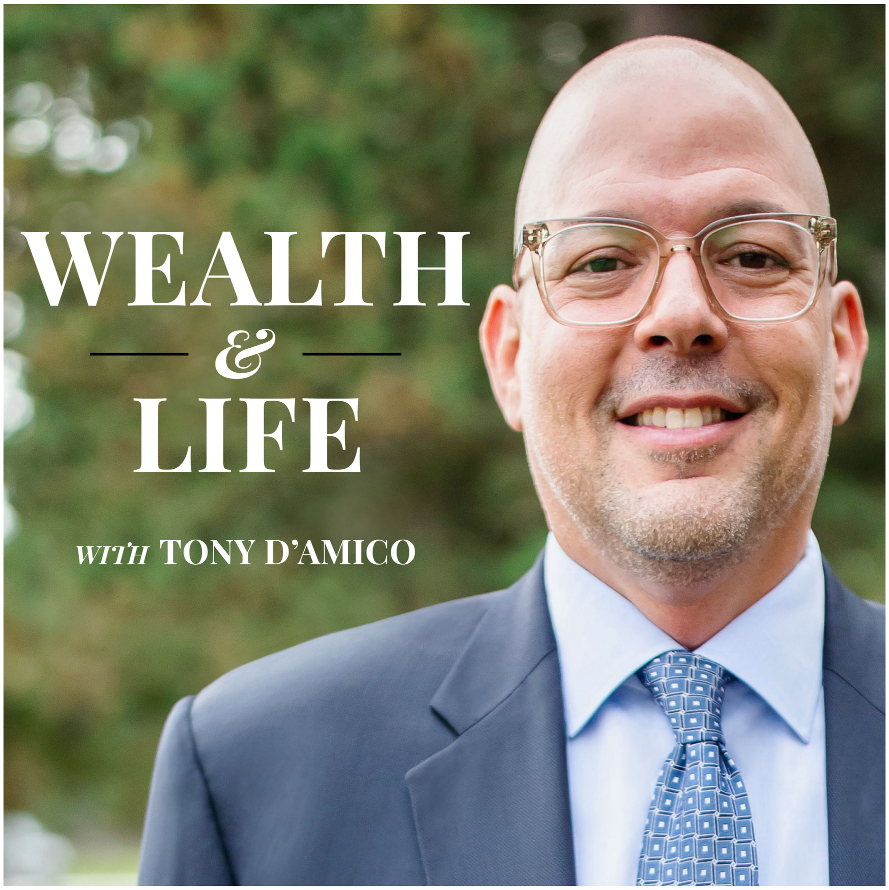
Ep #19: Inflation: Managing Your Resources for the Future



Full Episode Transcript

With Your Host

Tony D'Amico

Wealth and Life **with Tony D'Amico**

Ep #19: Inflation: Managing Your Resources for the Future

Welcome to *Wealth and Life*, where you'll learn with financial planner, consultant, speaker, and business owner, Tony D'Amico. You'll hear stories from successful business owners and individuals about how they navigated the inevitable challenges that arose as they achieved each new level of success, and you'll get insights and strategies from leading wealth planning professionals on how to achieve your next level of success. Now here's your host, Tony D'Amico.

Tony D'Amico: Hi, everyone. Tony D'Amico with Fidato Wealth. Thanks for joining me for this episode of Wealth and Life.

Today I want to talk about inflation. So obviously inflation has been in the news quite a bit during 2021. Many of you know that I've taught a class at Lorraine County Community College, actually for over 10 years now, on retirement planning, where we cover different objective financial education topics around retirement planning. And one of those topics that I've been talking about during that 10 plus year period is inflation. And I want to do that today.

So why do we want to talk about inflation? So let's first start off with what is inflation? Inflation is the fact that the cost of goods and services kind of naturally continues to increase year over year. So the historical average rate of inflation has been 3%. So isn't 3% every year though, right?

So some years are higher. Some years are lower. The Fed through its monetary policy tries to manage inflation so it's at a certain amount, but not too high. Why is that? It kind of actually depends upon the Fed and their philosophy, but typically the Fed has tried to avoid high inflation because if there's really high inflation, that does cause problems for the economy, which that would not be good for companies, families, if the economy is challenged that way. So they do want to typically try to keep inflation at a certain level. Most recently, the Fed was actually wanting a little bit higher inflation because it was persistently low. So they've been intentionally letting inflation run. So we'll kind of see how that's been managed. Sometimes monetary policy has an impact on what you're trying to manage and sometimes natural economic forces will take over.

So I think that's important to note as well. So inflation again, historically has been 3%. It has been higher for healthcare costs, right? So that's in the 5% range. College costs, 5% has been the inflation factor there. So you don't necessarily want to use 3% for the inflation factor of all of your expenses. So if you're you have a retirement plan, you want to look at the assumptions. I think that's another thing to mention. I've looked at retirement plans put together by other financial planners and other financial planning companies, and they're using a 1% inflation assumption. I am sorry, but I don't agree with that. So you have to really make sure you're using solid assumptions so that your plan provides you really objective, I would say comforting guidance. I think that's really important. So let's kind of take a look at some examples.

So let's say that you live on $5,000 a month today. Let's say that there is 3% inflation and 10 years goes by. So the cost of your goods and services was 5,000 a month today, but in 10 years, with 3% inflation, it would be $6,720. Fast forward another 10 years with again, just 3%

inflation, your monthly spend would be $9,030. So almost double, not quite double the original amount. And if you think about it today, when a couple reaches age 65, there's a 47% chance that one of them will live to age 90, that's 25 years. So let's fast forward another 10 years. The $9,000 monthly spend will have to increase to $12,135 a month just to keep pace with 3% inflation. So inflation is a real challenge. It's a big reason to have a financial plan, to work with a fiduciary who has to put your best interest first and will help you come up with the right balance of strategies with the intent of managing that inflation risk. Right.

So one of the ways to manage inflation is to maintain some level of exposure to stocks, whether its individual stocks or mutual funds that own stocks, either way. So having equity investments is one way to manage that inflation risk. So if inflation is 5% per year, but you're too conservative and you have a lot of money in the bank or a very conservative allocation, and it's only earned, let's say two and a half percent, but inflation was 5%. Well, you've actually lost buying power that year. You lost two and a half percent buying power that year. So that's very important to note. So it's about finding that right balance of having the right level of risk, the right complimentary strategies and other aspects to combat inflation actually, has to do with just looking at other opportunities to make your dollar go further.

So what are some of those opportunities? It could be tax planning and mitigation, lawfully reducing your tax bill through tax planning, right? It could be ensuring that you're really well diversified. Having a retirement income plan to match your needs and retirement, but also already being intentional of, well, what account are we going to go to first for distributions? What account second? What account third? So you need to have a, what I'm saying here is you need to have an investment allocation that's accumulation friendly to combat inflation, but also distribution friendly and tax friendly. So kind of putting all those pieces together to really optimize your decisions and again, to maximize your dollar. So inflation again, it's one of those things where you always want to keep it on your radar. Inflation has been low for a while. So sometimes when I've talked about inflation, people were, I would say, maybe not quite as interested as they are now, as I am talking about it.

But inflation again, regardless of the current matter at hand, you do want to build a financial plan that isn't just about the trends of today, but based upon a broader body of knowledge, that is about maximizing your resources again over the next 10, 20, or 30 years. So that's what I wanted to share with you about inflation. Hope you found this episode helpful. Would love to hear from you. If you have questions, if you do, feel free to email us at sayhello@fidatowealth.com. Thank you very much. Have a great day now. Take care. Bye-bye.

Do you want even more ideas, tools, and resources of how to achieve the next level of success in your wealth planning? Check out wealthandlife.com, where Tony will cover the latest trends and wealth planning best practices for successful business owners, families approaching retirement, and comprehensive wealth management. By subscribing to the Wealth and Life podcast, keep up to date with future episodes. Get it all now at wealthandlife.com.

Ep #19: Inflation: Managing Your Resources for the Future

Wealth and Life is created and hosted by Tony D'Amico, CEO of Fidato Wealth, a registered investment advisor. The opinions expressed in this program are for general informational purposes only and are not intended to provide specific advice or recommendations. To determine which strategies may be appropriate for you, please consult a financial planner prior to making any financial decisions. Any case examples discussed are hypothetical, and any resemblance to a particular person or business is purely incidental. Please visit wealthandlife.com for other important disclosures.