PBS Ep111 Issues High Inflation Transcript

Patti Brennan: Hi, everybody. I'm Patti Brennan. 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. This is part of the ongoing series, the Ask Patti Brennan series.

Boy, if we're getting one question over and over again, it is, “How should I be dealing with this very high rate of inflation?” First and foremost, let me explain that inflation is very personal. A family of four with teenage drivers are going to experience inflation differently than a retired couple in their 70s.

We know how much those kids eat, and they're driving around all over the place. They're feeling inflation more. They may or may not be getting the increases in their incomes, cost of living increases. They go to the store, and they feel like, "Gosh, my paycheck isn't going nearly as far as I used to."

That is a very real problem that we're having in America today. For whatever it's worth, we believe that the Federal Reserve is serious about bringing down inflation.

Now, it's not going to happen overnight, and for those of you who are interested, please tune into the podcast that I did with Eric Fuhrman. He is our Chief Planning Officer. Boy, did we spend a good amount of time digging into the current inflationary environment, what happened, why did it happen, and what do we expect from here.

In addition to that, you can go onto our website at keyfinancialinc.com, and there is a nice white paper that really digs into inflation, the causes of inflation, and again, gives more of our outlook. That's all fine and dandy. That's theoretical kind of stuff.

What are we going to do today? What is our advice? First and foremost, in an inflationary environment, almost anything that you have put money into, or have invested, is down this year. This is not necessarily the time to be making massive changes in your portfolio.

The market is down 25 percent. International equities are down. 20-year Treasury bonds are down 31 percent. Everything has declined in value. It's scary. At the same time, I think it's very important that you go into every day of every year, as we do, assuming that the next wicked bear market is about to begin.

Let this be a good opportunity to revisit the fundamentals that are so important in a really good financial plan. Number one, an emergency fund. Really important, so that you're not leaning on your investments when everything is down.

Typically, when inflation goes up, interest rates also go up, and asset values go down. Inflation is a corrosive force that impacts everything in our economy. It impacts our day-to-day living. It impacts the values of our investments. It's scary.

Again, very important to have an emergency fund, and for those of you who have equity in your homes, go out and get a home equity line of credit. This is the time when you might need to lean on it a little bit until things recover. We don't know when the recovery's going to occur, we just believe that it will. That's a great temporary Band-Aid to get you through this difficult time.

For those of you who know me, I have often described inflation like hypertension. It's one of those things many of us can't see, although it's pretty obvious today, but most of the time, it's not quite so obvious. Like high blood pressure, you can't feel it, but boy, over time, it can kill you.

Same thing here. Especially for those of you who are retired or approaching retirement, keep that in mind as you think about your retirement income plan, because this is not necessarily the period of time that you really want to be increasing your draws from your portfolio, unless, of course, you've already anticipated a period of time like this.

We have a system that we use when we are managing portfolios that gets us through the first six years of a wicked bear market, because I don't want anybody to be in a position where they're really selling very low. This year, nothing's really working. Things are down.

We still have access to capital, so that we're not selling at the absolute worst time. Keep that in mind if you are on drawdown, or if you need money for tuition, a wedding, or a big-ticket item. I hate to encourage you to pull back, because oftentimes, in a consumer-based economy, if everybody in America pulls back and stops spending money, that usually ends us all up in a recession.

The key here is to be aware of the demand that you might have on your invested capital. It is the time to allow that emergency fund to maybe drift down a little bit lower than you might feel comfortable with, so that you could allow those other investments to recover.

If you have a sizable emergency fund, and you may be tapping into it from time to time, but you're not using it all of the time, perhaps a more productive use or place for that emergency fund, or a portion of it, might be I bonds. Now, if you invest in I bonds, we have to keep in mind that, once you buy an I bond -- by the way, the limit is $10,000 per person per household per year -- once you buy an I bond, you can't sell it in the first year.

It's definitely not for short-term needs. If you sell an I bond in the first five years, you're going to hit with a three-month penalty. Right now, jeez, these I bonds are paying over nine percent. That is terrific as a source of interest during a period like this.

CDs, boy, for the first time in 10 years, we're seeing decent CD rates, so that might be another alternative to consider. In addition to that, for those of you who have loans, if you have a loan that has variable interest, you may want to look at that, especially if your interest rates are climbing to the point where it's getting really uncomfortable.

If you have an emergency fund or other source of capital, this might be the time to really look at paying off that debt. We have another Ask Patti Brennan series where we address that particular subject in a lot more detail as well, so tune into that if that applies to you.

Also, I would be remiss if I didn't bring up the fact that with inflation, higher interest rates, asset values are down. If you really want to be opportunistic, think about doing a Roth conversion. Your investments are worth 25 percent less.

Wouldn't it be interesting to take some of that IRA and convert it into a Roth? Yes, you're going to have to pay taxes on it, but you're paying taxes on an account that's 75 percent instead of 100 percent. That could turn out to be a wise decision in getting some lemonade out of this lemon.

Inflation is here. We believe it's going to be here for a few more months, probably into 2023. I don't believe we're back to the '70s, where we're going to live with five inflation rates for five years or longer, but it's probably not going to go away overnight.

Keep that in mind as you move forward and look at your financial plan. If you have any other questions, please feel free to go to our website at keyfinancialinc.com. We really appreciate understanding what's on your minds, so that tells us what we should be talking about as we do these podcast programs.

We love doing them for you, and we're grateful that you share them with as many people as you do. I am always surprised how many people are listening to these, so thank you for doing that. I am Patti Brennan, and we are Key Financial, wealth management with wisdom and care.