

the BENCHMARK

Newsletter



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Inflation on the Radar

By Philip Bachman



What would be most people's response if we were to ask their top concern about investing? We probably would hear about market volatility and the anxiety it can produce. This may be fair considering that the March 2020 market selloff is still fresh on everyone's minds.

Inflation probably wouldn't be the top response. However, inflation is important. For long-term financial planning success, we believe that planning for inflation is as important as weathering market volatility.

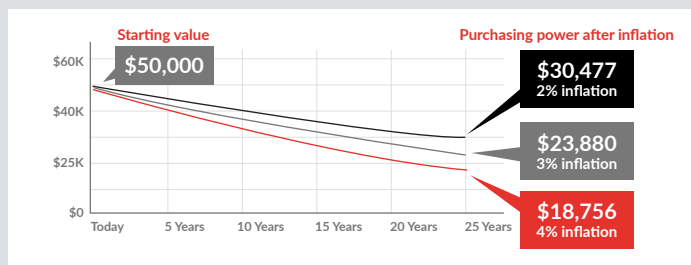
Inflation is the rate that the cost of goods and services appreciates over time. Inflation decreases the purchasing power of a dollar (or other currency). As inflation rises, our money can buy less and less.

Inflation is sometimes forgotten about during the financial planning or portfolio management process because it happens gradually, not quickly (usually). Also, there is no line item on an investment account statement that shows the effects of inflation. Contrast this to stock market moves that might happen rapidly, are highly publicized, and remain fresher on people's minds.

Over the last 30 years, the price of most everything has at least doubled if not tripled.

Ashby Daniels, contributor to MarketWatch, writes, "[Inflation] is coming for your money, whether you ignore it or not."

Consider the following chart:



A \$50,000 cash balance today will have far less purchasing power in 25 years. The question of how much less depends on the rate of inflation. At 3% inflation, for example, \$50,000 today equates to only \$23,880 of value in the future.

Average annual inflation in the U.S. between 1913 and 2019 as measured by the Consumer Price Index was 3.1%. Inflation is like water dripping from a leaky faucet. It's not too noticeable from day to day, but it eventually causes our water consumption to get out of control.

What are some ways to control this leaky faucet? Letting inflation become

part of your financial thought process is a first step. Next, study the timing of your anticipated future spending. If you have cash reserves that are long-term savings, it may be appropriate to move cash into a different type of investment

that could hold up better to inflation.

Stocks are considered to be a hedge against inflation because the

rise in stock prices are inclusive of the effects of inflation. Companies are assumed to be able to pass on price rises to consumers. A 2012 study by Schroders states, "The theory that equities provide a good inflation hedge has held since 1872, provided that investors have a long time horizon."

Bonds generally do not hold up to inflation well. Most bonds' interest payments are fixed and are not adjusted if inflation increases. For investors who require the relative stability of bonds, in our view, it is preferable to keep bond durations low at this time in order to be able to reinvest later at likely higher interest rates.

Other bond strategies might include Treasury Inflation Protected Securities (TIPS). TIPS are a low-risk treasury security indexed to inflation where the principal amount invested is increased by the percentage of inflation. Floating-rate bonds could also hold up to inflation better than fixed-rate bonds, all else being equal.

Bond yields have been rising this year as economists and market strategists have grown increasingly bullish on the economy with the rollout of Covid-19 vaccines. Many analysts expect inflation to follow suit. Even Federal

Reserve Chairman Jerome Powell said on March 4, "We expect that as the economy reopens and hopefully picks up, we will see inflation move up through base effects. That could create some upward pressure on prices."

Not all analysts foresee long-lasting inflation above 2-3% after these "base effects" of economic recovery wear off. However, we would rather project the likelihood of higher inflation in case it does become long-lasting. We believe recent commentary by the Fed and others is simply a confirmation that it should remain part of our planning process.



Philip dressed to the nines for National Wear a Hat Day on March 26.

Welcome John Brandon



By Nick Clay

In March we were delighted to welcome John Brandon to our team of Financial Advisors. John joins us from "Big Blue" country as he is relocating to Johnson City from Lexington, KY. John not only fits the BCS Wealth Management culture, but he brings a diverse business background and six years of financial planning experience.

John provides holistic financial planning to individuals and families. He also works with business owners and the retirement plans they offer to employees. John has deep knowledge in various types of group

retirement plans. He is committed to working with business owners and HR professionals to simplify the process and experience.

John brings expertise and passion to our team in the group retirement plan area. With ever-changing legislation and fiduciary liability, we believe this area of investment advice

can be, unfortunately, underserved and outdated. Since retirement plans can be essential to attracting and retaining employees all parties would be well served to know the details of the plan. He will work directly with employers to explain their responsibilities as plan sponsor and with employees to compliment or start their financial plan.

Our team works to ensure business retirement plans are up-to-date with regards to plan design, reporting,

technology, investment choices, education, fees, employee engagement, and service. We are happy to assist if your business or non-profit has a retirement plan that could use a plan review, or if your group is interested in starting a retirement plan.

In addition to being securities licensed, John has furthered his investment knowledge and obtained two advanced certifications: the Accredited Asset Management Specialist® (AAMS®) and the Certified Plan Fiduciary Advisor (CPFA) designations.

John and his wife, Blake, have two children, Haltson (6 years) and Haines (2 years). Outside of the office, John enjoys spending time with his family, hiking, snowboarding, golf, and cars. If you run into John in or outside the office, please say hello and welcome him to East Tennessee.

*Nick Clay,
CFP®, AIF®, AAMS®
Managing Partner
& Senior Financial
Advisor*



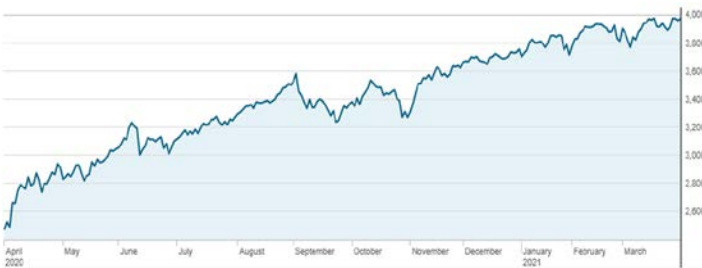


Quarter Review

By Myra O'Dell

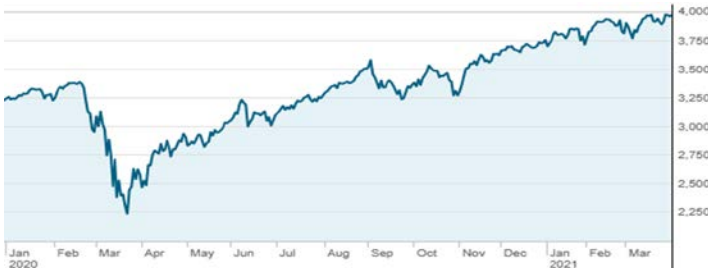
I was last tasked with authoring our firm's quarterly market update at the end of the second quarter of 2020. Wow, have things changed since then! At that time, we were riding one of the biggest stock market roller coaster rides in history.

Looking at a 12-month chart of the S&P 500 index, which tracks the 500 largest



companies in the U.S., one would think it has been smooth sailing with nothing but normal market volatility and an overall upward-trending line: exactly what we expect from the stock market over time. See the chart below.

However, extending that same chart to the beginning of 2020 reveals a much different story, as you can see in the chart below on the right. Just looking at this chart gives me that free-falling, roller-coaster-ride feeling in my stomach! 🤢



So where are we now compared to where we were in 2020? So far, 2021 isn't looking much different from where we ended 2020. Key propellants of continued growth into the second quarter include a new \$1.9 trillion fiscal package, continued monetary policy support, and an increase in vaccine supply and distribution.

Major Stock Indexes	1st Quarter 2021	Year End 2020
DJIA	7.8%	7.2%
Nasdaq Composite	2.8%	43.6%
S&P 500	5.8%	16.3%
Russell 2000	12.4%	18.4%
Global Dow	9.4%	7.3%
Japan: Nikkei 225	6.3%	16.0%
Stoxx Europe 600	7.7%	-4.0%
UK: FTSE 100	3.9%	-14.3%
Major Bond Index	1st Quarter 2021	Year End 2020
Bloomberg Barclays US Aggregate (Total Return)	-3.4%	7.5%

The amount of fiscal and monetary stimulus has been record-breaking.

In response to the pandemic, the Fed cut policy rates to zero once again, after having lifted rates nine times from the end of 2015 to the end of 2018 and raising the floor to 2.25%. Those of you who have had CDs mature recently have surely felt the pains from these low rates when trying to reinvest into a new CD. However, these low rates have incentivized individuals and businesses to borrow in order to encourage spending and investments.

The U.S. Federal Open Market Committee voted on March 17th to leave the target range for its federal funds rate unchanged at 0%–0.25% and its bond-buying program unchanged. Fed Chairman Powell implied that rates may stay at zero for some time,

but some see the possibility for the return of rate hikes in 2023.

Stocks could react to rate moves, as low yields on bonds contribute to the attractiveness of equities. All else being equal, rising rates can undermine support for equity valuations because investors are less likely to take risk in the stock market if

they are able to get a yield that is satisfactory to their needs in the less volatile bond market. Meanwhile, other historical data suggests that rising rates against a backdrop of economic growth can coincide with a growing stock market.

Vaccine progress is the other major storyline moving into the remainder of the year. Markets seem to be priced for positive

vaccine news. Any major disappointments in vaccine supply, distribution, and adoption, or increased risk from virus variants, could cause increased volatility.

The Biden administration has indicated the U.S. will have enough vaccines for all adults by the end of May. Efficacy data shows the current vaccines are effective in preventing severe disease and hospitalizations, which is what is needed for economic re-opening. Furthermore, clinical data has shown current vaccines demonstrate sufficient efficacy against the known mutations.

Additionally, the technology used to make the vaccines allows formulas to be quickly adapted. This has given investors the confidence that vaccination programs will continue to fight the virus and allow economic and market recoveries.

As investment advisors, we may sound like a broken record at times, but,

we believe now is the time to stick to the tried-and-true investing practices of diversification and portfolio rebalancing.

This can allow you to take advantage during a volatile market by purchasing securities at relatively low prices and selling at high prices, which is likely to be more successful than trying to anticipate which stocks or sectors will drive leadership over the short term.

I know that I speak for the rest of our team that we are looking forward to the days when we can once again host events and mingle with everyone! Hopefully, warm spring weather will allow us to do that soon, so be on the lookout for invitations. We consider it an honor to work alongside you and are thankful for your trust in us.



We're on YouTube!

In late March we released our first in a series of Meet the Team videos, featuring Nathan. Check out his video and subscribe to our channel so you don't miss future episodes and other updates!





By Nathan Goodwin

Real Estate and Your Portfolio

The real estate markets have been hot lately. The pandemic hit housing inventory, while historically low interest rates and new remote work for many caused higher demand. Locally, this scenario has created circumstances where the average list price for residential property is up 16.9% from this time last year, and the average sales price is up 13.7%. The increase is even higher in other parts of the country.

While real estate investing has been a hot topic for a long time, buying individual properties to take advantage of these movements can be a cumbersome task. Luckily, there is a logistically simpler way. Many different areas of the real estate sector can be purchased in a format much like stocks and bonds.

Real Estate Investment Trusts, or REITs as they're commonly called, are companies that purchase income-producing real estate across many property types. This allows individuals to invest in assets that would otherwise be out of reach because of high entry costs, among other barriers. There are many different types of REITs focusing on areas such as offices, retail space, industrial facilities, lodging and resorts, healthcare facilities, mortgages, multi-family units, and others.

The benefits of public REITs include the income and capital appreciation potential associated with real estate, while in a package that can be traded like a stock. REITs provide diversification by providing investment in multiple properties and locations, instead of putting money into one property or project. Also, they provide diversification to an overall portfolio because of their relatively low correlation to stocks. Another benefit compared to traditional real estate is liquidity. The process of buying and selling is typically easier with a publically traded security.

There are potential drawbacks to consider as well. Because they can have high dividend yields, unwanted tax issues can arise depending on the type of account used. Also, they can be sensitive to interest rate movements, like bonds. These concerns are in addition to regular valuation movements in the sector in general.

J.P. Morgan Asset Management writes,

“...the reality is that investment portfolios focused on the ‘Big Two Traditionals,’ bonds and equities, are forcing investors to compromise – either by sacrificing return for lower volatility or enhancing returns

at the expense of higher risk. Real estate may offer a way out. This is why we believe real estate is increasingly being viewed, not as an alternative, but as an essential portfolio component.”

The purpose of this article is not to promote REITs. They're not for everyone. Rather, simply be aware that there are ways to play the real estate sector outside of purchasing actual properties. REITs may be an option if this sounds interesting to you. The specific type you select is very important and depends on many factors, so be sure to discuss with your financial professional.



Nathan Goodwin, JD, CFP®
Partner & Senior Financial Advisor



Group Benefits on the Rise

By Scott Hoilman

Robust, holistic group benefits packages are on the rise over the last decade. Their prevalence has been amplified given the tumultuous events of the past year's pandemic. With healthcare costs and inflation expectations moving higher, it makes sense why employer-sponsored health benefits and financial tools are becoming even more desired and widespread.

Health insurance and retirement plans remain the most sought-after employer-sponsored benefits. A 2020 MetLife

survey indicates 86% of employees cite health insurance as a "must have," and nearly 70% mention a retirement plan as a "must have." The next most desirable benefits are dental, vision, life, and disability insurance, ranging from 69% to 41% of employees considering these benefits as "must haves," respectively.

How do employers and employees leverage benefits to help manage the cost of healthcare and prepare for long-term financial success?

Health Savings Accounts

One solution employers seem to be using effectively are Health Savings Accounts (HSAs). There has been a 30% increase in the frequency of this offering over the last five years. According to the Society for Human Resource Management (SHRM), 39% of employers offering HSAs contribute funds to their employees' accounts. HSAs are individually owned health savings accounts that are triple-tax advantaged, meaning they allow for 1.) pre-tax contributions, 2.) tax-free earnings within the account, and 3.) tax-free withdrawals on qualified medical expenses.

Retirement Plans

Offering a retirement plan is another way employers can provide value and help their employees get set up for long-term financial success. Retirement benefit plans are as popular now as ever. A whopping 93% of employers offer a traditional 401(k) or similar retirement plan, and 74% of employers match employee contributions at some level according to SHRM.

Other Timely Solutions

There are other solutions that also help employees with the rising costs of healthcare and financial uncertainty. These are supplemental coverages like dental, vision, disability (income protection), and life insurance. There are also plans for accident coverage, critical illness coverage, hospital plans, and more. These plans are generally designed to "fill the financial gap" in the event of health-related issues, especially where healthcare coverage may fall short. They are cost-effective and convenient to attain in the employer-offered setting.

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Latest News from Around BCS Wealth Management



We've moved!

The growth of our firm necessitated a move for our Johnson City offices. We are now located in Building F of Sunset Professional Park, just steps away from Building C where we were previously located.



Meet Eliza

Eliza Wampler has been working as an intern with us through her spring semester at ETSU. She is in the Honors College working towards her degree in Finance, and she plans to graduate in May 2022. Eliza is a coach with Meadowview Gymnastics and enjoys classes in aerial skills. She has done a great job with a multitude of tasks, and we are glad she's with us!

BCS Wealth Management is an independent financial planning firm in Johnson City, TN. We help individuals, families, and businesses reach goals important to their financial wellbeing. We provide investments and financial planning, insurance, and group benefits.

bcswwealth.com



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A Win-Win for Employers and Employees Alike

According to MetLife, 69% of employees say having a wider array of benefits would increase loyalty to their employer. Employers have taken note. SRHM reports that more than 1/3 of organizations have increased their benefit offerings in the last 12 months. Now 97% of employers offer dental, 91% offer vision, 83% provide some basic life coverage, and 71% and 61% offer long-term and short-term disability coverage, respectively.

It is a win-win situation for everybody involved for employers to offer a well-rounded group benefits package! Employer contributions towards insurance premiums and retirement plan matching are generally

tax-deductible expenses, which lower the business' taxable income. Additionally, a robust benefits package helps employers attract and retain the high-quality talent they are looking to hire and keep for the long-term. SHRM found in 2018 that employers who offer a benefits package strategically experience 2.5 times higher retention rates than those who neglect their benefits offering.

Employees, if you are not happy with the menu of benefit options you have available through your employer, we encourage you to speak with your HR or management to express your views.

Employers, ask your valued employees for feedback! BCS Wealth Management is here to assist. Let us know if you would like a complimentary, comprehensive review of your current group benefits package.

