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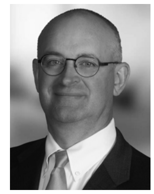

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Is It Time to Rethink College?

College costs can seem staggering. For the 2021-22 school year, the average annual total cost was $55,800 for a four-year private university and $27,330 for a four-year public university (Source: *Trends in College Pricing*, 2021). It's no wonder that students and parents alike wonder whether college is really necessary.

To help answer that, consider the median earnings by level of education for 2018 (most recent year available):

Professional degree	$120,500
Doctoral degree	102,300
Master's degree	80,200
Bachelor's degree	65,400
Associate degree	50,100
Some college, no degree	46,300
High school graduate	40,500
Not a high school graduate	30,800

(Source: *Education Pays*, 2019)

In terms of paying back college costs, the College Board estimates the typical college graduate who started college at age 18 will earn enough to compensate for tuition and fees at the average four-year public university as well as for foregone earnings during those college years by age 33 (Source: *Education Pays*, 2019).

While that doesn't sound like a bad tradeoff — breakeven by age 33 and then earn substantially more for the rest of your life — keep in mind that those figures only include the cost of tuition and fees at a public university. Room and board adds another $11,950 annually to the cost. And, if your student goes to a private university, the costs are typically double what you pay at a public university.

Those figures also don't consider how you pay for that education. If you pay for that college education primarily with student loans, it could take a lot longer than age 33 to breakeven.

That doesn't mean your child shouldn't go to college, just that you may need to reevaluate how much you want to spend on that education. Consider these strategies to reduce the cost of a college education:

✔ **Look for scholarships that are not based on need.** Generous merit scholarships are often

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Straighten Out Your Financial Accounts

It's not uncommon to accumulate things over the years when you don't take time to straighten them out periodically. This applies to our finances as well as our possessions. If you feel it's time to straighten out your finances, consider these steps:

✔ Make a list of all your assets and debts. List each one individually, so you have a sense of how many different accounts you have.

✔ Go through each one of your investments. Make sure you understand why you own each one. Are you really adding diversification to your portfolio? Assess the prospects of each investment and decide whether you should continue to own it.

✔ Look for ways to consolidate accounts. Try to get down to one bank account, one brokerage account, and one IRA. This can significantly reduce the time needed to review and reconcile accounts.

✔ Assess your outstanding debts. Do you really need all those credit cards? Consider keeping only one or two cards, so it'll be easier to monitor balances. Look for ways to reduce the cost of your borrowing. Is it time to take another look at refinancing your mortgage? ❍❍❍

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Is It Time?

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available to students with outstanding high school grades and above-average entrance exam scores. Scholarships may also be available for athletes and for those with strong music backgrounds. If your student has qualities that a college is looking for, that college may be more willing to offer scholarships to attract him/her.

✔ **Apply to several different colleges.** Don't make the mistake of thinking that aid packages will be the same at all universities. You may be surprised at how wide the differences can be. Even if your child is set on one school, it is generally wise to apply to several different colleges. This is especially true in these economic times when more students are applying for aid and colleges have less aid available.

✔ **Talk to the university.** If the financial aid package is not sufficient, talk to the financial aid officers at the university. By explaining extenuating circumstances or showing the college offers from other universities, you may be able to increase your aid package.

✔ **Don't overlook state public universities.** Costs of public universities, especially in your state, are typically much more affordable than private universities.

✔ **Decide whether it makes sense to go to an expensive private college.** First, you need to evaluate how much financial aid your student would be entitled to. If you are still left funding much of the cost yourself, consider whether your child's intended career makes it a good investment. If your child intends to pursue a career with limited salary potential, you may not want to send him/her to an expensive college.

✔ **Consider starting at a two-year college.** Two-year colleges are often much cheaper than four-year colleges, especially when you consider that most students live at home while attending. For instance, for the 2021-22 school year, the average cost of tuition and fees at a public two-year college is $3,800 compared to $10,740 at a public four-year college and $38,700 at a private four-year college (Source: *Trends in College Pricing*, 2021). Before starting, however, your child should determine which four-year college he/she will transfer to and make sure all of the credits from the community college will transfer to the four-year college.

✔ **Send more than one child to the same university.** Many universities offer discounts on tuition if more than one child attends at the same time.

✔ **Accelerate your child's studies.** You can save a significant amount of money if your child can complete a four-year degree in three years. Another alternative is to have your child take summer courses at a local community college. High school students may be able to take courses at a community college, which will then transfer as college credits. Advanced placement courses may count as college credit.

Please call if you'd like to discuss this topic in more detail. ❍❍❍

Stock Market Ups and Downs

It would be ideal if investment decisions were made in a vacuum without influences from the outside world, but that is not the case. We are constantly bombarded with information from many different sources, and it impacts how we feel about our investments.

So how do you control those emotions? It helps to hold on tight to a solid investment plan that looks at performance over the long term. Here are some tips on helping you deal with the ups and downs of the market:

Know the time targets for your goals — It's best to think of market movements in terms of your goals. If you are 30 years away from retirement, you have plenty of time for your portfolio to reach its goals. What is important is that you understand how much tolerance you have for risk and the amount of time you have in meeting your goals

Have an investment plan — Having a plan based on your objectives and risk tolerance with an asset allocation and diversification that is aligned to your financial situation can help you deal with volatility. Additionally, you will want to stress test your plan to understand how poor market conditions can affect it. Performance modeling can bring you peace of mind knowing that you will be able to ride out a major shift or lead you to make adjustments to your plan to better meet your needs.

Keep things in perspective — Remember that the market goes in cycles. You'll have down years, flat years, fair years, and good years. If you stress-tested your plan, it should give you peace of mind that you can make it through the hard times.

Shut down the noise — The media is looking for your attention, but if it increases your anxiety, turn it off.

The key is not to let your emotions deter you from a solid investment plan. While there will still be times that you feel anxious, an investment plan can help you ride out the ups and downs of the stock market. Don't spend your time saying what if, because you can't change the past. Just look forward to what your investment plan can deliver. ❍❍❍

The Psychology of Saving

Saving money sounds simple. You set aside a portion of what you earn on a regular basis and watch your money grow. As a result, you're more prepared for emergencies, feel more financially stable, and are better able to achieve what you most want. But in reality, saving is a little more complicated. Sometimes, our own minds work against us when it comes to setting aside some of the money we earn. A basic understanding of the psychology of saving can help you overcome roadblocks and achieve your goals.

Why It's Hard to Save

What is one of the biggest obstacles most people face when saving? We tend to prefer the certainty and immediate gratification of short-term rewards over the potentially greater — yet perhaps more uncertain — benefits of longer-term rewards. One study found that most adults would prefer to have $50 today rather than $100 two years from now, for example.

Part of the difficulty with saving for long-term goals is that people may tend to think of their future selves as different or separate from their current selves. That disconnect can make it hard to prioritize saving for the future. Researchers studying this issue looked at whether encouraging people to think of saving for retirement in terms of a social responsibility to their future self, rather than in terms of their basic self-interest, would lead them to save more. The study found that the former appeal led to higher savings rates. In a related vein, another group of researchers found that seeing pictures of their future selves encouraged people to save more.

In fact, there are a number of studies that suggest changing our mentality — either about the future or about saving in general — might allow us to set aside more money. One study found that people who adopted a cyclical mindset to saving, where they focused on making saving routine in the short term, saved more than people who set more ambitious longer-term goals. Those with a traditional linear mindset saved about $140 over two weeks, while those with a cyclical mindset saved $223 over the same time period. Overall, the evidence seems to suggest that if we can change the way we think about the future — and our future selves — we may be able to boost our savings rates.

The Psychological Advantage of Saving

Once you commit to savings, there's a good chance you'll see a psychological boost from doing so. A survey by Ally Bank found that 38% of people with a savings account reported being extremely happy, compared to only 29% of people who didn't have a savings account. That same survey found that 82% of people reported saving made them feel independent. Those feelings of success, well-being, and independence may in turn lead to even more saving. In fact, feeling powerful and having high self-esteem can lead people to save more, perhaps because increasing their net worth and financial stability helps people maintain their powerful feelings.

There might even be a formula for spending and saving that could lead to more happiness. Ryan Howell, a professor of psychology at San Francisco State University, found that happy people tended to demonstrate a particular pattern of spending and saving, earmarking 25% of their money for savings and investments, allocating 12% to charitable giving or gifts to others, and spending about 40% on life experiences they considered meaningful.

While our mental quirks might make saving difficult, being aware of the obstacles our mind creates can help us conquer them. And that, in turn, may lead to greater savings and increased happiness overall. ❍❍❍

Shattered or Closer to Fine?

Don't you know the prime rate is going up, up, up, up, up
To live in this town you must be tough, tough, tough, tough, tough
You got rats on the West Side
Covid Bugs all around
What a mess this town's in tatters, I've been shattered
My brain's been battered, splattered all over Manhattan

Are you feeling shattered? The opening lines are from the Rolling Stones. Okay, there were a couple of edits, 'prime rate' instead of 'crime rate' and 'Covid Bugs' instead of 'Bed Bugs,' but otherwise don't the Stones capture our mood?

We are all terribly tired of this virus, but at least it doesn't seem to be bothering the markets or much of the economy, so it's less of a concern of BFS Wealth Management (that's us). By less of a concern, we mean that it doesn't affect financial planning or portfolio management. That said, we do know of many clients who are sick, including at least one who is in the hospital. From a health and safety point of view, we are extremely concerned, and "infected." Several of our team have had, or currently have the virus, so we are concerned and incredibly inconvenienced. We also find that many clients are agitated. Therefore, call us concerned, inconvenienced and agitated as well. Shattered is not too far off the mark.

As for the prime rate, that's another matter. That does affect our financial planning and portfolio management.

In a recent email we spoke about interest rates, but it is such an important topic, we want to get into it a little bit more here — is the prime rate going up, up, up, up and up and will it leave you shattered?

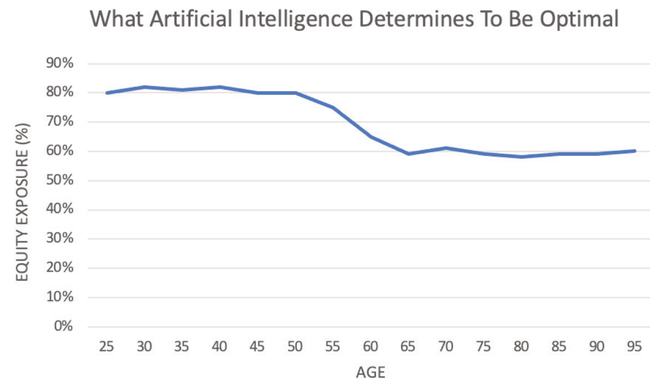
I started in the business in December 1983. Beginning in 1972, investment returns were not very good and the advisors in that Merrill Lynch Brooklyn office kept telling me "Kid, you picked the wrong profession." The cause of the poor returns was high inflation which caused interest rates to go up. We don't want to scare you; we don't think we are going to go through a period that bad. Back then, the global supply chains were much smaller (harder to make the things that we buy) and according to Michael Ryan of the Federal Reserve Bank of Atlanta, that period called "The Great Inflation," represented "The greatest failure of American macroeconomic policy in the post war period."[1] We don't expect to see those kinds of policy mistakes again.

But to illustrate the concern of rising rates caused by inflation (rates that rise because of strong economic activity don't worry us), from the 10-year period 1972 to 1981, the S&P 500 returned 3.5% per year. Not very good. Bonds had a negative return; prices were going down in response to those rising rates. It would have been hard to make 3% per year in a stock and bond portfolio. Those returns over 10 years would ruin many financial plans.

Inflation is bad news. If it is temporary, not like the 10-year period mentioned, we might suffer diminished returns for a relatively short period of time. Federal Reserve forecasts suggest it is temporary and the supply chain today is global and far more extensive. Supplies will catch up. But what is different now is that labor is in short supply and that may not catch up. With labor in short supply, wages will go up and that is inflationary. And wage increases tend to be very "sticky."

The risk of rising inflation concerns us. It is a big concern, especially because many clients have a greater exposure today to risky assets like stocks than they have had in some time. Many investors don't want to buy bonds, or to invest in money market funds because rates are so low. We want to remind you that the primary purpose of cash and fixed income (bonds), is to lower the risk in a portfolio, and not to generate a high return. If inflation is going higher and staying higher, even if it is just for a couple of years (not like the 1970s), we could have a bad year or two in the stock markets. This is why the stock market started so badly this year – rates climbed a lot in the first week of the year.

If you do want to reduce risk, what is the optimal allocation between lower risk assets and the stock market? A recent study by three finance professors and circulated by the Economic Research Bureau used artificial intelligence to answer that question. The graph below illustrates the study's findings.



Source: Mark Hulbert, Wallstreet Journal, Personal Investing, January 10, 2022

For pre-retirees, they suggest gradually reducing stock market exposure from as high as 75 to 80% down to 60% at retirement. The computer also suggests keeping the allocation at that 60% level throughout retirement.

For those of you who might consider lowering risk by reducing equity exposure to 60%, don't focus on the rates in the low-risk assets. Think of it as making lemonade out of lemons. If high inflation and low rates are the lemons, parking money for a little while to make it available for higher yielding bonds is the lemonade. Ultimately, if this period leads us to a time when we can buy bonds at attractive rates, then in the long run we might be better off. Earlier I mentioned that stocks only made 3.5% in the 10 years to 1981. From there, stocks experienced their best ever 20-year period with returns well above average, stoked by declining rates. Declining rates are the opposite of rising rates, they tend to bode well for both stocks and bonds.

The folk-rock band Indigo Girls also wrote a song about tough times with these lyrics:

I stopped by the bar at 3 A.M.
To seek solace in a bottle or possibly a friend
And I woke up with a headache like my head against a board
Twice as cloudy as I'd been the night before
When I went in seeking clarity
We go to the doctor, we go to the mountains
We look to the children, we drink from the fountain
Yeah, we go to the Bible, we go through the workout
We read up on revival, we stand up for the lookout
There's more than one answer to these questions
Pointing me in a crooked line
And the less I seek my source for some definitive
Closer I am to fine.

We hope the pandemic releases its grip on all of us, and that inflation is temporary, so that we may all be closer to fine.

Sincerely,

John B. Burke

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Financial Advisor

[1]Michael Bryan, "The Great Inflation," Federal Reserve Board of Atlanta.