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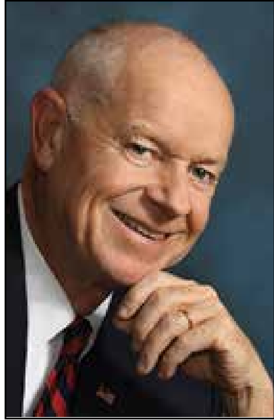

Inflation could be the most important factor for 2022. Why? Inflation will prompt lenders to hike interest rates, the Federal Reserve tighten monetary policy, and consumers to have less spending power. Markets are on edge due to recent year over year metrics showing prices rising at the fastest pace since the early 1980s. However, some of the inflation is due to the pandemic and supply chain bottlenecks, which could ease in the back half of next year. Further, year over year price comparisons may show less inflation in the second half. Nevertheless, once wages start to rise you could see an inflationary spiral that may not be stopped quickly. Further, if inflation psychology becomes imbedded, that could cause a rush to buy ahead of higher prices, exacerbating the problem.

David Dietze, JD, CFA, CFP
Bloomberg, December 23, 2021

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The Road Ahead: Stay the Course!

By David G. Dietze, JD, CFA, CFP™
Managing Principal, Senior Portfolio Strategist

Stocks are finishing up 2021 with their third year in a row of gains, with the S&P likely to end up over 25% for the year. The Dow has lagged a bit, up close to 18%, while the tech laden Nasdaq's returns are likely to split the difference, up about 21%,

Investors who prudently balanced their portfolios had little to show for it. With interest rates finishing the year higher than where they started, bond prices dipped; the income thrown off could not compensate. The benchmark Barclays Aggregate is set to finish the year down 1.7%, even including income.

Overseas stocks did not live up to their promise. The Covid hangover weighed more heavily, while the second largest economy, China, in the name of reform for privacy and prosperity for all, sent its stocks tumbling into bear market category. Eurozone stocks were up about 12% while the Chinese laden emerging market category was off about 2%.

2021 is going out on a very different note than it started. Last January there was only hope that Covid 19 could be corralled, the Federal Reserve's accommodation knew no boundaries, and lawmakers were tripping over one another to enact additional relief packages.

"Covid 19 will continue to plague us, but each new variant seems to pose a lesser risk than before"

Fast forward to the end of the year. Despite the onset of the Omicron variant, there's increasing confidence that the pandemic, too, shall pass; it's not the biggest threat to our wellbeing.

The Federal Reserve is giving increasing signs that its patience in the face of rising inflation has left it behind the eight

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ball, requiring faster monetary tightening than any would like.

The crowning achievement of President Biden's legislative agenda, the originally proposed $3.5 trillion Build Back Better bill, has been whittled down to less than $2 trillion. It has a razor thin margin of support, and that currently requires a recalcitrant Joe Manchin to support it.

In a Nutshell

We are constructive on 2022. An improving economy, still very low interest rates, and solid hikes in corporate profits are reasons why investors can expect high single digit returns next year. We believe matching 2021's performance unlikely.

The consumer is 70% of the economy. With solid job growth continuing, expect buoyant spending.

Covid 19 will continue to plague us, but each new variant seems to pose a lesser risk than before. The Federal Reserve is likely to reduce monetary accommodation but will move slowly to avoid policy error. It wants to prevent snuffing out an incipient recovery and to stay vigilant against future Covid variants.

Inflation is perhaps issue number one. However, with Covid 19 receding, supply chain bottlenecks, which have raised costs, may lessen.

Valuation concerns persist, but when you strip out the top fifteen names in the S&P 500, stocks look less pricey. Further, the high valuations must be judged in the context of the current ultra-low yields on fixed income.

Inflation

Rising prices may be the most pressing economic concern. The latest metrics show that the Consumer Price Index (CPI) rose 0.8% for the month of November, leaving prices up 6.8% over the last 12 months, the most inflation we've seen since the 1980s.

The expression TINA, meaning there is no alternative, is generally associated with interest rates, namely that due to the extremely low rates investors are forced to invest in stocks because there's no yield or value in bonds. However, inflation can also produce TINA, meaning that with inflation there's no good alternative to stocks.

"The Federal Reserve is likely to reduce monetary accommodation but will move slowly to avoid policy error"

Many companies can offset inflation by raising prices, or inflation can increase the value of what they produce. This helps stocks' returns during inflation, helping offset the erosion of currency's value. Fixed income, on the other hand, cannot increase in value nor hike its payout due to inflation, making it poor choice to offset rising prices.

Where inflation can hurt stock market prices is if it incents lenders to raise interest rates. Higher rates make newly issued bonds more competitive with stocks, while raising borrowing costs for corporations and consumers alike, a negative for stocks.

Inflation may also spur the Federal Reserve to tighten monetary conditions. Less liquidity is not a positive for stocks.

On balance, inflation need not prove an unsurmountable headwind for equities and indeed can enhance returns in certain market sectors.

Covid 19

Covid 19 triggered the fastest bear market on record in March of 2000. Economies are still recovering. Massive monetary assistance from the Federal Reserve, coupled with trillions in aid from Washington, helped offset the economic impact.

The latest variant, the Omicron, has emerged from southern Africa. It has now been reported in many parts of the world and more than 20 states.

Stocks have shaken off early concerns. Dr. Anthony Fauci assured many when he opined that its enhanced transmission risks were not accompanied by severe outcomes.

Bolstering that was news from Pfizer. Its research showed that the normal two dose regime did not fully protect against Omicron, but its booster shot did offset. Markets have since surged to new highs, reasoning that the Omicron resurgence would not result in a return to the lockdown state we saw in 2020.

"Valuation concerns persist, but when you strip out the top fifteen names in the S&P 500, stocks look less pricey"

Investors need to expect, as we enter 2022, that Covid concerns are not going to dissipate. Like all viruses, Covid 19 will continue mutating. Many variants will originate offshore, particularly in the developing world, where vaccine rates are much lower.

New variants will gain traction in the United States. No vaccination will last forever or work for all variants. Many have not been vaccinated and perhaps never will be.

Nevertheless, it appears that the existing vaccines do have a reasonable degree of efficacy against newer variants. We have the infrastructure, the therapeutics, the tools to handle new cases. It is unlikely that the country will accept lockdowns again except in the direst circumstances. The economy will continue to power through, just as it did a generation ago amid terrorism concerns.

"Rising prices may be the most pressing economic concern"

Bottom line, we would not let Covid variant concerns change long term commitments to equities in 2022.

Smaller Companies May Offer Opportunity

Smaller companies appear to offer better value than larger ones. Over the last one hundred years, smaller company stocks

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Understanding Equity Compensation

By Claire E. Toth, JD, MLT, CFP™, Managing Principal, Senior Wealth Strategist

Corporations—particularly public corporations—typically include some form of equity (corporate stock) in their executives' pay. That equity can take different forms, each with its own tax and investment consequences. Whatever the form of equity compensation, it typically vests—or becomes available to the employee—over a set time, often three to five years. The goal is to reward loyalty and make continued employment remunerative, with less turnover by more valuable employees. Employees who leave before that compensation vests never receive it.

Before diving into the particulars, step back and look at the big picture. Any employed person's financial livelihood is already tied to the employer's success. Those receiving equity compensation will likely continue receiving it. All too often, the result is an overconcentration in employer stock.

No stock is risk free. The past few decades are littered with formerly high-flying companies that crashed to earth, leaving employee-shareholders both unemployed and without a nest egg. To prevent this possibility, employees should divest themselves of employer stock as soon as practicable. Establishing a fixed schedule to sell—and sticking to the schedule—can help.

"Any employed person's financial livelihood is already tied to the employer's success."

Restricted Stock Units. Restricted stock units—or RSUs—dominate the landscape today. Here's how it can work:

Eddie Executive receives $10,000 of compensation as RSUs, as measured by today's stock price. Employer stock trades at $25/share, so Eddie receives 400 RSUs. Those RSUs vest over the next four years—on each anniversary of the original grant, Eddie gets 100 shares of stock, at whatever its then value. If on the first anniversary the stock trades at $35/share, Eddie has employment income of $3,500. "Employment income" means it is taxed to Eddie as ordinary income and is subject to employment taxes—Social Security, Medicare, and the like. Most companies withhold a flat 22 percent from the stock distributed to the employee, so Eddie would receive 78 shares. Eddie will also see the transaction reported on his W-2.

Claire E. Toth, JD, MLT, CFP

Those shares each have a cost basis of $35—the current fair market value and the amount on which Eddie was taxed. That means Eddie can sell them (subject to any blackout period) for little or no further gain or loss. Eddie should do that and reinvest in other securities, to reduce exposure to employer stock. Eddie will receive additional lots of 100 shares over the next three years—assuming he continues to work for that employer. Eddie can also expect to receive future RSU grants, another reason he should divest as he can.

Nonqualified Stock Options. Nonqualified stock options (NQOs) are the stock options with which most people are familiar. Again, an example may help:

Employer grants Mindy Managing Director 1,000 stock options with a strike price equal to today's price per share—say, $15. 200 options will vest on each of the next five anniversaries of the grant. Mindy can exercise her vested options by paying that $15 strike price per share. If the stock is then worth $25 per share, the $10 built-in gain in the stock, also called the bargain element, is taxed to Mindy as employment income (reported on Mindy's W-2 and with attendant employment taxes). Typically, Mindy chooses a cashless exercise—instead of reaching into her pocket to pay that $15 per share strike price, Mindy directs her employer to sell enough of the exercised shares to cover her cost.

"Employees with NQOs should be disciplined about exercising those options and divesting themselves of the stock."

Again, Mindy now owns shares with a cost basis equal to current value and can sell for little or no additional tax cost. Note that stock prices do not always rise—if Mindy's employer's stock falls below the strike price, the option is underwater. Mindy should not exercise it.

NQOs, unlike RSUs, require affirmative action on the employee's part to exercise the option and trigger taxable income. Unsurprisingly, employees are often reluctant to create income if they aren't required to do so, particularly if they see the value of those options continuing to rise. That's one reason employers have transitioned to RSUs. NQOs have a finite life—typically ten years. Employees who fail to exercise by then lose the option—and any bargain element therein. NQOs take a few days to exercise, and sometimes that ten-year mark falls on a weekend or holiday. Employees with NQOs should not wait until the last moment to exercise; they should be disciplined about exercising those options and divesting themselves of the stock.

"NQOs, unlike RSUs, require affirmative action on the employee's part to exercise the option and trigger taxable income."

Incentive Stock Options. Incentive stock options, or ISOs, were the darling of the late-1990s tech bubble. When that bubble burst, obscure rules hit some taxpayers with huge taxes on gains that had largely evaporated. Those tax rules have

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The Metaverse: The Next Frontier?

By Fritz Schoenhut, MST, CFA, Managing Director and Portfolio Manager

This past year was a strange year for investors. Perhaps it was the result of the pandemic lockdowns and the rise of the Robinhood traders, but in a year in which cryptocurrencies and meme stocks like AMC and GameStop were some of the top performing "bets" it's safe to say speculative assets had their time in the sun. Over the last few months, we've seen the emergence of a new investment theme based on something called the metaverse, and while it shares some of the same qualities we saw in earlier speculative ventures, there are some differences that may point to a longer-term opportunity and growth potential.

The Metaverse

If you search Google for a definition of the metaverse you get "a virtual-reality space in which users can interact with a computer-generated environment and other users." In essence, the metaverse is a universe beyond the limits of our physical world where you will be able to explore, shop, and meet others. You will see the virtual representations of other people and objects just as they would see the virtual representation of you.

"in the best-case scenario, every company will have exposure to the new web just as almost every company today utilizes the internet and e-commerce"

Another way some envision the metaverse is to think about how you interact with the internet now. For example, let's say you are looking to do some online clothes shopping. You sit down at your desk, stare at the screen (computer or phone) and manipulate the keyboard to open your browser and ultimately land on your favorite brand's web page. Now consider a future in which you are fully immersed in a virtual reality, and instead of sitting in front of a screen you are strapped into some high-tech head gear or glasses. You can look around and see a digital world to explore. You can walk around a digital mall housing high-end fashion brands and see what new products are available for purchase. Though you may not be able to physically touch any items, the 3-D images allow you to get a better feel for the fit and design than a couple of pictures on a regular website. While this example may be purely hypothetical, you can see how there is a blurring line between today's versions of going to the mall and shopping online.

Fritz Schoenhut, MST, CFA

It is hard to imagine living a virtual life while simultaneously having real world responsibilities like a job or a family. But according to Newzoo, a leading global esports and gaming analytics company, there were 2.69 billion video game players in the world in 2020. In the US alone there were 190 million gamers generating revenues of over $42 billion. That's a lot of people already interacting virtually and spending time and money outside the physical world. Now consider this – in 2020 rapper Travis Scott played a nine-minute concert on the video game platform Fortnite. Over 12.3 million gamers tuned into the concert and generated over $20 million in sales, including merchandise. It is no wonder then that this idea of the metaverse is attracting the focus of large corporations and investors, especially considering the dominance the younger population has in retail and e-commerce.

Investment Potential

Given the assumptions for how the metaverse may impact our daily lives and interactions, it is no surprise investors are seeking ways to invest in this broader theme. If we think about the metaverse as the next version of the internet, or Web 3.0 as some in the tech community have labeled it, it is important to remember how the internet impacted every industry and every company. It's likely that in the best-case scenario, every company will have exposure to the new web just as almost every company today utilizes the internet and e-commerce in one way or another. Surely, some companies benefitted more than others, but the past winners won't necessarily be the top dogs in a reimagined web.

"There will be many companies beyond the traditional mega-cap internet/tech players today that will provide the tools, software, and platforms to create the metaverse."

For example, detractors of the current state of the internet call out centralization as a key aspect that needs to change. The fact is that a handful of companies – Facebook (aka Meta), Amazon, Google (aka Alphabet), and Microsoft – have a strong grip on the internet, what you see, what you don't see, and the user data and privacy controls associated with it. In Web 3.0, future-minded hopefuls are calling for a "de-centralization" of the internet where no one or handful of companies have control. This idea of de-centralization is common to another speculative asset class, cryptocurrencies, which may point to further adoption of digital assets.

Another interesting avenue to explore is how today's top fashion brands are focused on revenue opportunities in the metaverse, as illustrated in the earlier example. Nike, for instance, recently acquired a startup that makes virtual footwear.

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Retirement Income

By Donna St. Amant, MBA, Managing Director and Portfolio Manager

After a lifetime of saving for retirement, it comes time to determine how best to switch gears and turn those savings into income. Retirees typically have multiple income sources, some fixed and some variable; some taxable and others that are tax-free. Most use a blend of these sources to generate monthly income.

Common sources of retirement income are social security, traditional retirement savings accounts like IRAs and Roth IRAs, employer sponsored plans such as a 401k or a 403b, and for some fortunate individuals, a company pension. In addition to tax-sheltered accounts, retirees also look to savings held in taxable accounts. Having diversified sources of income is a plus. Accessing different types of retirement accounts offers more flexibility in managing your income stream and handling the associated tax liabilities.

Fixed sources of income such as social security, pensions, and annuities offer the benefit of a steady stream of payments that typically continue for life, are predictable and are not subject to market volatility. One downside to these types of income streams is that the individual does not have the ability to access a larger sum of money for emergency cash needs, and when the individual dies payments typically cease, leaving nothing for heirs. Pensions and some annuities are not inflation-adjusted, eroding purchasing power over time. Annuities often carry high fees and give the owner less control of their money. Again, having different types of vehicles from which to draw during retirement is the best option. We like using social security and pensions in combination with traditional retirement savings accounts and prefer these investment accounts over annuities.

"eventually it comes time to determine how best to switch gears and turn those savings into income"

Strategies to consider with fixed sources of income: If cash flow allows, postpone filing for social security benefits to increase the overall lifetime benefit. Delaying benefits as long as possible will result in an increasingly higher benefit up to age 70. That increase can be as much as 32 percent. Spouses should coordinate their Social Security claiming. For pensions, the owner may have a choice of taking the pension in a lump sum or as an annuity. Taking the lump sum and investing it provides more flexibility. If taking the lump sum, you would not want to take it in cash, as the entire amount will be subject to income taxes and could push you into a higher tax bracket. A better plan is to roll the lump sum payment into an IRA, where taxes will not be owed until funds are withdrawn from the account.

Donna St. Amant, MBA

Variable sources of income include traditional retirement savings accounts and savings held in taxable accounts. These are variable because the account balances fluctuate based on how they are invested. Income is derived from dividends and interest generated by the portfolio, and asset appreciation is an important component of providing long term growth. For this reason, don't be excessively conservative. With retirement potentially lasting decades, a retiree cannot afford to be too conservative or move too much into cash. Cash should be on hand only for short-term needs. A diversified portfolio should manage longevity and inflation risk. Without having that steady stream of new income as you do when employed, diversification should take priority to protect the nest egg's purchasing power.

Advantages of variable type retirement accounts include growth potential, access to larger amounts of cash for emergencies, and the ability to leave funds to heirs after the owner passes. The risk with variable sources is that the balance can decline due to market volatility. If the market downturn is prolonged, it may require the holder to tighten spending habits and withdraw less until the market recovers.

Strategies to consider with variable sources of income: Give yourself options by setting up both traditional IRAs and Roth IRAs. If everything is held in a traditional IRA, then up to 100% of the withdrawals will be subject to income tax. Some individuals don't contribute to a Roth due to income limits, but they can convert funds in a traditional IRA to a Roth. Taxes will be due at the time of the conversion, but there can be key years where earnings are lower, and a Roth conversion makes sense. The taxes will be due on IRA withdrawals at one point or another, so paying the taxes in a low earnings year gets them out of the way and allows for tax-free withdrawals down the line.

"Having diversified sources of income is a plus."

The withdrawal rate from retirement accounts is a key factor in ensuring funds last a lifetime. This flexibility can be both a pro and a con. It's great that you can adjust the amount withdrawn; start out small (4% is usually a good starting point), and then increase or decrease the rate as you get a handle on retirement expenses. If there is a sharp decline in the market omit inflation adjustments for a few years or even reduce the withdrawal rate until the market recovers. The downside of choosing the distribution rate is that added discipline is needed to stick to a set withdrawal plan so that savings are not depleted too quickly.

Any funds coming from tax-sheltered accounts will have income tax due so be sure to set aside funds to cover the tax bill or have the tax withheld at the time of the withdrawal. Also,

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Is it Time to Rethink the 4% Rule for Retirement?

By Elaine F. Phipps, MBA, CFA, Managing Director and Portfolio Manager

It has been a tumultuous few years dominated by Covid. The stress and exhaustion have prompted many to change jobs, relocate, or leave the workforce entirely. The stock market remains near record highs, so those who can retire are taking advantage of the option. After long careers they want to enjoy the good life, and many are now financially able to do so.

Before making the retirement decision, analyze if you have enough assets to take the plunge. As a good practice, assume you will live in relatively good health until the age of 95 – better safe than sorry! The rest becomes a mathematical exercise focusing on your asset allocation, sources of income, expected market return, and inflation rates.

What is the 4% rule? The number one question money managers hear from clients is "do I have enough money to retire?" Even those 30-somethings who have just started out have retirement on the top of their wish list. Many managers have historically defaulted to the 4% rule. Developed in 1994 by financial advisor William Bengen, the goal was to make sure your retirement savings could last as long as you did. Generally, this meant a 30-year time frame. Bengen called his calculation "Safemax" defined as the maximum amount you could withdraw each year and still be safe. His analysis suggested you should withdraw no more than 4% of the balance of your retirement savings in year one, and then adjust the amount each year in line with inflation.

"Before making the retirement decision, analyze if you have enough assets to take the plunge."

Bergen's calculation was a simplistic analysis that considered the worst-case scenario, which was at the time someone retiring in October 1968. Inflation was just about to let loose, and the stock market was at a peak. A retiree that year had a 14-year bear market and runaway inflation to look forward to. Both decimated the purchasing power of their nest egg. Despite this worst-case scenario, the 4% rate became economic doctrine. Bengen, now retired from financial planning, speaks out from time to time to revise that number. In 2006 he raised the calculation to 4.5% but noted that if someone is lucky enough to retire when inflation is low and stock and bond valuations are also low, the rate fluctuates between 7-13%. Of course, you only know that in hindsight, so it is prudent to plan conservatively.

Elaine F. Phipps, MBA, CFA

Why all the commotion now and what is the "new" rate? The financial website Morningstar recently issued a report in November of 2021 suggesting the safe withdrawal rate is now 3.3%. While that doesn't seem like a big move, this headline was all over the financial news causing potential retirees much concern. It also would cost them real money, as their retirement dollars would potentially not cover living expenses and their plans to live the good life. Following on Bergen's initial calculation of a worst-case scenario, Morningstar suggested that we are emerging from a best-case scenario. Inflation and bond yields have been historically low over the past decade, and the S&P has returned over 16% annually during the same time period. Perhaps it is time to tighten the retirement belt.

The inflation wildcard. Inflation hasn't really been an issue for the past decade, staying close to the Fed's target rate of 2%. However, the last few months have been a different story with the consumer price index (CPI) index rising 6.8 percent for the twelve months ending in November 2021. This was the largest twelve-month increase since June of 1982. Whether this is a temporary reaction to the post-Covid economy ramping up remains to be seen. But for those contemplating retirement, higher inflation rates will eat into their net investment returns, requiring them either to earn more or spend less.

"The goal was to make sure your retirement savings could last as long as you did."

Will future market returns be lower? The S&P 500 delivered a 16% per annum total return over the past decade. In 2021 alone, the return is north of 20%. Market pundits are doubtful this can continue. By many measures this is the most expensive stock market we have seen in a decade. Low interest rates have helped propel the stock market, as investors searched for better returns. Since the Fed has signaled its willingness to increase rates to slow down inflation, fixed income may begin to offer a conservative alternative to equities. Most stock market strategists are predicting 0-5% returns over the next 1-5 years. If this holds true, retirees will need to withdraw or spend less to help their assets grow.

"The rate will fluctuate based on market performance and inflation, and there is no definitive number that fits all sizes."

So what is the answer? The 4% rule was a guideline to help retirees plan, not an edict set in stone. Perhaps the best advice is to remain flexible. There are things you can control

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The Road Ahead: Stay the Course!

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have soundly outperformed larger ones. Investors have been rewarded for accepting less liquidity, more volatility, and smaller market shares by investing in smaller outfits.

Over the last decade, smaller companies' stocks have dramatically underperformed larger ones, by 2.5% per year. That trend may be reversing; since the March 2020 pandemic low, smaller outfits have outperformed, up 140% versus 112% for their larger brethren.

Value Stocks May Outperform

Value stocks by many measures have beaten growth stocks over the long haul. Value does not have a single definition but is generally considered stocks cheaper relative to their profits, sales, dividends, cash flow and or book value.

Looking at the average price to earnings ratio of value versus growth since 1997, value stocks are at their greatest relative discount since 2000. A reversion to the mean seems likely, giving value stocks a tailwind.

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Retirement Income

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after age 72 retirees must take required minimum distributions (RMD) from tax-sheltered accounts. For those taking regular monthly withdrawals, they can be set to automatically meet this minimum or for others that don't need that much on a monthly basis, it is best to wait until later in the year to take the RMD so that the investments grow tax-free for as long as possible. Either way it is critical to meet the RMD as severe tax-penalties will apply if not compliant.

Finally, for individuals with concerns, one way to increase retirement income is to work a couple years longer or take a part-time job to supplement income during the transition from employment to retirement. This will allow for a delay in filing for social security and reduce the number of years that retirement savings must support you. If possible, increase the savings rate while still working. If already contributing the max to an employer sponsored plan, start contributing to an IRA. Individuals at any income level can make after-tax IRA contributions. Although there is not a tax-break to contribute to the IRA, there is the benefit of tax-deferred growth.

"If cash flow allows, postpone filing for social security benefits, to increase your overall lifetime benefit"

Inevitably any retirement plan will encounter ups and downs and need to be refined along the way. Starting with a solid withdrawal plan and holding well diversified investments will mean less worry and more time to enjoy retired life.

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Is it Time to Rethink the 4% Rule for Retirement?

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and change throughout the course of your retirement.

Incorporate other sources of income. The 4% rule only considered your investment portfolio, not other post retirement cash flows. Pensions, social security benefits, part-time wages, annuity streams and deferred cash payouts can help cushion living expenses and make you less reliant on the investment portfolio.

Delay Social Security. If you can delay filing for social security until age 70, you will increase your income stream and place less emphasis on your retirement assets. Think of this as giving yourself a guaranteed income raise.

Tweak what you withdraw for market swings. Based on the recent market history, you can adjust your withdrawal rates. View a down market year as a haircut on your spending and try and trim withdrawals. That trip to Europe may wait until the market recovers. Budgeting withdrawals to be used for extra expenditures is within your control. Stock market volatility is going to be with you throughout retirement, so learn how to work with it.

"The 4% rule was a guideline to help retirees plan, not an edict set in stone."

Accept a shorter retirement timeframe. The 4% rule was structured based on a 30-year retirement life. If you are willing to accept a lower probability of your assets lasting for 30 years, you have more flexibility in what you withdraw. If you continue to work, even part-time, into your 70's the 30-year horizon might not be necessary.

Adjust your asset allocation if it corresponds with your risk tolerance. The traditional method of asset allocation used 100% minus your age to calculate the percentage of your portfolio to devote to equity. So by default, investors reduced their exposure to equities as they aged. This may not be the correct strategy, especially when you look at what the equity market has returned historically. Those days of retirees pulling their assets out of stocks to invest in certificates of deposit yielding 5%+ are long gone. Currently, cash and fixed income are yielding next to nothing. Those who left money in cash as a safe investment over the past decade surely lost purchasing power. However, we cannot predict when that might change. More stock exposure will increase volatility and needs to be considered. You want to be able to sleep at night, but you don't want to have to withdraw a chunk of assets when the market is in bear mode.

"Be flexible in your withdrawal approach and control the variables you can."

The 4% rule should be used as a guideline for potential retirees as they evaluate their spending. The rate will fluctuate based on market performance and inflation, and there is no definitive number that fits all sizes. Be flexible in your withdrawal approach and control the variables you can.

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Understanding Equity Compensation

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been repealed—at least until 2027—and ISOs are beginning to re-emerge. Unlike other forms of equity compensation, employers are limited in how many ISOs they can issue—and to whom. Employees lucky enough to receive ISOs should develop an exercise plan.

Assume Velma Vice President's employer grants her 1,000 ISOs with a strike price of $15/share. Again, the ISOs vest over time. When a block of ISOs vest, Velma can exercise them by paying that $15/share strike price. Here, Velma wants to pay that with funds from her own pocket. When she exercises the ISO, the bargain element is not taxed as income. Instead, if she holds the exercised shares for at least a year before selling them, any gain or loss between the strike price and the sales price is long term capital gains (or loss). Nothing is taxed as employment income; this is a huge benefit to Velma. Long term capital gains rates can be half those for ordinary income.

"When an employee exercises the ISO, the bargain element is not taxed as income."

Velma must tread carefully here. If she exercises an ISO within a year of the grant date, she has just turned it into an NQO. Most vesting schedules prevent that from happening. If she sells the stock within a year of exercise, any capital gain is short term, meaning it is taxed at her ordinary income rates. Velma and her tax advisor should also keep an eye out for tax law changes should those pre-2018 rules come back in force.

Whatever form of equity compensation an employee receives, he should read the plan provided him carefully to determine how to exercise and manage shares as efficiently as possible.

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The Metaverse: The Next Frontier?

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Why? Its thesis is that people will want to dress their avatars in the metaverse in the coolest fashion trends. If you can't afford the newly released Jordans, perhaps you can buy them cheaper for your virtual self! Nike is just one example, but this shows how brands are starting to position themselves to take advantage of a new revenue source that comes with a fraction of the price - how much does it cost to make a single pair of virtual shoes?

Earlier I had mentioned Fortnite as a gaming platform that proved money was there to be made. Roblox, a publicly traded company that similarly has millions of gamers interacting and creating in a virtual world, has also focused on partnering with entertainers and brands that resonate with its users, such as Twenty One Pilots and VF Corp.'s "Vans World." Facebook recently changed its name to Meta, in part because of the company's shift in focus to bringing the metaverse to life. Additionally, Disney, a company known for bringing the fantasy world to life with its characters, storytelling, and world-class theme parks, has also announced plans to build out its own version of the metaverse. There will be many companies beyond the traditional mega-cap internet/tech players today that will provide the tools, software, and platforms to create the metaverse.

"We remain interested in the metaverse and the many implications for the companies we are currently investing in"

How Should We Proceed

As exciting as the concept is, we are in the first innings of seeing what the metaverse has to offer. We may well be witnessing the beginnings of a new internet, but most analysts expect we are a decade away from seeing anything substantial. From an investor's perspective, it's difficult to forecast an investment in something that doesn't exactly exist yet other than in theory. With this in mind, we remain interested in the metaverse and the many implications for the companies we are currently investing in, but we remain cautious on putting money into a speculative theme after a year in which speculative assets were very much in vogue.

"In the US alone there were 190 million gamers generating revenues of over $42 billion."

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