Trott Brook
FINANCIAL
A more balanced approach

Winter 2022

• Commentary by Jim Steffen, CFP®, President

There was the Great Depression, the Great Recession and now the Great Resignation. This phenomenon began early last year as American workers quit their jobs at a rate not seen in decades. Beginning last March 4 million workers each month voluntarily left their jobs. Roughly 3% of the workforce walked out the door; either to seek better opportunities or to begin their retirement. According to several surveys last year, 40-60% of employees said they were looking for a new job. And 88% of executives said they were experiencing higher turnover than normal.

The pandemic has allowed workers to rethink their careers, work conditions and long-term goals. Working from home produced schedule flexibility and a better work life balance for many. A "take this job and shove it" moment was created where people recognized that their jobs no longer matched their values and preferences. We've seen many Trott Brook clients recently decide to push up their retirement dates and submit their resignation. One reason for this, I believe, is the realization that "life is too short." Too many people live for the weekend. Weekends are short, weekends are busy and what if the weekend never comes?

I recently had a conversation about retirement with two men, one 51 years old and the other 89. The 51-year-old had recently sold his company and was looking forward to retirement and pursuing a long-list of hobbies and passions that had taken a back seat to his career. The 89-year-old quickly said the biggest mistake he ever made was retiring at 65. His work was his passion. He has spent the last 24 years wishing he had worked longer and held onto the feelings of pride, satisfaction, and happiness that he found at work. I was struck by the contrast of opinion and age. Everyone looks at work differently. Sadly, many are stuck in jobs they hate and only stay for the paycheck. Others are invigorated by their work and look forward to every day. My experience tells me that given the choice, if money were no object, the majority of people would take an early retirement rather than later.

In fact, some of our happiest clients are the ones that retired early. I love to help clients retire earlier than they thought was possible. With proper planning, changing a retirement age from 65 to 62 or from 62 to 58 is exciting. You can see the joy in their eyes and the stress and fatigue wash away as we change their paradigm and an "earlier" retirement comes into focus and becomes a reality. Let me give you four common denominators we see (and preach) to those with the goal of an early departure from the workforce.

It goes without saying that good savings habits are necessary to achieve financial independence. But specifically, in the years approaching retirement, ramping up liquid savings is critical. Those that have substantial cash balances when the paycheck stops have the greatest peace of mind and the most flexibility. Second is to be debt free. This is no easy task, but those that work hard and sacrifice to eliminate all debt, including the mortgage, sleep the best in retirement. Third, early retirement is possible for those that have a modest lifestyle and manageable expenses. It takes a huge nest egg to create a six-figure lifestyle for 40 years in retirement. However, those with monthly expenses in the $5-6,000 range can call it quits earlier. And fourth, a little part-time income goes a long way. Not only does it provide some extra spending money but also provides a social outlet and fills some hours during the day. Be it contract work, consulting, or Home Depot…it tends to fill the gap until Social Security and (if you are lucky) pension checks begin.

So, if you are part of the Great Resignation or thinking about joining the movement, I hope you are doing so for all the right reasons. If I can help you think about what is possible, please let me know.

• Commentary by Ted Erhart, CFP®, Chief Investment Officer

As I write this in early January, stocks are off to a poor start which isn't very surprising. If you looked back as of year-end 2021, the 5-year average annual return for stocks in the US was something like 20%. We've not seen a period like this since the late 90s tech boom. This year, the markets have gotten choppy and are down as we've seen long term interest rates on the rise.

With inflation running at the highest level in 40 years, market expectations have shifted toward rising rates. The Federal Reserve has also moved in this direction by virtually promising to raise short-term rates by the end of March and scale back its bond purchases. (If you want to understand bond purchases, see my November 11th video on our website).

Why are stocks so sensitive to moves in interest rates? This is something I've been talking about in recent months. There are many reasons, but we'll just touch on a few of the big ones.

First, it's important to understand that assets compete against each-other for investor's money. For example, if you look back to the "good-old-days" of the late 90s and early 2000s, an investor could park their money in government bonds and earn 5-7% with no market risk. In today's world, that is unthinkable with virtually all government bonds paying less than 2%. With rates being this low, other assets like stocks and real estate look relatively better to any investor seeking a return in-excess of 2%. In other words, bonds are providing little competition for investor's money.

This, in-turn, puts upward pressure on things like stocks and real estate as money that normally would be in bonds seeks a return elsewhere. It is a very powerful effect that without question has been one major contributing factor to a robust stock market in recent years.

Furthermore, as interest rates decline, so too does the cost of debt. Therefore, companies that use debt, all things equal, experience increasing profits as their borrowing costs fall. A more profitable company is fundamentally worth more money which gets reflected in rising stock prices.

Additionally, as borrowing costs go down for consumers too, they suddenly find themselves with extra cash and more buying power. When consumers spend their extra cash-flow, this in-turn makes its way to businesses and even more profits. But it doesn't end there!

As the forces of low interest rates push real estate prices up, consumers suddenly find themselves with newfound equity to borrow against. To put some numbers around this, consider the median US home price which was about $275,000 in January 2020 (just before the pandemic). The median price has jumped nearly $100,000 over the last two years. That is REAL money! And consumers have been tapping it to make home improvements, buy cars, etc. It's really no wonder we've experienced such a robust economic recovery and all the supply chain shortages.

However, it's important to understand that as interest rates rise, all the effects I just described work in reverse. The Federal Reserve knows this which is why they're taking such a gradual approach. The trick is reining in a very hot economy without creating major market turmoil or a significant economic slowdown. It's going to be no easy task and I expect much more challenging market conditions in the year ahead.

SAVE THE DATE…

18th Annual TBF Benefit Bash
August 25th featuring Mick Sterling

3601 Thurston Avenue, Suite 102 | Anoka, MN 55303 | 763.213.1000 | www.trottbrook.com

Personal News

Jim & Lisa Steffen

Six months ago the Steffen family headed to Lynchburg, Virginia. Lauren was starting her last semester and Tommy was starting his first at Liberty University. We spent a few days getting Lauren settled in a house off-campus and getting Tommy moved into the dorm. If saying goodbye to one child was tough, saying goodbye to two was ten times harder. We took comfort knowing they were together at a great school and excited for their new opportunities. Just a few weeks later, we packed up the RV and headed west on a month-long adventure that would end in Cave Creek, Arizona. This trip was on our bucket list for many years and it did not disappoint. The freedom of being on the open road and the anticipation of camping at a new location every few days was incredible. Just a few highlights: ATVing and biking in Spearfish, SD, flyfishing and elk hunting in Alpine, WY. Horseback riding and hiking in Three Forks, MT and Salmon, ID, visiting all the amazing National Parks in Utah, and biking the rim of the Grand Canyon. A few weeks after arriving in Arizona, we had a pretty big scare. Lisa came down with COVID and double pneumonia which led to her lung collapsing. She had two different hospitalizations and about a six-week recovery. We are so grateful for all the thoughts and prayers during that difficult time. Thankfully she was feeling better by Christmas and we were able to celebrate in Arizona with both kids. Having 3-4 weeks together as a family was priceless…as the kids grow, those opportunities will be less and less. Pickleball, quail hunting, hiking, ATVing and card games filled the day. Congratulations to Lauren, who graduated in three ½ years and is now back in Lynchburg working for Liberty in their events department. Tommy is moving from generals to some tougher business courses. Lisa and I will split time between Minnesota and Arizona this winter and look forward to bringing the RV home in April!

Ted Erhart

At the Erhart household we continued settling in to our "new" place, this being the second summer. Moving and unpacking is a lot of work. Add two kids under age 6 and you really have your hands full. But we keep making progress. I'm finally starting to get my workshop set-up and organized. Also had a chance to sell or get rid of a lot of stuff that was accumulated over the years as we unpacked. After doing very little horse riding activities in 2020, my wife made it to a handful of shows this summer. My oldest daughter, Avery, is getting more proficient every year. Perhaps the biggest event of the summer was a surgical procedure for my two-year-old. Just before birth, the doctors noticed one of her kidneys appeared enlarged. After taking a wait-and-see approach, things were not improving as we hoped so action was needed. The short of the story is there was a partial obstruction that wasn't allowing one kidney to drain freely. We had some ups and downs along the journey but when it was all said and done, the procedure was successful and the kidney is showing signs of improvement. I took advantage of the dry weather and was able to knock out some projects up at the family property. Unfortunately, this fall I didn't make it out hunting with my dog as much as I would have liked. There's only so many open weekends and I used most of them up trying to get outdoor projects done before winter. I can report that we did complete a major goal for 2021, that being potty training for my youngest, Julia. We officially retired diapers in December. It was a great way to end the year.

Nikki Cellette

2022 in Minnesota has certainly started out as a cold one! I'm dreaming of warm weather and an ocean as I look at the snowbanks and frozen pond from my office window. Thinking of my pleasant memories from October in Marathon, Florida. The kids and I ventured down for a 5-night vacation with a wonderful friend of ours and her two kids. No dads were allowed this time! It was an escape to the tranquil waters of the Florida Keys where we fed Tarpon, visited Bahia Honda State Park, chartered a boat to spend an amazing day at a sandbar (of course my favorite), watched the manatees, saw "Key" deer for the first time and the boys even caught a shark off the dock! For those who might not be familiar, a "Key" deer resembles a white-tailed deer in appearance but is only an average of 30 inches tall at the shoulder. The deer easily can swim between islands and only reside in the Florida Keys. They were the cutest little darn things and even allowed us to approach them within 3 feet! Zach and Brooklyn are doing great. Brooklyn has started the 2nd semester of her freshmen year at high school and is completely exhausted from 6 nights a week of hockey. The positive is she can now drive me as she has her driver's permit. Watch out if you are in the area of Ramsey or Elk River! Zach is pursuing his entrepreneurship in investments and loves learning as well as mentoring. George and I will be celebrating in May our 25th wedding anniversary! We officially have been together for more than half our lives. Wow… it's truly incredible to think of everything we've been through together and how quickly time went by! So thankful for him and our two children! Give me some feedback…should we plan a 25th anniversary getaway? Any ideas on destination??