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WEALTH WATCH

SPRING 2021

Our Take on Cryptocurrency Speculation

> "A study found that investors with a high level of financial literacy take too many risks, overborrow, and hold naive financial attitudes. But this also lends itself to better retirement planning, since they are also more likely to have a retirement savings plan."
>
> Source: AAII, August 2020

Cryptocurrencies are back in the headlines with some high-flying returns that have attracted investor attention. Earlier this year, Tesla CEO Elon Musk tweeted support for Bitcoin, and a few of the largest university endowments have begun to endorse cryptocurrencies as potentially viable investments. Given that cryptocurrencies are gaining broader acceptance, many clients are asking our take on the subject.

We want to preface our remarks by emphasizing that we are evidence-based financial planners. We are not experts in Bitcoin/cryptocurrency. Still, many people have asked for our non-expert assessment of Bitcoin and cryptocurrencies. So, with that warning, below are our thoughts.

First, it must be acknowledged that Bitcoin is one heck of an invention. To have invented a new type of money via a system that is programmed into a computer and that has worked for a decade worldwide and is rapidly gaining popularity is an amazing accomplishment.

It seems that those who want to promote Bitcoin are characterizing it one way while those who are against it are characterizing it another way. Rather than take a strong stand for or against cryptocurrencies/Bitcoin, we have attempted to take an objective viewpoint. Here, we discuss Bitcoin/crypto only in terms of the role it might play in an evidenced-based portfolio designed to help you accomplish your financial goals.

For clients concerned about a falling U.S. dollar or inflation, we believe our current approach to protecting against those risks (diversification, scenario planning) is both more effective and reliable. For context, our investment framework revolves around an evidence-based approach to building globally diversified portfolios across asset classes, each serving a distinct role in the portfolio:

- ✔ **Global stocks** provide a source of long-term growth (and some inflation protection) and U.S. dollar devaluation protection (from exposure to non-U.S. stocks).
- ✔ **High-quality fixed-income** can provide protection during periods of steep stock market declines and deflation.
- ✔ **Hybrid investments** like flexible bond strategies exhibit qualities of the first two: some capital appreciation potential (and some potential inflation protection) but with less short-term downside than stocks.
- ✔ **Real Estate Investment Trusts (REITs)** can provide diversified sources of return, inflation protection, and can reduce a portfolio's overall volatility.

As fundamental investors, we invest in assets that we can reasonably value; that offer transparency and defined liquidity; and finally, that we can be confident are subject to a reasonable amount of regulatory oversight and legal protection to minimize the risk of price manipulation. We have a very difficult time applying any of these criteria to cryptocurrencies.

Based on our current understanding, which is very limited, there are reasonable scenarios where the price of Bitcoin, at some point, could go to zero. As a rule, we don't tend to favor investments that have zero as their downside. Even as currencies, cryptocurrencies fail to meet the requirements to be a reliable "store of value" or "unit of account."

At this point, we see cryptocurrencies as a form of speculation.

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Money Personalities and Saving

Everyone approaches their finances differently, but there are common mistakes that certain money personalities make. The following highlights five different money personalities, the mistakes they make, and how they can improve their financial picture.

Entrepreneur

Because they put all their financial resources and energy into their business, entrepreneurs may make mistakes such as cashing out their retirement plans to fund their business, holding too much debt, or even getting behind on self-employment taxes.

Entrepreneurs would be best served by developing a business plan with income and expense projections to ensure they use debt wisely to fund their business. They should also make contributions to a retirement plan annually, even if it's only a few thousand dollars. And finally, entrepreneurs should work with a tax professional to help reduce their taxes as much as possible, while making sure quarterly tax payments are made.

The Saver

This is the person who follows all the rules and does it just right. They fully fund their retirement accounts each year, don't carry much debt, and have plenty of savings in the bank for any unexpected expenses. While this money personality may get to retire early, they may want to stop and smell the roses once in a while.

The High-Income Earner

Professionals, such as doctors and lawyers, fall into two groups: savers and spenders. Those who fund a large lifestyle may find they have trouble funding their retirement because they've spent too much.

Big earners need to develop a financial plan so they understand how much money they will need to fund their retirement based on the lifestyle they want to live. They should also pay themselves first with a predetermined amount to savings before buying nicer cars or bigger houses, as well as considering setting monthly spending limits.

I Need to Save?

This money personality spends their paycheck as soon as it hits their account, and in some cases, lives beyond their means. They have no savings if an unexpected emergency comes up, and they are likely carrying too much debt. To be able to retire, this person needs a financial plan with a strict budget to help pay down debt and develop both long- and short-term savings.

Doing Fine and Enjoying Life

This person saves and spends. They want to enjoy life experiences along the way to retirement, such as vacations, maybe a boat, or a cabin. While they contribute to their 401(k) plan, they may not have a financial plan that includes short-term financial goals and how much they need to save for retirement.

While it is great that this money personality saves, they need to ensure that their spending isn't outpacing their savings. By developing a solid financial plan, this money personality can create a more balanced approach to saving and spending.

What's Your Money Personality?

You should determine where you fall on the spectrum of money personalities so you can develop a financial plan that suits your personality, but also helps you secure your future. Please call if you'd like to discuss this topic in more detail. ✔✔✔

Staggered Retirements

Often, spouses don't retire at the same time. Frequently, one spouse may retire before the other due to health problems or a layoff, not necessarily because he/she chooses to retire early. No matter what the reason, keep these points in mind if this is your situation:

- ✔ **Try to minimize withdrawals from retirement accounts.** Although you will only have one salary instead of two, it's best to minimize withdrawals while one spouse is working. It's a good opportunity to test your retirement budget and to reduce your expenses.
- ✔ **Utilize all available benefits from the working spouse's employer.** One of the most significant retirement expenses, especially if you don't qualify for Medicare, is health insurance. So, before one spouse retires, find out if he/she is eligible for health insurance benefits through the working spouse's employer. If that spouse is not currently on that plan, find out how he/she can enroll. Does he/she have to wait for the annual open enrollment period or will retiring qualify him/her for coverage immediately?
- ✔ **Delay Social Security benefits.** Especially if you are retiring before full retirement age, it typically makes financial sense to delay Social Security benefits. For a significant number of married couples, the man is older, has higher earnings, and will not live as long as the woman. Because the surviving spouse can elect to receive 100% of the other spouse's benefit, it typically makes sense for the man to wait until age 70 to claim Social Security benefits, to provide his wife with the highest possible benefit after his death. On the other hand, there is usually no reason for the woman to wait beyond FRA (Full Retirement Age, 66-67) to start Social Security benefits, provided she can claim benefits on her own earnings record. While the wife's benefit may be lower when her husband is alive, she will receive his higher benefit after his death.
- ✔ **Consider all defined-benefit plan payment options.** If you are lucky enough to be covered by a traditional pension plan at work, make sure to consider all the payment options carefully before selecting one. Typically, you will have numerous options, but your choice will be irrevocable. ✔✔✔

Tips to Help Your Child Save

THINK OF ALL the lessons parents teach their children — manners, looking both ways before crossing the street, and buckling up in the car to name a couple — but what about learning to save? Short- and long-term savings are important life lessons that should start early and remain an ongoing conversation.

Wants versus Needs

To a child, most everything is a need. A toy, a new bike, and a video game are all needs to them, so the first important savings lesson is helping them understand the difference between wants and needs. You'll want to explain that needs are the basics, such as food, housing, and clothing, and that anything beyond the basics are wants. You could use your own budget to help illustrate that wants are secondary to needs.

Their Own Money

To help your child become a saver, they need to have their own money. Giving your child an allowance in exchange for chores will be a step in learning to save as well as understanding the value of work.

Set Goals

Setting savings goals is a way for your child to understand the value of saving and what a savings rate is. For example, let's say one goal is a $40 video game, and they get a weekly allowance of $10. You can help them understand how long it will take to reach that goal based on how much of their weekly allowance they put toward the goal.

A Place to Save

Kids need a place to save their money, so help them open their own investment account. This will allow them to see how their savings grows over time, as well as the progress they are making toward their savings goals.

Track Spending

Knowing where your money goes is a big part of being a better saver. Have your child write down their purchases and then at the end of the month add them all up. Just like adults, this can be an eye-opener. Help your child understand that if they change their spending habits, they will be able to more quickly reach their savings goals.

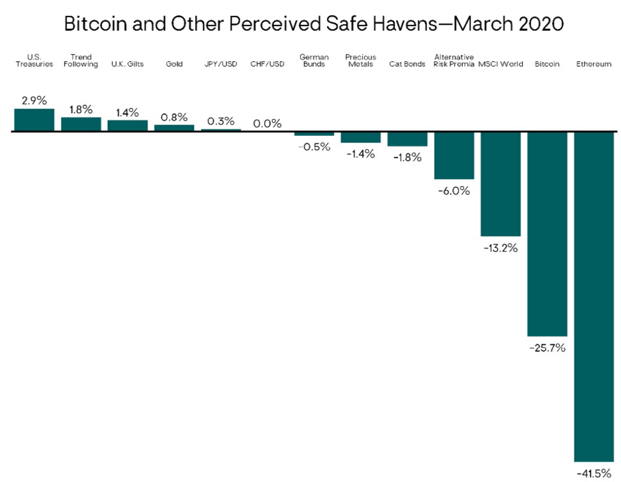
Mistakes Are a Good Lesson

A parent's natural reaction is to step in to prevent mistakes, but part of learning to control money is letting your child learn from their mistakes. A bad purchase decision can be a great lesson to understanding that a savings goal will now take much longer than they thought based on decisions they made. ✔✔✔

Cryptocurrency Speculation

Continued from page 1

✔ Bitcoin has acted more like a speculative risky asset than a safe haven (see the chart below).



✔ Bitcoin is extremely volatile and has suffered multiple massive drawdowns during its relatively short existence.

✔ Given its volatility, Bitcoin will likely be an extremely difficult investment for most people to stick with.

To be sure, speculating can be a fun game for some people with some small portion of their money. But, again, we are evidence-based financial planners - not speculators. And, as your fiduciary advisor, we don't have the right to place speculative bets with your hard-earned money. Moreover, we don't think we need to play the cryptocurrency game in order to achieve our clients' most important investment goals.

As the capital markets continue to rally, investors have inevitably cast a wider net. It's just human nature. More speculative investments have lured investors after delivering spectacular short-term returns, including cryptocurrencies, special purpose acquisition companies (SPACs for short), and "meme" stocks like GameStop. At times, these have been driven higher by an army of retail investors, fueled by zero-cost trading and information that is quickly shared via social media.

These spectacular returns have reintroduced the age-old, dangerous behavioral risk: FOMO, or the Fear of Missing Out. FOMO can tempt investors to take risks beyond what they would normally consider acceptable in search of incremental return. This behavior is often reinforced by reports that the "really smart money" is flowing into these same investments (likely in small size, limiting downside).

Our guidance to clients and investors broadly is to regularly revisit your risk tolerance and return objectives and ensure that your portfolio remains well aligned with your most important financial goals. If you find yourself lured into taking increasingly risky positions, you might want to take a hard look in the mirror and ask yourself whether you are falling victim to FOMO.

If you wish to roll the dice and gamble a small amount on cryptocurrency, please note that you cannot buy and sell it like a stock. You will need to open an account with a cryptocurrency exchange, like Coinbase, to purchase and store your currency.

We encourage you to reach out to us if you have questions about your portfolio or want to discuss this topic further. We're here to help.

Thanks for Taking a Look!

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About Align Wealth Management

Align Wealth Management (Align) is a federally registered investment advisor with offices in Oklahoma City, Oklahoma and St. Petersburg, Florida. Our advisors are CERTIFIED FINANCIAL PLANNER™ professionals who can help you manage your investments, plan your retirement, reduce your taxes, minimize your risks, and leave a legacy to your loved ones. Recognized as one of America's best by Financial Times Top 300, Align has developed a solid reputation for its strong client-focused culture.

Our sole mission is to help you make the most of your one financial life. We believe in straight talk, good old-fashioned common sense, intense research, hard work on your behalf, and complete transparency.

Importantly, we serve one master — our valued clients. We don't work for (nor do we accept compensation from) any brokerage firm, insurance company, or financial company. We are a "fee-only" firm, and we never accept commissions for the sale of financial or insurance products. Every ounce of our allegiance flows directly to our clients and every penny of our compensation flows directly from our clients via fully disclosed fees. And speaking of fees, you'll find the total cost of our services to be among the most competitive in the industry.

Bottom line: We work to ensure our clients never run out of money in retirement and help them pass meaningful legacies to their loves ones. We're here to help. ✔✔✔

Thanks for taking a look!

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