Comprehensive Financial Planning llc

530 Main Ave • Suite A
Durango CO 81301
970.764.0953
Stan@CompFinancial.com
www.CompFinancial.com

Asset Management • Retirement, Tax and Estate Planning • Fee Only • No Commissions • Independent Advisor

January 10, 2022

Here is our newsletter for the 1st Quarter of 2022

Market Update

Nine out of twelve asset classes had gains for the quarter and the year. U.S. large cap stocks and Real Estate, as measured by a U.S. commercial real index (REITs) were up 28.7% and 40.4% for the year. The U.S. markets continue their multi-year outperformance over foreign markets. Emerging market stocks only gained 1.0% for the year. The big lager was China stocks which lost 5.6% for the quarter and almost 20% for the year. Commodities had a great year with a gain of 41.4% for the year.

Asset Class Returns- Ending 12/31/21

Asset Class	4th Qtr	2022
US Large Cap Stock	4.5	28.7
US Small Cap Stock	2.1	14.6
Foreign -Developed Mkts Stock	3.1	11.2
Emerging Mkts Stock	-0.4	1.0
China Equities	-5.6	-19.8
US Intermediate-Term Bond	-0.1	-1.7
Emerging Markets Bond	-1.8	-5.1
High Yield Bond	0.6	4.3
Inflation-Protected Bond (TIPS)	2.2	5.5
Cash	0.0	0.0
US Real Estate	14.9	40.4
Commodities	2.7	41.4

In the fixed income markets, higher interest rates continue to erode returns with U.S. intermediate bonds losing 0.1% for the quarter and 1.7% for the year. Emerging market bonds joined their equity markets with a 5.1% loss for the year while TIPS and high yield bonds had mid-single digit gains.

High Inflation is Not All Bad

The markets are full of concern over rising interest rates. Just today the 10 Year Treasury bond hit 1.77%, a two year high. This is not all bad news as the recent increase in inflation has provided an opportunity to buy Series I Savings Bond at great interest rates. Last July I mentioned these when they were yielding 3.54%. Their interest rate has doubled since then.

The only way you can purchase them is directly from the Federal government at www.TreasruyDirect.gov. Look for I Bonds for individuals. The interest rates are set every 6 months and come from the Consumer Price Index (CPA). Any that you buy before May 1st this year will carry an interest rate of 7.12% for the next 6 months. Every 6 months the rate is reset to the new CPI inflation numbers. Understanding the way the CPI is calculated shows that this high CPI level will stay high for at least thru this year. It should stay above 5% until at least sometime next year.

Purchases are limited to $10,000 per year per person. For a child under 18, an adult can purchase the bonds on their behalf. You can also buy another $5,000 per year in paper bonds but I would discourage doing so as keeping track of them is a pain.

One downside is they are not totally liquid like a savings account and you have to hold for at least 12 months. While I Bonds have a 30-year maturity, investors who redeem I Bonds between 12 months and 5 years after issue will forfeit the last 3 months of interest, but I Bonds held for more than 5 years can be redeemed at their current value. So, these would be great as part of your cash savings you have in the bank to fund short-term needs.

Market Valuations: U.S vs. Foreign vs. Emerging Markets
Last quarter I showed how value stocks are much cheaper than growth stocks. Below is a chart which illustrates how much cheaper foreign stocks are compared to U.S. stocks. The blue line is the U.S. stock market and sits above a Price to Sales Ratio of 3.0, which is over 30% above the lofty valuation back in the year 2000. The green line shows the MSCI World Index, which represents the foreign developed markets (mostly Europe and Japan). The orange line represents the Emerging markets, which have a Price to Sales ratio of less than half of the U.S.

This discount for the emerging markets has never been wider and is why we will continue to invest in these markets.

Lighten Your Load
Last year my wife and I picked up backpacking after many years of doing other things, like being parents. Our first trip last summer was a challenge. Even though we picked a relatively easy trail, and not too far in, we barely made it to our destination. Perhaps we were just too old for this kid's sport, or just weren't in shape. The only thing I could think of, other than going to the club more, was throwing out the old gear and buying the latest lightweight gear. It was amazing how much weight we got rid of in our tent, sleeping pads, cooking gear and even backpacks. We bought smaller packs, making us leave some of our stuff at home that we could life without.

A recent blog from Michael Kitecs (**kitces.com**/blog/subtraction-untapped-science-of-less-leidy-klotz-flow-state-identifying-priorities-simplify-life) talks about how our default tends to be to adding stuff over time.

"This proclivity to create more space for the accumulating stuff we keep adding to our lives (as an alternative to *getting rid* of stuff) doesn't apply just to our physical 'stuff' – it tends to carry over to other aspects of our lives as well. We want more freedom to be able to engage in more activities or to work more hours to gain more financial success… the list goes on. Adding elements to a situation is often how we approach solving problems, issues, concerns, and even our goals and desires."

Fighting this urge to take on more stuff, physical and emotional, may lead to a higher level well-being. It sure helped us carry our packs to our campsite.

Seven Common Mistakes Made on Beneficiary Designations
This was include in my newsletter almost 5 years ago: worth a repeat. Most of your wealth can be passed on to your heirs by simply using beneficiary designations. However, many people make mistakes when doing so. Here are seven of the most common errors made.

1. Naming the estate as a personal life insurance policy beneficiary. This will made the proceeds subject to probate which may delay the funds availability. Also, this will subject the proceeds to federal estate taxes, not a good outcome. One should name an individual for a personally owned policy, or the trust for a trust-owned policy.
2. Failure to name a contingent beneficiary. If the primary beneficiary does not survive the owner of the asset this will result in an outcome similar to #1, having to probate the asset.
3. Naming a minor child as a life insurance policy beneficiary. The life insurance company will simply not pay benefits to a minor and again the asset will end up in probate. You should name a trust as the beneficiary which will benefit the child.
4. Failure to remove an ex-spouse as beneficiary. I discovered this with a client during a review and it was not intentional on his part.
5. Failure to regularly review beneficiary designations. People pass, move on from our lives and our goals change over time.
6. Failure to account for "special needs" children. Special needs children can be disqualified from receiving governmental and other assistance if they are beneficiaries of a financial product.
7. Failure to coordinate all beneficiary designations with the overall estate plan. Most people do not realize your wishes established in your last will are overridden by beneficiary designations on your financial accounts. Lack of coordination could lead to unintended consequences.

Let me know if I can help in any way.

Sincerely,

Stan Johnson
Comprehensive Financial Planning, LLC
Registered Investment Advisor
NAPFA Registered Financial Advisor