

# GFCReport

*“Financial Advice You Can Trust”*



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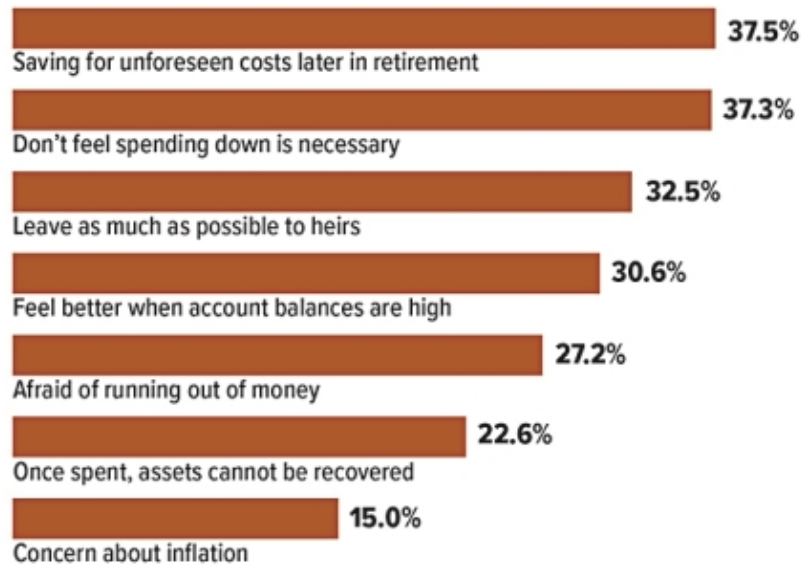
**36.1%**

Percentage of retirees who say they saved about the right amount for their retirement while they were working. By contrast, 45.6% saved less than they needed and only 18.3% saved more than they needed.

Source: Employee Benefit Research Institute, 2021

## To Spend or Not to Spend?

About 77% of retirees between the ages of 62 and 75 plan to spend down at least some of their retirement assets. The top reasons cited include lifestyle, medical expenses and health insurance, housing expenses, and discretionary spending. The remaining 23% intend to maintain or grow their assets. Why would retirees not want to spend down the assets they've worked so hard to save? Here are the reasons they gave.



Source: Employee Benefit Research Institute, 2021 (multiple responses allowed)

# International Investing: Opportunity Overseas?

For the past decade, U.S. stocks have outperformed foreign stocks by a wide margin, due in large part to the stronger U.S. recovery after the Great Recession. In general, U.S. companies have been more nimble and innovative in response to changing business dynamics, while aging populations in Japan and many European countries have slowed economic growth.<sup>1</sup>

Despite these challenges, some analysts believe that foreign stocks may be poised for a comeback as other countries recover more quickly from the effects of COVID-19 than the United States. On a more fundamental level, the lower valuations of foreign stocks could make them a potential bargain compared with the extremely high valuations of U.S. stocks.<sup>2-3</sup>

## Global Growth and Diversification

Investing globally provides access to growth opportunities outside the United States, while also helping to diversify your portfolio. Domestic stocks and foreign stocks tend to perform differently from year to year as well as over longer periods of time (see chart). Although some active investors may shift assets between domestic and foreign stocks based on near- or mid-term strategies, the wisest approach for most investors is to determine an appropriate international stock allocation for a long-term strategy.

## A World of Choices

The most convenient way to participate in global markets is by investing in mutual funds or exchange-traded funds (ETFs) — and there are plenty of choices available. In Q1 2021, there were more than 1,400 mutual funds and 600 ETFs focused on global equities.<sup>4</sup>

International funds range from broad, global funds that attempt to capture worldwide economic activity to regional funds and those that focus on a single country. Some funds are limited to developed nations, whereas others may focus on nations with emerging economies.

The term "ex U.S." or "ex US" typically means that the fund does not include domestic stocks. On the other hand, "global" or "world" funds may include a mix of U.S. and international stocks, with some offering a fairly equal balance between the two. These funds offer built-in diversification and may be appropriate for investors who want some exposure to foreign markets balanced by U.S. stocks. For any international stock fund, it's important to understand the mix of countries represented by the securities in the fund.

## Additional Risks and Volatility

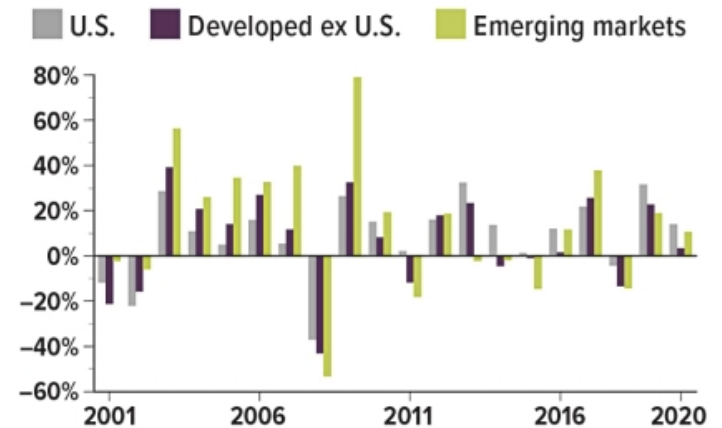
All investments are subject to market volatility, risk, and loss of principal. However, investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, and economic and political risk unique to a specific country. Emerging

economies might offer greater growth potential than advanced economies, but the stocks of companies located in emerging markets could be substantially more volatile, risky, and less liquid than the stocks of companies located in more developed foreign markets.

## Domestic vs. Foreign

Over the past 20 years, stocks in emerging markets have outperformed U.S. stocks but have been much more volatile. Stocks of developed economies outside the United States have yielded less than domestic stocks over the 20-year period, but have outperformed in nine of those 20 years.

## Stock performance, annual total returns



Source: Refinitiv, 2021, for the period 12/31/2000 to 12/31/2020. U.S. stocks are represented by the S&P 500 Composite Total Return Index, developed ex US stocks are represented by the MSCI EAFE GTR Index, and emerging market stocks are represented by the MSCI EM GTR Index; all are considered representative of their asset classes. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Rates of return will vary over time, especially for long-term investments. Past performance is not a guarantee of future results. Actual results will vary.

Diversification is a method to help manage risk; it does not guarantee a profit or protect against loss. The return and principal value of all stocks, mutual funds, and ETFs fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Supply and demand for ETF shares may cause them to trade at a premium or a discount relative to the value of the underlying shares.

*Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

1, 2) U.S. News & World Report, October 1, 2020

3) CNBC, January 23, 2021

4) Investment Company Institute, 2021

# Following the Inflation Debate

During the 12 months ending in June 2021, consumer prices shot up 5.4%, the highest inflation rate since 2008.<sup>1</sup> The annual increase in the Consumer Price Index for All Urban Consumers (CPI-U) — often called headline inflation — was due in part to the "base effect." This statistical term means the 12-month comparison was based on an unusual low point for prices in the second quarter of 2020, when consumer demand and inflation dropped after the onset of the pandemic.

However, some obvious inflationary pressures entered the picture in the first half of 2021. As vaccination rates climbed, pent-up consumer demand for goods and services was unleashed, fueled by stimulus payments and healthy savings accounts built by those with little opportunity to spend their earnings. Many businesses that shut down or cut back when the economy was closed could not ramp up quickly enough to meet surging demand. Supply-chain bottlenecks, along with higher costs for raw materials, fuel, and labor, resulted in some troubling price spikes.<sup>2</sup>

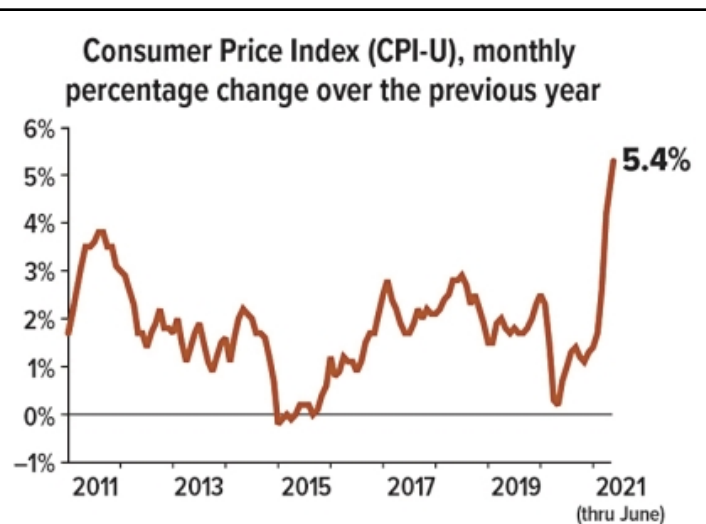
## Monitoring Inflation

CPI-U measures the price of a fixed market basket of goods and services. As such, it is a good measure of the prices consumers pay if they buy the same items over time, but it does not reflect changes in consumer behavior and can be unduly influenced by extreme increases in one or more categories. In June 2021, for example, used-car prices increased 10.5% from the previous month and 45.2% year-over-year, accounting for more than one-third of the increase in CPI. Core CPI, which strips out volatile food and energy prices, rose 4.5% year-over-year.<sup>3</sup>

In setting economic policy, the Federal Reserve prefers a different inflation measure called the Personal Consumption Expenditures (PCE) Price Index, which is even broader than the CPI and adjusts for changes in consumer behavior — i.e., when consumers shift to purchase a different item because the preferred item is too expensive. More specifically, the Fed looks at core PCE, which rose 3.5% through the 12 months ending in June 2021.<sup>4</sup>

## Competing Viewpoints

The perspective held by many economic policymakers, including Federal Reserve Chair Jerome Powell and Treasury Secretary Janet Yellen, was that the spring rise in inflation was due primarily to base effects and temporary supply-and-demand mismatches, so the impact would be mostly "transitory."<sup>5</sup> Regardless, some prices won't fall back to their former levels once they have risen, and even short-lived bursts of inflation can be painful for consumers.



Source: U.S. Bureau of Labor Statistics, 2021

Some economists fear that inflation may last longer, with more serious consequences, and could become difficult to control. This camp believes that loose monetary policies by the central bank and trillions of dollars in government stimulus have pumped an excess supply of money into the economy. In this scenario, a booming economy and persistent and/or substantial inflation could result in a self-reinforcing feedback loop in which businesses, faced with less competition and expecting higher costs in the future, raise their prices preemptively, prompting workers to demand higher wages.<sup>6</sup>

Until recently, inflation had consistently lagged the Fed's 2% target, which it considers a healthy rate for a growing economy, for more than a decade. In August 2020, the Federal Open Market Committee (FOMC) announced that it would allow inflation to rise moderately above 2% for some time in order to create a 2% *average* rate over the longer term. This signaled that economists anticipated short-term price swings and assured investors that Fed officials would not overreact by raising interest rates before the economy has fully healed.<sup>7</sup>

In mid-June 2021, the FOMC projected core PCE inflation to be 3.0% in 2021 and 2.1% in 2022. The benchmark federal funds range was expected to remain at 0.0% to 0.25% until 2023.<sup>8</sup> However, Fed officials have also said they are watching the data closely and could raise interest rates sooner, if needed, to cool the economy and curb inflation.

*Projections are based on current conditions, are subject to change, and may not come to pass.*

1, 3) U.S. Bureau of Labor Statistics, 2021; 2) *The Wall Street Journal*, April 13, 2021; 4) U.S. Bureau of Economic Analysis, 2021; 5-6) Bloomberg.com, May 2, 2021; 7-8) Federal Reserve, 2020-2021

# A Map for Your Family

A will is an essential legal document that describes how your estate should be distributed upon your death. It is the basis for the probate process and can serve as a guide for your heirs.

A letter of instruction — which has no legal status — provides information that can help your loved ones settle your estate and move forward with their lives. You might consider it a map for your family.

Unlike a will, which must follow legal guidelines for your state and may require an attorney, a letter of instruction can be written yourself in any way you choose. Here are some topics you may want to address.

**Financial accounts and account numbers**, including online user names and passwords. If you prefer not to write down user names or passwords, the executor of your estate should be able to access accounts with the account numbers and your Social Security number.

**List of documents and their locations**, including (but not limited to) your will, insurance policies, tax returns, bank and investment account documents, real estate deeds and mortgage documents, vehicle titles, Social Security and Medicare cards, marriage and/or divorce papers, and birth certificate.

**Contact information** for professionals who handle your financial and legal affairs, such as your attorney, financial advisor, insurance agent, and accountant.

Also include others who may be helpful, such as a business partner or trusted friend.

**Bills and creditors**, including when payments are due and other pertinent information, such as loan terms and balances as of the date of the letter.



*A letter of instruction could be just as important as a will to help your heirs settle your estate and move forward with their lives.*

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**Your final wishes** for burial or cremation, a funeral or memorial service, organ donation, and charitable contributions in your memory.

You might also include more personal thoughts or life lessons that you want to pass on, or you could write a separate letter. Keep your letter of instruction in a safe, yet accessible place and tell your loved ones where it can be found. It might be wise to give a copy of the letter to the executor of your estate and other trusted friends or advisers.

Be sure to review the letter regularly and update it as appropriate. Your heirs will thank you for taking the time to prepare.

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