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Helping You Secure Your Future™

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Summer 2021 Newsletter:

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Welcome Back, Inflation, We Missed You Almost as Much as Bell-Bottoms...Oh Yeah, Almost Forgot About The Markets and Economy

For those who are not old enough to remember, the popular ABC sitcom ***Welcome Back, Kotter*** originally aired during the latter half of the 1970s. Coincidentally, the last major bout of sustained inflation in the US was happening at about this same time, and was finally put under control by the early 1980s.

Are we now headed back there? Both the Federal Reserve and the Biden Administration contend that the current spike in consumer prices is transitory. Their view is that the depressed economic state of the US last year during the corona virus lock down, led to falling prices for commodities and other input prices, which are just recently getting back to normal. Starting 2021 from a lower base, therefore, would mean that we now see spikes in the resulting CPI (Consumer Price Index). But as shortages and supply chain constraints get worked out over the next few months, this situation should moderate significantly, such that overall inflation will not be a problem.

We beg to differ. This does not mean to say that we will suddenly see double digit inflation in the next year or two. Looking at a historical timeline of US inflation readings, it almost looks like a commuter train line map and schedule. You need to first go past 4% CPI to get to 5% and then see if you make it to that 6% station out there over the horizon. Will we ever get back to 1979's 13% rate of inflation? Who knows? We are not currently dwelling on that issue, given the more pressing problems confronting us. But one thing is certain. The Federal Reserve's 2% inflation target has been blown past, just like an express train skipping one of the otherwise scheduled stops.

Even with higher than 2% inflation being a current fact of life, the Fed has not yet announced when it will even begin to taper its monthly asset purchases (currently running at $120 billion of quantitative easing, aka “money printing”). This does not even begin to address when the central bank will restart raising short term interest rates. So from a monetary policy standpoint, “loosey-goosey” is positive for increased inflation, if the velocity of money (turnover in the economy) increases.

From a fiscal policy standpoint, stimulus checks, enhanced unemployment benefits and a rapid increase in deficit spending and the US debt, all are positive forces toward increased inflation. When we add increased “regular” regulation to COVID-19 imposed requirements and restrictions, we see a picture that becomes ever more clear: less production of goods and services, but more money flowing into the system.

Where do we remember that old adage from: *Too much money chasing too few goods?*

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Ah yes, the good old 1970s.

Please keep in mind that we stay away from politics in our newsletter articles and advisory business. Let's focus on the cold hard numbers, instead. While we had a mini depression during the lock downs of last year, the notion of transitory inflation now would make more sense to us if last year actually exhibited deflation. But guess what? It did not. We calculate that from the end of 2019 to the end of 2020, the CPI-U (All Urban Consumers) was actually a +1.36%[1].

Through the end of July, the percent change in CPI-U was 4.81%[2]. With five more months to report in 2021, it would not take much for the full year change to top 6%. One positive implication of all this is that Social Security Cost of Living Adjustments (COLAs) for 2022 may very well top 6%[3]. Social Security beneficiaries might actually need every extra dollar of that raise.

Another reason to delay taking Social Security until age 70, is that maximizing your monthly benefit will also mean maximizing your COLA increase.

Some so-called inflation experts will often pooh-pooh these "headline CPI" numbers and say that the "core rate of inflation" is actually more meaningful. This is highly misleading, however. Core inflation strips away food and energy, which happen to be two of the most volatile components of the basket of goods and services measured each month.

But the correct answer to what is really meaningful is simply what the actual basket of goods and services are, that you consume every month. Each living person needs to eat, so food prices are always important, in our view. The vast majority of folks need to consume energy each month, such as to fill their gas tank, heat their homes or run their air conditioning. In contrast, once a home is purchased and a fixed rate mortgage is secured, a major portion of the housing cost may be left unchanged for the duration of the owner's stay in that house. While the feeling of a "wealth effect" may exist when the homeowner sees their property increase in value over time, this is still theoretical until they actually sell. It is exactly like "paper gains" in the stock market.

To better measure what consumers actually feel from inflation, due to frequently purchased items, the **American Institute for Economic Research** (AIER) developed the **Everyday Price Index**, or EPI. In its most recent measure, the EPI was up 0.8% for July. For the past twelve months ending with July, the year over year gain for the EPI is a robust 6.4%[4].

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Will higher inflation persist and for how long?

To answer that one, we simply look around at the continued constraints on production, increased regulation, higher energy prices with lessened domestic supply/exploration, continued COVID-19 concerns with the new variants, nonstop easy money policies from the Fed, along with ballooning government deficits and debt.

Let's add the increased wage push to these other inflationary pressures. If a $15 per hour minimum wage is the new standard (applying as well to the person who has never worked before), what does that mean for a "veteran" of one full year, who currently earns $15 per hour? Wages across the board are more than likely to increase, as a result. These increased labor costs will almost certainly be passed on to the end consumer, unless competition makes it impossible to do so. In that case, look for more automation to replace employees. But unlike most of the last two decades, there will be some wage inflation. While we want workers to earn more, we would much rather see this happen due to productivity improvements and tight labor markets.

The Federal Reserve would need to hit the brakes, tighten monetary policy and increase short term interest rates, in order to deal with this increased inflation. While this may happen at some point, the political process for next year, makes this unlikely. For example, there was only one Fed Funds rate increase from the end of the financial crisis (2009) until the 2016 election (December, 2015). But the difference between now and then is that we definitely have measurably higher inflation. Will the Fed act independently when and if inflation gets out of hand?

Does inflation help some people?

Well, those with fixed rate debt can pay that debt back with ever cheaper dollars. Those who own assets that appreciate with higher inflation, such as stocks, real estate, gold and increasingly crypto-currency, may also prosper. Let's emphasize the word "may". The decade of the 1970s was not kind to stocks, although real estate and gold did rather well. It would be much better to have a very low and predictable amount of inflation, rather than to have a higher and more unpredictable level. It is this uncertainty factor that influences things as well.

So who is hurt by inflation?

Undoubtedly, poor people are made more poor by rising prices. Their wages rarely keep up with the cost of living. They are less likely to own assets that increase in value and when they do, those assets are of modest help. Inflation has been called a tax on the poor. In our view, it is a very regressive tax.

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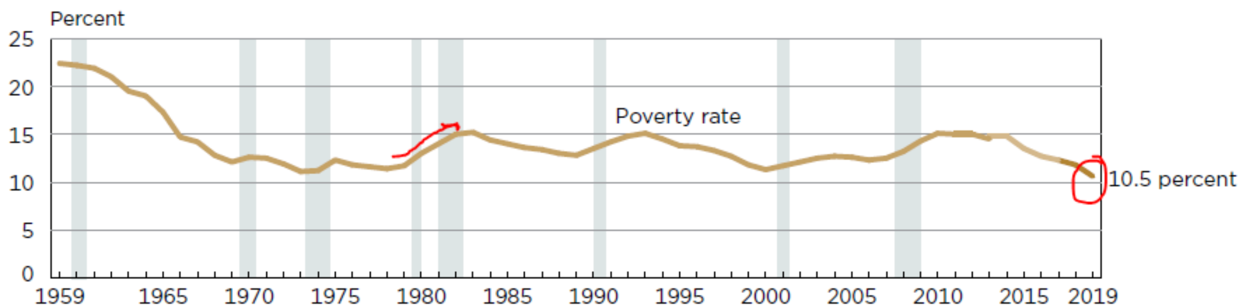
A long time ago when I was an undergraduate in engineering, I was still very interested in economics. I was told that job opportunities were few in this field, so I should stick with my major. But I was stunned when I saw a chart in a newspaper that showed the US poverty rate. Simple math showed that the biggest increase (acceleration) in poverty occurred during the time of the biggest inflation in the US.

Here we update and display this very same chart[5]. The end result of inflation is an acceleration in the in the poverty rate.

Poverty Rate 1959 to 2019



The red line is something we added to draw your attention. The slope, magnitude and duration are all higher compared to other increases. This is during the latter half of the 1970s and going into the early 1980s. By contrast, one of the lowest points in poverty occurred in 2019. This was the end of the pre-pandemic era and 2010s decade, which saw inflation at very moderate or low levels. We do not feel that this was coincidental.

But at least the economy is doing so very well now, right?

Maybe not so fast. Mr. 2021's economic growth has been compared to that of 1984, when US GDP grew by an astounding 7.2%.

I knew 1984. 1984 was a friend of mine. You, sir (2021) are no 1984.

All kidding aside, let's look more closely at the data. This year's first quarter saw GDP grow at 6.3%. But estimates for the second quarter were coming in at about 8.5%, so the actual release of the second quarter number at 6.5%, was more than a little disappointing[6].

Add to this, the drop in consumer sentiment published by the University of Michigan. They described it as a "*stunning loss of confidence in the first half of August... to a level that was just below the April 2020 low*"[7]. Clearly, the lingering impact of the pandemic

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plays a key role, especially with the newer Delta variant. But in the first half of 2020, there were no vaccines, there were disputes over the efficacy of any treatments and there definitely was an ever mounting death toll. None of these factors exist at the present time, so there must also be a certain amount of general "malaise", or at least anxiety, over what next to expect. Keep in mind that the main component of US GDP is around 70% driven by consumers.

As a result, we hear many economists predicting slower growth for the second half of this year. But let's try to be optimistic and assume that the previous 6.5% GDP growth number becomes the full year result.

At that point, where do we stand? In the first pandemic year of 2020 with its mini depression, overall GDP fell by 3.4%, eclipsing the -2.9% change in 2009 and -1.8% in 1982. To find a worse GDP number than 2020, you would need to go all the way back to the 1946 post war reset.

Major GDP drops (i.e. recessions) are usually followed by robust rebounds. The most notable recent exception to this was the aftermath of the Great Financial Crisis (GFC). Even during the Great Depression, do you remember 1934? Me neither. But looking up the data, we see that in 1934, US GDP grew by a whopping 10.8%. So starting from a lower base, we should expect to see a stronger gain.

However, if we take the -3.4% actual drop in 2020 and combine it with an optimistic 6.5% projection for 2021, the true average (this needs to be a geometric mean and not a simple average, to take into account the negative number), comes out to a rather paltry: +1.4%.

We must keep in mind that this result is after TRILLIONS of DOLLARS were spent on stimulus and Fed money printing, which massively ballooned the US national debt and annual deficits.

Have we seen this kind of GDP number before? Yes, during the slow, sort-of recovery after the GFC. If you don't believe us, check out 2011's 1.5%, 2013's 1.8% and 2016's 1.7%.

But at that time, at least overall US debt and deficit levels were not what they are today. The inflation rate was much lower. And the stock market was not as richly valued.

Ah, yes. The stock market. When were we going to discuss it?

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In our early 2020 Newsletter, we advised not making a rash decision to exit the stock market, even in the face of the looming pandemic. Anyone staying with a reasonable preset asset allocation, who listened to our advice, should have done very well over the past year and a half.

Where do we stand now? We maintain our own valuation model for large cap US stocks. While it is not useful for timing the market, it does give us insights into the relative over or under valuation conditions that may exist. If we were to end 2021 at about where the S&P 500® stood at the end of July, then stocks are about 50% over valued, according to this model.

It is true that corporate earnings have mostly beaten expectations. But generally speaking, comparisons of this year to last, are a pretty easy hurdle to jump. But what happens with comparisons in 2022 versus 2021? Will significant future growth materialize?

So is it time to sell it all and put it all into Bitcoin, right? Not so fast.

What we do recommend is that anyone who has not re-balanced their portfolios within the last 12 months, to get it DONE NOW. Re-balancing is the act of getting back to a pre-set asset allocation, something we develop for our advisory clients. Help in the mechanics of doing the re-balance is always available by contacting us.

The only sense of urgency we are getting across now, is that if you started with a preset allocation five years ago and have just let it grow, it may now be grossly misaligned with your personal risk tolerances and goals. There is no need for you to take any more risk than you "need" (I think I made that sound *too redundant*).

We don't believe in people accurately predicting future events. Hence, the fun we poke at ELPers (event level predictors). So we don't know for sure what the next five years has in store for us, in regards to the expected returns in the stock market. But our analysis and past history point to these future expected returns being lower.

We would like to share this analysis with you. We looked in our database (which goes back to 1970) for all end of year values where large cap US stocks were seen as being at least 50% overvalued, as they are today. There are nine such years, as you see below (although consecutive years may be part of the same overall market cycle).

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End of Year	Relative Value	Next 5 Yr. Return
1995	55.56%	18.35%
1996	74.04%	10.70%
1997	111.00%	0.59%
1998	146.64%	-0.57%
1999	171.39%	-2.30%
2000	124.24%	0.54%
2001	79.64%	6.19%
2004	50.01%	0.42%
2006	50.60%	-0.25%
2021	50.94%	???

The third column shows the following five year annualized return. For example, the mother of all bubbles was the 1990's Y2K/Internet Boom. Starting at the end of 1999, an investment held for 2000-2004 would have lost 2.3% per year. The only annualized return numbers that look good are the first two, corresponding to the very beginning of this boom (1995 and 1996). What's more, for most of the time period represented in the above table, the bond market provided adequate enough returns, along with money market funds. But this is not the case today.

So we cannot simply close our eyes to all of this, click our heels and then pretend we're back in Kansas (well I suppose we could, but I'm not sure what good that would do). Our message is that inflation is higher and uncertain going forward, the poverty rate will probably be going up, economic growth may still not return to a stable 3% trend line any time soon and the stock market is richly valued.

But we can still re-balance! We must re-balance! Oh well, try to keep a positive attitude...

RETURN

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Castling Defensive Portfolio Hits Target in 2020 after Solidly Handling the Pandemic Crash... And 2021 is Off to Another Consistent Start

Many years ago, we came up with an asset allocation to showcase what we felt an extremely risk averse investor could tolerate. We named this hypothetical portfolio the **Castling Defensive Portfolio** (CDP, see below for an asset allocation/investment breakdown). It originated from performing rolling period analysis. Since then, we have not felt a need to alter the allocation, since it has been so consistent in its performance. It was meant to rely on our concept of consistency, derived from the asset classes within our proprietary asset allocation database. Many others focus on day to day or year to year returns. We do not. We like to look at five year and multiples of five year, rolling periods.

In moving from an asset allocation into real live investment vehicles, we picked high quality and low cost mutual funds, almost all of which have been sourced from Vanguard. We added some cash in the form of bank certificates of deposit. We have made very few fund changes since it was all first put together. We also have done back testing in addition to taking it forward and reporting on it each year.

In 2020, the CDP had a total return of 7.43%. This certainly is underwhelming compared to **Vanguard 500 Inde**x fund's (ticker: VFIAX) 18.37%. Two other funds we use for comparison purposes: **Wellington** (VWELX) had a 10.60% return, while **Wellesley Income** (VWINX) had an 8.45% return[8].

The CDP's purpose is to minimize risk over longer periods while not taking much time to manage, all while trying to achieve a 7.2% net pretax annualized return. So even with a pandemic in 2020, our goal was achieved. But due to the low level of interest rates that have persisted for more than a decade, the CDP has pulled up a little short on its longer term performance.

Our 21 year (2000-2020) annualized total return for the CDP is 6.58%. For 2000-2009, the CDP posted a 7.51% annualized return. But for 2010-2019, this was cut to 5.58%, because of persistently low interest rates.

We should point out that the CDP is invested in equities (the stock market) for only 31% of its allocation. If we conservatively estimate that the fall in interest rates was at least 2.5 percentage points for the entire period (2010-2020), then the 69% of CDP invested in various fixed income funds was short at least 1.7 percentage points of total return. If that

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could have been achieved on top of the 5.58%, then viola! At least 7.2% would have been the result.
Let's move on to discuss risk. One measure of risk is standard deviation, which in this case, looks at the dispersion of returns around its average. Here, the CDP 21 year value is a very low 4.90%. But our preferred measurement of risk is called the "coefficient of variation". This could also be called "risk per unit of return", where lower is better and under 1.0 can be considered outstanding. The CDP's measure is 0.74 over this 21 year period. Wellesley Income, at 0.81, is also outstanding. By contrast, Vanguard 500 Index measures 2.73, or almost four times that of the CDP!

Such measures may be too esoteric for many readers. So how about if we recast the issue in a somewhat different light? The 21st century has definitely been a study in contrasts. For example, 2010 through 2020 saw the Vanguard 500 Index achieve a very impressive annualized return, quite above the stock market's long term average of 10%.

As an aside, we would like to point out that "averages" really make sense only in the context of rolling period returns and not with individual years. If you check the year to year returns of the overall market, you will be hard pressed to find years that look "average". But many investors still get obsessed with the year to year results.

For example, the 2000-2009 decade saw the annualized total return of 500 Index come in as a terrible **-1%**. Comparing the first decade to the second, the difference is over 1,400%! This epitomizes inconsistency.

The CDP achieved 7.51% in the first (2000-2009) decade and 5.54% in the second (2010-2020), a difference of only 26%.

Consistency is most valuable in a core investment portfolio where you are concerned with total return and where sequence of returns represents one of the chief risks. Lowering expected return in exchange for tamping down the sequence of returns risk may be a very worthwhile trade-off.

We would next like to demonstrate the value of a sprinkling of gold in your portfolio, by showing what a small percentage allocation to the **iShares Gold ETF** (IAU) would look like. Because this gold ETF has not been in existence for the entire CDP time period, we use 2006 as the starting year for our gold analysis. As you can see in the table below, setting the gold allocation anywhere from 1% to 10% lifted the annual returns of the mixed portfolio (CDP and IAU), but still limited the coefficient of variation to around 1.

Did adding a little gold help? In the second decade, a 1-10% allocation of IAU along with a 99-90% allocation to the CDP had very little change versus just investing in the

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CDP. In fact, there was a tiny decrease in total return. But over the entire 2006-2020 fifteen year period, a 10% allocation to gold resulted in a 6.02% total annualized return versus 5.62% with no gold. The risk measurements (coefficient of variation) were essentially the same.

So called "paper gold" as represented by the **BlackRock** (IAU) ETF has a huge advantage over physical gold in a core portfolio. Since distributions are expected each year in the core portfolio during retirement, it is a very easy task to annually re-balance back to the target allocation for gold. If this were physical bars or coins, it would be cumbersome and costly to sell off a small fraction to maintain your asset allocation going forward.

Consistency within a year is somewhat important, although short term volatility is never going to be eliminated. 2020 saw the fastest bear market and subsequent recovery, of our lifetimes. The market low was recorded before the end of March. We computed a 2020 year to date return for the CDP as of March 31st, 2020, to be ONLY -7.1%. While not "great", this stands in stark contrast to the 20-30% losses recorded by many other funds and strategies, for this same period.

Remember that an investment portfolio can only be as good as what you tolerate and keep in place. If and when you sell out, it will probably be only after having incurred significant losses. Otherwise, you might be pulling the sell trigger at almost any event. Once you have locked in those losses, what will make you feel comfortable enough to jump back in? Some stability? Perhaps exhibited by the market recouping some of those earlier losses?

This is the inherent weakness of market timing. You need to make two "right" decisions in a row: when to sell and then when to go back in and buy. Each decision carries a high probability of being at least somewhat "wrong".

The way to avoid both of these decisions is to simply maintain a core investment portfolio that has the least amount of risk that you are willing, able and need, to tolerate.

So to summarize, even though the CDP was down for the first quarter of last year, it still finished the year up 7.43%. OK, that was then and this is now. For 2021 through the end of July, the CDP is up 6.69%. This is very solid compared to its objective. In order to aid readability, we are adding all of our tables to the end of this article, below. The CDP is one example of the results of our analysis methods and is not meant to provide investment advice for anyone in particular. Everyone's case involves different facts and circumstances. Your three dimensions of risk tolerance (willingness, ability and need) will likely be far different. What is key is that we are emphasizing our pure analytical approach over product selling and retail level asset management.

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	The Castling Defensive Portfolio:	Ticker	% Allocation	Expenses	Equity %	Weighted Exp.	Min. Invest.	Initial Min.	2020 Return	Contribution
1	FDIC Insured Certificates of Deposit (Avg. of High Yielding)	Bank CD's	9%	0.00%	0%	0.000%	Varies	$6,750	1.00%	0.09%
2	Vanguard Short-Term Treasury Investor Shares	VFISX	9%	0.20%	0%	0.018%	$3,000	$6,750	3.96%	0.36%
3	Vanguard Short-Term Investment-Grade Investor Shares	VFSTX	9%	0.20%	0%	0.018%	$3,000	$6,750	5.14%	0.46%
4	Vanguard Intermediate-Term Treasury Investor Shares	VFITX	12%	0.20%	0%	0.024%	$3,000	$9,000	8.21%	0.99%
5	Vanguard Inflation-Protected Securities Investor Shares	VIPSX	12%	0.20%	0%	0.024%	$3,000	$9,000	10.90%	1.31%
6	Vanguard GNMA Admiral Shares	VFIIX	11%	0.21%	0%	0.023%	$3,000	$8,250	3.73%	0.41%
7	Vanguard Wellesley Income Investor Shares	VWINX	11%	0.23%	4%	0.025%	$3,000	$8,250	8.45%	0.93%
8	Vanguard Small Capitalization Value Index Admiral Shares	VSIAX	15%	0.07%	15%	0.011%	$3,000	$11,250	5.85%	0.88%
9	Vanguard REIT Index Admiral Shares	VGSLX	8%	0.12%	8%	0.010%	$3,000	$6,000	-4.65%	-0.37%
10	Vanguard International Growth Fund Investor Shares	VWIGX	4%	0.44%	4%	0.018%	$3,000	$3,000	59.55%	2.38%
	Totals		**100%**		**31%**	**0.17%**		**$75,000**	FULL YEAR	**7.43%**

Castling Defensive Portfolio (CDP) Comparison	2016	2017	2018	2019	2020
Castling Defensive Portfolio Yearly Returns	6.77%	5.44%	-2.74%	12.19%	7.43%
Back-Tested Cumulative Return Since 2000	208.75%	225.55%	216.61%	255.21%	281.60%
Hypothetical Growth of $10,000 Since 2000	$30,875	$32,555	$31,661	$35,521	$38,160
Annualized Return (2000-2020)	***6.86%***	***6.78%***	***6.25%***	***6.54%***	***6.58%***
Standard Deviation (2000-2020)	***4.73%***	***4.60%***	***4.99%***	***5.03%***	***4.90%***
Coefficient of Variation (2000-2020)	***0.69***	***0.68***	***0.80***	***0.77***	***0.74***
Wellesley Income (VWINX) Yearly Returns	8.08%	10.20%	-2.57%	16.39%	8.45%
Back-Tested Cumulative Return Since 2000	237.82%	272.28%	262.71%	322.16%	357.83%
Hypothetical Growth of $10,000 Since 2000	$33,782	$37,228	$36,271	$42,216	$45,783
Annualized Return (2000-2020)	**7.42%**	**7.58%**	**7.02%**	**7.47%**	**7.51%**
Standard Deviation (2000-2020)	***5.91%***	***5.76%***	***6.08%***	***6.27%***	***6.11%***
Coefficient of Variation (2000-2020)	***0.80***	***0.76***	***0.87***	***0.84***	***0.81***
Wellington (VWELX) Yearly Returns	11.01%	14.72%	-3.42%	22.51%	10.60%
Back-Tested Cumulative Return Since 2000	243.80%	294.41%	280.92%	366.67%	416.13%
Hypothetical Growth of $10,000 Since 2000	$34,380	$39,441	$38,092	$46,667	$51,613
Annualized Return (2000-2020)	**7.53%**	**7.92%**	**7.29%**	**8.01%**	**8.13%**
Standard Deviation (2000-2020)	***10.73%***	***10.53%***	***10.59%***	***10.82%***	***10.55%***
Coefficient of Variation (2000-2020)	***1.42***	***1.33***	***1.45***	***1.35***	***1.30***
Vanguard 500 Index (VFINX/VFIAX) Yearly Returns	11.82%	21.67%	-4.52%	31.46%	18.37%
Back-Tested Cumulative Return Since 2000	107.84%	152.88%	141.45%	217.41%	275.72%
Hypothetical Growth of $10,000 Since 2000	$20,784	$25,288	$24,145	$31,741	$37,572
Annualized Return (2000-2020)	**4.40%**	**5.29%**	**4.75%**	**5.95%**	**6.51%**
Standard Deviation (2000-2020)	***18.08%***	***17.92%***	***17.61%***	***18.04%***	***17.74%***
Coefficient of Variation (2000-2020)	***4.11***	***3.39***	***3.71***	***3.03***	***2.73***

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Castling Defensive Portfolio (CDP) Comparison	2016	2017	2018	2019	2020
Castling Defensive Portfolio Yearly Returns	6.77%	5.44%	-2.74%	12.19%	7.43%
Mkt Total Return: BlackRock iShares Gold ETF (IAU)	8.21%	13.01%	-1.84%	18.08%	25.03%
Return: CDP: 100%; Gold ETF (IAU): 0% Allocation	6.77%	5.44%	-2.74%	12.19%	7.43%
Annualized Return (2006-2020)	5.69%	5.67%	4.99%	5.49%	5.62%
Standard Deviation (2006-2020)	5.18%	4.94%	5.29%	5.42%	5.25%
Coefficient of Variation (2006-2020)	0.91	0.87	1.06	0.99	0.93
Return: CDP: 99%; Gold ETF (IAU): 1% Allocation	6.79%	5.51%	-2.73%	12.25%	7.61%
Annualized Return (2006-2020)	5.71%	5.70%	5.02%	5.52%	5.66%
Standard Deviation (2006-2020)	5.21%	4.97%	5.31%	5.45%	5.27%
Coefficient of Variation (2006-2020)	0.91	0.87	1.06	0.99	0.93
Return: CDP: 95%; Gold ETF (IAU): 5% Allocation	6.85%	5.82%	-2.70%	12.49%	8.31%
Annualized Return (2006-2020)	5.82%	5.82%	5.14%	5.65%	5.82%
Standard Deviation (2006-2020)	5.37%	5.12%	5.45%	5.58%	5.42%
Coefficient of Variation (2006-2020)	0.92	0.88	1.06	0.99	0.93
Return: CDP: 90%; Gold ETF (IAU): 10% Allocation	6.92%	6.20%	-2.65%	12.78%	9.19%
Annualized Return (2006-2020)	5.95%	5.97%	5.28%	5.80%	6.02%
Standard Deviation (2006-2020)	5.66%	5.40%	5.71%	5.83%	5.68%
Coefficient of Variation (2006-2020)	0.95	0.90	1.08	1.00	0.94
Return: CDP: 85%; Gold ETF (IAU): 15% Allocation	6.99%	6.57%	-2.61%	13.07%	10.07%
Annualized Return (2006-2020)	6.08%	6.12%	5.42%	5.95%	6.22%
Standard Deviation (2006-2020)	6.06%	5.78%	6.05%	6.15%	6.02%
Coefficient of Variation (2006-2020)	1.00	0.94	1.12	1.03	0.97
Return: CDP: 80%; Gold ETF (IAU): 20% Allocation	7.06%	6.95%	-2.56%	13.37%	10.95%
Annualized Return (2006-2020)	6.20%	6.26%	5.55%	6.09%	6.41%
Standard Deviation (2006-2020)	6.53%	6.23%	6.47%	6.54%	6.42%
Coefficient of Variation (2006-2020)	1.05	1.00	1.16	1.07	1.00
Return: CDP: 75%; Gold ETF (IAU): 25% Allocation	7.13%	7.33%	-2.52%	13.66%	11.83%
Annualized Return (2006-2020)	6.31%	6.39%	5.68%	6.23%	6.60%
Standard Deviation (2006-2020)	7.07%	6.75%	6.94%	6.98%	6.87%
Coefficient of Variation (2006-2020)	1.12	1.06	1.22	1.12	1.04

	The Castling Defensive Portfolio:	Ticker	% Allocation	Expenses	Equity %	Weighted Exp.	Min. Invest.	Initial Min.	2020 Return	Contribution
1	FDIC Insured Certificates of Deposit (Avg. of High Yielding)	Bank CD's	9%	0.00%	0%	0.000%	Varies	$6,750	0.50%	0.05%
2	Vanguard Short-Term Treasury Investor Shares	VFISX	9%	0.20%	0%	0.018%	$3,000	$6,750	2.67%	0.24%
3	Vanguard Short-Term Investment-Grade Investor Shares	VFSTX	9%	0.20%	0%	0.018%	$3,000	$6,750	-1.53%	-0.14%
4	Vanguard Intermediate-Term Treasury Investor Shares	VFITX	12%	0.20%	0%	0.024%	$3,000	$9,000	6.73%	0.81%
5	Vanguard Inflation-Protected Securities Investor Shares	VIPSX	12%	0.20%	0%	0.024%	$3,000	$9,000	1.76%	0.21%
6	Vanguard GNMA Admiral Shares	VFIIX	11%	0.21%	0%	0.023%	$3,000	$8,250	2.97%	0.33%
7	Vanguard Wellesley Income Investor Shares	VWINX	11%	0.23%	4%	0.025%	$3,000	$8,250	-7.42%	-0.82%
8	Vanguard Small Capitalization Value Index Admiral Shares	VSIAX	15%	0.07%	15%	0.011%	$3,000	$11,250	-34.87%	-5.23%
9	Vanguard REIT Index Admiral Shares	VGSLX	8%	0.12%	8%	0.010%	$3,000	$6,000	-24.10%	-1.93%
10	Vanguard International Growth Fund Investor Shares	VWIGX	4%	0.43%	4%	0.017%	$3,000	$3,000	-15.53%	-0.62%
	Totals		**100%**		**31%**	**0.17%**		**$75,000**	Thru 03/31/20	**-7.10%**

	The Castling Defensive Portfolio:	Ticker	% Allocation	Expenses	Equity %	Weighted Exp.	Min. Invest.	Initial Min.	2021 YTD Return	Contribution
1	FDIC Insured Certificates of Deposit (Avg. of High Yielding)	Bank CD's	9%	0.00%	0%	0.000%	Varies	$6,750	0.40%	0.04%
2	Vanguard Short-Term Treasury Investor Shares	VFISX	9%	0.20%	0%	0.018%	$3,000	$6,750	-0.11%	-0.01%
3	Vanguard Short-Term Investment-Grade Investor Shares	VFSTX	9%	0.20%	0%	0.018%	$3,000	$6,750	0.56%	0.05%
4	Vanguard Intermediate-Term Treasury Investor Shares	VFITX	12%	0.20%	0%	0.024%	$3,000	$9,000	-0.41%	-0.05%
5	Vanguard Inflation-Protected Securities Investor Shares	VIPSX	12%	0.20%	0%	0.024%	$3,000	$9,000	4.20%	0.50%
6	Vanguard GNMA Admiral Shares	VFIIX	11%	0.21%	0%	0.023%	$3,000	$8,250	-0.37%	-0.04%
7	Vanguard Wellesley Income Investor Shares	VWINX	11%	0.23%	4%	0.025%	$3,000	$8,250	6.42%	0.71%
8	Vanguard Small Capitalization Value Index Admiral Shares	VSIAX	15%	0.07%	15%	0.011%	$3,000	$11,250	21.09%	3.16%
9	Vanguard REIT Index Admiral Shares	VGSLX	8%	0.12%	8%	0.010%	$3,000	$6,000	26.79%	2.14%
10	Vanguard International Growth Fund Investor Shares	VWIGX	4%	0.44%	4%	0.018%	$3,000	$3,000	4.64%	0.19%
	Totals		**100%**		**31%**	**0.17%**		**$75,000**	Thru 07/31/21	**6.69%**

RETURN

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Average Hacker to Average Joe/Jane: “We Don't Want to Hurt Your Credit Score or Nuttin...We Just Want the Money, OK?”

It seems that not a day goes by without another story in the news about a security breach at a major retailer or even a credit reporting agency, a ransomware attack on a business's computer systems, someone's identity being stolen and even home title theft. Then you see or hear a commercial about some new credit monitoring service or software product (aka “app”) that promises to safeguard your identity and all your devices. Nothing more for you to worry about, you are told, once you purchase their ***Acme 24x7x365 Watch Dog***, for a low, low monthly fee. I suppose that only on February 29th would you need to be concerned, given their wall to wall protection.

But wait! Then you are told that, “NO one can prevent ALL identity theft or cyber intrusion. This is the best deal that you can get for $xx.99 per month, OK?” *So what the hack are you waiting for?*

In the past twenty five years, online access to financial services has mushroomed, along with the availability of credit (except for that nasty period around the time of the **Great Financial Crisis**). Concurrent to these things happening, has been an unbridled proliferation of software flaws, security breaches, user errors or distractions, and a general attitude among retailers and bankers, that a certain amount of cyber loss is just the price of doing business.

Neither you nor I comprise a statistical population, where some figure such as a 1.1% loss may be written off as a normal business expense. We are individual people whose credit scores, livelihoods, financial security, future goals and sometimes even our own personal safety, may be threatened by those simply in it for the money. Perhaps it's really nothing personal about us. It's just about personal gain for the credit/cyber thieves.

So should you sign up for that monitoring service after all?

Maybe not so fast. Our purpose here is to go through the problem using the same kind of pure analysis we use in other areas of financial planning. We have distilled a whole lot of information into a number of simple and practical steps that you can take today, at absolutely zero cost to you (now or in the future).

In financial planning, convenience is oversold, but discipline is under appreciated.

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Be Proactive and Not Simply Reactive, But if You Do Need to React...

You have our sympathies if a bad scenario has already happened and your identify has been stolen, or fraudulent charges have been made in one of your accounts, or your PC has been infected or data has been hijacked. At this point, you need to take immediate action and make this recovery activity a top priority in your life. Determine the origin of the problem first. Keep in mind that many, if not most issues, originate outside of something you directly caused.

For example, a data breach can happen in the HR department of your employer, leaking your Social Security number to a hacker organization that immediately attempts to file for unemployment benefits in your home state and also tries to make large purchases on a store credit card (which had remained in your possession the entire time, but that retailer may have a policy of simply asking the customer to give their SSN as a card substitute).

Government agencies, such as the state unemployment office and the Social Security Administration, should be contacted. A local police report can and should be filed, since a crime has been committed.

Signing up for any totally free credit monitoring offered by the third party where the data breach originated, is never a bad idea. Take advantage of this, but realize it will not be a magic cure-all and will only be temporary.

Consider freezing your credit file with each of the three main credit reporting bureaus. We will cover this later in greater detail, but as one of our main proactive measures.

Generate and review each of your free, annual credit reports. We will also cover this in more detail and include a few tips on making the most of this functionality on an ongoing basis.

Monitor your accounts and follow up on any discrepancies. Criminals usually like to strike quickly, make their cash and move on. Well established credit laws enable you to dispute fraudulent charges and have them eliminated from your monthly statement. But you need to speak up quickly, by looking over each account on a monthly basis.

However, there is also some mounting concern that some stolen information is being compiled for perhaps long term use. This means that just like most viruses, we may need to learn to live with the outcome from a previous hack. It requires continued monitoring, but it does not need to be of the paid variety, unless you really want it to be,

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Assess Your Future Need for New Credit... Why Not Freeze Your Credit Files Preemptively?

Let's say that you are already retired, close to retirement or have a longer term financial goal in mind, such as the purchase of a first home. Let's also assume that you already have a credit history that is well established. At this point, you may like to consider freezing your credit files until you are sure that you will need to borrow again. Why do this? It is one of the most powerful steps in preventing identity thieves from opening new accounts in your name, since a credit check is standard practice for any bank or other lender to do, before extending a new line of credit to a customer.

A retiree couple may find that they really have no urgent need to get another credit card or mortgage and it could be years before they need to consider any new borrowing. Freezing their own files makes them less likely to be victims of identify theft, which almost always involves new accounts being opened. Please keep in mind that fraudulent charges on existing accounts could still happen if a hacker steals your card information from you, a retailer, or some such breach occurs elsewhere. But existing legislation prevents you from being liable for anything but a small dollar amount and most credit card issuers will even eliminate that risk as well.

Freezing your credit files will not lower your credit scores. If this helps to instill the discipline you need to stop opening new accounts and to pay down existing balances while working on your longer-term goals, such as a home purchase, your credit scores will likely go up, instead.

A common mistake committed by those planning to purchase a home, is to unwittingly take out new credit during this process, such as by buying or leasing an automobile. Hello? If this is you, then what are your real priorities? First time home buying is a process that used to take years, since it required the saving of a down payment. During this time, credit scores should be worked on by making sure that payments on existing balances are made on time. Or try to eliminate those balances entirely.

When you are ready, the credit bureau will, at your request, lift the credit freeze on the same day. There is no charge for freezing or unfreezing your credit file, but you will need to follow each credit bureau's individual process. The best way to do this is online and we have provided links to each credit agency in our References section[9].

A free credit file freeze has only been available since 2018 and was created by new legislation[10]. Please keep in mind that credit bureaus have an incentive to sell you credit and identity monitoring services, while the freeze is absolutely free. The paid services do have extra features, but freezing is powerful and may be all you really need, if you will take the extra step of monitoring your accounts monthly.

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A Fraud Alert is Another Tool..But is Pretty Weak in our View
A fraud alert is a message that notifies someone granting credit that they should verify your identity further, before proceeding. It can be of the temporary or extended variety, with the latter being in effect for seven years, while the former expires in one year, or sooner if you cancel it[11].

We do not have such a great opinion of fraud alerts for the retiree or near retiree. You are depending upon someone else to act on the notification to contact you, or that you will remember to extend the alert. If you are already set in terms of your credit needs, the next new line of credit should be a conscious choice prompting you to lift existing freeze(s). If not needed for the next decade, why not have the extra piece of mind that comes with knowing your files have been frozen until you decide to unfreeze them?

Make Better Use of Your Free Annual Credit Report
Many people have heard by now that they can request their credit report from each of the three credit reporting bureaus, for free, on an annual basis[12]. Perhaps many have requested their reports once or twice. But far fewer have made a habit out of this. Still fewer have actually been proactive in utilizing the calendar to their advantage.

The first time through, you may like to get your report from each bureau at the same time. Look for any red flags, such as accounts opened that do not look familiar to you, larger account balances than you were expecting, or indications of late payments which you know did not occur. Any negative commentary should also be reviewed for its accuracy. Each credit reporting company may have its own procedure for handling consumer disputes. You should follow their process patiently, but diligently, until you get all the underlying issues resolved. Mistakes on credit reports are common, especially when some information is several years old. No one will clean up your credit report for you as well as you will, for yourself. The three reports may be substantially the same, but will probably not state completely identical data.

Please keep in mind that your free credit reports are not going to contain FICO scores. However, many credit card issuing banks are now calculating their own FICO scores, or using those computed by the credit reporting agencies, and then making them available on their websites. Since you should be checking each account on a monthly basis, you can get familiar with each bank's own tools regarding their credit reporting.

Under normal circumstances when you are not fighting a fraud, correcting an error or rebuilding your credit, it will not be all that necessary to pull all three reports simultaneously every year. But this is not the time to become complacent, either. Our main recommendation is to get into the habit of pulling a fresh report from a different credit reporting bureau every four months. You would still be using the same annual

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credit report website. The difference is that you use the calendar to your advantage. You begin knowing that your last set of reports were “clean” to your satisfaction. A year later, you pull only one and review it. Four months down the line, you request the next report, which now includes some updated information and so on. A fresh report, absolutely free, every four months is available (for a typical case where nothing unusual is suspected).

Never Use Your Email Address as an Account Login

We seem to recall that in the first versions of electronic commerce via the Web, login accounts consisted of ID's that were unique to that business/platform, such as *ol4eyes92*. This also meant that if I set up a dozen logins to different financial institutions, I should use a dozen unique login names, none of which should identify me by name. But then something odd happened. Using email addresses as the login for new websites, gained enormous popularity. This habit has a unique downside. If a hacker steals login information for some website, it is easy to tell which accounts are also probably valid email addresses, due to the existence of “...@SomeDomainName.com”.

Why offer up a piece of valuable data, that could then put your email account at risk? Where possible, try to come up with a login name that does not rely upon an email address.

Also, never reuse the same login name or password, on multiple accounts, since a determined hacker could guess that you have another bank or brokerage account or two and try his luck at hitting a *trifecta*.

For Goodness Sake, Try to Have a Decent Password

In the past, website operators did not require users to establish strong passwords. While this has not yet been universally updated, the situation is much better than it has ever been.

Passwords should not be reused across two or more sites. This means that some process of keeping track of your passwords will need to be established. Strong passwords involve letters, numbers, mixed case usage and special characters. They avoid using words found in a dictionary. We realize it is a pain to establish, but once set, your browser or other device may store them, so that you will not have to retype them each time you login.

As basic as this point is, many breaches occur because of simple old passwords which were never updated.

Log into Each Account At Least Monthly

There is no better free alternative than to log in at least monthly, to each of your credit, bank, investment and retirement accounts. You can quickly check balances, look for any

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fraudulent activity and see if there have been any internal messages or notifications that you have not kept up to date with. In this way, you can alert the financial institution if any illegal activity has taken place and shift the responsibility over to them. Increasingly, some credit card issuers are offering the capability to “lock” an existing credit card account. While the typical use case is when someone has temporarily misplaced his card, but thinks he will find it soon, you are usually able to lock a card indefinitely. This is a useful feature for cards which are not actively being used.

Take Advantage of Your Bank's Tie-in to Credit Bureaus and Their Own Calculated FICO Scores

As mentioned above, each card issuer may calculate their own version of a FICO score, or may use one from a credit reporting bureau. As part of logging in monthly, you should become familiar with what each issuer offers, since this functionality is usually free. We have seen how applying for a new card using one bank's website, gets alerted to and is reported by, another bank's website (sometimes in just a few minutes to a few hours or overnight).

Do Software Updates on Your PCs/Devices Regularly

While we will not get into overly technical details here, the common wisdom is to use supported versions of operating systems and browsers and then to take updates, especially security updates, on a regular basis. We all know this to be a pain, but it seems to be a part of modern living.

Be Skeptical of Unsolicited Emails and Do Not Click on Their Embedded Links

Scam emails and those with dangerous links are some of the most common threats we face on a daily basis. Many people, including professionals working in the financial services industry, lawyers, accountants and others, have succumbed to these rather simple attacks.

To briefly review the structure behind them, a victim is sent an email which appears to be coming from a legitimate source, such as a financial institution. It may probably bear the correct logo of the company, along with some text messaging and graphics.

The general advice on emails should be: ***Stop and Look, but don't Touch! At least not yet.***

Look at the “from” address. Is it from the same domain as the company uses, such as “...chase.com”, for JP Morgan Chase bank?

If you know that your credit card company sends you emails saying “Dear Ernie, Would you like...” and now you are getting one which is missing the simple personalization that is your name, we would become very suspicious.

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Do you usually see the last four digits of an account number and now these are also missing on the new email message?

Any email which references some order that you never placed, or a refund that you are not aware of, should be a red flag. A generic message is sometimes used, but often there might be some urgent message stating that your account must be confirmed immediately. Please click here and all will be well. The actual link provided may go back to a Website that looks very authentic. Sometimes, you will be able to look at the URL near the top of this Web page and see that the domain looks strange. Look for a "lock" icon next to the URL text box and click on it to see further security information, before actually entering in any login credentials on the page. Better yet, do not click on the link in the first place.

If your bank is really sending you information about an offer you are interested in, couldn't you simply log into your bank using the bookmark you probably saved when you set up the account long ago? We believe that saving known good bookmarks is much better than clicking on links in emails. Once logged in, you can then search for information regarding the offer.

However, we can think of a specific set of actions and responses where it makes sense to click on links in emails. This pertains to situations where you initiate the action first, such as requesting a password reset when you have forgotten or lost your current password. Their server sends you a confirmation email a moment or a few minutes later. While this new email may contain a link or code, it was specifically generated by your actions in requesting something, such as a password reset.

Remember that it is unsolicited emails may have links that go to fraudulent Websites, allowing hackers to steal the logins and passwords of unsuspecting users. Don't be the next victim.

Go Paperless and Lighten up Your Mailbox

We have not heard that much about stolen mail in recent years and most all financial services companies, especially with respect to credit cards, do not print the entire card number on monthly statements. However, this is another "attack vector" that can be easily eliminated by simply going paperless. It is a useful skill to be able to save monthly statements as PDF files (just as this newsletter is saved), which can then be stored electronically. More to the point, the ability to log in and review recent transactions online without even generating that PDF, is ever quicker. Somewhat related to this is the bloated activity of credit card issuers who print so-called "convenience" checks and mail them to account holders. If these paper checks were to get into the wrong hands, the potential for fraud is much larger. This is especially the case if a business credit card is

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involved and the issuing bank fails to print the authorized user's full name on the check, in addition to the business name. In that case, *Bozo the Clow*n could sign the check and then fraudulently draw down your credit line. It may take a telephone call to the issuer to request stopping these convenience checks, if you do not see this capability on their Website.

Check if Your County Has Property Fraud Alerts and Sign up...It's Probably Free
More county clerk/recorder of deeds offices are offering notifications/alerts when any document is recorded against a piece of real estate. This is not a freeze or lock on the title to the property, but is just an alert. This notification may take the form of an automated telephone message or an email. We recommend that clients sign up for the email alternative, since having something in writing is more useful and permanent. We show an example Website used to sign up for these alerts in Cook County, Illinois, in the References section[13]. These alerts are usually offered without any charge to the property owner.

Once you sign up, make sure that emails from this government address will not wind up in your spam folder, or otherwise become invisible to you.

If you do get alerted, you need to review the information immediately. It would be advisable to contact the county office where you signed up for the alert. Ask them for their specific procedure to follow in reporting a suspected fraud.

In a typical title fraud case, the criminal is usually after more than just getting some fake name listed as the new owner of your home. The actual payoff comes from taking out loans against your property. Therefore, time is of the essence. If you have coupled this alert with freezing your credit files, then stealing your identity (using your name) or trying to steal your property (using a bogus name), will become much more difficult.

Complain About Fraudulent Charges and Be Persistent, but Nice
Credit card issuers realize that fraud is prevalent and that this is a cost of doing business. Just make sure that you make it their cost of doing business and not your cost of living a conventional life!

There may be a right way and a wrong way of complaining. Losing one's temper is definitely the wrong way. We have seen first hand how many different banks handle dozens of different cards, in various ways. A few have been world class, many have been good, some have been mediocre and a few are downright laughable. Voting with your pocket book and feet, is very important. Stick with a few credit cards that you trust, have issuing banks who provide quality service, and especially, stay where you have a long credit history.

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It you feel that you use more credit cards than you can safely monitor, it is time to lighten up. Start with the newest cards with the shortest histories, if you are not actively using them. Canceling an old card with a lot of history would be a mistake, on the other hand.

Issuers earn a lot of money from merchant fees, as long as you are actively using their card. They probably want to retain you as their customer and have an incentive to help resolve disputes. Being persistent, yet courteous, is in your best interests.

RETURN

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Davos Elites to Millennials/Gen Z: "You'll Own Nothing but be Happy!" ...OK Boomer, What do you Meme by that?

In case Davos, Switzerland is not exactly on your vacation list, or is not the destination for your next business trip, we can cheerfully report that it is indeed the location where the World Economic Forum (WEF) holds its annual meeting of the financial and economic elite.

Klaus Schwab, head of the WEF, is assumed to have uttered a statement similar to the first half of the title of this article. I admit that we could not find an exact reference to him actually saying this, but I did find a rather sarcastic parody on YouTube that was rather interesting[14].

Later on, I did locate something rather odd. A link exists on the WEF Website to an article titled: "***I own nothing, have no privacy, and life is great. Welcome to 2030***"[15]. Curiously, this link does not work, meaning that the article being linked to was taken down. I wonder why?

Our purpose here is to demonstrate that assuming younger generations should embrace a new model of living, one that eschews ownership and only lauds experiences, is fundamentally flawed.

Renting has its uses, to be sure. But the more a person looks at renting out their entire life, the more they will be impoverished by that same life. The basic tenets that built the "FI" movement (Financial Independence)[16] and later the more modern "FIRE" (Financial Independence Retire Early) movement[17], are founded on the principles of frugality, money as life energy and the building up and safe use of one's own financial and human capital.

Financial planning is all about the proper stewardship of one's own financial resources, in pursuit of various life goals. The most basic building block is time.

We can use time to build skills, such as through education. We can spend time being employed or running our own business. We can enjoy time in recreation, as well as the basic daily life activities of sleeping, eating, grooming, exercising and the personal work that goes into making those things happen, such as shopping or preparing our own meals.

The basic concept put forth by the FI movement was that there is a direct trade off between money and life energy. In fact, the following quote was not only printed in bold

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in the first edition of Y***our Money or Your Life,*** but repeated one sentence later for emphasis:

Money is something we choose to trade our life energy for[18].

It works like this. Your employment brings home a paycheck. But you are expending your life energy while at your job. That life energy is then being stored in the money that you earn. But it may subsequently be whittled away by the things that you buy, unless those things add more value to your life than what you paid for them.

Another of their most basic principles is the creation of a personal balance sheet, which we also call a net worth statement. Here they clearly focus on net worth as being what you currently have to show for your lifetime's worth of income[19].

Both the original FI and the newer FIRE movements, emphasize value, frugality and accumulating just enough in terms of material possessions. But let's be clear on one central point. At no time does any devotee of this philosophy believe that “capital is bad” or somehow that accumulating wealth is wrong. Quite the opposite, in fact.

To sum it up, it's all about spending the least amount of time in a job that you inherently dislike, to generate the most income that can be saved or invested in such a manner, that the future capital sum could safely produce sufficient income for the rest of your life. This would then free you up from having to work at the drudgery of that current job.

A valid criticism of the original idea is that it was more limited in terms of the investments that were considered acceptable. For example, US Treasury bills, notes and bonds were good, but stocks and stock funds were bad. Looking at the low yields persisting over the past decade, we see the severe constraint this would pose. Our view, by contrast, has always been that having a diversified set of investments is best; that there is always a distinction between saving and investing; and that having multiple portfolios (each with its own specific objective) is even better, whenever this is possible.

An invalid criticism of FI/FIRE is that such early retirement makes no sense or is actuarially dangerous to long term financial security. But if we take expected investment return into account, this can always be calculated and re-analyzed. You obviously should not retire while you clearly do not have sufficient capital to last the remainder of your life. But we have found that folks who exhibit the FI/FIRE mentality and ethos, have a clear grasp of the expense side of their lives. They know how to create and stick to a budget. So the criticism being made is about why should a younger person retire?

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This is where things can get a bit philosophical. What do we really mean here by using the word “retire”? This must be answered uniquely by each individual. Couples need to have heart to heart conversations (and not just one talk), to come to a mutual understanding on this. Families need to explain to small children as to why certain financial and life choices are being made by the parents.

For example, retirement for a 45 year old may be to focus on a new career which may generate a very modest income, but provide immense personal satisfaction. Might it pay off in the future? Perhaps, but in the present, if it offers the quality of life attributes and family first flexibility sought for, that could be the priority. It is that capital (net worth) that is humming in the background and generating the annual income that this person needs.

Another example may be a couple who wants to spend the next decade raising their children and spending quality time with them, every single day. This could include basic activities of life, such as in a more rural setting, as well as being very involved with their education, or perhaps with their child's athletic pursuits. They may explain their reasoning as being that they would probably never have this chance again.

A single woman who wanted to spend the last years of her mother's life being much closer to her, could provide some of her primary care and improve her quality of life.

In very few of these cases would a young “retiree” simply go off to sit in a rocking chair, or go for daily twelve hour beach trips. They know what they are seeking. This is probably what influenced them to prepare for this in the first place.

Here is where we add some of our own, more unconventional wisdom.

Millenials and Gen Z have been made rather famous by emphasizing experiences over possessions. Fair enough, if you consider that many folks own an over abundance of “stuff”. But two things are being missed by anyone who subscribes to the notion that experiences are so superior:

1. Experiences which cost money (as most of the ones cited by this demographic, especially when seen as replacements for owning things) are also draining your life energy. This means that your future financial security may be compromised. Net worth should be no less important for a Millennial than it was for their Boomer parents a generation ago.
2. Are we missing something important with respect to experiences? Every time we see or hear an example of the superiority of experiences, it always seems to be in the context of consumption. In other words, it is a substitute for buying more

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> "stuff". But why can't we look at the other side of the transaction counter? How about also treating experiences as being an opportunity to provide services and not simply to consume them?

Let's now develop the first idea a bit more.

A young person, either poor or wealthy, has the same opportunity at using the compound growth concept, assuming they are in similar health and have the same life expectancy. The rich kid starts out way in front. We understand this. But this does not mean that the poor kid has no chance, unless there is no emphasis at achieving basic financial literacy. This simply means: make it to the starting line and don't worry that the rich kid is in front.

Basic financial literacy is not only a problem for poor children. It is also a problem among middle class kids with college diplomas and no financial smarts!

For example, it may be beneficial for a young person to spend only a few years at several different jobs, moving around, building skills and enlarging their social network. During this time, the idea of purchasing a home may be not only unrealistic, but actually a huge constraint on having them further their career. The obvious answer is to rent in the short and medium term. But at some point, the job hopping and business travel and relocations should have paid off, should they not?

While we can envision a few cases where an individual could spend an entire 40+ year career and never own her own home, this is a very sub optimal solution when applied to the entire Millennial and Gen Z groups.

Renting over the very long term is a much more expensive solution, versus buying (as long as we are comparing similar properties). Anyone who tells you differently is lying to you.

We have also seen a definite correlation between lack of wealth building and those who seem to have a rather large percentage of their net worth tied up in tangible personal property, such as clothing, furniture, automobiles, jewelry and recreational equipment. While owning an extra car for the fun of having a "toy" may feel good but hurt your long term security, continuously leasing an ever newer toy is even less financially sound.

Experiences as alternatives to the consumption of "stuff" can create great memories, but they can also be very expensive ones. Each person needs to determine for themselves, how much is enough and what is truly satisfying. If an experience correlates well with other life goals, this may be a sign that it is worthwhile. For example, a person who has taught about Asia, is specifically studying Tibet, is very spiritual and has an opportunity

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to meet the Dalai Lama (somewhere in Asia), maybe should consider it, even if this will cost some significant money. But another person who was never previously in Asia and who struggles to pay her bills, but considers traveling to Hawaii, just because it sounds nice, might be making a big mistake.

Now let's look at the second idea.

Why treat experiences as only something we should consume? We remember hearing stories of young people around the dinner table (when families still ate dinner together), when a special guest arrived from far away. This might have been a friend or relative who came back from the Peace Corps, Armed Services, Merchant Marine, or missionary work. Heck, maybe even the French Foreign Legion! They had very colorful stories to tell. All of these were based upon the experiences in their lives, but few were the result of pure consumption. Unless of course, you had a rich relative who went on a real safari for several months (not one of the cheesy vacation variety).

Experiences that are not consumption based could be that second or third career, or volunteer position that helps a group you are interested in. It may or may not make you extra income. But it definitely should provide fulfillment that goes beyond pure consumption that simply costs money and delivers little or no lasting value or memories.

Can we seek to tie experiences with financial literacy, wealth building, security and ultimately to financial independence? Maybe. Some younger people have responded to all of this by getting involved with investing and/or trading. The idea of a "meme stock" has exploded on the scene.

While we cannot simply give a positive recommendation to buying and holding a non diversified portfolio of risky stocks, we do think that the buying and holding of small amounts of shares in a stock that you have researched and that you believe in, is at least a step in the right direction.

Each generation needs to discover the secret recipe for itself, because the times, they are always changing. But remember this from your elders who were once young too (perhaps a long time ago):

Wealth building will always be a vital life goal for every succeeding generation, both for passing some of it down, but also for the accumulated wisdom in how it was first created. Life energy was expended in the process of building wealth. Nothing is free, after all.

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9. Freezing your credit files involves following the specific process set up by each credit reporting agency. Use the three links below to review the requirements and establish a credit freeze. There is no charge to freeze or unfreeze your file. The unfreeze will take no longer than one day to take effect.
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