S.F. EHRLICH ASSOCIATES, INC.

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Managing Your Money

STAN'S WORLD — WAIT…I'M PAYING FOR WHAT?

I'm diligent about reading credit card bills. Once per month, I'll review the statement and confirm the charges. While checking credit card bills seems obvious, when was the last time you looked at your phone bill? Or your cable bill? How about the subscriptions on your American Express bill?

Since I'm more of an advice giver than an advice taker, I decided it was time to take my own advice. I printed out my Verizon bill, sat down, and dissected the charges. I started with what I considered something simple: the bundle.

The bundle typically refers to paying one monthly charge for multiple services: cable, a landline phone, and Wi-Fi, for example. I assumed this would be simple: Add up the number of devices on the bill, locate and confirm their presence in my house; and move on. So much for that thought.

Reading the items listed on the bill, I saw a line that was easily recognizable: "4 Fios TV Connections". After counting the number of televisions in my home, the numbers matched. But below the words "4 Fios TV Connections" was another line reading: "Rent: Digital Adapter 3 @7.99". Wait; what?

I called Verizon and was fortunate to speak to Louis. Louis was great because he could interpret the lines for me. He explained that "Rent: Digital Adapter 3 @7.99" had nothing to do with "4 Fios TV Connections". In fact, Louis said I wasn't paying for four televisions in my home; I was paying for seven. Wait; what?

I found one of the digital adapters in a closet and read the serial number to Louis. He confirmed it was one of the three for which I was being billed and asked if there were more. I told him I couldn't find any others. He told me to take the adapter to the UPS store and to mail it back to Verizon at no charge. Louis then sent me an email confirming my new monthly bill going forward, the same monthly service but without three digital adapter rentals. Savings: $23.97 (plus misc. taxes and fees) per month. I was on a roll. (I didn't waste any time wondering how many months I paid an incorrect bill. No point in beating myself up.)

STAN'S WORLD — WAIT…I'M PAYING FOR WHAT? (CONT'D)

When Louis asked if there was anything he could do for me, I asked if he could help me with the Verizon Wireless bill. He said that was another department. When he switched me over to the other department, I was immediately disconnected. That was when I realized how much I missed Louis; my call with him never dropped.

The Verizon Wireless bill proved far more interesting and potentially depressing because Verizon Wireless bills are a zillion pages long. Along the way, I figured out why: They don't want you to understand what you're paying for. If you do, you might ask questions.

It took a few minutes, but I found a page titled: Overview of Lines. I easily identified our cell phone numbers but noticed seven additional numbers. Wait; what?

I uncovered the detail pages that went with each number and quickly realized one of the numbers was for our iPad. The other numbers had similar monthly charges, except for one, a monthly charge that was substantially higher than the others.

That prompted an initial call to Verizon Wireless, where a cordial representative informed me I was paying $79/month for a router, a router I can't identify. That router had nothing to do with the house router; it was a router for mobile Wi-Fi through Verizon Wireless. The more I thought about it, the more I realized the router might be in a closet. It might be disconnected, still in the box, and being billed at $79 per month.

To my best recollection, as part of a package when I purchased a new phone, I also purchased an iPad and a router. What I didn't realize was the router had a monthly fee, whether I connected it or not. Could I tell them to stop billing me, or was monthly billing of an unconnected router part of some deal?

Aside from the fact I've wasted money for years, the takeaway is that paperless means, at least in my case, it's unlikely (or less likely?) that those bills will be read. Paperless involves passwords, logins, and time. When it comes to Verizon, my set-it-and-forget-it attitude was clearly wrong and requires a reboot. Shame on me.

I could write more, but I must go. As best I can discern, several of the other monthly charges on the wireless bill relate to iPads that have been passed on to grandchildren over the years. Those iPads might be sitting in closets or landfills. Either way, we've been paying a monthly fee for each. Ugh!

THE GREAT IMPENDING WEALTH TRANSFER…THAT ISN'T?

Many baby boomers plan on leaving a lot of money to their children. On the other hand, many millennials will receive a lot less than they think when their baby boomer parents die. It sounds like we have a communication problem.

Recently, the New York Times published an article[1] titled: "A Wealth Shift That Could Leave Some Younger Americans Behind." In it, they note that "Millennials often overestimate how much they expect to inherit from their baby boomer parents."

For years, we've read about the wealth transfer that has now begun from baby boomers to their adult children. What's less clear is how much money will ultimately be transferred because there are a lot of caveats involved.

What happens, for example, if baby boomers live longer than projected? The costs for assisted living or nursing care can greatly diminish even the most robust portfolio, and those costs can linger for years if a parent lives well into his/her 90's. The math is simple: The higher the costs, the lower the inheritance.

Similarly, depending on how assets are invested, seniors may see their portfolios tumble due to stock market losses, especially if those losses occur later in life,

One study quoted in the Times article noted the disparity between expectations and reality: "A survey conducted two years ago by Alliant Credit Union found that just over half of millennials who anticipated inheriting money expected that they would get at least $350,000. However, 55 percent of boomers who say they plan to bequest assets say the amount will be less than $200,000."

<u>Advice for millennials and all other adult children with aging parents</u>: It would be very prudent to have a conversation with your parents about money. Focus on addressing the question: Do they have sufficient assets and income to afford the care they might need as they age? Will they be able to age in place? If not, where can they go? Remember, your parents worked a lifetime to accumulate their savings, and those assets should first be used for their lifestyle and care. (It's not your money!)

There are situations where certain strategies can be used to safeguard assets for seniors while still ensuring they receive appropriate care. A conversation with an elder-care attorney can help in that regard.

THE GREAT IMPENDING WEALTH TRANSFER…THAT ISN'T? (CONT'D)

Advice for baby boomers and other seniors: If you think having the 'money talk' with your children is hard, think about how hard it might be for them to initiate the conversation. Think back; you likely never had this type of conversation with your parents. Frankly, those types of conversations rarely occurred years ago. Admittedly, having the 'money talk' with your adult children might lead to an unsettling discovery: Not only might you not have sufficient money to leave them after you die, but you might also not have enough money to pay for your golden years. As sad as that may sound, it's best discovered before reality occurs. The nightmare scenario for an adult child who is nearing retirement is learning he/she must pay for his/her parent's care.

Money is never an easy topic, both within households and among family members. It's important to remember, however, that prudent planning requires honest input. If your financial plan includes inaccurate information, the results may be very disappointing.

THE DANGEROUS MYTH OF THE "NEW NORMAL"

Frequently, when a pattern develops around an element of the stock market, investors start referring to it as a "New Normal". The assumption, usually incorrect, is that X years of outperformance by virtually any asset class represents how things will always be in the future. Forget 100 years of market history; whatever is happening now is the New Normal.

The latest flavor of New Normal is the Magnificent Seven stocks: Nvidia, Microsoft, Apple, Amazon, Google, Meta, and Tesla. The performance of just seven companies has dominated headlines, driven U.S. stock market returns in recent months, and left investors wondering, "Should I be investing in the Magnificent Seven? Is this a New Normal?"

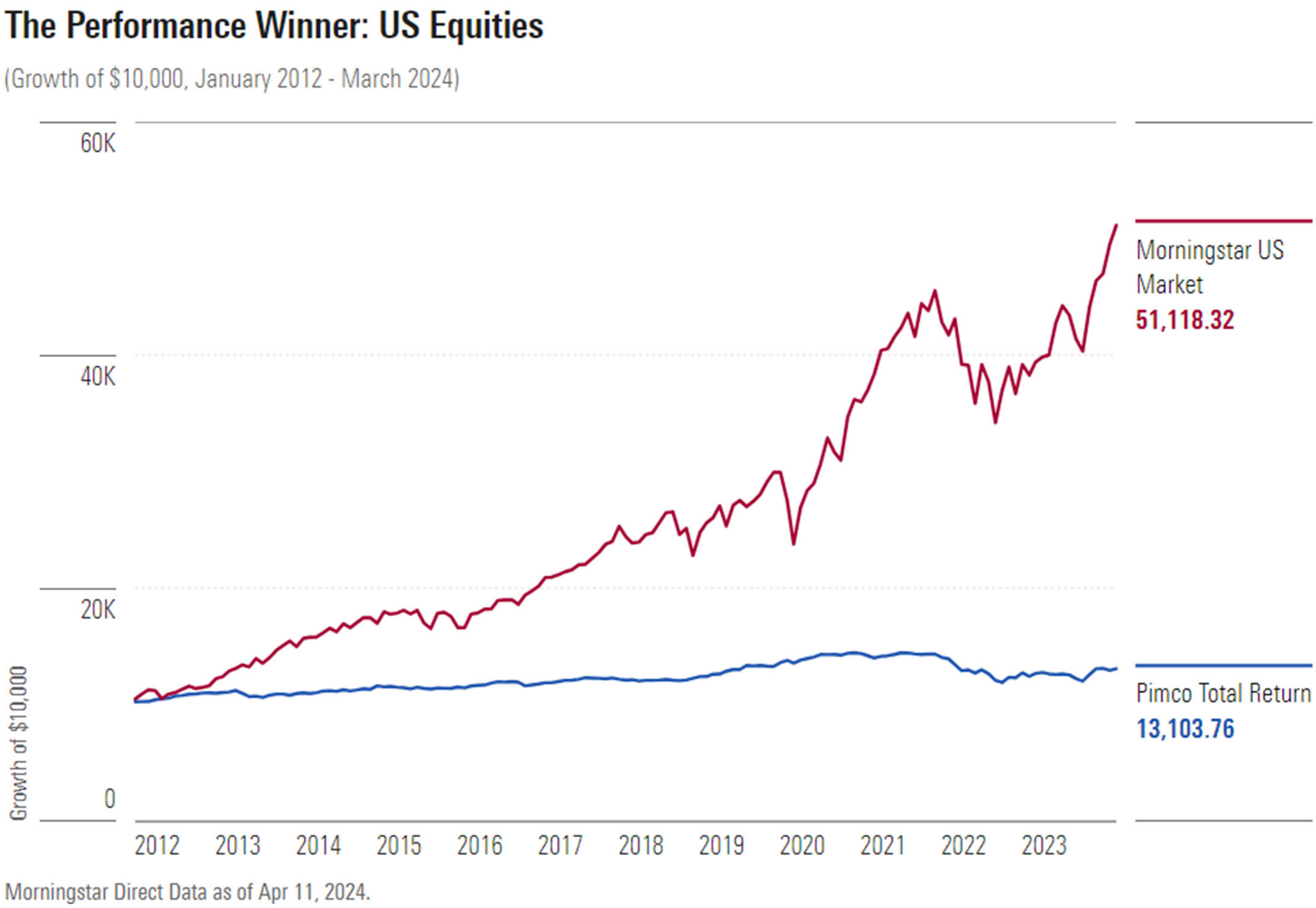
Writing for Morningstar[2], John Rekenthaler notes that people who believe in so-called New Normals often fail over the long term, and he cautions against assuming this time will be different. One example he references is the former bond king, Bill Gross, who once managed the planet's largest bond fund: PIMCO Total Return. (Do the words "once managed" hint at how this tale ends?)

In 2009, Gross said investors should accept they must learn to invest more conservatively and expect lower returns. (Recall the S&P 500 fell an incredible 57% just a year earlier, so many investors were prepared to believe any argument they found compelling.) Gross argued that the future for equities would bring "inexplicably low total returns." Bill Gross's proposed solution was, you guessed it, the PIMCO Total Return Fund.

Assets flowed into the PIMCO Total Return Fund from 2009 to 2011. Investors expected the worst because, of course, this was a New Normal.

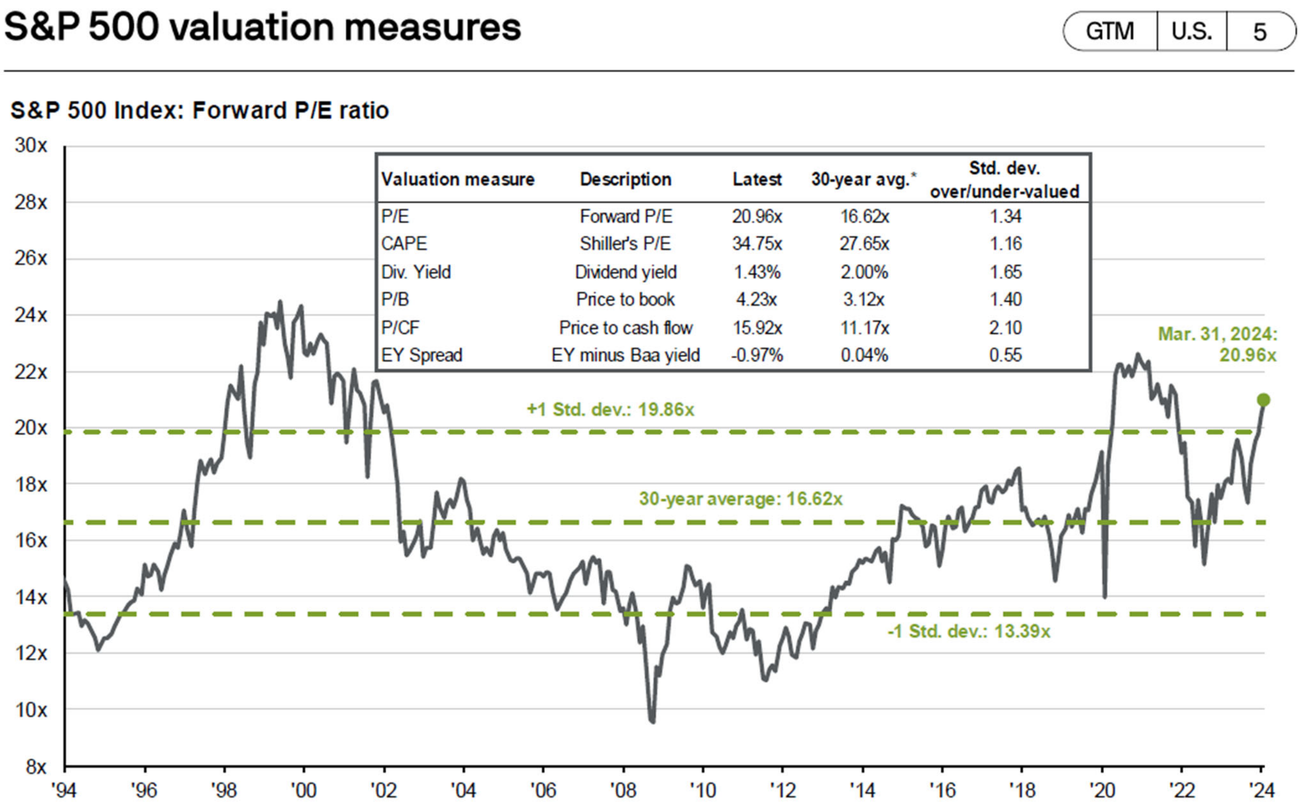
THE DANGEROUS MYTH OF THE "NEW NORMAL" (CONT'D)

The graph below shows the returns of PIMCO Total Return vs. the Morningstar U.S. Market Index over the past 12 years. In other words, the New Normal, assuming you were a believer, resulted in significantly lower returns.



Investor psychology is an interesting phenomenon. The graph below from J.P. Morgan[3] shows market peaks and valleys over the past 20 years. As markets move higher, reaching new highs in the process, there exists a fear of missing out (FOMO). That fear causes investors to often buy at the worst possible time, including some investors who vowed never to buy stocks again after absorbing losses. (In this instance, the word never is a transitory word. It's used by certain investors until they decide it no longer applies.)

THE DANGEROUS MYTH OF THE “NEW NORMAL” (CONT’D)



Valuation measure	Description	Latest	30-year avg.*	Std. dev. over/under-valued
P/E	Forward P/E	20.96x	16.62x	1.34
CAPE	Shiller's P/E	34.75x	27.65x	1.16
Div. Yield	Dividend yield	1.43%	2.00%	1.65
P/B	Price to book	4.23x	3.12x	1.40
P/CF	Price to cash flow	15.92x	11.17x	2.10
EY Spread	EY minus Baa yield	-0.97%	0.04%	0.55

Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.
Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since February 1994 and by FactSet since January 2022. Current next 12-months consensus earnings estimates are $245. Average P/E and standard deviations are calculated using 30 years of history. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Price-to-book ratio is the price divided by book value per share. Price-to-cash flow is price divided by NTM cash flow. EY minus Baa yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. over-/under-valued is calculated using the average and standard deviation over 30 years for each measure. *Averages and standard deviations for dividend yield and P/CF are since November 1995 due to data availability.
Guide to the Markets – U.S. Data are as of March 31, 2024.

In contrast to investors who buy as markets move higher, as markets near bottoms and move lower, many so-called ‘retail’ investors sell their equity positions and head to the sidelines. Their rationale is to salvage what’s left and save what they can. Those are emotional decisions because they’re selling at the worst possible time.

Following the philosophy of periodic portfolio rebalancing, however, results in the exact opposite of the above two scenarios. The true benefit of rebalancing results from selling equities as markets move higher and reach new highs and buying when markets move toward their lows. Admittedly, disciplined rebalancing is difficult to execute because financial planners aren’t immune to emotional tilts. But the results of rebalancing portfolios, over time, are tough to dispute.

“The error Bill Gross made – as did those who followed his advice – was in discounting the power of precedent…As a result, the odds are strongly against those who alter their investment practices because they are convinced that, at long last, this time will be different.”

S.F. EHRLICH ASSOCIATES, INC.

S.F. Ehrlich Associates, Inc. has been providing financial advice on a fee-only, independent basis for over 25 years.

Managing Your Money is compiled entirely by Stanley F. Ehrlich and John Zeltmann.

Questions or comments are always welcome (and encouraged!).

Did we mention? If you have a friend or family member who you think might benefit from a discussion with us about financial planning and asset management, please pass along our phone number and email address. Long-term growth is not only crucial to portfolios, it's also critical to a business.

If you have a friend, co-worker, or relative who's in need of financial advice due to a pending or actual job loss, please give them our contact information. We're always glad to speak **pro bono** with people who need a hand.

CLIENTS: Please remember to contact S.F. Ehrlich if: a) there are any changes in your financial situation or investment objectives, b) you wish to impose, add or modify any reasonable restrictions to our investment management services, or c) you've changed your permanent residence.

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1 White, Martha C. "A Wealth Shift That Could Leave Some Younger Americans Behind." The New York Times , 28 Apr. 2024.

2 Rekenthaler, John. "The Dangerous Myth of 'The New Normal.'" Morningstar, 11 Apr. 2024.

3 "S&P 500 Valuation Measures." Slide 5, Guide to the Markets, J.P. Morgan. March 31, 2024.