HCM WEALTH ADVISORS
HENGEHOLD FINANCIAL GROUP
HG CPAs

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"Moneyball" Your Retirement:
What Baseball Can Teach You About Financial Planning

With spring in the air and Opening Day just behind us, baseball is very much on our minds. In addition to being America's pastime, it can also provide important lessons on retirement and financial planning.

Don't swing for the fences – focus on getting on base.

In 2002, Billy Beane of the Oakland Athletics drafted several undervalued players while letting more established athletes go through free agency. Although widely questioned, these moves paid off: the A's went on to win the 2002 American League West, and his strategy, popularized by the book *Moneyball*, revolutionized recruiting in baseball. Beane did this by rejecting the standard of focusing on exciting metrics like Home Runs. He found that the best predictors of player success were slugging percentage (total bases divided by at-bats) and on-base percentage. On-base percentage in particular is a sleeper of a stat. Who brags about taking the most walks in a season? But you've got to get on base before you can score, and it turns out consistency is key.

Similarly, in financial planning and investing, there are a lot of huge stories that get attention. Who wouldn't want to have invested in Apple in the 80s? But for every "home run" an investor hits, they will strike out many times over. When planning for a secure retirement, it's important to make sure that you have income that's dependable, diversified, in cash, and growing faster than inflation. To do this, we build portfolios with dividend-growing stocks, bond ladders, and other assets with proven track records. By focusing on your retirement on-base percentage, we're doing what we can to put you in the best position possible to have a successful and fulfilling retirement.

Don't watch the game.

Beane famously didn't watch the A's when they were on the field. He was afraid he'd do something rash if he saw his players or coaches making mistakes. All too often an investor will get upset about a downturn in the market, react emotionally, and make their situation worse. The paper *Trading Is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors* shows us why: after looking at 66,465 households with brokerage accounts, the quintile that traded least frequently realized significantly higher returns than the quintile that traded most frequently.

One game is not a season.

It's easy to get hung up on a devastating loss, or even striking out when you hoped to get on base. Every baseball player strikes out more often than not. Ty Cobb, who holds the MLB's record for highest batting average, got a hit about once every three at-bats. Even the league's record holder for highest on-base percentage, Ted Williams, couldn't get on base more than half the time.

In the same way that a batter can experience frequent and significant slumps at the plate but still have an excellent batting average, so too does the market often experience major corrections only to trend upward in the long run. Between 1990 and 2020 the S&P 500 yielded an average annualized rate of return of 8.1%, resulting in a more than ten-fold increase. But during those 30 years, there were 13 market corrections greater than 10%, including a 49% decrease from 2000 to 2002 and a 56% downturn from 2007 to 2009. It would be easy to give in to panic in such dire markets, but as we've learned from baseball, you need to continue to step up to the plate, maintain a disciplined approach, and do the things that will get you on base.

Never Live on a Fixed Income

"I live on a fixed income" may be the six scariest words a retiree can utter as inflation flares to 40-year highs. Fortunately, with proper planning, it does not need to happen!

How big of a bite will the current bout of inflation take out of your retirement income? There is no question that managing finances during periods of high inflation can be a challenge, especially for those who are no longer collecting a paycheck. That is why it is important that every retirement income plan includes strategies that anticipate inflation.

Having an effective retirement income strategy that provides for regular increases in income is an important attribute of a plan that allows you to live well, and even thrive, during inflationary times.

What Are Your Risks?

First, it is important to understand the challenges inflation brings to retirees. Data reported for the twelve months ending in February 2022 shows that both gasoline (up 38%) and food (up 7.9%) have been big contributors to headline inflation. While these are costs we all experience, most retires don't feel the pain to the same degree they did when they were raising families and commuting to work every day. Housing inflation (up 4.7%) may actually work to a retiree's advantage if they decide to tap their home equity or downsize.

On the other hand, things like travel (airline fares up 12.7%) and dining out (up 6.8%), while discretionary, will increase retirees' cost of living. While the increase for healthcare was modest over the last twelve months (up 2.4%), retirees must plan for the reality of higher healthcare costs later in life.

So, while retirees' cost of living will definitely increase during inflationary periods, it will likely not go up at the near double-digit rate reported in the news.

Battle Inflation's Bite Of Your Income

Everyone knows that, during a thirty-plus year retirement, there will certainly be periods of higher inflation. However, what we don't know is when inflation spikes will occur. The solution is to build core sources of retirement income that grow every year:

- At HCM our favorite inflation-fighting income strategy is to incorporate growing dividends into retirement income plans. Companies that increase their dividends every year, regardless of what stocks, bonds, inflation, and interest rates are doing, provide excellent tax-advantaged income protection.
- An intelligent Social Security claiming strategy is a key element of almost every retiree's income plan. Social Security is adjusted every year to keep up with inflation, increasing 5.9% this year.
- Using time-segmented diversification and rebalancing strategies captures excess returns when the market rises and moves them to safer environments, allowing for the creation of income buffers that can be used when inflation spikes.
- Bond ladders allow shorter-term maturities to be rolled into higher-yielding, longer-term maturities during periods of rising interest rates that typically accompany inflationary times.
- Recognizing home equity as a store of value that grows during inflationary times, as a backstop for healthcare costs later in life, puts inflation on your side. It also creates an invaluable financial tool that can be used when tax-free cash flow is needed.
- Delaying purchases (or accelerating sales) of major items that may be temporarily overpriced due to supply chain issues or extremely low interest rates is another strategy. For example, you may want to sell that extra car in the garage while used car prices are up 41.2% over the last twelve months. If you are considering selling real estate, now may be a good time. Alternatively, if you are a cash buyer of real estate, you might want to delay the purchase if you believe prices will decline as interest rates rise.

The bottom line is that living on a fixed income is a very bad idea. Fortunately, there is no reason to do it. With a little bit of planning, inflation and the natural ebbs and flows of markets may allow you to thrive during inflationary times.

Financial Advice for Recent Graduates

Congratulations to the class of 2022! Whether it's your child, grandchild, other family member or friend, you likely know someone who's graduating soon. In case you get tapped to share a few words at their celebration, we decided to offer a few points that will start them out on a successful financial path.

1. Forget the "B-Word".... But Remember to Pay Yourself First.

Everybody hates the "B-Word".... budget. We hate it too. Almost two-thirds of Americans don't know how much they spent last month, according to a 2020 survey by Intuit. For your graduate to avoid this, a common recommendation is to make a granular budget with line-by-line spending goals for items like food, clothing, housing, entertainment, etc., and then follow it.

This is a great idea, but it's hard to do. Instead, our suggestion is to remind your graduates to "pay themselves first". If your graduate remembers to automatically take 20-30% of their income and direct it towards improving their financial future (paying down debt, long-term investing, etc.), it doesn't matter if they occasionally splurge on a bigger expenditure, like a trip.

2. Build Your Credit History.

Achieving and maintaining a healthy credit score will pay significant dividends down the line to your new grad. It will determine whether they're approved for a car loan or mortgage, how much they'll pay if they are approved, and possibly whether they'll even be hired for some jobs! A few ways for them to keep that number up is for them to pay bills on time, get a credit card that they use occasionally and pay off immediately, and to regularly check reports from the Big Three to make sure there aren't any errors and to correct them if there are any.

3. Invest Early and Often.

It's never too early to start investing. In fact, investing early allows compound interest to work its magic longer. If your grad invests just $100 per month starting at age 25, assuming 7% interest, when they reach 65, they'll have more than a quarter of a million dollars in their account. If they start investing a decade later, they'll have to more than double their monthly investment to reach the same goal, and starting at 45 would require nearly 5x as much invested to have the same asset holdings at 65.

Best of luck to your graduates as they start their journeys

Tax Planning for Retirement

Everybody focuses on the growth of their investment portfolio – what their rate of return is, how they're doing compared to the market, etc. Not as many people spend as much time considering the taxes they'll pay once they go to monetize their assets. But, failing to consider how your income will be taxed can result in losing a substantial amount of money you'd otherwise have received.

One important new tax a retiree needs to watch out for is a tax on their Social Security income. It may seem counterintuitive that the Federal Government taxes the benefits it itself issues, but up to 85% of a person's Social Security income could be subject to taxation if their total income exceeds a certain threshold. If someone's Adjusted Gross Income plus any nontaxable interest they received plus half their Social Security benefits exceeds $25,000 ($32,000 for married filing jointly), then half their Social Security Benefits are taxed as income, and if their income reaches $34,000 ($44,000 for married filing jointly), then 85% of the benefits are subject to income tax.

So, what are some tax-smart ideas for coordinating Social Security with the rest of your balance sheet? Draw from tax-deferred assets before you start claiming Social Security. Tax-locate your investment assets so that interest-generating investments are held in tax-sheltered accounts. Make a smart Social Security joint claiming decision with your Spouse. And above all, remember it's not what you make, it's what you keep, after taxes, that counts.

HCM & HG Out & About

HCM is proud to support local charities who have a positive impact on the community.

Matthew 25 Ministries is committed to providing humanitarian aid and supplies to those in need. They leapt into action to respond to the devastation inflicted by the tornadoes in Kentucky last December and are now helping in Ukraine.

Cincinnati's Ronald McDonald House helps families with critically ill children by allowing them to stay close to the hospital where their child is receiving care. HCM team members regularly volunteer, and we're happy to be able to continue to support their valuable work.

Freestore Foodbank provides 37.7 million meals each year in 20 counties in Ohio, Kentucky, and Indiana. With one in seven neighbors in our tristate area at risk of hunger, the need for their help is acute, and we're happy to do what we can to meet that need.

The Alzheimer's Association was founded in 1980 to provide support to those facing Alzheimer's and advance research into the disease. They work on a national and local level to provide care and support for people affected by Alzheimer's and other dementias, advance research toward methods of treatment, and serve as the leading voice for Alzheimer's disease advocacy.

Matthew 25 Ministries

Ronald McDonald House Charities® Greater Cincinnati

FREESTORE FOODBANK FOOD • CONNECTION • HOPE

alzheimer's association®

The HCM Family Got Bigger with Some Little Additions!

We were so happy to greet two new family members to the HCM team.

Kennedy Jane Rinck is here! Born at 6:02 am on Friday, March 18, 2022. She was 6lbs 11 oz. Kelsey and Kennedy are doing great; Dan's circadian rhythm, however, is not.

Greg and Jamie welcomed their sixth child, Duke James Middendorf, into the world a week after Kennedy on Friday, March 25th at 3:50pm, weighing in at 9lbs 15 oz. The family is all smiles!

Since installation, our solar power system has generated 99,000 kilowatt-hours!

That's equal to:

176,320
Passenger Miles not Driven

77,544
Pounds of Coal not Burned

1,160
Trees Planted