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FINANCIAL PLANNING NOTES
CLIENT NEWSLETTER

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LESSONS LEARNED

While attending a conference about a month ago, a much younger advisor I had the pleasure of having coffee with asked me what, after more than 30 years in this industry giving financial advice, is the most important lesson I've learned.

While he eagerly waited for the "old man" to impart some sort of deep wisdom, I sat there, thinking through a few ideas about what has been the pinnacle lesson I've learned in this wonderful career.

The thought struck me that maybe the answer is that you really can't build an effective financial plan if you don't have meaningful goals. Because without goals or objectives, how do you know what to invest in? How do you know how much risk you should be taking?

Without question, the most common goal we see in our practice, being primarily lifelong investors, setting ourselves up for the highest probability of having the best investment experience we can have over decades (not weeks, months, or even years), is the goal of simply being able to provide an ongoing stream of income, pace it with inflation, and not run out of money before we run out of life.

Pretty simple … but definitely a goal that's measurable and gives us a clear insight into what we need to accomplish with our investing. I don't believe enough time is spent teaching young advisors this concept—that without a goal, building the right portfolio is an impossible task.

But then I had this other idea. Perhaps the answer to his question was, having learned through some rather turbulent markets over the past 30 years that boring, stodgy core principles, like having ***faith*** in capital markets and their ability to correct themselves, their ability to move on to new high territory and almost immediately adapt to this constantly changing world we live in, actually does make a difference.

And that having a ***disciplined*** investment approach and process that force you to do what you know you need to do and have been trained to do, even though nobody around you is doing it, adds tremendous value over the years.

And that having the ***patience*** to understand that markets work on their terms, not mine. All I can do is keep my risk exposure constant and intact, but sometimes I simply have to wait it out to reap the reward.

Yes, that's definitely a big lesson learned. But we're not quite there yet.

Perhaps the answer is really a combination of both of those ideas. Because without those two concepts of being a goals-based investor along with having core principles about how markets work, people tend to fall prey to the age-old financial trap of basing investment decisions around current events and (heaven forbid) what the financial press is telling us.

After more than 30 years of being a bit more than a casual observer, I've learned that people who depend on the financial press for guidance almost always end up sacrificing their wealth and never seem to stay on track toward their goals.

If those first two lessons mentioned above have been learned, this isn't a problem. Because if I have meaningful long-term goals that tell me what I want to accomplish with my money and investing, if I have faith in capital markets, a disciplined approach, and the patience to not try to force returns against the will of the market, then what do I care if a few regional banks go out of business—or whatever the apocalyptic financial event du jour is?

It's not going to take me off my game or take my eyes off my goal. It's not going to change how I'm going to get there. I already know. But what it will do is teach me that maybe the financial press doesn't really have my best interest in mind and is just playing to my prurient interests to increase its readership, viewership, and clicks. It teaches me to go read or look at something more interesting and worthwhile.

So we sat there for a few minutes, and after all these thoughts, I simply replied, "You know, that's a great question. I think I'm still learning."

—Allen Giese

ARE HIGHER INTEREST RATES BAD FOR THE STOCK MARKET?

Investors reading their financial news publications of choice over the last year or so may have come across a headline titled something like "How Higher Interest Rates Will Affect the Stock Markets." These articles typically go on to talk about how higher interest rates lead to higher borrowing costs for companies, which lead to lower profits/valuations and in turn poor equity performance.

However, historical data suggests this is not necessarily the case. **Exhibit 1** below plots monthly returns of the U.S. equity risk premium on the vertical axis against monthly returns of the 10-Year U.S. Treasury Yield on the horizontal axis. As illustrated, we don't observe a discernable relationship between higher bond yields leading to lower equity returns.

For investors concerned about how upcoming Fed policy decisions might affect future equity returns, **Exhibit 2** below may offer some reassuring news. The chart shows average annual equity returns, measured by the Fama/French Total US Market Research Index, following different monthly rate hike scenarios. We see that performance following months in which the Fed raised rates is not meaningfully different from the performance following months without a rate hike.

All else remaining the same, it might seem logical to think that higher borrowing costs from higher interest rates may lead to lower profits/valuations and in turn poorer equity performance. However, periods of higher interest rates or rate changes don't happen in isolation, and many other influences can create noise in realized equity returns.

Even if one were able to have perfect foresight of future interest rate movements, the data above suggests this information would be of little help to base short-term investment decisions on. Stock prices continually adjust and respond to new information that is available to investors. Trying to predict all of the different potential sources of information and the magnitude of their impacts in order to make investment decisions is unlikely to lead to a positive investment result in the long term.

—Dimensional Fund Advisors

THE IMPACT OF TECHNOLOGICAL ADVANCES ON RETIREES AND CHANGES IN THE TAX CODE

Retirement is a time of life when people can enjoy their hard-earned financial stability and pursue their interests and passions. However, technological advances and changes in the tax code can significantly affect the financial well-being of retirees. In this article, we explore the impact of technology on retirees and how changes in the tax code can affect their financial stability

IMPACT OF TECHNOLOGICAL ADVANCES ON RETIREES

The rapid pace of technological advances has changed the way people save for and manage their finances during retirement. Online banking and investment platforms have made it easier for retirees to manage their finances from the comfort of their homes. Moreover, the rise of robo-advisors has made it possible for retirees to invest their money with minimal human intervention, reducing the costs associated with traditional investment management.

However, the reliance on technology can also have its downsides. The risk of cyber-attacks and the loss

of personal information are significant concerns for retirees who manage their finances online. In addition, the use of technology can limit personal interaction and face-to-face communication with financial advisors, reducing the level of support and guidance retirees may receive.

IMPACT OF CHANGES IN TAX CODE ON RETIREES

Changes in the tax code can have a significant impact on the financial well-being of retirees. The increase in taxes can reduce the amount of money they receive from their fixed income sources such as pensions and Social Security benefits. In addition, changes in tax laws can also impact the amount of money retirees can withdraw from their retirement accounts without paying penalties or taxes.

SUCCESS AND FAILURE STORIES

1. **Success story**: Mr. Smith, a retiree in his 70s, has successfully adapted to the changes in the tax code by taking advantage of tax-advantaged retirement accounts. He has also embraced technology by using online banking and investment platforms to manage his finances. This has allowed him to keep his costs low and continue to enjoy a comfortable retirement.
2. **Failure story:** Mrs. Johnson, a retiree in her 60s, struggled to adapt to the changes in the tax code. She relied heavily on her fixed income sources and was unable to keep pace with the increasing taxes. As a result, she had to make significant cuts to her monthly spending and was unable to maintain her standard of living.

CONCLUSION

Retirement is a time of life when people can enjoy their financial stability and pursue their passions and interests. Technological advances and changes in the tax code can have a significant impact on the financial well-being of retirees. However, retirees can adapt to these changes by embracing technology and taking advantage of tax-advantaged retirement accounts. As demonstrated by the success and failure stories, the key to a successful retirement is the ability to adapt and make informed financial decisions.

WHO WE ARE

ALLEN P. GIESE, ChFC®, CLU®, ChSNC®
President, CEO, Senior Financial Advisor

STEVE TEPPER, CFP®, MBA
Vice President, Chief Operations Officer, Chief Compliance Officer, Senior Financial Advisor

GARY S. GLANZ
Director of Business Development, Investment Advisor Representative

FELIPE MEJIA, CFP®
Lead Financial Advisor

CHARLES THOMAS, MBA
Associate Advisor

GARY C. GONZALEZ
Investment Advisor Representative

STACY SAAVEDRA
Director of Client Services

RICHARD LOTTIER III
Client Service Specialist

LIAN TEPPER
Client Service Specialist

NORTHSTAR
FINANCIAL PLANNERS INC.

(954) 693-0030
1250 S. Pine Island Road, Suite 275
Plantation, FL 33324

northstarplanners.com
info@northstarplanners.com