ARK ROYAL
WEALTH MANAGEMENT

Helping Successful People Make Smart Decisions About Money

SPRING 2021

FOMO & YOLO: TICKER SYMBOLS FOR THE POST-COVID WORLD?

Last week I spoke with a real estate agent about the potential sale of our vacation home at a nearby lake community. "We have a lot of out-of-state people coming into the market with gobs of money," she said. Home prices in that market have increased 20% in the last 12 months, and similar stories abound locally. Anecdotally, a friend in the Wilmington confirmed a neighbor with multiple offers over asking price and a friend recently sold his home in Raleigh for $46,000 over asking price, with over 20 offers.

Dizzying prices aren't isolated to the housing market. In the span of 14 months, the S&P 500 has rocketed from a pandemic low of 2237 to 4209 as of this writing (or up about 88%). Even cryptocurrencies are in on the game, with prices seemingly moving based on the latest tweet by Elon Musk. What is causing such dramatic increases in asset prices? We would submit as Exhibit A the kissing cousins that could well be stock symbols for the post-COVID age: YOLO (you only live once) and FOMO (fear of missing out).

It would seem one might draw parallels between the US stock market during and after World War II and what we are experiencing today. In May of 1942, it was far from certain the Allies would prevail and the S&P 500 was at 7.8 (that's right, single digits!). By May of 1946, WWII was in our rearview, the post-war recovery was in full bloom and the S&P 500 had reached 19.2 (a total return of 146%).

Let's face it—people are eager for things to return to normal as evidenced by consumer behavior. Commodity prices of all sorts are soaring. Mix in accommodative monetary policy and about $800 billion of Paycheck Protection Program (PPP) loans (loans that in all likelihood **won't** be repaid) and it's little wonder asset prices seem to defy gravity. There's lots of money sloshing around seeking returns and .03% in money market yield has little appeal.

It's impossible to predict the near-term direction of asset prices, but stock market investors should remember a decline of >10% occurs on average about every 24 months. FOMO & YOLO are great when prices go up. The bigger question is will FOMO & YOLO turn into GMO (get me out) when prices inevitably turn south.

> "FOMO & YOLO are great when prices go up. The bigger question is will FOMO & YOLO turn into GMO (get me out) when prices inevitably turn south."

COMMON DISABILITY INSURANCE MISTAKES

Disability insurance (DI) is one of those things people rarely give any consideration…until they face economic uncertainty because of an accident. Over the course of my advisory career, here are several mistakes I see people make when it comes to disability insurance:

1. **INSUFFICIENT COVERAGE**—often group coverage has benefit limits far below senior level compensation. A decade ago, while a partner at a private trust company, I discovered our DI coverage was capped at a fraction of senior management's compensation. The group coverage had remained in place for years with no one considering the changes in the firm's economics. It's important to review employer provided coverage to make sure it adequately addresses your coverage need. Remember, qualifying for Social Security disability is typically far harder than private coverage (either group or personal).
2. **WORKING BEYOND 65**—very few DI policies offer coverage beyond normal retirement age (stated in most policies as age 65). If you work beyond that age and have payroll deduction for group coverage you need to contact your HR representative and ask about coverage age. Several years ago I discovered a university professor client of mine (who was teaching well past age 65) had paid over $3,000 in payroll deductions for DI insurance that only paid to age 65. Fortunately, we were able to get most of those payments refunded.
3. **CONSIDER DROPPING PRIVATE COVERAGE AS YOU NEAR RETIREMENT**—if you are a year or two away from retirement and have adequately saved for retirement, it often makes sense to drop private DI coverage. Consider a 64-year-old that has a $7,000 DI premium for $120,000 of coverage. Given that the DI policy would only pay for one year in the event of disability, the premium/coverage ratio is 6%. Contrast this with a 55-year-old with the same policy. In the event of disability, the total benefit payment is $1.2 million ($120,000 x 10 years), which works out to a coverage ratio of less than 1%.

Disability coverage certainly isn't something Jim Cramer talks about on CNBC, nor will it make for intoxicating cocktail party conversation, but making sure you make smart choices can be enormously impactful to one's financial situation.

> "Disability insurance (DI) is one of those things people rarely give any consideration…until they face economic uncertainty because of an accident."

BEHIND THE SCENES

Brooks Palmer recently passed the Certified Financial Planner exam. Brooks is an Associate with Dimensional Fund Advisors in Austin, Texas. Congratulations Brooks!

Congratulations to our intern William Domville on his recent graduation from NC State University. William graduated from the School of Agri-Business and has accepted a position as a sales recruiter with Apex Systems.

Interested in learning more about why we use Dimensional funds in the construction of portfolios? Dimensional will offer a virtual investor symposium on August 17th. Please contact us if you'd like more information.

EQUITY DIVIDENDS—A RETIREE'S BEST FRIEND

Going from living on a paycheck to living on one's accumulated wealth can be an anxious transition. Some pundits recommend scaling back on equity exposure to reduce the variability of income in retirement. An investment approach heavy on bonds and CDs isn't likely to maintain purchasing power over the course of a 30-year retirement period that most Baby Boomers will likely experience. As counterintuitive as it may be, equities have a better income story to tell.

This year marks my 30th anniversary in the financial advisory profession. Let's consider a person (we'll call her Sarah) who retired the same year I became a financial advisor in 1991. Let's assume that Sarah was a frugal sort, who could live on a small teacher's pension and Social Security and that she invested her $500,000 nest egg in the S&P 500 Index.

In 1991 the S&P 500 was at 417, with a dividend yield of 3.1% equating to a cash distribution for the year of $15,000. Now jump ahead 10 years, the S&P 500 is at 1148, and provides an annual dividend of $20,000.

Over the next 10 years (2001 to 2011), the dividend income grows to $30,000 per year on Sarah's portfolio.

Skip ahead to 2020, Sarah now receives $70,000 annually in cash dividends on her S&P 500 investment. Remember the $15,000 of income Sarah received in 1991? Adjusted for inflation, that would equate to $30,834 in 2020. What is astounding is Sarah's dividend income from her portfolio **more than doubled the rate of inflation!**

And did I mention this totally ignores the fact that Sarah's initial $500,000 nest egg has grown to $4.4 million!

Make no mistake, there were four years (2000, 2001, 2008 and 2020) where dividend distributions fell year over year (why we advocate for 24 months of living expenses in money market for those in retirement). But there is no mistaking the larger takeaway—equity dividends are a grossly underestimated provider of income over the long-term.

"But there is no mistaking the larger takeaway—equity dividends are a grossly underestimated provider of income over the long-term."

BIT BY BITCOIN: HOW TO THINK ABOUT CRYPTOCURRENCY

I was recently asked by a client about my thoughts on cryptocurrency. Without going into my full response, I explained that I viewed it as a speculation, not an investment. Asked to explain the difference, I outlined that with stocks and bonds there is the expectation of receiving future cash flows (principal and interest in the case of bonds and dividends with stocks). It is possible to calculate (albeit with a high degree of variance) what those expected future cash flows might be.

Bitcoin and other cryptocurrencies offer no such cash flows. Owners of crypto make a bet (in my view, a speculation) as to which way the price may move. Interest and dividends (be sure to read **Equity Dividends—A Retiree's Best Friend** on page 3 of this newsletter) provide investors with cash—cash that can be used to buy bread, gasoline, and medical care. And while the day may come that Bitcoin might also buy goods and services, that day is not today. We invite readers to see our blog post of May 24, 2021 for a more detailed assessment of cryptocurrency investing which features an article by Dimensional Fund Advisors' Weston Wellington titled *Tales from the Crypto*.

I think a better way to think about cryptocurrency was expressed by a friend of mine, a retired fund manager. He said he viewed Bitcoin like, "I'm the Queen of Spain sending Christopher Columbus looking for America. Sure, take three ships, won't hurt me if you never come back." In other words, be prepared to lose it all.

> *"Bitcoin is everything you don't understand about money combined with everything you don't understand about computers."*
>
> —HBO'S JOHN OLIVER

The CORNERSTONES *of* ARK ROYAL WEALTH MANAGEMENT

To nurture a culture that puts our client's interest first—always

To be truthful at all times, to be intellectually honest with ourselves and with our clients, even if it isn't what they want to hear

A commitment to lifelong learning, and a passion for applying our wisdom efficiently and effectively every single day

Align what you say, what you do and what you think to honor yourself, your family and our firm