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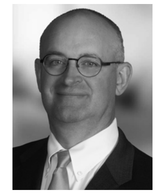

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6 Myths about Stock Investing

When it comes to investing in stocks, there's a lot of misinformation. Those myths can lead to confusion about whether investing in stocks is really safe, how much money you can make with stock investments, and even whether it is something the average investor can participate in.

The truth is that investing in stocks can be one way to put yourself on the path to a secure financial future. Before you get started, it's important to review six of the biggest myths about investing in equities.

Myth #1: Investing in Stocks Is Like Gambling

People often liken stock investing to gambling, but that's not really a fair comparison. Yes, there's risk involved with buying stocks — and you should be highly skeptical of anyone who tries to sell you on risk-free investment opportunities of any kind. But the risk that comes with buying stocks isn't the same as that which comes with gambling.

When you buy stock, you are buying something: a share of a publicly traded company. You make money if you make a wise, informed purchase (i.e., you do your research and purchase stock in a company that does well). In gambling, the odds are always stacked against you; eventually, the house will win. And you usually have just one chance to make money when gambling. If you buy a stock whose value later dips, you can sit tight and wait for it to rise in price again.

Myth #2: You Have to Trade a Lot to Make Money in Stocks

Not necessarily. In fact, some top investors, like Warren Buffett, advocate trading very little if you hope to make money in the stock market. Trading frequently can cost a lot of money, since you'll incur trading fees and have to pay capital gains taxes on any profits. You can make money in stocks by carefully selecting solid stocks and trading

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It's All About Inflation

As many of you know, one of BFS Wealth Management's advisors typically writes the back page of our newsletters. For this issue, we would like to include a recent piece from Raymond James' new Chief Economist, Eugenio Aleman. Dr. Aleman previously served as Chief Economist at the US Department of Energy's Energy Information Administration and before that was a senior economist for Wells Fargo for 16 years. We have enjoyed reading his weekly updates. The June 10 weekly update addressed the prospects for stagflation in the United States, something many of you have asked about. Therefore, we've decided to include that piece here.

Today's consumer price index report was not a good one for Americans, for the stock market, and for the Federal Reserve (Fed). This report will increase the pressure on the Fed to do what is needed to bring inflation down at (any?) cost. However, the increase in the consumer price index (CPI) on a year-over- year basis was also accompanied by a decline in the year-over-year number for the core CPI number, that is, the number that excludes items like food and energy, which are very volatile. The core CPI number is the one that the Fed looks at closely to gauge what is happening to overall inflation and that number was just a bit better than in April.

Having said this, there is no denying that inflation has become the most pressing subject for Americans, as was shown today by the release of the June preliminary University of Michigan Consumer Sentiment number. It has also become the most pressing issue for policymakers and for the Fed.

The US has enjoyed low and relatively stable inflation for so many years that we seem to take low inflation for granted. In fact, many economists argued for many years that, because of our aging population and the slowdown in population growth, the US economy would follow the path of the Japanese economy with very low inflation and very low rates of economic growth. Many even argued that high inflation

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6 Myths

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only when necessary (for example, to rebalance your portfolio). This set it and forget it approach to investing works well for many people — and has the added benefit of involving less stress and less work for you.

Myth #3: Stock Investing Is Just for Rich People

Think your typical stock investor looks like a Wall Street banker? That's a popular stereotype, but it's not a realistic one. People from all walks of life invest in stocks. Millions of Americans are invested in stocks through the mutual funds they own in a 401(k) plan or other investment accounts. And with the increasing availability of low-cost, online investing tools, you don't need to have millions to invest in stocks.

Myth #4: You Can Time the Market

Novice investors may think it's possible to time the market. In other words, they believe they can watch for signs and always buy when the market is at its lowest point and sell when it's at its peak. In reality, few of us have a crystal ball. You might get lucky sometimes, but pure market timers usually end up losing more money than they make.

Few individuals are able to consistently and accurately predict what the market is going to do over the long term. Plus, emotions tend to get in the way when most of us invest, causing us to make rash decisions driven more by fear or greed than logic. Instead, many professionals recommend developing a long-term, consistent strategy and investing with that in mind, rather than attempting to get out in front of the market's swings.

Myth #5: A Stock That's Done Well in the Past Will Do Well in the Future

There's a reason that investing materials come with a disclosure: Past performance is no guarantee of future results. Even once-hot stocks can eventually tank. Remember companies like Kodak and Bethlehem Steel? Stock in these businesses once seemed like an ultra-safe investment to many, but the world changed and these companies flailed.

Or investors may suddenly sour on a stock that's enjoyed a nice run-up in value and then its share price plummets. That's not a reason to avoid stocks entirely, but it is a reason to pay attention to overall trends in the market and not get too caught up in the excitement over a particular company or industry.

Myth #6: I Watch a Lot of Financial News. I Can Pick Stocks with the Best of Them.

Everyone else is watching those same financial shows, so you're not getting any special knowledge or information that way. Financial markets are actually quite complex. That's why many people choose to work with financial professionals when investing, relying on their knowledge and expertise to help them make investment decisions. Please call if you'd like to discuss stock investing myths in more detail. ❍❍❍

4 Reasons Your Child Should Work Part-Time

Don't feel guilty about your children working while attending college or feel that a part-time job will only interfere with their college experience. Working as little as a few hours a week can be remarkably beneficial.

It Boosts Accountability— Encouraging your children to work part-time as soon as possible and setting a portion of their earnings away for college can give them a much better appreciation for their college education. Nonworking students can struggle to understand just how expensive their tuition and living expenses are and the sacrifices involved in paying those costs.

A part-time job provides them with a stronger sense of the work and sacrifice involved in paying their tuition and other expenses.

It Can Cut Down on Costs — Even the smallest contributions can quickly accumulate, decreasing the balance of their tuition bill, paying for the new laptop they need, or cutting down on the monthly student loan payments they'll owe after graduation. Whether they contribute $50 or $500 a month, it's either money they won't owe after graduation or money saved that you can put toward your retirement or investments.

It Teaches Life Skills — Whether they're answering phones or delivering pizzas, part-time jobs provide teenagers and young adults with a different set of skills than what they'll derive in class. Because they're interacting more with adults in a real-world setting, they'll develop the vital communication and problem-solving skills that they'll need in their post-college career much sooner, which could lead to greater opportunities earlier on. Moreover, regardless of whether they're in high school or college, working even a few hours a week while attending school allows them to master work-life balance, so they're better equipped for the realities of adulthood.

It Encourages Networking — There's a well-known saying that success is closely linked with who you know. Sure, they'll make friends in the dorm, but a part-time job encourages them to connect with peers on a different level that could lead to valuable opportunities in the future. A job allows them to further develop their individual talents and strengths. ❍❍❍

Financial Planning for Every Stage of Life

Financial planning is a lifelong process. And just as your life evolves, so should your financial plan. While everyone's financial plan needs to be customized to their personal situation, below are some financial planning tips for some major life stages.

Recent college graduate

New college graduates aren't usually thinking much about financial planning. They're likely to be more worried about getting that dream job, paying down student loans, and moving out of mom and dad's basement. But that's exactly the reason why young people need a financial roadmap. Once they score that first job, a financial plan can help make sure they're sticking to a budget, on track to pay off student loans, saving for big goals, and even setting aside enough for retirement. While some people may think your early 20s is too early to start thinking about saving for your golden years, setting aside even small amounts now will mean having to save a whole lot less down the line.

Just married

You've just tied the knot, which means you've also officially merged your finances. Even if you were living together and sharing financial details and responsibilities pre-marriage, a wedding is a good reason to take stock of your financial situation as a married couple. A clear financial plan will help ensure that you're on track for your biggest shared goals, whether that's buying a house, retiring at 55, or sending your kids to a private college. It will also help you tie up any financial loose ends, like changing the beneficiary designations on retirement accounts and insurance policies. In fact, it may be a good idea to start your financial planning before the wedding. Sitting down to talk about your finances and your goals can help make sure you're on the same page and avoid surprises after you tie the knot.

New parents

If you've just welcomed a bundle of joy into your home, you have a lot on your plate. It's easy to let financial planning fall by the wayside. But as your family composition changes, so should your financial plan. If you already have a plan in place, it may need a reset. And if you don't have one at all, you need to form one. Issues your plan needs to consider after you have children include making sure you have adequate life insurance coverage, getting started saving for college, and updating your estate plan to ensure that your child will be provided for should the worst happen.

Big promotion

When you finally earn that big promotion, it will hopefully come with a corresponding bump in salary and other perks. You need a plan for what to do with that extra cash. And if your promotion came with benefits like stock options or deferred compensation, you need a plan for dealing with that as well. A financial plan will help you avoid the problem of lifestyle creep and make sure that the money you're earning is helping to pursue your financial goals.

Ready to retire

As your retirement date nears, you'll also need to do a financial check up. Even if you've been saving for years, a financial advisor can help you estimate how long your savings will last and what kind of income you can expect in retirement. Your retirement financial plan may also include suggestions about reducing risk in your investment portfolio as well as a plan for increasing your savings if necessary (such as working longer or delaying Social Security benefits). Your retirement financial plan may also address issues such as where you'll live (you may downsize or move to a less expensive location to stretch your budget) as well as issues such as how you'll pay for healthcare or long-term care as you age.

The bottom line: As your life changes, so should your financial plan. If it's time to update your financial plan — or to get started with planning for the first time — please call. ❍❍❍

It's All About Inflation

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was something we would never see again.

Others argued that our rate of inflation was too low for comfort, approaching zero or even negative rates, i.e., deflation, during some periods. In fact, monetary policy over the last several decades had to be retooled for the new normal of very low inflation and very low interest rates with what has been called the 'zero-lower-bound.' As ex-chairman of the Federal Reserve Ben Bernanke indicated in a 2017 Brookings Institution article "…the scope for rate cuts is limited by the fact that interest rates cannot fall (much) below zero, as people always have the option of holding cash, which pays zero interest, rather than negative-yielding assets. When short-term interest rates reach zero, further monetary easing becomes difficult and may require unconventional monetary policy, such as large-scale asset purchases (quantitative easing)."

If high inflation is bad for the economy, deflation is not much better. Our policy toolbox is very apt for fighting inflation, but we are still trying to figure out what policy tools may help us from experiencing deflation. If inflation is bad for those that live on a fix income, deflation is bad for those that hold debt.

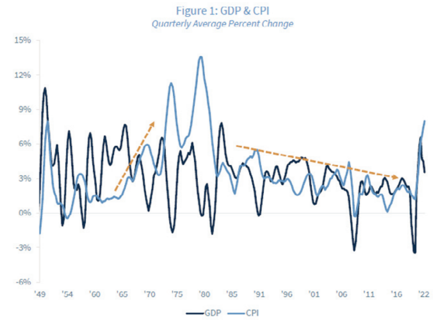
What About Stagflation?

We have also heard a lot about stagflation lately. We even heard a presumed 'expert investor' saying that we are in a 'hyperinflationary' scenario, something that is ludicrous. Talking about hyperinflation makes no sense, not only because inflation today is 'just' 8% but also because hyperinflation is a very particular event and the conditions for it to become a reality are such that it is almost impossible for it to happen in the US.

But what about stagflation? Stagflation is what happened during the 1970s and early 1980s. The US economy beat stagflation during the tenure of Fed Chairman Paul Volcker by raising interest rates very high and sending the US economy into a severe recession. Stagflation is the combination of stagnant economic growth plus high inflation, thus the term 'stagflation.' How close are we to stagflation today? Not close at all.

On this call we politely disagree with the ex-Chairman of the Federal Reserve, Ben Bernanke, who has been doing the 'new book' selling round and has been saying that a stagflation environment is possible. For stagflation to be an alternative, inflation needs to become entrenched.

That is, future or long-term inflationary expectations need to become unanchored. And this is not happening today. We are not saying that this may not happen in the future, but it is not true today. What we are saying is that under current conditions, stagflation is not a feasible outcome today.



The graph above shows that before we got to stagflation in the mid-1970s, inflation had been increasing for almost ten years. This recent bout of inflation started in the second quarter of 2021, so it has only one year and change. For those that suffer inflation the most, that is, those in the lower echelons of income, (and for those of us that don't have an electric car), it feels like an eternity. However, in economic terms, it is not that long of a period. But there are other issues at play today. First, potential economic growth back in the 1970s and 1980s was close to 4.0%. Thus, growing 1.5% to 2.0% was considered stagnant economic growth. Today's potential output is closer to 1.5% to 2.0%, so out of the gate, the definition of stagnant economic growth becomes an issue. Today, stagnant economic growth should probably be close to 0%, that is, no growth or negative real, per capita economic growth.

Looking at the graph above, inflation is very high today because economic growth is also very high, much higher than what potential output is estimated to be today, which is closer to 1.5% to 2.0%. That wasn't the case in the 1970s and 1980s. Inflation was rampant even though economic growth was very weak and much lower than potential output at the time. That is, for stagflation to be true we have to have high inflation with very low economic growth for a long period of time.

And, by the way, you noticed that I have not even talked about the Ukraine/Russia war and the price of food, petroleum, and gasoline, etc., yet. But yes, these issues have added to uncertainty and to the upward pressure on prices. This is clear from looking at what is happening in the rest of the world. Even Japan is experiencing accelerating inflation. The Bank of Japan has been trying to get inflation higher since the 1990s to no avail and this war has given them a triumph they seem to be trying to disown!

The graph above shows the evolution of commodity prices over the years, and we can see that the current increase in commodity prices is not related to US monetary policy but to overall world supply-demand imbalances, something neither the US Federal Reserve nor the US political administration has control over. Of course, we could argue that if the central banks of the world increase interest rates at the same time and to very high levels they could generate a global recession. Then, global commodity prices would certainly come down to earth. But such an event requires conditions that are even more difficult to attain than the conditions needed for the US economy to enter into stagflation.

Sincerely,

Eugenio J. Alemán

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*Source: Raymond James Weekly Economics, Thoughts of the Week

Economic and market conditions are subject to change.

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Consumer Price Index is a measure of inflation compiled by the US Bureau of Labor Studies. Currencies investing are generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

Consumer Sentiment is a consumer confidence index published monthly by the University of Michigan. The index is normalized to have a value of 100 in the first quarter of 1966. Each month at least 500 telephone interviews are conducted of a contiguous United States sample.

Personal Consumption Expenditures Price Index (PCE): The PCE is a measure of the prices that people living in the United States, or those buying on their behalf, pay for goods and services. The change in the PCE price index is known for capturing inflation (or deflation) across a wide range of consumer expenses and reflecting changes in consumer behavior.

Consumer confidence index is an economic indicator published by various organizations in several countries. In simple terms, increased consumer confidence indicates economic growth in which consumers are spending money, indicating higher consumption.

Source: FactSet, data as of 6/10/2022