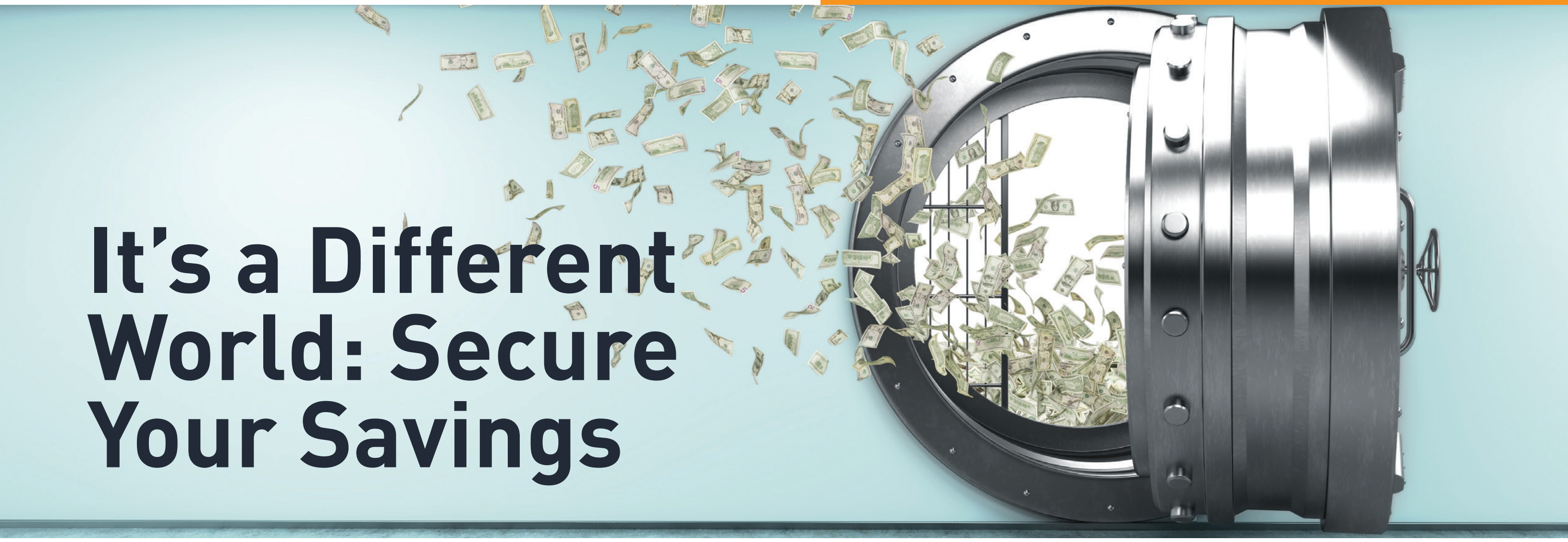

It's a Different World: Secure Your Savings

After the '08 financial crisis, the U.S. stock market embarked on the longest bull run in history. Inflation increased at a comfortable 2% average annual rate. Interest rates have been relatively stable. The coronavirus pandemic initially looked like cause for market correction during the first half of 2020, but markets rebounded and continued to climb. The capital growth cycle supported our spending habits; 'comfortable' is a fair description. However, **recent market sentiment suggests caution. We may be wise to prepare for potential financial discomfort.** *Control the things you can control* as the saying goes. No one can control the markets, but we do have the ability to control our personal financial lives. Spending habits are a start.

Identify what you can't do without.

This concept seems elementary, but let's define. Non-discretionary expenses are the essentials; mortgage/rent, utilities, groceries, car payments, student loans, etc. Discretionary expenses are unnecessary expenses. Although non-essential to basic living, these items should not be considered entirely disposable. Yes, our unnecessary 'wants' live in this category, but so do date nights for young parents, tickets to a special event in town, etc. Mentioned here are some things we do, in fact, need to purchase – our mental well-being will thank us. The key is moderation.

Do I have a spending problem?

Probably. Most of us do to an extent and don't even notice. According to research, nearly 75% of consumers say they have a budget, yet nearly 80% of them fail to follow it. The result is an effective 60% of consumers who essentially 'wing-it' with their hard-earned income. Some care enough to stay within the guardrails, but many do not.

Why is this so prevalent?

Technology enables poor spending habits; it's so very easy. Algorithms identify our indulgences and make the transactions simple; there is little time for impulse control. Spending also tends to come from an emotional place and let's admit, the pandemic environment fanned the flame. Flooded with negative news and cooped-up at home, we naturally seek a balance. That new 70" TV suddenly seems a "non-discretionary" expense. A few clicks on my mobile phone and it's delivered in two days right to my front door. Amazon's net income increased a staggering 287% from 2019 to 2021. Spending like this makes us happy during unhappy times. Until we see our credit card bills.

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Course Correction:

Throwing away our phones is not a viable option, not for most of us, though it seems the only way to completely dispatch temptation. Rigid spending practices are also difficult to tolerate long-term. Effective budgeting is all about being flexible and willing to adjust your daily spending habits. So, what can we do to rein in spending and become more financially stable during uncertain times?

Build a budget.

Put everything on paper, or into a spreadsheet, or whatever app you prefer. There are ample resources available to make the task easy. Take the time. Laying everything out provides perspective and allows us to plan.

Forecast expenses.

Some expenses are dynamic in nature. Plan for changes throughout the year so that you'll be prepared to bend but not break.

Make a spending plan.

Mandate a maximum discretionary spend level each month. A common budgeting structure calls for a maximum of 30% of the budget dedicated to 'wants' for example. Calculate the ceiling and plan not to meet or exceed it.

Save more.

Increase savings and retirement account balances by establishing automated transfers or payroll deferrals. Dollars that are never part of the monthly budget cannot be delegated out via a spending plan.

Start using cash.

Human psychology is at play here. Credit cards make spending easy, but equivalent purchases made in cash feel different. This practice could present enough of a barrier to help us say "no" a bit more often.

Checks and balances.

Designate a spouse, a friend, or a family member to approve or deny larger discretionary purchases. A purchase that we consider reasonable might be considered irresponsible from a different perspective.

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Here's why it's so important now to stay vigilant:

The U.S. Consumer Price Index, our measure of inflation, increased more than 7% in recent months when compared to last year, reaching the highest level in 40 years. (The typical long term inflation rate average is just over 3%.) High inflation erodes purchasing power; our dollars buy less as goods and services become more expensive. Our current 'pain-at-the-pump' provides a strong example. Much of that pain is caused by the war in Ukraine and its effect on global oil markets. When we include potential food shortages, supply chain and transportation issues, we could see a significant strain.

At Bahl & Gaynor we work with our clients to achieve their investment goals by controlling what we can control about the stock market. We choose to invest in high quality, domestic companies that pay a growing dividend and perform favorably in down markets. We accept that we will never control company valuations, but together we can manage the variables, endeavoring always to protect your wealth for a more secure future for you and your family.

Mike Del Prince, CFP®, CLU®
Portfolio Analyst

[1]https://www.in2013dollars.com/us/inflation/2008?amount=1#:~:text=Value%20of%20%241%20from%202008,cumulative%20price%20 increase%20of%2031.78%25.
[2]https://www.cnbc.com/2019/12/26/consumers-overspend-by-7400-a-year-here-are-weekly-trouble-spots.html
[3]https://ir.aboutamazon.com/quarterly-results/default.aspx
[4]https://www.bloomberg.com/news/articles/2022-03-10/u-s-inflation-hits-fresh-40-year-high-of-7-9-before-oil-spike
[5] https://www.nerdwallet.com/article/finance/discretionary-expenses