Ep90: 2022 Economic Outlook

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PATTI BRENNAN: Hi, everybody. Welcome to "The Patti Brennan Show." Whether you have $20 or $20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

Joining me today is Brad Everett. Brad is our Chief Investment Officer. We thought we would kick off the year with a discussion about the economy and markets, and I can't think of a better person to volley with than Brad Everett.

Brad, thanks for joining me today.

BRAD EVERETT: Thanks for having me, Patti. You recently gave a talk at Chester County Economic Development Council. I saw your slides from the event and although I was unable to attend myself, I heard great things about it. I thought I'd pick your brain about some of the things I saw in the presentation.

PATTI: Absolutely! This is an annual event that I do. It really helps to frame the year for me. It's an opportunity to say, "OK, what happened last year, and what do we think is going to happen this year?"

It's a great opportunity to pull some of the data together and give it meaning, make it relatable, and help people to understand what might be going on in the world around us. It's something that I've done for 17 years in a row. They keep on asking me to come back, and it gets bigger and bigger every year.

BRAD: It's a great opportunity to learn. So, let's start at the beginning. You can't even get to 9:30 in the morning without talking about COVID. We'll start there and get it out of the way. Where are we? Are we making any progress?

PATTI: It's a really good question. The answer is yes. Many, if not most, industries are back. They're figuring it out, whether it be this work-from-home thing or back in the office. There are some industries that are still negatively affected. They're still not back - travel being one, although there's been blips of high activity.

Unfortunately, there's been some airplane delays and cancellations - that's put a damper on things. Restaurants are still not back. That also has a little bit to do with the supply chain, getting the food and getting things back to where they were.

Yes, we are coming back from COVID. The economy is roaring ahead. GDP is doing fantastically, so that's a good thing. Generally speaking, yes, we are coming back. It sure does show the resilience of the US economy, and that's what all the economists talk about.

Specifically, when we think about how resilient this economy is, let's take a look at unemployment. It was skyrocketing and then last year, it came down to 3.9 percent. Yes, the federal debt is way up, but what you're not hearing about is the fact that the annual deficit was actually down.

There are some bright spots in the economy, and many Americans are doing much better. It's going to take some time, but we definitely are recovering.

BRAD: On another note, humans have an incredible ability to adjust to completely abnormal situations. They get used to them and make them seem normal. On a business level, how have businesses adapted to this new reality that's been around for the last couple of years?

PATTI: It's been amazing to think that whether it'd be a Fortune 500 company or a small business like ours, companies and business leaders have adapted. That, to me, is the theme. We have adapted.

We are a small business. When we couldn't come into the office, I said, "We have to do plan B. Everybody grab your laptops, we're working from home." Was it perfect? No. We had to get a better phone system. It was clunky. Our VPN was slow, so we had to get a new VPN. We got it, and it worked out perfectly.

The job got done, and people were feeling better about what was going on. That is the most important thing with any dynamic economic engine such as the US economy. You have to go, ebb and flow, and that's what business leaders are supposed to be doing.

Whether it be employment and this great attrition that everybody is talking about. Yes, there are a lot of people who are quitting their jobs. But to be honest with you, if you look at the statistics, people quit their jobs all the time.

By the way, what are they doing? It's not all bad news. A lot of them are retiring because they can. That's the wealth effect - they've been smarter with their money. They've achieved that financial independence. Or, they might decide to work part-time.

What is really interesting to me is a record number of people in America are starting their own businesses. The United States of America is built on small businesses. Last year, we had a record number of Americans starting their own. That's pretty good news!

Now, we're not hearing it on "60 Minutes." On 60 Minutes, they spend almost an entire show talking about the number of people quitting their jobs. Yes, I'm just going to go off on a tangent here. It is important. I think that we have a great opportunity in America whether you are big business, midsize, or small. Instead of calling it the great attrition, how about we call it the great attraction.

Let's face it. People leave companies. They don't leave families. Create an environment that people don't want to leave. I don't know Brad, what do you think about that idea? You like the ping pong table?

BRAD: Yeah, I would have quit a long time ago, but you put a ping pong table back there, and here I am!

PATTI: There you go, guys. Whatever it takes, if it's ping pong, so be it.

BRAD: That's what I'll take!

PATTI: It's a blast. We literally will go into the ping pong area, and I'll see Brad. They do teams. I have never seen ping pong played the way you guys play it. They are so far away from that table and are winging it. 15 minutes later, they go back to their workstations, and they're refreshed.

BRAD: Refreshed, and a little sweaty.

PATTI: Feeling really good because you are the champion.

BRAD: Always.

PATTI: Always. It's little things that can make a big difference. It's understanding, at least I can speak for myself.

We've had many families in our firm this year who have struggled with COVID. Many have small children. We have a young family right now – they've all got COVID.

I do not want them thinking about Key Financial one iota. I don't want him to check in on his computer, even though he can't seem to keep away from it. This is life. We need to just adjust and be there for each other.

For me, at least one of the things that I'm most proud of is the fact that each one of you are the reason your colleagues love coming to work. It's almost ridiculous how much fun we have. Now, it doesn't mean we're wasting a lot of time. Everybody knows that somebody's got their back, and most importantly, that I've got their back. That's all people really want.

My point here is we're hearing about the economic impact, which is the title of this show, the economic impact of things that are happening as a result of COVID. We do have an amazing ability to be resilient and to make different decisions. Everybody's going to be better off because of it.

BRAD: We create narratives around statistics. To say that there's 3.9 percent unemployment doesn't really describe it very well. It's all of us by ourselves and our families making decisions about what's best for us. If we're one of the families that doesn't have a job or if you're one of the families that is fully employed, your life is totally different. Either of those families are 4 percent unemployed.

PATTI: That's a really good point. Again, for some of those families, that was their choice. They chose to do that. They're getting unemployment. One of the other statistics that I think is interesting is consumer sentiment. By all of these wonderful statistics, these other measures, wages are up. Housing prices were up 19.1 percent. The economy, GDP is really chugging along beautifully, much better than in any period of time, certainly, in the last 10 to 15 years.

Everything is doing fantastic. Jamie Dimon from JP Morgan predicted that this is going to be the best economy since 1950. From an economic perspective, we're doing fantastic, and yet consumer sentiment is really low. I think last year, it was at 70. That's really low.

BRAD: Normally, they should be positively correlated. If you don't feel great about your finances, you're not going to go buy an extra fishing rod.

PATTI: That's exactly right. Retail sales are going through the roof, and yet consumer sentiment is low. If sentiment is so poor, would people be going and spending all that money? They normally wouldn't do that. It's bipolar. The economy is bipolar right now.

BRAD: Is it because they're not spending somewhere else? They're not spending on travel and services and all those things.

PATTI: Absolutely. I do think that it's a bit of retail therapy, right?

BRAD: Yeah.

PATTI: Are we saying, "OK, we're not spending it here. We're going to go and do these things instead," and that's not bad, by the way, because a lot of that money is going into home improvements, for example. We see that in the data as well. That's also contributing to the increase in value of real estate.

It's all a domino effect. I think that we have to keep in mind that with any kind of a system, there's going to be some unintended consequences of actions, whether it be

Federal Reserve or fiscal stimulus, and one of those things is inflation.

How many calls are we getting per day, asking about what should we be doing about inflation, and how should we be adjusting the portfolio accordingly?

BRAD: "The Wall Street Journal" really did us a disservice when they said how wonderful I bonds are. That's the calls that we get, about an article that was referenced in the newspaper. We do hear about it a lot. It gets a lot of time on the news.

The base effect will start to wear away. You started from this extremely low base of inflation a year and a half ago, and that's starting to wear off. We will have to see if inflation is just going to be a blip or if it's something that's going to be settling in for a long time.

PATTI: Typically, that is what the economists really worry about. That's why I think Jerome Powell came out and said he believed that inflation was going to be transitory because there were a lot of supply chain issues. Things were just knocked off the factory line, if you will.

I think that the issue is going to be, "Are we going to see wage inflation because that is stickier?" I love you dearly, Brad. That raise that I gave you last year, would it be OK if I took it back?

BRAD: Yeah, you had a bad day yesterday. We're going to cut your pay by five percent.

PATTI: Exactly. That's just not going to happen. Wage inflation is sticky. Once it happens, it stays. Between that and all of this negative press about the great attrition, it's really interesting as a sidebar.

Think about that. Restaurants are adapting. Instead of being open seven days a week, they're open five. They looked at their data and said, "Geez, people don't really go out to dinner that much on Monday nights."

BRAD: They got a busy night, anyway.

PATTI: "You know what? We'll just not even open." They save on utilities. They save on labor. They save on food costs that gets thrown out, etc.

It's going to be very interesting to see what happens and how all of this ends up in the long run. The inflation issue is definitely here. It's running at about seven percent. It's certainly hot. There's no question about it. Inflation really is bad, and long-term inflation bad for an economy.

What I think is important to always keep in mind is that we have been running this great experiment called the American economy now for 200 years. If Professor Fuhrman were in here, he'd be going back to Alexander Hamilton. We love to joke and to kid Eric. He's our historian. The fact of the matter is that every crisis that has occurred, the federal government has responded and the Federal Reserve has responded and reacted. That's what they're there for. Sometimes it works. Sometimes they're late, and they learn.

Each time they learn, they understand the potential negative consequence. Going into this thing, people pretty much understood that with this fire hose from both entities, the likely impact or the likely effect is going to be inflation.

BRAD: It's just a matter of when.

PATTI: It's just a matter of when, right. You can't have this kind of money supply sloshing around. People buying Bitcoin – I'm not saying that that's a bad use of your money. It just goes to show you that it's got to go somewhere, especially if you're going to earn one quarter of one percent in the bank.

Inflation is happening. Inflation is only an issue with the Federal Reserve, doesn't do anything about it, because they know what to do, and they're already doing it. You're seeing it in your mortgage rates. Mortgage rates are floating up.

The Federal Reserve hasn't done a darn thing. They have not increased interest rates as we record this on February 4th, haven't done a thing, but interest rates are going way up. Mortgage rates have gone way up. That's what they want. Because when interest rates go up, it's a form of tightening. They're pulling some of that money back in. Banks are not lending.

I don't know about you, Brad. I just got a mortgage. Let me tell you, it was worse than giving birth to a baby. It was a painful process. Banks are not lending money. That's the kind of stuff that really makes an economy go on fire.

BRAD: Historically, I always thought that a sign of inflation was when banks had excess capital to lend. If the money supply is high, their reserve ratios are feeding through allowing them to feed through a different level of money to the economy through loans and things like that.

PATTI: I think the money that is feeding through is coming in directly from the federal government with all of the stimulus that occurred through COVID. I think it's happened that way. I'm not so sure the banks have been lending that much.

BRAD: It doesn't seem like it. That's what I mean. It seems like the opposite of what you would expect.

PATTI: Even so, the Federal Reserve is pulling their money back too. Right?

BRAD: Right.

PATTI: They have this...What is it? ...The operations?

BRAD: The open market operations.

PATTI: Yes – thank you very much. They have their open market operations, and that's behind the scenes. It's not something that's right in our faces. They're not increasing interest rates, but they're doing a lot to pull some of the money back out of the economy. The ideal scene would be what Greenspan was able to navigate which was that soft landing in the '90s.

Typically, in this part of the cycle, most of the time you end up with a recession. Is it going to happen this year? Probably not. Could it happen next year? Maybe, depends on how fast they go and how correct they are in the process.

Typically, we've seen that as with everything, markets overreact. Federal Reserve overreacts. I appreciate how hard it must be though. At every meeting, you hear Jerome Powell saying, "It's data dependent. It's data dependent," because it has to be.

Everybody's predicting four now, maybe five increases this year. They're not going to come out and say we're going to do five, because we could end up right back where we were in 2018.

BRAD: You almost feel bad. They go through so much effort to telegraph what they're going to say. The minutes are 80, 90 pages long, and we latch on to one sentence that he says. He telegraphs it as best he can.

PATTI: There's a lot going on. There's a lot to be aware of. Is it anything that I think we should be overly concerned with? No. I do believe that it's going to be more volatile this year because of the uncertainty. There's always uncertainty, always. It could be rising interest rates or what's going on with Russia. We've got the midterm elections coming up, and the rhetoric from both parties is "Look how bad things are".

That makes people feel uncomfortable, and they don't want their money at risk. Volatility is going to spike, I believe, this year.

BRAD: It's already been a pretty wild January.

PATTI: It sure has, and you've seen it in the areas that have done so well over the last five years. The ones that are really getting hit are large-cap growth. That's almost textbook. Interest rates go up. That's the way those companies are valued. Interest rates are a big part of it in terms of the discount model.

Some of the valuations might have gotten ahead of themselves, so they're getting slammed. I think Facebook was down 26 percent yesterday because they weren't growing quite as much.

BRAD: Which is wild, because they even hit their revenue number. I think their eventual earnings were low because they were investing more into growth projects than people thought they would. I don't think that's necessarily bad news if you're a Facebook fan that they're doing that.

PATTI: That's a really good point. Isn't that what these companies are supposed to be doing, investing in their futures? They're investing in this thing, the Metaverse, and other technologies. It's going to take money, and that's what they're doing. It's going to hurt their earnings today, but hopefully, it's going to multiply many times five years from today.

Yet, on the other side, the areas that have not done as well, dividend-paying stocks - they're holding up quite nicely, thank you. These are the funds and these are the investments that people say, "Well, do we really wanna have this investment? It's not doing nearly as well as this guy."

I'll give it to you straight. I always do. Everything is down so far year-to-date, but boy, they're not down nearly as much. Again, it builds in some resilience to the portfolio.

BRAD: In your talk at the Development Council meeting, you mentioned something called the wealth effect. It's an idea that, as your asset levels rise, you feel comfortable enough to spend more. It seems to even apply when the asset that's growing or the appreciated asset that's led to your increased net worth is something that you can't spend anyway.

If your house appreciates in value, you don't sell off $10,000 bits of your house.

PATTI: Wouldn't that be nice? Somebody's going to come up with an NFT for that. I swear, they probably will.

BRAD: I'm sure SEC's working on it as we speak. Maybe two questions there. You mentioned that everyone's getting richer across all wealth percentiles. Why is that? Those brackets don't tend to own the same things, right?

PATTI: It's almost startling when you look at the numbers. You've got the different quartiles. The bottom 50 percent of Americans in terms of overall wealth had an increase in their wealth of 74 percent. Whereas everybody got wealthier, the top 1 percent grew by 29 percent. The source of this is the Federal Reserve.

Everybody in America got wealthier, whether they earned the money, saved the money, or received the money from the Fed.

BRAD: If you were owning stocks or real estate.

PATTI: And from appreciation, we have to keep perspective of who is America. Who is America? We talk about the wealth effect, and we talk about the differences. The top one percent, they're just getting wealthier and wealthier. The bottom 50 percent is getting wealthier, but they're starting from a smaller base.

When you think about the overall wealth in terms of real numbers in the United States, Americans have $136 trillion worth of assets, $136 trillion. The bottom 50 percent owns 3.4 of it. The bottom 50 percent of Americans own about two and a half percent of the wealth. They had an overall a nice bump in there.

Come on, we do have to get better at this. There's got to be a better system. I don't know what it is. It's one of the most difficult problems to solve. You don't want to take it away from the top even 10 percent or even the top 50 percent. It is an interesting issue. We're not going to solve it today.

I think that the takeaway from this is we talk about standards of living and the standard of living for Americans in general. It is really good. We are the wealthiest country in the world and not by a little. We're wealthier by a lot.

There's a statistic I shared at the Economic Forum. Basically, when you look at the household wealth relative to GDP, we've had a big spike, but literally if you look at the graph over the last 50 years, the difference between the two and if you see this on the camera, it's gotten wider and wider and wider and wider. That's a big deal. That's a really big deal.

Americans have gotten wealthier and wealthier to the point where if you listen to Tom Lee from Fundstrat, -- I'll tell you he's really, really smart -- he said, "It's gotten to the point where we almost don't need capitalism." You think, "What do you mean by that?"

Think about what capitalism is. It's the ability to generate income. It's the ability to generate growth. We have so much wealth right now in America already, that we just save and invest that, and that creates the income that we all need to live on.

BRAD: We would just be the bankers to the world, and we would just invest in businesses in other continents and sit around and relax by the pool.

PATTI: Exactly what he said on that podcast, Brad.

BRAD: Oh, really?

PATTI: Wild that you just said that. We could just be the bankers for the rest of the world, which is a really interesting thing. Yes, there's a lot to worry about. There's a lot to feel good about too. There is a lot to be said for all of that.

BRAD: Interesting. I generally shy away from short-term market recaps or the idea of making projections for the next year because I think the average year is usually very far from average. The experience is not smooth. It's not anything you would expect based on, "Well, the last 30 years this happened." In a given year, it's not like that. Just a few ideas to put that in perspective.

If you go back the last 42 years, the average intra-year drawdown has been about 14 percent. It's a pretty big swing and makes a lot of people uncomfortable. Of those 42 years, 76 percent were positive years in the S&P. By the end of the year, you have this peak to trough thing in the middle, but oftentimes it recovers. More often than not, you end up higher than where you started.

The other thing which I think is even wilder, if you go back to 1926, I think the S&P is averaged a higher over 10 percent a year. If you look at the distribution of those rates, only six times has the annual rate of return been between 8 and 12 percent.

PATTI: It's all over the math, right?

BRAD: Yeah, completely.

PATTI: What's equally as bizarre about that these statistics is, yes, we have the average. A third of the time, the market gave investors a return of over 20 percent, a third of the time.

BRAD: It's not uncommon at all.

PATTI: Right, it's really not that uncommon. Far more uncommon are the losses. There were only six years since 1926, where you had a loss of more than 20 percent. We should expect it. As you know, and as I've shared before on previous podcasts, we could win every day of every year, assuming that the next wicked bear market is happening today.

We're ready. We're prepared. I don't want anybody who is on drawdown. Who's receiving retirement income. I don't them to be thinking about this stuff for at least three years and actually six before they even have to think about what's going on with the stock market.

BRAD: Right. We could say the same thing every January. We could say, "All right, to summarize last year, last year was pretty weird. This year we have no idea what's going to happen."

PATTI: That would be an accurate statement.

BRAD: We could say it every year.

PATTI: Right. In fact, the last three years, when you think the average rate of return on the S&P 500 has been 26 percent. That's terrific. Now, does that mean it's got to go down? No, because markets are a momentum thing. There's a lot of psychology in this. People look back.

I literally had a phone call today. It was somebody who's got a lot of money and they've had it in a bank account. They were worried and they didn't want to invest. Then they looked at what we take care of. They said, "Should we be adding this money now? We know we missed out on a lot, but should we be adding it?"

I basically said to them what I'm saying to you, "I don't know. It could continue to go up, and it could go down. As long as you don't need this money for the next five years or so, sure, we can put it in a balanced approach, balanced portfolio. Then we'll watch, monitor, rebalance, and do all the things that make sound decisions, sound portfolio management, work over time.

BRAD: Awesome. I'm not sure which is more important, Jack's birthday or the 25th anniversary of Alan Greenspan asking if the market had become irrationally exuberant. It's not crazy to ask again – has that happened again? How would you know if it did? What did he see at the time? How would you know if it was...if we're in the same period of irrational exuberance?

PATTI: I'm going to tell you right now, Jack's birthday is far more important. December 5th was a big day this year, I should say this year in 2021. That was the 25th anniversary of Alan Greenspan's speech at a dinner where he asked a rhetorical question.

Let me set the scene. It's a dinner meeting. You've got the chairman of the Federal Reserve. He just was any chairman of the Federal Reserve. This guy was Oz. He was the most powerful person in the entire world. You talk about people just dropping everything to listen to what he was saying. Alan Greenspan asked the rhetorical question, "Has irrational exuberance seeped into the markets?" Let me tell you something. I'm dating myself. The next day, bam, the market fell. Everybody's freaking out, "The markets are overvalued. It's going to crash," etc.

Those people who sold everything missed out on the next three and a half years where their investment would have more than doubled in not even three and a half years. It was

March 24th of 2000 when he should have been asking that question.

Here we are in February of 2022, and we're hearing that again, "Has the market gotten ahead of itself? Is it irrational exuberance all over again?" It could be. I will tell you based on the valuation measures if you look strictly at the map, some pockets of the market are overvalued but not nearly as extreme as they got to the end of the '90s.

1996 was an interesting year because it had just come off of a great year. It was just asking the question. Again, it's a lesson of be careful what you listen to and to be careful what you read. Let's not make important financial decisions based on somebody's opinion.

A good lesson for all of us, is that people who left their money in and didn't try to react, didn't try to time the market, and haven't – have seen their investment grow many times over, a double, a double, a double. That's a beautiful thing. That's where you get true financial security.

BRAD: That reminds me of Ben Carlson. He did a funny blog post about a guy named Bob. It's called "The world's worst market timer." Bob got out of college. He got a job in 1970. He was able to save two grand a year for his entire career. He is a very nervous guy. Had a hard time pulling the trigger and actually investing.

He didn't dollar cost average to the market. He waited until the market seemed so exuberant, everyone was so excited, that's when he decided to take all of his cash out of the savings account and put it in the market. The four times he did that in his career were the worst possible four times he could have done it.

He did it in December of '72, August '87, December '99, October of '07, which isn't going to play well on audio, but it's a 48 percent, a 34, a 49, and a 52 percent drop. Immediately after Bob has made a worst market timer on earth. Decided to take his cash out of the bank and put it in the market.

PATTI: I'm curious, Brad, how much over that period of time had he invested of his own money?

BRAD: $184,000 total. He retires in 2013 with $1.1 million.

PATTI: There you have it right there. The worst timer, the worst time to invest, this guy did it, not just once, not just twice. He did it four times and still ended up with I don't know how many times the money. People ask all the time, "How do you manage risk? How do balance the portfolio so I don't lose?"

Here's the deal. I'm going to give it to you straight. The most important risk management tool you have is time. Understand when you're going to need the money back. That's what we do. People give us a dollar, and we hope, "knock on wood," we're going to give them more than a dollar back.

The most important thing is when do you want it? When are you going to want it back? I want to know that because I want to make sure it's going to be there or where we're going to pull that particular dollar from.

BRAD: The idea of just getting the money invested, if you think if you had a lump sum and you're fighting the decision about dollar cost averaging, if you're going to invest for 40 years, after you've done the period of dollar cost averaging, you and the person that didn't dollar cost average have the exact same rate of return.

You're fully exposed to the market once your dollar cost averaging period ends. The only time that you've moderated the risk is during that very short period at the beginning of this very long investment horizon. Let's say, you decide to do it over a year, "I just won the lottery. I don't know if I should invest today or every month for the next year?"

You're fully exposed once that last purchase is done. All you've done is if the market goes up, you've decided to moderate the up, if it goes down, you've moderated it down. After the period's over, you're fully invested anyway.

At the end of that 40 years, what have you actually accomplished other than in year one you've put your rate of return in this narrow range?

PATTI: That is a really good point. I have never thought about it that way. That is a brilliant point. If you look at the numbers, the data, the data would suggest if you have a lump sum of money, typically, historically speaking, which is never a guarantee, – which it isn't, you would've been better off investing it as a lump sum.

BRAD: Exactly.

PATTI: I was surprised, and I'm just quoting off the top of my head. The difference in rate of return was pretty significant. It was about a 2.4 percent difference benefit of the person who just plunked versus in terms of average return.

BRAD: I think it depends on how long the investment horizon is. You could make it a little better or worse.

PATTI: Exactly. Again, with all of this, we're talking about, what do we think about the economy? What do we think is going to happen with the economy and therefore the markets? They don't always correlate. We're seeing that with consumer sentiment as well. The most important thing is to understand your objectives and what's important to you about your money and when you're going to need it.

It's all about the financial plan. It's about your taxes. It's about your family and your wills and your trust and what you want for your family because that's why you did this in the first place. It is for your own financial security and the people that you love. What else do we want to talk about, Brad?

BRAD: Let's see. We hit stocks. We could talk about bonds. You did talk about bonds for a while there.

PATTI: Yeah, blah, blah, blah.

BRAD: Most exciting.

PATTI: Here we go, bonds. What do we think about fixed income in general?

BRAD: Usually, historically, the best predictor of bond returns is the yield in place when you originally make the purchase, that it's easy to calculate assuming the bond pays to maturity and doesn't default, that's what you can expect to get. Yields are not very exciting. CD rates aren't very exciting. What's even the point?

In terms of building a portfolio, it's there for cash flow. It's a very lucky investor that can live off the yield of a portfolio whether from dividends or bond interest. You've just saved so much money relative to your annual expenses that you can live on yield, and it's not very common.

Most people really have to think about total return. That has a negative connotation sometimes with investors because they think they're "dipping" into principle.

PATTI: It does come up. They say, "Well, if you're selling this, doesn't that mean I'm dipping into my principal?"

BRAD: There's principal, and then there's your original investment. If you start with $100,000 and it grows to a $1,000,000, and you sell $5,000, yes, technically, you took out some of your principal, but you just took out some of the growth of your original investment. You're not losing money from your original base.

It can just be a segmentation in your brain where you have this money that you started with, and you want it to grow and you want to take the yield off the top, but it's not usually always feasible.

PATTI: I find that people tend not to remember their original investment. They just look at the value as of the end of last year, or the last statement that they got. If it was worth – pick a number – a $1,000,000 in the last statement and now it's worth $950,000, and now you're going to sell something, isn't that really bad?

I'm going to say, yes, it is bad if that continues too long. It depends on how much you're selling. Something like that wouldn't be sustainable, but markets tend not to go down and stay down for 10 years. At least they haven't although I can't guarantee it.

By the way, I should probably preface that or probably add that there was that last decade between 2000 and 2010, where the S&P actually didn't go up. It actually lost a little bit. However, it is not to say that people didn't earn a return. That is the magic of diversification. Because the US stock market didn't make any money, it doesn't mean that nothing made money, and in fact, people did just fine.

BRAD: International stocks.

PATTI: Absolutely, other asset classes, bonds, real estate, things of that nature. Fortunately, we have wonderful ways of investing where you get instant diversification, whether it be mutual funds or ETFs.

The asset classes have just gotten better and better. We don't have to get 2Q. Let's not get 2Q by doing crazy stuff – crypto and some of these NFTs that we're hearing about. Yes, people are making a lot of money in them.

I would just be really careful if you have a question on that. We just did a podcast on cryptocurrency. Please listen to that podcast. We'll give you the pros and cons. It's an interesting asset class. I'm not going to lie. It's a very interesting asset class.

Are we recommending it? Not yet, because I don't understand it. There could be some pretty significant headwinds to that whole cryptocurrency market.

You probably know this already. Just the sheer number of different kinds of crypto that are now on the market, it's alarming. Just seven years ago, there were 66 different types of cryptocurrency. Now, there's 17,000 different types of cryptocurrency. Wow. We don't know what's going to be the big winner.

PATTI: Then we've got the headwind of, "Well, what if the Federal Reserve decides to come up with the digital dollar?" Guess who's going to win? It's going to be the Federal Reserve. Fortunately, we're in a position where I think there's another a lot of interesting ways that you don't have to be making those speculative bets.

I think that the interesting thing to pull all of this together is to recognize that we are in a different environment. It is costing more money to heat our homes, feed our families, etc.

Inflation is certainly affecting many people right now. Especially people who are retired, who use more services than goods. We want to build that into our modeling process, the financial planning process, and recognize that and adjust portfolios accordingly. At least, that’s what we are doing.

Is it going to be a permanent adjustment? Who knows? That’s why we always talk about this process being like GPS. Just like the US economy, just like major businesses and small business like ours, we adapt. That’s how you survive.

For all of you who are listening to this, I thank you so much for tuning in. Thank you, Brad. So glad that you enjoy the ping pong table – go out and play a game. You’ve earned it. Most of all, thanks to all of you for tuning in today. It doesn’t happen without you.

Your feedback has been fantastic. That episode that I was referring to on cryptocurrencies, came specifically because so many people wrote in and said, “Can you do an episode on crypto because I don’t understand it?”

For those of you who are listening, you’re not alone. We did a podcast episode on that. If there’s something that you would like to learn about or have us comment on or speak about, let us know and we’ll be happy to do so.

Go to our website at keyfinancialinc.com. That’s where you’ll be able to let us know what you want to hear about and ask any questions that you want to ask. In the meantime, thank you so much for tuning in today. Take care now.