FINANCIAL SYNERGIES®
WEALTH ADVISORS

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Quarterly Newsletter

Our insights on the markets, economy, and financial planning

It's Not How You Start, It's How You Finish

by Mike Booker, CFP®, ChFC®, CFS®

Many of you know that I came to Texas from California on a golf scholarship to the University of Houston to play for Dave Williams, the most famous golf coach in the most famous golf program of all time. To this day, the U. of H. golf program holds the record for the most division 1 NCAA National Championships for any sport; 16. To be recruited for this program was a dream come true. This golf school was already so legendary at the time I was recruited to play, I accepted my scholarship without even visiting the campus!

Coach Williams was an incredibly wise man and a gifted coach. He was able to identify his golfer's strengths and weaknesses in very short order. Mine was that I was a very slow starter. For whatever reason, I managed to get off to poor starts in tournaments. I was typically over par for my first few holes. Coach took me aside one day and said, "Book, it's not how you start, it's how you finish". These words resonate with me today every bit as much as they did when I first heard them.

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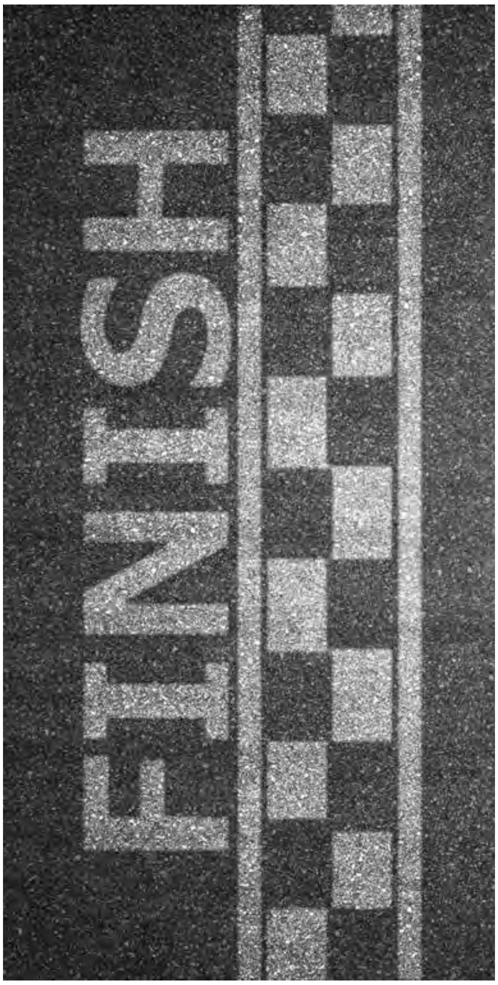
The words are offered as encouragement, but it goes much deeper than that. The underlying purpose of “it’s not how you start, it's how you finish” is to never give up, to have faith in what you are doing. To me, it also means that whatever mission I am on is worthy of giving it my very best effort to the very end. To stay strong. This philosophy applies to investing, too. The investment plan we have designed and maintain for you is worthy of our faith and belief in it.

The down period we find ourselves in currently is just a point in time we find ourselves along on our investment journey. Some investors are just getting their “investment round of golf” started, some are on the back nine. But for all of us, it is a journey. Just because our round gets off to a bad start does not mean we quit on the first hole or two. We stick it out, having faith that things will turn around at some point so we can salvage the round and come back again tomorrow. One bad shot can be a setback, but it doesn’t have to destroy the round. There are many holes left to play!

Case in point: More often than not, when the market is down through the first half of the year, it generates a positive return for second half of the year. Going back to 1931, there were 13 years where the stock market lost 8% or more for the first half of the year. In those years, the average loss was -15.6%. In those same years, the returns for the second half of the year averaged +8.2%. In fact, of those 13 years where the market got off to a first half-start of -8% or more, only 5 returned a second-half negative performance. The majority of the time, the second half returns in these years was positive.



With all of these bad starts the market has experienced since 1930, the value of a $10,000 invested from 1930 through June of this year is an incredible $1,926,409 (Source: Ned David Research, Morningstar). This period includes the Great Depression (1929-1941), the 1973-74 bear market, the market debacle of 2008 and too many other down periods to even mention. When having a plan in place and executing that plan, whether on the golf course or investing, it’s not how you start, it is how you finish.

Financial Scams Targeting Seniors Increasing

by Will Goodson, CFP®

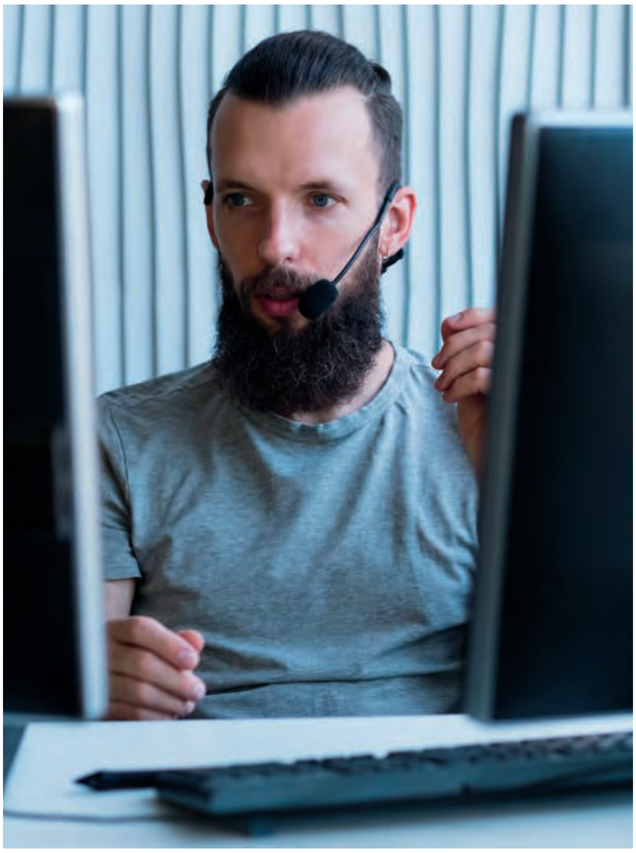
June was elder abuse awareness month, and I recently watched a presentation from Schwab's fraud & risk management team on the growing trend of scams against the elderly. It was insightful, and a little scary, knowing how pervasive and sophisticated these fraudsters have become.

According to the presenters, money lost through a scam usually cannot be recovered because the account owner is authorizing the distribution of funds. They do their best to try and spot suspicious patterns in advance. The sooner custodians like Schwab and Fidelity are made aware of a scam occurring, the better the chance to recover some portion of the funds, if possible.

Below is an overview of the most common types of scams and best practices to try and avoid them.

Romance Scams – these are one of the most common scams used. The popular Netflix documentary "The Tinder Swindler" showed that this can impact individuals both young and old. Fraudsters tend to target women over age 50. They create fake dating profiles or reach out through social media. They come on strong early, to build trust and companionship. They will reach out needing money for emergencies such as traveling abroad or having their wallet stolen. They may also pretend to introduce their targets to a "great investment." Never send funds to someone you have not met in person or recently met online. If things seem too good to be true, they probably are.

Tech Support Scams – these scams attempt to convince individuals that their electronic devices have been compromised. They will create spoof emails that appear to look legitimate. They may include a phone number or ask to remotely connect to your device. They may also include links in the emails on how to resolve the issue. They create a sense of urgency to act quickly and catch people off guard. They may also say that accounts have been frozen. However, companies such as Microsoft do not proactively reach out on issues such as these. If you do have concerns that your device has been compromised, it is recommended that you shut it down and take it to a reputable tech repair business. Never click on these suspicious links, as they often install malware to get access to your device.



Real Estate Scams – these have become more common with the surge in real estate activity over the last few years. The fraudsters may impersonate the lender or title company. They will change the account number to have funds wired to the scammers. These can lead to devastating financial losses. There has also been an increase in Mexican time-share scams.

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These appear as “investors” who need to liquidate time-shares at low prices. They also may offer a “great deal” to purchase a time-share at a lower cost, along with a sense of urgency to act swiftly. Be sure to do your due diligence if considering such a purchase and only work with reputable companies.

Impersonation Scams – these scams involve an attempt to impersonate a person or company. Fraudsters may comb through your social media profiles. They are looking for your emotional triggers – friends, family, etc. They create a narrative on why you need to send them money. For example, they will pretend to be a long-lost friend who needs financial assistance. They’ll ask for your discretion and not tell your family members, along with a promise of repayment (which never happens). Scammers also impersonate reputable companies like Amazon or FedEx. Go to these websites directly to see if there are legitimate issues. Don’t click links.
Lottery & Prize Scams – these are attempts to convince a person that they’ve won a large prize. The scammer will request money for fees or taxes. They rarely offer any details on where prizes come from. They may ask for payments sent to them in the form of gift cards or cryptocurrencies. Be skeptical of anything requesting upfront payment. Also – and it sounds obvious – be sure that you actually purchased a lottery ticket recently or enrolled in a contest.

IRS/Government Scams – these are very common scams directed toward the elderly. Scammers impersonate a government or IRS worker. They claim you owe money and threaten legal action against you. They create a sense of urgency saying that your Social Security income may be garnished or you could face jail time. They may even claim to get the authorities like the FBI involved to intimidate you into submitting payment. It is important to understand that government agencies and the IRS do not call or email about these matters. The IRS only communicates through letters in the mail.

These are just a handful of scam attempts that are directed toward the elderly. Seniors typically have more money and tend to be more trusting. Fraudsters like to exploit this. Many individuals who fall victim to a scam often do not report it. This may be out of embarrassment or making family members think they cannot take care of themselves, and they worry about losing independence.

There are measures you can take to be better prepared and identify possible scam attempts:

- Have a trusted contact person list with your custodian. This gives permission for Schwab or Fidelity to discuss account-related matters with a close friend or family member. They can also reach out to these individuals if they detect irregular or erratic account activity. These trusted contacts do not have any transactional authority.
- Make sure your estate plan documents are updated. It may be useful to have a durable power of attorney who can step in to help manage financial decisions if a friend or family member is incapacitated.
- Keep financial information organized and updated so trusted contacts and/or family member can access if needed.
- If a loved one is showing signs of diminished capacity, it is important for family members to notify trusted advisors so they are aware (attorneys, CPAs, or financial advisors like us).
- Scams increase around tax deadlines, holidays, and disasters/current events. Be extra cautious during these times.
- You can elect to freeze your credit with the major credit bureaus to prevent scammers from opening bank accounts, credit cards, etc. in your name.

These scams will only continue to grow in the future. It is important to be aware of the techniques used and how to identify potentially fraudulent behavior. Custodians like Schwab and Fidelity do their best, as do we, to spot these occurrences. If you have questions or would like additional resources, please feel free to contact us.

Crypto Chaos

by Mike Minter, CFP®, CFS®

It's been a bad year for just about every investable asset class on the planet. But, it's been particularly bad for cryptocurrencies. Two of the more well-known digital coins, Bitcoin and Ethereum, are down -58% and -70% year-to-date. The fall has been nothing short of breathtaking.

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Investors in digital currencies have gotten crushed and the news is going from bad to worse. You can hardly tune into the financial news media without the mention of cryptocurrency brokers and hedge funds filing for bankruptcy, or crypto lenders locking up investor funds.
The "Crypto Winter" is here.

I don't think digital currency is going away, and certainly not the blockchain technology behind it. But I think it's fair to assess that, thus far, cryptocurrency:

- Has not been a good diversifier away from stocks
- Has not been a good "store of value"
- Has not been a widely accepted form of payment (at least not yet)
- Has not been a good inflation hedge

Now, all that being said, cryptocurrency is still in its infancy. This asset class has experienced many extreme ups and downs over the last decade. What makes this time a little different is that WAY more people are invested in the coins than were even just five years ago.

Crypto is down, but not out, in my opinion.

Now, let's take a look at some of the other reasons you may want to tread lightly with cryptocurrency investments.

We'll start with the basics…

Between the stories we see on the internet, the countless memes, and the growing library of buzzwords, it's hard to research today's economy without running into some references to cryptocurrency. According to the FTC, cryptocurrency is a type of digital currency that exists electronically. You can use crypto like the way you use cash. You can invest in it, use it to buy things, and keep it in your (digital) wallet.

But as with any investment or currency, there are a few pitfalls to consider before jumping headlong into the world of crypto. Here, we outline some of the most significant drawbacks to consider as you research crypto.

1. Lofty Promises

It's difficult to find an article about cryptocurrency that doesn't contain some hyperbolic claims about the currency's performance. An article from Bloomberg shares some tweets from bitcoin fans that say crypto will be the world's biggest benefactor, is the "only monetary asset ever, has saved lives, and may one day hit $100,000 or even $1M a share."

To an uneducated investor, all of these claims might sound like magic. But, as with any asset, it's important to remember that we can't see into the future, and we have no idea how it will perform in the coming years. Approach these claims as hesitantly as you would those regarding any other asset.

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2. Crypto Isn't FDIC-Insured

Cryptocurrency accounts aren't backed by the government like traditional bank accounts. There are some third-party companies where you can store your digital wallets, but if something happens to those companies, the government has no obligation to step in and help get your money back.

In addition to not being backed by government protection, most cryptocurrency payments don't come with legal protections like credit or debit card purchases do. If you need to dispute a purchase you made using crypto, the process could be long and complicated, if not impossible. In addition, most purchases using crypto aren't reversible. This lack of purchase protection and insurance could be a deal-breaker to some.

3. Crypto May Be Less Secure

Because your currency is stored online, crypto comes with some inherent security risks, both on-and off-line. For example, there's always the risk of cybersecurity breaches, hacking, fraud/market manipulations, and other technological risks.

Just as important, there are also human error risks that one should consider before purchasing crypto. What would happen if you forgot your password or someone stole your laptop? How would you access your digital wallet? The New York Times famously covered the story of Stefan Thomas, a German-born programmer who had two attempts remaining to guess the password to his digital wallet worth $220 million at the time of writing. Cryptocurrency and digital wallets give a new meaning and horror to the prompt "Forgot your password?"

4. Crypto Still Has to Prove Its Case

Lastly, cryptocurrency is still relatively new and needs more time to prove its case. You can buy more things with crypto now than you could in past years, but you certainly can't buy everything with crypto. In March 2021, Elon Musk said that Tesla would accept Bitcoin as payment but later stated that the company would no longer accept Bitcoin, due to its environmental impact. This is just one example of the instability of using crypto as a payment method.

Cryptocurrency is a major player in today's economy, but it's worth taking time to consider its drawbacks before jumping in too deep.

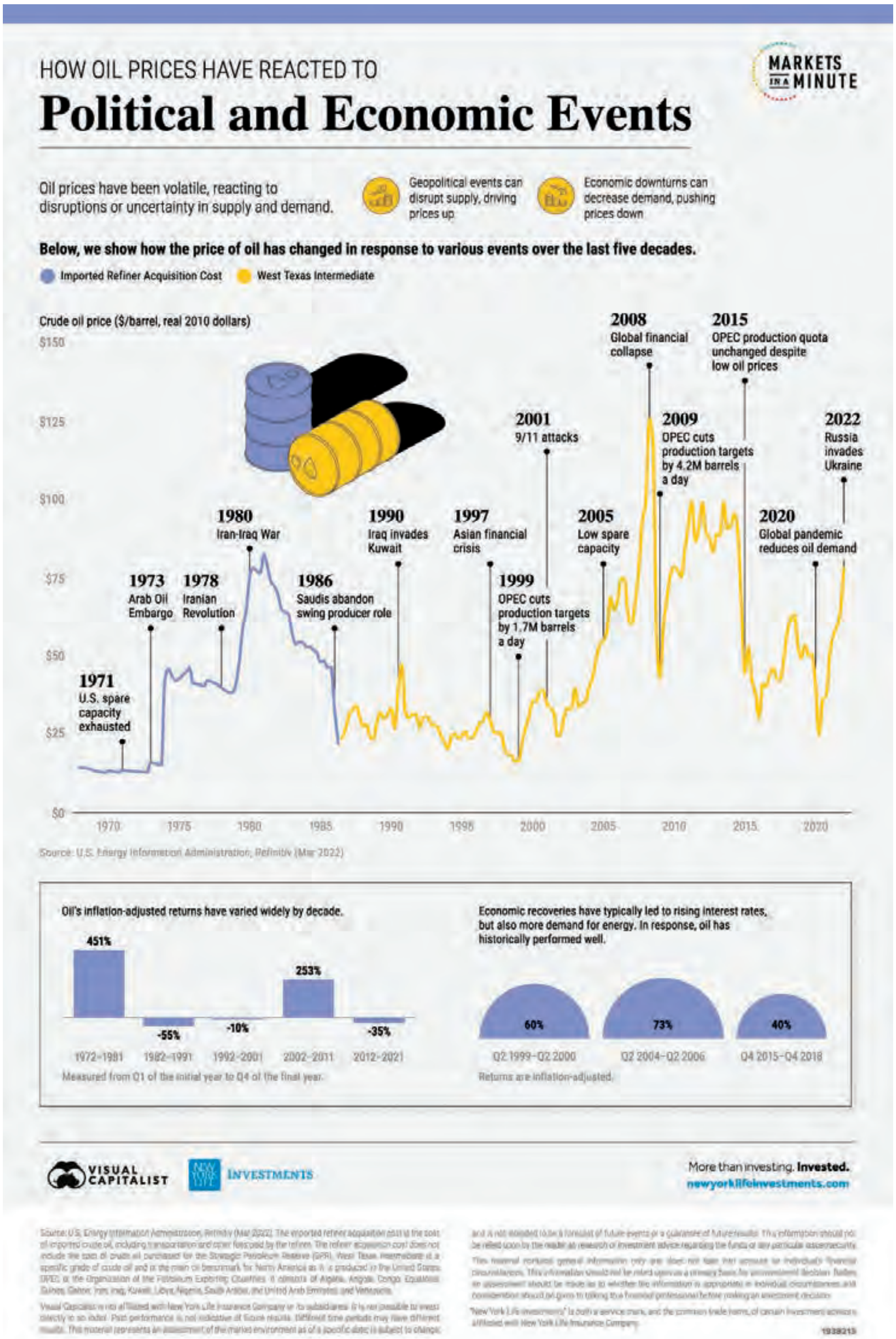
Sources:

1. https://www.bloomberg.com/news/articles/2022-03-08/bitcoin-bros-turn-hyperbolic-as-slump-from-highs-dents-appeal

Oil in Turmoil: A Look into the Past

by Joshua Brackeen, Summer 2022 Intern

As gas prices continue to bore holes into our pockets, each stop at the pumps feels more and more frequent, adding to the feeling that the period of volatility and turmoil we are in will never end. However, we might be able to find some comfort in hindsight. Over the past fifty years, the oil industry has shown a correlated response to major global events (see below infographic for more details).



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It is no secret that the current oil crisis stems from the war between Russia and Ukraine. Russia is one of the world's largest leading oil producers, and, after recent events, many countries have ceased transactions in disapproval of their actions against Ukraine, which has resulted in uncertainty in production. The fact of the matter is, even as prices soar, oil is a necessity in our daily lives. Now that oil demand is surpassing pre-pandemic levels and one of the largest oil producers in the world is out of the game, world leaders are scrambling to come up with solutions to create meaningful change.

However, if we look back through history, this is not the first time we've been here. The 1990 Iraqi invasion of Kuwait demonstrates a drastic one-year swing in oil and gas prices. Prior to that, the price of oil was at $26.72 per barrel, and by the end of 1990 the price had swung to $47.15, nearly doubling. The following year, a treaty was agreed to between Iraq and the UN, bringing the price back down to $30 per barrel, where it remained for five years.

Throughout the early 2000s, there were considerable production issues, growing energy demand from developing countries, and the lingering hostility in the middle east. This negative trend peaked during the summer of 2008 when oil prices reached $125.21 per barrel, an unheard-of price for oil, even today. In response, the world began to slow down; people began to stay home and do what they could to stay away from the pump. With society coming to a halt, oil producers and global powers had no choice but to adapt to the response of the public, and by February of 2009, the price of oil had fallen from $125 to $39. Oil giants had to adapt and reduce production by a whopping 4.2 million barrels a day.

Although different in their own ways, these historical events can compare to what we are experiencing present-day. Like 2008, the dramatic fall of oil demand that occurred during the global COVID-19 pandemic led to a drastic fall in prices in 2020. The Iraq-Iran war in 1990, and tension in the oil filled middle east, eerily compares to the oil panic that we've seen in the first half of 2022. As the saying goes, history doesn't repeat itself, but it rhymes. History can provide an outline, trends, and give us an idea of how markets react to certain pressures. Although we cannot time the recovery of oil prices, we can most certainly look at the history and know that there will be a tipping point that will force change.

Source:
https://advisor.visualcapitalist.com/historical-oil-prices/

Save the Date!

Already Gone (Eagles Tribute Band)
Concert Event at The Heights Theater
10/26/2022 - Doors Open at 6:30pm!

What Are I-Bonds?

by Grant Ball, Portfolio Manager

I-bonds have gained notoriety over the past several months with the rise of inflation. They are currently offering an annual return of 9.62% through October 2022. Let's dive in to how they work and what role they may plan in an investment portfolio.

I-bonds are inflation adjusted savings bonds issued by the Department of Treasury directly to the public. They combine a fixed rate and a variable inflation rate to return a composite interest rate. The fixed rate is locked in for the life of the bond and is loosely linked to the Fed funds rate. The variable inflation rate is based on changes to the Consumer Price Index (CPI) and is reset every six months. It follows that I-bond investors will have a new composite interest rate after each six months of holding.

Interest payments are compounded semi-annually and are added to the principal value of the bond, which is a unique feature when compared to traditional coupon bonds. For example, if you buy a $1,000 I-bond at today's rate of 9.62% and hold for one year (assuming constant inflation rate), your next interest payment will be based on a principal value of $1,096.20 at the new composite rate. The "coupon" payments are effectively reinvested in the I-bond.

Another special feature of I-bonds is that the composite rate can never fall below 0%. That means that I-bonds are not only a great hedge against inflation, but they are also a hedge against deflation. I-bonds ensure that the investor never loses ground in terms of purchasing power. The same cannot be said for TIPS (Treasury Inflation-Protected Securities). TIPS trade on the open market and tend to fall in price with other bonds in rising interest rate environments. The Vanguard Short-Term Inflation-Protected Securities ETF (VTIP), which tracks the Bloomberg U.S. Treasury TIPS 0-5 Year Index, has a -0.76% total return in 2022.

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I-bonds have a 30-year maturity but can be redeemed any time after the first year of holding. There is an early redemption penalty (prior three months interest) if you redeem an I-bond before the end of the fifth holding year. They are federally taxable with all accrued interest and principal returned to the owner when the I-bond is redeemed. All taxes are "deferred" until the tax year in which they are redeemed.

There are two methods available to purchase I-Bonds:

1) **Electronic** - Purchased directly from the Department of Treasury through TresuryDirect.gov. The I-bonds are held electronically in a TreasuryDirect.gov account and have an annual purchase limit of $10,000.

2) **Paper** – Purchased with tax refund dollars by completing an IRS Form 8888 with your tax return. Delivery is taken as a physical "paper" bond. Paper I-bonds have an annual purchase limit of $5,000.

The purchase limits are applied separately so each individual can buy up to $15,000 per calendar year, which can be restrictive for some investors.

While not for everyone, I-bonds make a case for both the short and long-term investors. Short-term investors will be looking for a great place to park cash that offers an attractive return and no risk of losing purchasing power. You can compare it to other short-term bonds, CDs, and money market funds. Longer-term investors will be seeking a diversifying asset that offers long term inflation protection and less risk than other marketable inflation hedges (TIPS, commodities).

Congratulations, Adam!

Congratulations to our newest Associate Adam Lawrence, CPA, who had his CPA swearing-in Ceremony on 6/25/2022!

What's In Your Red Folder?

by Kevin Nelson, CFP®, CDFA™

During the planning process we always encourage our clients to have an estate plan in place. You may have heard me say "if you don't have a will, the State of Texas has a will for you." The red folder idea takes this concept a step further.

Hopefully, you have estate planning documents such as a Will, Power of Attorney, Medical Power of Attorney, Directive to Physicians and HIPAA. If you don't know what any of those documents are, please reach out to us so that we can help you get those in place.

Those documents are just part of an effective plan I choose to call the "red folder". What is in the folder? Everything you want someone to know or do when you leave this world, whether expected, or unexpected.

We have created a comprehensive list to help you determine what items to put in the red folder; this will relieve your family when tough decisions need to be made.

A few of those items for your family to consider include location of estate planning documents, professional advisors, medical record location, logins and passwords, location of other important papers like car titles, a list of relatives and friends that should be contacted, and funeral service instructions.

Contact us for a print or emailed version of this list.