolio losses in the downturn, want to play it safe. The problem is that a portfolio containing too little risk can leave you safe but sorry as you miss out on market rallies.

Too little risk can have serious adverse effects on your long-term investment returns since it limits your potential for upside. By trying to limit your market risk, you’re potentially leaving yourself open to the erosion of inflation, which can cause income shortfalls later in life.

Remember that $1 in 1955 could only buy you about 10 cents worth of stuff in 2021. This is because inflation has steadily caused prices to rise each year. You don’t want to get caught many years down the road with what seems to be lots of money but low purchasing power because items cost that much more.

If you are concerned about how to factor inflation into your financial planning, please contact our team any time.

We are pleased to announce that Marc Shaffer has been named to Ingram's Magazine 40 Under Forty: Class of 2021. The class represents a wide range of industries in Kansas City, from law, to real estate, to healthcare, to finance and tech. They are recognized for sharing a commitment to the long-term health of the community through their hours of mentoring other young professionals and volunteering with service organizations throughout the metro area.

Let's press the pause button. The past year could be described as one filled with stress and situations outside of our control. Join us for a webinar on June 23rd at 3:00pm Central where Alex Villalobos-McAnderson will share tools to help us control how we feel even when the world around us might seem chaotic, be responsive instead of reactive, find peace, and practice self care. She will also guide us through a meditation, so be prepared to walk away relaxed and with a new perspective on being mindful. Email cali@searcyfinancial.com to reserve your spot!

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