BOND&DEVICK
wealth partners

News&Notes *2nd Quarter 2021*

Don't Be Thrown Off Base

Inflation continues to dominate investment and economic discussion around the globe while investors and policy makers wait anxiously for every new bit of news. Some headlines scream, "I remember the 70's" others sternly warn of "Stagflation – could it happen again?". Mild inflation is generally a good sign that the economy is healthy and growing. The big worry right now is that the incredible amount of fiscal and monetary stimulus will overheat the economy and the Federal Reserve will need to increase interest rates sooner than expected, thus throwing the stock and bond markets for a curveball. An even worse outcome would be if the Fed waited too long before raising rates and the economy and inflation got away from them. This scenario foresees runaway inflation and tanking bond and stock markets. What is the most likely path forward for inflation and interest rates over the next few years?

One thing to remember is the base effect. Many economic statistics are quoted YOY (year over year) and some of the numbers we will see will be shocking and without precedent. Much of this has to do with the base effect. The base effect is important because you need to remember what was happening twelve months ago. To review – the world was shut down. Entire industries stopped, people stayed in their homes and watched TV and prayed. Every single statistic that comes out this year will be compared to this environment. You will hear and read that these numbers that are coming out are unprecedented and scary. To truly grasp inflation and economic growth we need to look at pre-Covid reference points. How does economic growth and inflation compare to the data from 2 years ago? From 3 years ago? What was the trend pre-Covid, and do we anticipate those trends to continue or is a new trend in place?

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We do not want any of our clients to think we are not taking a resurgence in inflation seriously – we are. Runaway inflation would damage the economy and the stock and bond markets.

As of now, we believe runaway inflation is not the most likely outcome as secular, deflationary trends will most likely remain in place and inflation will most likely settle in at the 2%, or less, level once we start to compare prices in 2022 to prices in 2021.

So, what is an investor to do? What types of investments tend to do well if inflation picks up and overshoots the Federal Reserve’s expectations? Commodities, health care, real estate, and consumer staples generally perform well. As interest rates rise back to more normal levels, we believe financial stocks could outperform as well. Technology stocks typically suffer as do long-term bonds. While we are not forecasting runaway inflation, we do believe the trend in interest rates and inflation will be upward over the next several years. Because of this, we reduced the duration of most of our bond portfolios (favoring short-term bonds and cash and reducing exposure to intermediate and long-term bonds) and increased the use of some alternatives (covered call strategies are low-volatility strategies) that have little to no interest rate (inflation) risk.

If you have been a client for more than 12 months, you know that our mantra is we strive to stay balanced and diversified and we design portfolios to help our clients achieve their long-term objectives in every type of market environment. The next time you hear or read something about the newest GDP growth or inflation numbers, take a moment to reflect on the base effect – what is the time frame that the numbers are being compared to? What was going on during that period of time? Remember, many headlines are created to draw attention and many people who are the most vocal about runaway inflation may just be trying to benefit themselves (selling gold, Bitcoin, annuities, etc.).

We hope you have a wonderful summer.

The Bond&Devick Team

Updates

1. We are moving! Our team is in the process of creating a new office space two floors down from our current location. As of now, the plan is to move in mid-September.
2. There will be a volunteer opportunity at Feed My Starving Children in early October. Stay tuned for more details.
3. We became a B-corporation in 2015. We were recently recertified, and our B-corporation score has increased! https://bcorporation.net/directory/bonddevick-wealth-partners
4. Two new B&D podcasts will be released in mid-July. One podcast will be about vulnerable adults while the other will focus on SRI shareholder activism.

Last week, Kristine's friend's personal email account was hacked by a sophisticated hacker. This hacker gained complete access to her email and was able to add a new phone number to the account, allowing the hacker to confirm the login from a new device as well as create password resets for other accounts attached to her email. She lost control of her email for almost 48 hours. This hacker sent emails to all her contacts with messages asking for favors and, more specifically, requesting that the individual purchase an Apple gift card for Kristine's friend's niece because she was taking care of her sick aunt and was unable to take care of it, stating she would pay them back. All the scam emails were signed at the bottom with Kristine's friend's name, making it a personalized message to come across as a real email. These messages were successful in creating concern and, in some cases, provoking a reply email which then compromised that person.

Cyber hacks have become extremely advanced, and it is imperative to know what to look for, how to avoid a scam, and what to do if you are scammed. AARP has good information with tips and tricks to scams and fraud, as well as what to look for when identifying fake emails. Fake emails typically begin with a generic greeting and follow with pointing out a problem or prize that you must act on quickly. These scammers are looking for a way to gain money fast, whether that be through prepaid credit cards or, in this story, a specific gift card. Here is a link to an article from AARP discussing gift card scams and how common these methods of fraud have become. (https://www.aarp.org/money/scams-fraud/info-2021/aarp-gift-card-survey.html?intcmp=AE-FRDSC-MOR-R2-POS3)

The Federal Trade Commission also provides advice to consumers on how to avoid and handle fraud. Some of the main tips suggested for avoiding scams include blocking unwanted calls and text messages, resisting the pressure to act immediately, be knowledgeable on how scammers tell a person to pay, and never give personal or financial information in response to an unexpected request. In addition, it is not enough to merely not press a link that is sent to you from a suspicious email, but to also not reply to the email at all. This link provides you with more detailed information from the Federal Trade Commission's website on identifying and avoiding scams. (https://www.consumer.ftc.gov/articles/how-avoid-scam)

Finally, what do you do when you are scammed? Both AARP and the FTC provides message boards to report scam and assistance on what to do next. If this hack is specifically through your email, contact your email provider to gain control and make sure all information is yours and as not been altered. Further, make sure to turn on a two-step verification and create a new password that is at least 16 characters long, these steps provide additional protection and security against a future hack.

FTC Identity Theft Information

https://www.ftc.gov/news-events/media-resources/identity-theft

AARP Scams & Fraud Information

https://www.aarp.org/money/scams-fraud/?intcmp=GLBNAV-SL-MON-CONP

Biden Administration Proposed Tax Plan and Its Effects on Selling your Business

Planning on selling your business in the next few years? It may be advantageous to sell before the years-end based on the Biden Administration proposed tax reform. This reform, known as the American Families Plan, aims to eliminate favorable rates for long-term capital gains and return to the top income tax bracket. This tax bracket includes a 39.6% rate that directly affects individuals that earn over $1 million in income, or in certain circumstances, those that make a $1 million sale in that tax year. This plan, if passed, will not go into effect until Fiscal Year 2022. Liquidating your business before January 2022 will ensure capital gains at the current 20% tax rate, rather than a possible 39.6% rate after January 2022.

Here is a link to an article that further explains the plan and the possible outcomes for business owners. https://www.kitces.com/blog/american-families-plan-capital-gains-tax-increase-business-owners-installment-sales

Meet the Summer Interns!

Madison just finished her Junior Year at St. Benedicts (Kristine's alma mater!). She is majoring in Economics with a Data Analytics Minor. Madison will be working with Rob and Rachel.

Welcome, Molly & Madison!

Molly just finished her Junior Year at Iowa State University. She is majoring in Psychology with a Business minor – interested in Marketing and Human Resources. Molly will be working with Kristine. (Molly created this newsletter!)

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NOTES

1. **Check our website for our Podcasts!**
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2. **Be sure to send us your updated tax return.**
3. **Check out our Facebook page for the latest updates on the B&D Team and families. Our page is public, you do not need your own FB account to view it!**

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