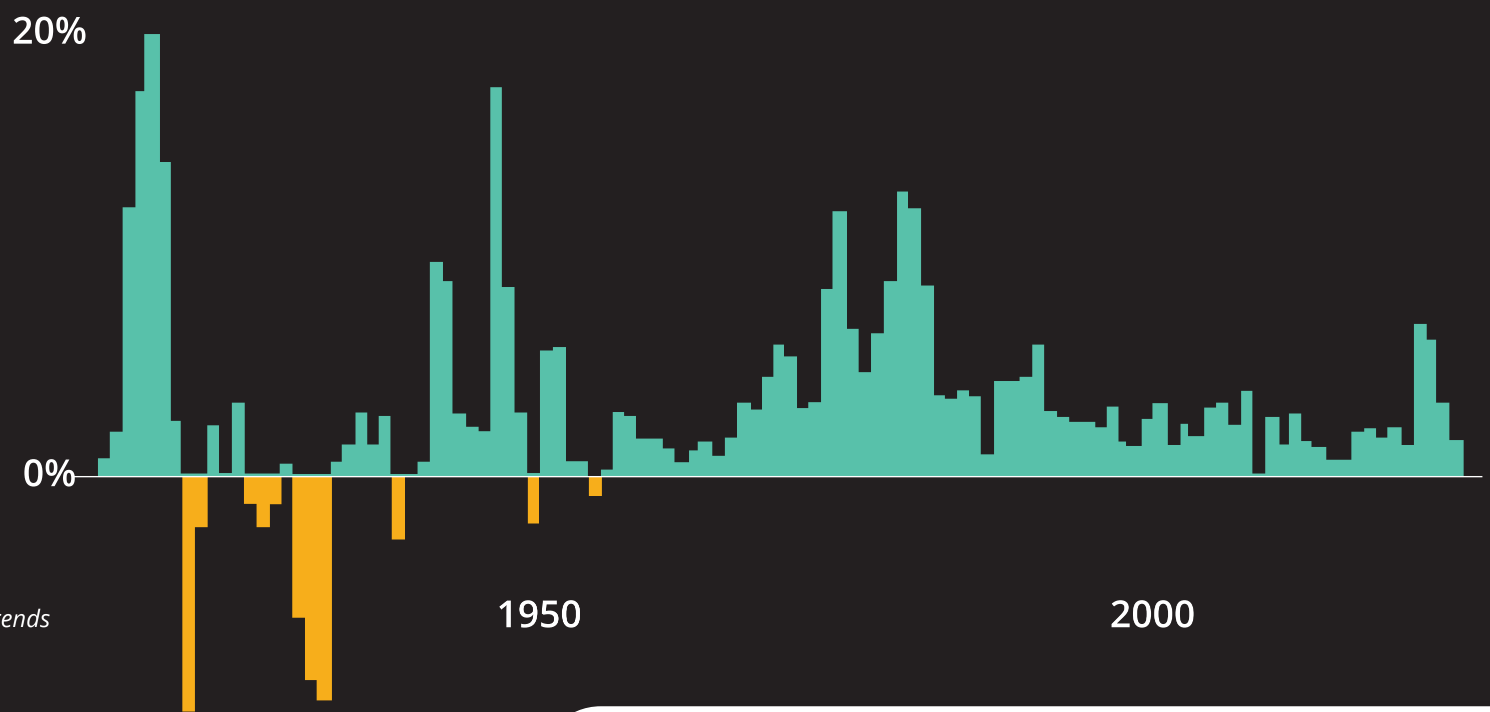
ANNEX
WEALTH MANAGEMENT
Know The Difference™

SAFEGUARDING YOUR WEALTH

Inflation Isn't Dead Yet

Inflation is proving harder to defeat than some experts had expected.



Source: Macrotrends

The current environment of elevated inflation presents unique challenges – particularly for those nearing or already in retirement.

Even if you've worked and accumulated a comfortable portfolio, navigating today's inflationary landscape may still require strategic adjustments to your retirement plan.

Q

*"The Fed recently hinted that inflation is **stickier than expected**. Should I be worried?"*

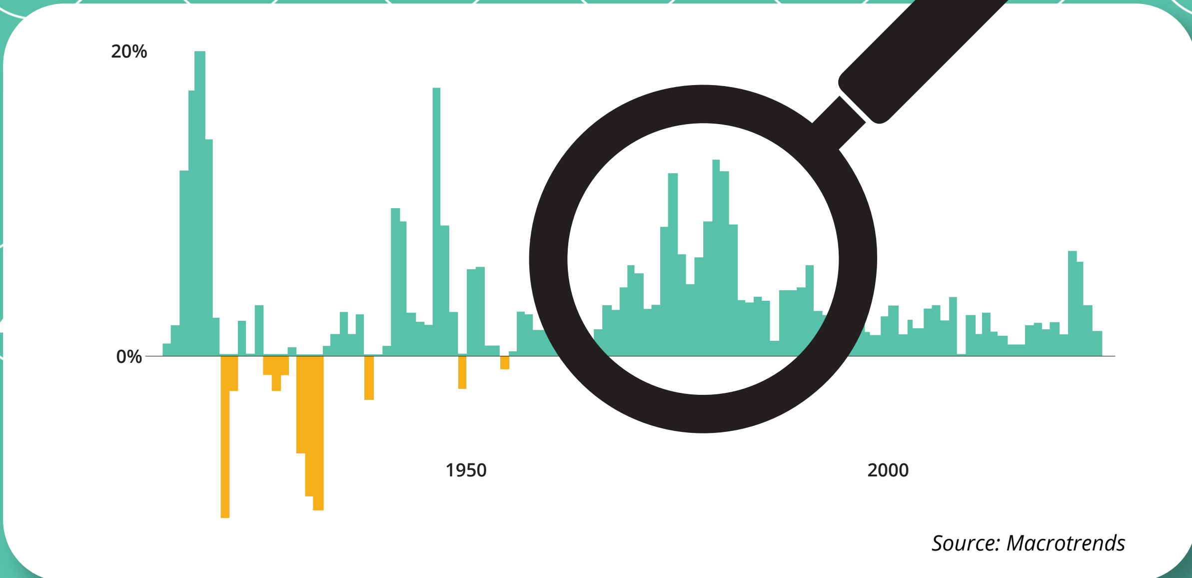
A

Focus instead on being informed and confident in the tools you're using. Inflation is often misunderstood, and it's easy to see why. Inflation is very personal. The impact of inflation depends on the specific spending habits of each individual.

Those in retirement, for example, might be interacting more with the healthcare system while younger people may consume more food or use more gasoline.

Inflation will affect each of those groups differently. What's important is to have a plan and understand what tools you'll use to reach your plan's goals. The investments and strategies that may have been effective in a no- or low-inflation environment may be less effective today or going forward.

Inflation Is Personal



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Understanding High Inflation

Before delving into strategies, it's essential to grasp the nature and impact of high inflation on retirement planning. Inflation refers to the rate at which the general level of prices for goods and services rises over time, leading to a decrease in purchasing power for any given level of savings. While moderate inflation is considered a normal part of a healthy economy, high inflation, characterized by rapid and sustained price increases, can have profound implications, especially for retirees.

High inflation erodes the real value of assets and income over time unless asset values or incomes rise as fast as inflation. For retirees, whose investment horizon may span decades, inflation's erosion can be particularly detrimental as it threatens the sustainability of their retirement lifestyle. Traditional retirement planning assumptions like relying on a fixed income stream or allocating a significant portion of assets to low-yielding investments may not be as effective when inflation is elevated. The expected pace of inflation is a minimum hurdle over which your investments need to return just to maintain their purchasing power over time.

Challenges Faced by Retirees in an Environment with Elevated Inflation

PURCHASING POWER EROSION

Inflation diminishes the purchasing powe of fixed income streams like pensions and annuities, leading to a decline in the real value of retirement income over time.

ASSET DEVALUATION

Inflation can erode the real value of investment portfolios, especially those heavily weighted towards fixed-income securities or cash equivalents when the yields on those investments are less than the rate of inflation.

INCREASED COST OF LIVING

Retirees may face higher expenses for essential goods and services like healthcare, housing, and utilities, reducing their discretionary spending capacity.

PORTFOLIO VOLATILITY

High inflation often coincides with increased market volatility, posing challenges for retirees reliant on investment income to fund their retirement expenses. Given these challenges, it may be time to consider adopting proactive strategies to mitigate the adverse effects of elevated inflation and preserve wealth over the long term.

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Strategies For Retirement Planning In An Environment With Elevated Inflation.

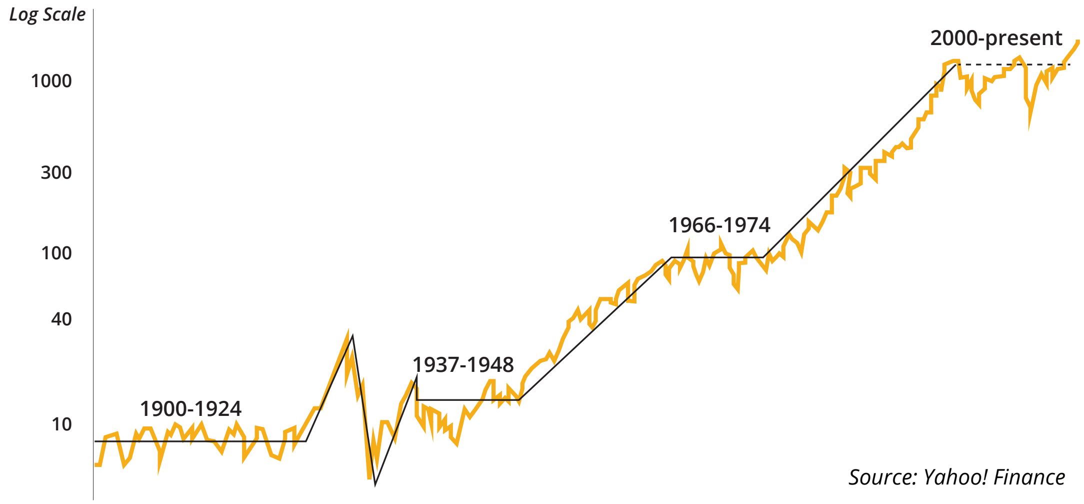
1

Asset Allocation and Diversification

A core approach in retirement planning, diversification, helps mitigate risk and provides opportunities for growth that can potentially outpace inflation. Retirees should diversify their investment portfolios across asset classes, including equities, fixed income, and perhaps others as appropriate. As you consider diversification, remember to work with an expert you can trust. This can help you develop a strategy—which is about dynamically navigating conditions—instead of just setting a static allocation and hoping for the best.

Historically, stocks have been *successful*.

S&P Composite Index



Equities can provide growth potential that outpaces inflation over the long term. This is because businesses can adapt to changing conditions. For example, from 1926 through 2023, inflation in the U.S. averaged 2.9% per year. The S&P total return averaged 10.3% per annum. Compare that to 30 day Treasury Bills, a proxy for cash, which earned 3.3% per year, barely beating inflation[1]. Which specific stocks or sectors may benefit from inflation depends not only on the companies' ability to raise prices, but to also control their costs. This ability changes over time, depending on the exact source of inflation and other competitive forces.

Source: Author's calculations from Ibbotson and Associates Stocks, Bonds, Bills, and Inflation annual data 1926 through 2023.
Past performance does not guarantee future results. All investments carry some level of risk including the potential for loss of principle.

"*Fixed Income* Can Do Well, Depending On *Yields*."

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Fixed income is characterized by a contractually fixed stream of cash flows to bond holders.

• **Some bonds**—like Treasury Inflation Protected Securities (TIPS)—allow for the fixed payments to adjust for inflation. TIPS prices are still driven by changes in interest rates, so if investors may need to sell the TIPS before they mature, there could be significant losses—or gains— depending on what happens to rates between the time they're purchased and the time they're sold.

· **Whether bonds can beat inflation** depends on whether the yields they offer are more than the rate of inflation over the life of the bond. Intermediate term government bonds have had a total annualized return of 4.2% from 1926 through 2023[2]. While on average they have beat inflation there can be protracted periods of time when they underperform inflation. 2021 and 2022 are recent examples where intermediate term government bonds lost 10% and 16%, respectively[2].

They were hurt not only by high inflation, but the fact that yields moved up dramatically, generating nominal losses.

2. Source: Author's calculations from Ibbotson and Associates Stocks, Bonds, Bills, and Inflation annual data 1926 through 2023.

It is often thought that real assets, like commodities, real estate investment trusts (REITs), and infrastructure funds can help beat inflation.

- **Whether they do** or not depends on what is driving inflation and the change in valuations of the assets.

- **Real Assets** have historically exhibited a positive correlation with inflation, but they are not necessarily consistent in being able to beat inflation. Gold, for example, has had a 4% real return from 1962 through 2023, but excluding the years 1972 through 1980 reduces the average real return to 0%[3].

- **REITS** may be able to raise rents and their revenue when inflation rises, but their cost of financing and operations can also increase.

- **There are no silver bullets** that work always and everywhere to beat inflation.

3. Source: Gold price data, Bloomberg.

Past performance does not guarantee future results. All investments carry some level of risk including the potential for loss of principle.

Revisit Your Retirement Budget & Spending Habits

2

Market returns and inflation are outside of each individual's control. It is often best to focus on what we can control. Investors can focus on having a strategic allocation aligned with their long-term goals. During periods of elevated inflation, it's crucial to re-evaluate your retirement budget and spending habits. Here's how to adjust:

- **Track Expenses:** Start by meticulously tracking your spending for a few months, which will help identify areas to potentially cut back.

- **Prioritize Needs Over Wants:** Differentiate between essential expenses (housing and healthcare) and discretionary ones (entertainment and travel). Focus on reducing or modifying non-essential spending while ensuring you maintain a comfortable lifestyle.

- **Comparison shop:** Clipping coupons and comparison shopping can really help reduce one's own inflation experience. Do not forget to comparison shop things you might not typically consider, like auto insurance, internet service, cell phone service, and other items. If you need a home repair done, do not take the first quote you get. It can pay to have a second - or even a third - opinion. These take time, and time is valuable, so do consider whether comparison shopping is worth the extra time and effort, but don't assume it's not worth it.

3

Consider Delaying Retirement (if possible)

If you're nearing retirement but haven't yet pulled the trigger, delaying it for a few years can be beneficial in an environment with elevated inflation. Consider delaying retirement if you're looking to add to your savings and benefits.

- **Accumulate More Savings:** More time in the workforce translates to additional contributions to your retirement accounts and less of a need to tap those accounts for distributions. The power of compound interest can significantly enhance your nest egg.

- **Increase Social Security Benefits:** Delaying your Social Security can increase the monthly benefit you receive. While individuals can take Social Security at a relatively young age, waiting until what the Social Security Administration calls the "full retirement age" can result in a permanent increase in monthly income. And those benefits increase with inflation through a cost-of-living adjustment.

Embrace Tax-Efficient Strategies

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4

Taxes can significantly impact your retirement income and the government does not give you a credit for any investment income or capital gains that are simply due to inflation. Here's how to optimize your tax situation:

- **Explore Tax-Advantaged Accounts:** Maximize contributions to tax-advantaged retirement accounts like IRAs and 401(k)s, which can offer tax-deferred or tax-free growth, allowing your money to compound faster.

- **Consider Roth Conversions:** If you're in a lower tax bracket now than you anticipate being in retirement, consider Roth conversions. While you'll pay taxes on the converted amount upfront, qualified withdrawals in retirement are tax-free.

- **Harvest Tax Losses:** Selling investments at a loss can offset capital gains taxes on other investments, which may allow you to minimize the tax burden on your investment returns.

- **Harvest Tax Gains:** Sometimes it makes sense to recognize gains, not just losses. If you're temporarily in a lower tax bracket—perhaps even a bracket where you can take advantage of zero percent capital gains—it can make sense to harvest gains instead of losses, which can reduce future taxes. Being strategic about when to recognize gains and losses is something a tax planner or wealth advisor can help figure out.

5

Work With A Fiduciary Wealth Advisor

Navigating an inflationary environment alongside retirement planning requires expert guidance. A fiduciary wealth advisor has a legal obligation to act in your best interests, prioritizing your financial well-being. Here's what your advisor can do:

- **Develop a Customized Plan:** They will consider your risk tolerance, time horizon, and financial goals to create a personalized retirement plan that accounts for inflation.

- **Practice Active Monitoring and Rebalancing:** Regularly monitor your investment portfolio and rebalance as necessary to maintain your desired asset allocation and risk exposure. Rebalancing ensures that your portfolio remains aligned with your long-term financial goals and risk tolerance, mitigating the impact of market fluctuations and inflationary pressures.

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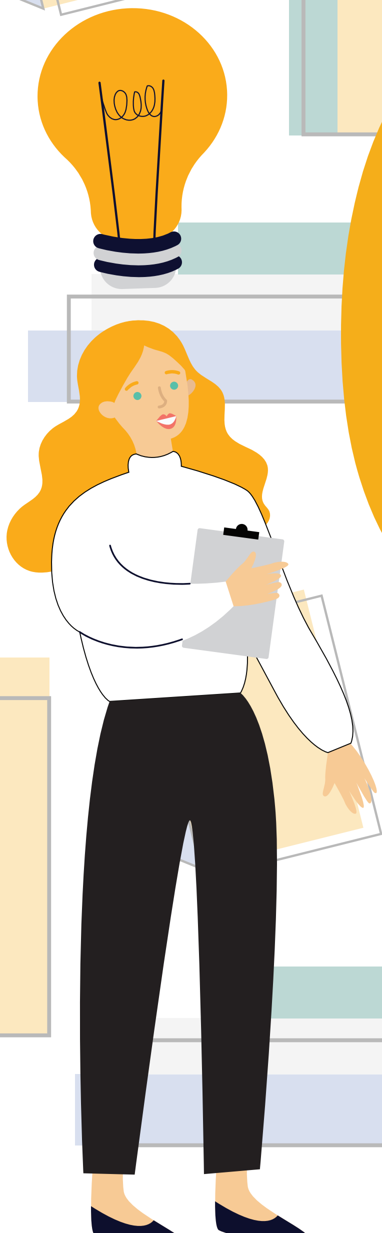
6

Stay Informed and Mentally Prepared



Staying informed about economic trends and potential solutions to inflation is crucial. However, it's equally important to manage your expectations and remain calm during volatile periods. Here are some tips:

- **Develop a Long-Term Perspective:** Remember, an environment with elevated inflation can give way to a period with low inflation. Focus on your long-term financial goals and avoid making rash decisions based on short-term market fluctuations or short-term economic conditions.
- **Stay Diversified:** Don't put all your eggs in one basket. Maintain a diversified portfolio to weather market ups and downs.
- **Seek Professional Guidance:** Don't hesitate to reach out to your financial advisor if you have concerns or questions. Discussing your anxieties can help you develop a clear-headed approach and make informed decisions.

Beyond the Numbers: Maintaining a Fulfilling Retirement

7

While financial security is important, finances are a tool to help enjoy your golden years. Here are some additional tips to ensure a fulfilling retirement beyond just managing finances:

- **Pursue Your Passions:** Retirement presents an opportunity to dedicate time to your hobbies and interests. Whether it's travel, volunteering, or learning a new skill, engage in activities that bring you joy.

- **Stay Socially Connected:** Social isolation can be detrimental to both physical and mental health. Prioritize spending time with loved ones, join clubs or groups, or volunteer in your community.

- **Maintain a Healthy Lifestyle:** Taking care of your physical and mental health is essential for enjoying your retirement. Develop healthy habits like regular exercise, a balanced diet, and quality sleep.

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> *"With careful planning and professional guidance, you can navigate the complexities of retirement."*

Conclusion

Retirement planning in an environment with elevated inflation presents unique challenges and requires a proactive and flexible approach to wealth preservation and growth. By diversifying across asset classes and implementing dynamic withdrawal and risk management techniques, retirees can safeguard their financial security and sustain their desired lifestyle throughout retirement.

As inflationary pressures persist, ongoing monitoring and adjustment of your retirement plan are important as you seek resilience and effectiveness in the face of evolving economic conditions. With careful planning and professional guidance, you can navigate the complexities of retirement in any inflationary environment with confidence and peace of mind.

GET STARTED

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