

# the **ALLIEDPERSPECTIVE**



# ARE WE THERE YET?

Our Buffalo office is on the move! As of August 15th, the new address for the Buffalo office is 501 John James Audubon Parkway, Getzville, NY 14068. Our telephone and fax numbers will remain unchanged.

### **NEW RESOURCES**



We have updated our website! Under the 'Resources' tab, we have created a page designed to focus on financial services. If you have any questions that fall under this category, we believe this will be a great tool for you to utilize.

## MISSING **COMMUNICATIONS?**



Are you missing communications from AFP? We send out monthly eblasts as well as other important client communications through Constant Contact. If you are not receiving these communications, you may have unsubscribed at some point. Email Andrea True at atrue@alliedfp.com to resubscribe to the distribution list.



#### **WE'VE BEEN NOMINATED!**

Allied Financial Partners has been nominated for Best Accounting Firm, Best Financial Planning Firm, and Best Tax Preparation Services through the Daily Messenger. It's clients like you who make it possible for AFP to be nominated for such awards. We truly appreciate your unwavering dedication to Allied Financial Partners.

Thank you again for all your support!

David A. Younis, CFP®

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Aimee Berkemeier, CPA Heath Hendrickson, CPA Jason Mayausky, CPA

James W. Swiech, CPA

Thomas Tette, CPA

Partner/Director of Financial Services

Kenneth E. Ingersoll, CPA Partner





# THE CASE FOR NOT GOING OSTRICH... By David Younis, CFP®

It's not been a joyride these last 6-7 months. I'd hoped to be able to start writing some more positive words for this newsletter. But alas, that isn't to be the case. Allow me to

begin where I'll end: despite the obvious challenges we're facing, successful outcomes are within your reach.

First, let's get our bearings. At the time of writing, the market (S&P 500) has experienced as much as a 24% decline from its high, reached intra-day on 1/3/22. At the same time, Barclays aggregate bond index (AGG) has experienced as much as a 12.61% decline. That means that a traditionally allocated 60% stock portfolio would have experienced a pull back of about 19.44% by the beginning of June. This is unsettling to be sure. You might recall our winter newsletter calling attention to the potential for an environment to arise – where stock and bond prices could fall simultaneously as a reaction to Federal Reserve rate increases –; it seems we've found ourselves in just that position.

#### Markets are one thing, how's the economy?

Unemployment is hovering around 3.6%, despite that there are roughly two opportunities available for every worker who is seeking employment today. Additionally, the only layoffs we're really hearing about are currently concentrated in mostly tech sectors and crypto firms.

Headline inflation is running around 8.5%. The Fed funds rate (the rate that banks use to lend to each other overnight) is sitting at 1.5%-1.75%, and we expect the Fed to continue increasing rates this year based on their most recent meeting minutes. The 30-year mortgage rate is hovering around 5.75%; whereas only a year ago you could obtain the same for around 3.75%.

Supply chain disruptions continue to push prices higher due to lack of supply, the costs of labor have been rising, and the geopolitical landscape supports the idea that oil and other commodity prices will remain elevated as long as Russia and Ukraine are at war. This translates to higher costs for fertilizer, transportation, livestock feed, etc...

Does that translate into an oncoming recession? Perhaps, but let's remember that the definition of a recession is two consecutive quarters of negative GDP. Not all recessions are the same, and we shouldn't automatically assume that the next will be severe just because our last meaningful recession was a doozey. Current data supports the idea that if we did find ourselves in a near-term recession that it quite possibly may be shorter in duration and shallower in its impact.

#### What about bright spots?

In the U.S., consumer demand has been resilient so far. Our national household debt service ratio is lower than it's been since 1980 and while that's in-part interest rate dependent; 65% of our outstanding debt consists of predominantly fixed-rate mortgages that were issued at historically low rates. This means that the "consumer"—which collectively holds about \$1Trillion in cash right now—has capacity to continue spending for the time being.

Additionally, corporate balance sheets are very robust, meaning they should be able to continue paying their debts and bond interest. In this environment, corporations are expected to remain profitable on average; current Wall Street consensus estimates for earnings are calling for profit growth of about 8% over last year's levels.

Inflation has been uncomfortable, but it's important to remember that at the time of writing, consumers are spending about 12% of their disposable income on energy and food. For comparison, because many are looking to the '70s' inflationary environment for lessons, we were spending about 22-23% of our disposable income on food and energy in 1975 – about double where we are today.

#### What should we do about it?

Now comes the fun part – what do you do with all of this confusing, sometimes counter-intuitive, and sometimes contradictory information? As the title suggests, it's easy to put your head in the sand when confused and overwhelmed whilst popping out into "News-land." We urge you to remain calm while fighting against this flight response. Let's instead refocus and create a recipe for your success.



First, during inflationary times, it's important to understand that not everyone experiences inflation the same way. You should become familiar with where and how you are experiencing inflation, and specifically the elements of your spending that are

most susceptible to inflationary pressure. If you're a retired couple, then you likely have a different cost experience than your younger counterparts with kids and a commute. Whereas they are feeding more mouths and filling the gas tank more frequently, you may be tired of putting off home improvements or travel and don't appreciate the sticker shock on those efforts and experiences. While there's no single silver bullet to combat inflation in every case, if you are that family of four, car-pooling, bunching your errands into single trips, and substitution at the grocery store are ways of gaining control over how you experience inflation. If you're near or in retirement, focus on liquidity in the next step.

#### Continued on next page >



Second, think about your nearest-term liquidity needs. Think about the potential for you to need larger sums of cash for items like major appliances, vehicles, home repairs. It's critically important to think about these larger expenses and plan for them. If you have an investment portfolio that you were planning on using for these purposes, it can be reasonable to shift portions of your portfolio into cash to meet these needs if they are in the nearer-term. Additionally, it's not a bad idea to establish any lines of credit that could be helpful during a prolonged market downturn. You could consider establishing either a home equity line of credit or a collateralized line of credit on a non-retirement investment account. Having these sources of credit can allow you to draw on them instead of selling investments, locking losses, and potentially paying taxes when you would otherwise be able to use credit until the market recovers. While it's always possible to be caught off guard by unforeseen expenses, if you are being thoughtful you can reduce the potential for those surprises to arise during challenging periods. And if you are already confident that you don't have near-term liquidity needs, then that can further increase confidence that your portfolio can be left to navigate the market uncertainties with an eye to the long-term.



Third, pay yourself first if possible. This means ensuring that every time you get paid by your employer, you are shifting some of those funds – even small amounts – into savings or investment accounts. Many Americans are having a difficult time

meeting current cash flow needs while others are not as impacted. If you have evaluated your budget and been mindful of near-term liquidity needs, you should seek to commit a portion of your earnings to your savings effort. If it's at all possible, do not eliminate your retirement savings routine even if you need to reduce it. Some of the absolute best historical trading days take place during difficult market environments (likely recovery in response to a decline), and you want to participate in that recovery when it comes. In the interim, making systematic and consistent efforts to save and invest will amplify your participation in the recovery. Remember, when markets fall like this you should be thinking of the decline as a sale on the price of stocks - one that you can take advantage of. When you get a coupon in the mail, aren't you more likely to purchase something at your favorite store? Market selloffs are like getting a coupon in the mail for the stock market. If you're already in a routine, try to reduce discretionary spending as opposed to your retirement plan or other contributions.

Fourth, maintain a diversified portfolio. It's true that bonds in this environment have not offered the same volatility suppression we've seen historically, but it is still important to maintain discipline, acknowledge your risk tolerance, and rebalance your allocation back towards it's intended mix of stocks-to-bonds despite their recent losses. Rebalancing is an important element of long-term investing and is often overlooked as an ingredient for success. If possible, seek to blend growth and dividend paying stocks as well as big and small companies. If you are able, try to utilize individual bonds as compared with bonds funds for rising rate environments.



Fifth, think like an investor.
If you understand your spending,
have accounted for near-term cash
needs, and have created a routine of
investing into a diversified portfolio,
you'll want to focus on the long-term
when it comes to your investment

success. Bear this in mind, on a one-year basis (going back to 1950), a balanced allocation has never returned less than 1% annualized if allowed to be invested for a minimum of 5 years. On a 10-year basis, it's never been less than 2%. But those are worst cases. In modern times (the last 20 years), a 60/40 portfolio has returned about 7.4% annualized. **Think of your timelines.** We all have different timelines: proximity to retirement, to life expectancy, to education funding, to that personal goal, etc...addressing these timelines is key to creating successful financial outcomes. With shorter-term goals, an additional bright spot is that with interest rates on the rise, you can start to obtain more compelling interest rates in newly purchased individual bonds – even online savings accounts are starting to climb back into the 1% range.

We realize that this is all very academic and dispassionate. We realize further that, depending on where you are on your path to or through retirement, this information may hit you differently. Please remember that our team is here and ready to assist you to create your own recipe for success. Markets will behave again in time. Using financial planning as a basis for your decision making can provide you with greater confidence along with a sense of progress, even through challenging events.

Please know, we have sought to keep in contact with you using a variety of communications like e-blasts, e-mail updates, and virtual and in-person meetings. Despite those efforts, if you're in need of conversation about your existing portfolio or planning opportunities, we are here to support you.



## **CALENDAR OF EVENTS**

Allied Financial Partners is committed to offering educational and informational events on topics that impact our individual and business clients – tax, financial, business, insurance, and payroll. Check out our monthly eblasts for details and announcements. To sign up for our monthly eblasts, email atrue@alliedfp.com.



#### **MEET OUR NEW TEAM MEMBERS**



**Brittany Critti**Staff Accountant, Oneonta Office

As a Staff Accountant in beautiful Oneonta, NY, Brittany is truly excited to be working for Allied Financial Partners. Brittany currently has her AS in Business Administration, BS in Accounting, and is working towards completing her MS in Accounting. Brittany was drawn to AFP knowing the care they take in connecting with clients, and the importance of educational growth within given fields. In her spare time, Brittany enjoys watching sports with her family and traveling to new places. Give her a beach, and she's happy!



**Keeley Werner**Payroll Specialist, Victor Office

Keeley is joining the Allied team as a payroll specialist. For the past 6 years, she has worked as a team manager and training specialist for Panera Bread. Keeley attended Finger Lakes Community College and is working toward her Bachelor's degree in General Management. She is expected to graduate from Bryant and Stratton college this fall. In her spare time, Keeley enjoys cooking, playing video games, and going on adventures with her family.



**Sarah Stoll**Administrative Assistant, Perry Office

After staying at home with her children for over a year, Sarah has joined Allied Financial Partners as an Administrative Assistant. On her downtime, you can find Sarah reading, watching Disney movies, swimming, hunting, or fishing – it all depends on the time of year. Sarah is a mother of two and loves taking her boys on adventures and exploring new places. She is excited to be a member of the Allied team.



# THUMBS UP – THE CLIENT CORNER

Taking the time to recognize the awards and accomplishments of our clients is important to us.

Congratulations to the following:

• The Chlus Family for the wonderful job they did restoring and repurposing a barn on their family farm into the Stone Barn at Beardslee Farm. After starting the project back in 2020 and progress being slowed due to the COVID-19 pandemic, the Stone Barn at Beardslee Farm is open for business and booking for various events throughout the rest of 2022 and into 2023. Congratulations, Chlus Family!



If you or your business would like to be featured in our next newsletter, please contact Andrea True at atrue@alliedfinancialfp.com or 585.410.6733 x103.

#### TIPS TO HELP MITIGATE TAX SURPRISES

A tax surprise can occur at any time – a change in your life such as a new job, altering your investment portfolio, or changing your IRA minimum distribution status are all events that can reflect in a tax liability. Besides talking to a tax advisor or a wealth strategist, there are many ways to configure a plan to handle tax surprises. For instance, financial preparation can help reduce surprises. When doing so, there are several options to consider: managing your income stream, understanding your deduction options, bunching charitable contributions, and more.

But if you do end up being caught off guard by a tax surprise, there are also various strategies you can employ to help pay off that substantial bill. Examples of such strategies include cash, home equity line of credit (HELOC), or selling securities. However, you should be cautious when selling securities since you could be selling at the wrong time in the market. Furthermore, selling securities could lead to a larger tax bill the following year since you would have to include the proceeds as income.

Regardless of what your course of action may be, you do not need to be surprised by unwarranted tax liabilities. Be sure to partake in financial preparation each fall and, remember, always talk to a tax advisor and a wealth strategist when making major financial decisions.