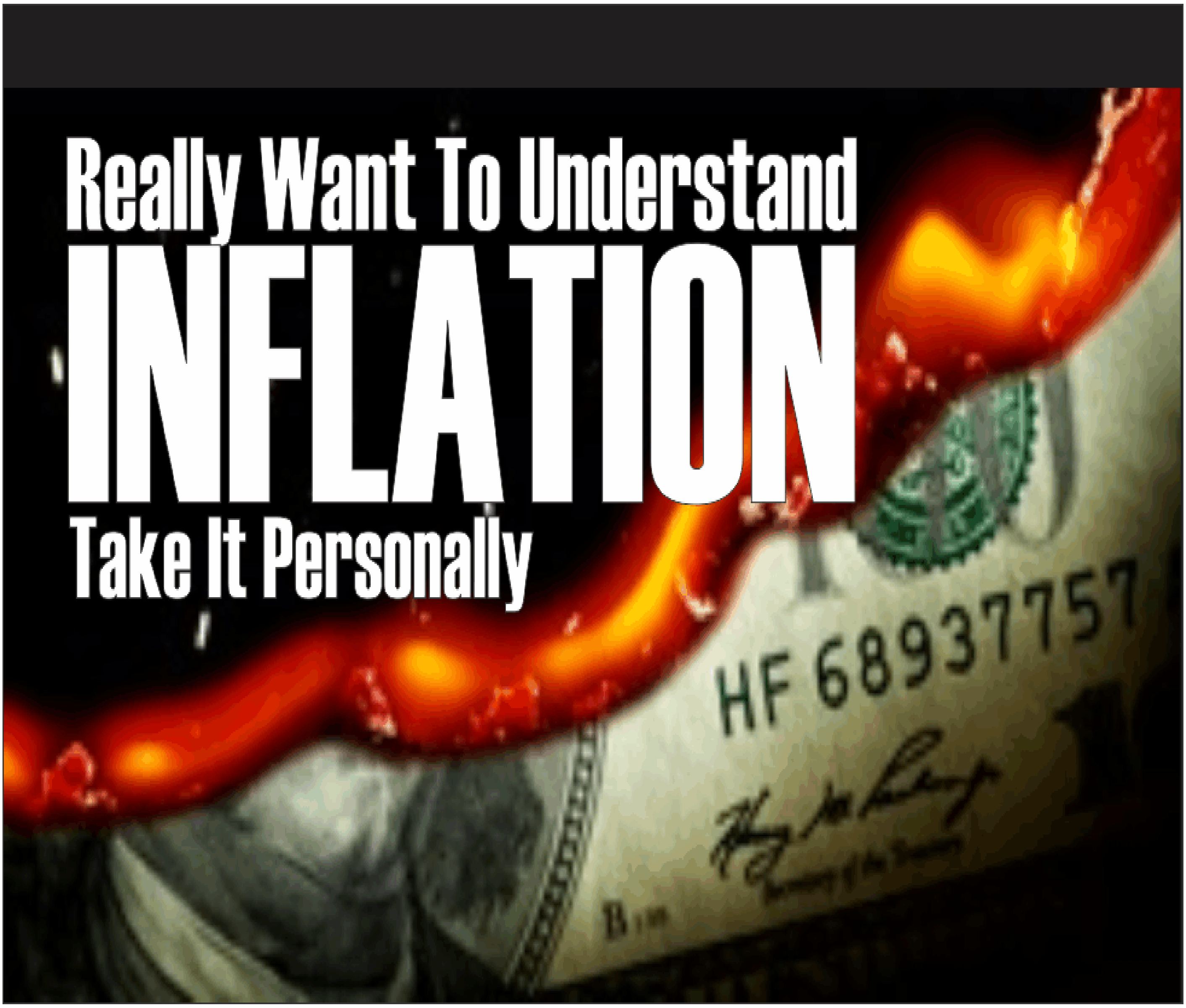
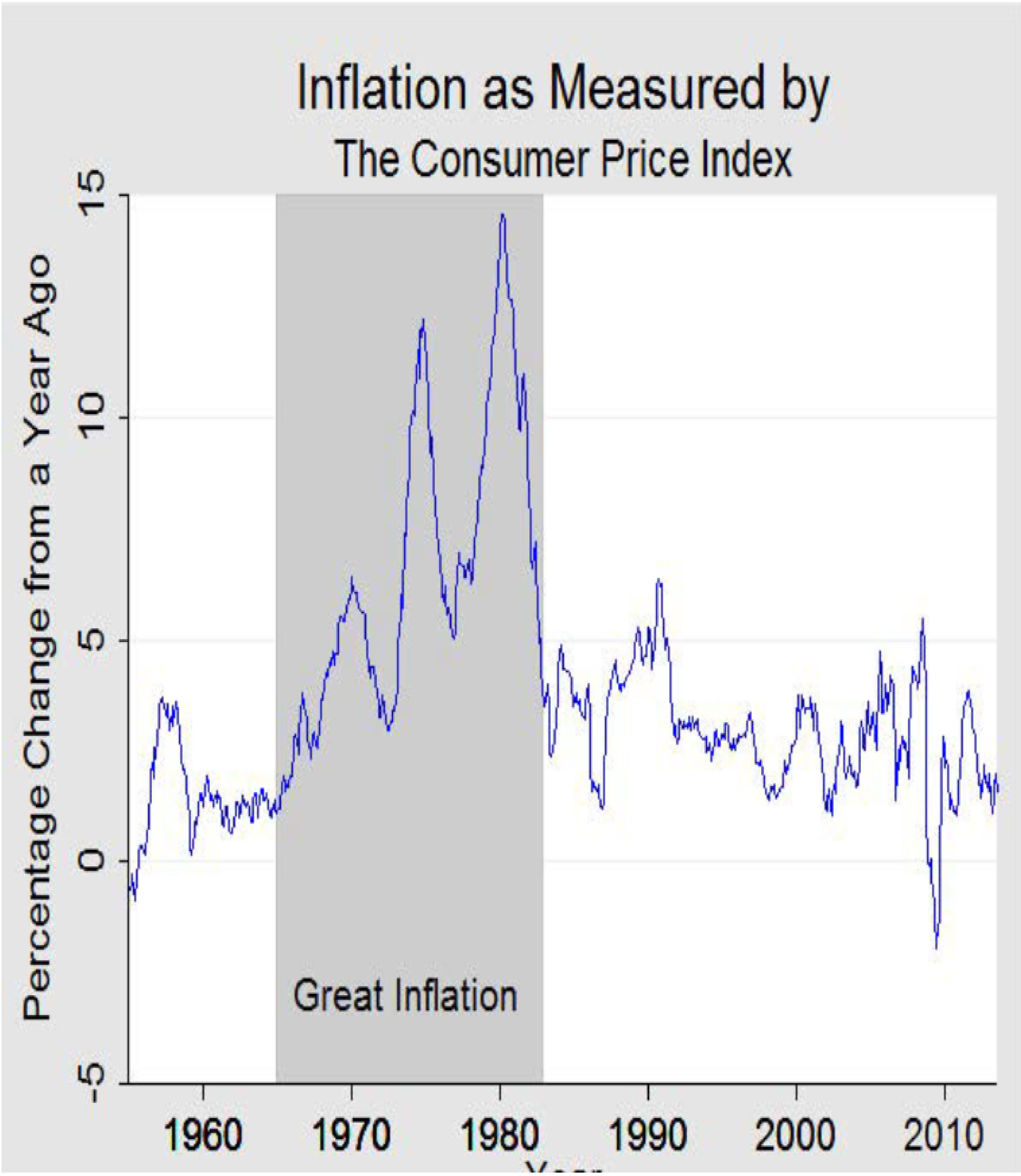


Take It Personally It was a real electronic beauty. One of the finest CB radios on the market. Metal smooth around the edges. Simulated woodgrain; swirly, rich blends of chestnut brown and tan leather-hide. Shiny chrome knobs and a backlit power and modulation meter with a needle-like instrument that swung like a pendulum from red to green depending on whether you were receiving or transmitting. In 1976, my paternal grandmother handed a new model over to a diminutive gray-haired man with a face etched in permanent scowl. The goal was to convince him, the manager, to consider her grandson (me) for a job as a ?stock boy,? at the urban supermarket ?C-Town,? that was located near Kings Highway and McDonald Avenue in Brooklyn. Ironically, I work with stocks today; as a pre-teen, stock meant long supermarket aisles choked with piles of cardboard cartons, and wooden (yes wood), crates that stored metal coffee containers, boxes of Kellogg?s cereal, white, red labeled Campbell?s soup, and cans of cat and dog food. Granted, it was strenuous physical work, but I was responsible for two long aisles ? from pasta to coffee, pet food to canned soup, and took pride in how neat (all labels uniform, facing out), and well-stocked my shelves were. I guess you can say I was obsessed. My father owned two CB radios/car stereo stores then, ?The Communication Hut,? in Merrick and Bellmore, New York. Grandma was able to cajole dad into the CB radio bribery caper. My love for all things radio began with Citizen?s Band and pre-dawn New

York AM radio. At the time, the CB, a defunct brand named Teaberry, sold for $189. Compute for today?s dollars? $838 bucks. A lofty sum. You can pick up a new CB radio for $59. Listen, except for collectors like me, the demand for CB radios is weak to say the least. Although, I lament often how much fun CB radio was compared to social media outlets like Facebook, today. Well, what about color televisions? We all love television, right? **In 1977, a Sylvania with a 25-inch screen sold for $850 (a whopping $3,581 today adjusted for inflation). At Best Buy, I can pick up a 32? LED for $180.** Inflation is a popular and personal topic. Whether it?s low or high, to most of us inflation is always the elephant in the room or the boogieman in the closet. A real sore point for consumers for as long as I can recall. In the 1970s, inflation was indeed a formidable foe for many American families and a real standard-of-living destroyer for my financially-stressed household, as you can see in the chart.



Money velocity or the turnover of the money supply, has collapsed post-financial crisis, confounding economists; in the 70s, it was a different story. Generally, an increase in the money supply should lead to price increases as more money chases the same level of or less goods. In the 70s, there were two or three varieties of soup and a couple of brands of paper towels. This afternoon I can walk through Kroger?s and be flummoxed by the competition and variety of choices available. It makes me wonder how consumers don?t freeze up from confusion and walk out of a

Eight Components Of CPI - YoY % Change						
Name	Weight	8/1/2017	9/1/2017	10/1/2017	11/1/2017	12/1/2017
Food & Beve	14.65%	1.80%	2.09%	2.26%	2.44%	2.88%
Housing	42.63%	6.13%	5.85%	5.86%	5.91%	6.06%
Apparel	3.03%	-1.72%	-1.28%	-1.73%	-2.94%	-3.07%
Transportatio	15.32%	4.32%	8.26%	5.32%	7.98%	6.04%
Medical Care	8.54%	7.49%	6.34%	6.91%	6.88%	7.39%
Recreation	5.66%	0.76%	0.94%	0.96%	0.68%	0.78%
Education &	6.98%	-4.61%	-4.00%	-3.49%	-3.38%	-3.41%
Other Goods	3.18%	8.21%	7.56%	9.72%	9.31%	7.66%
Energy		10.97%	18.55%	11.66%	17.91%	12.97%
Headline CPI		1.93%	2.23%	2.05%	2.23%	2.12%
Core CPI		1.69%	1.69%	1.77%	1.71%	1.77%

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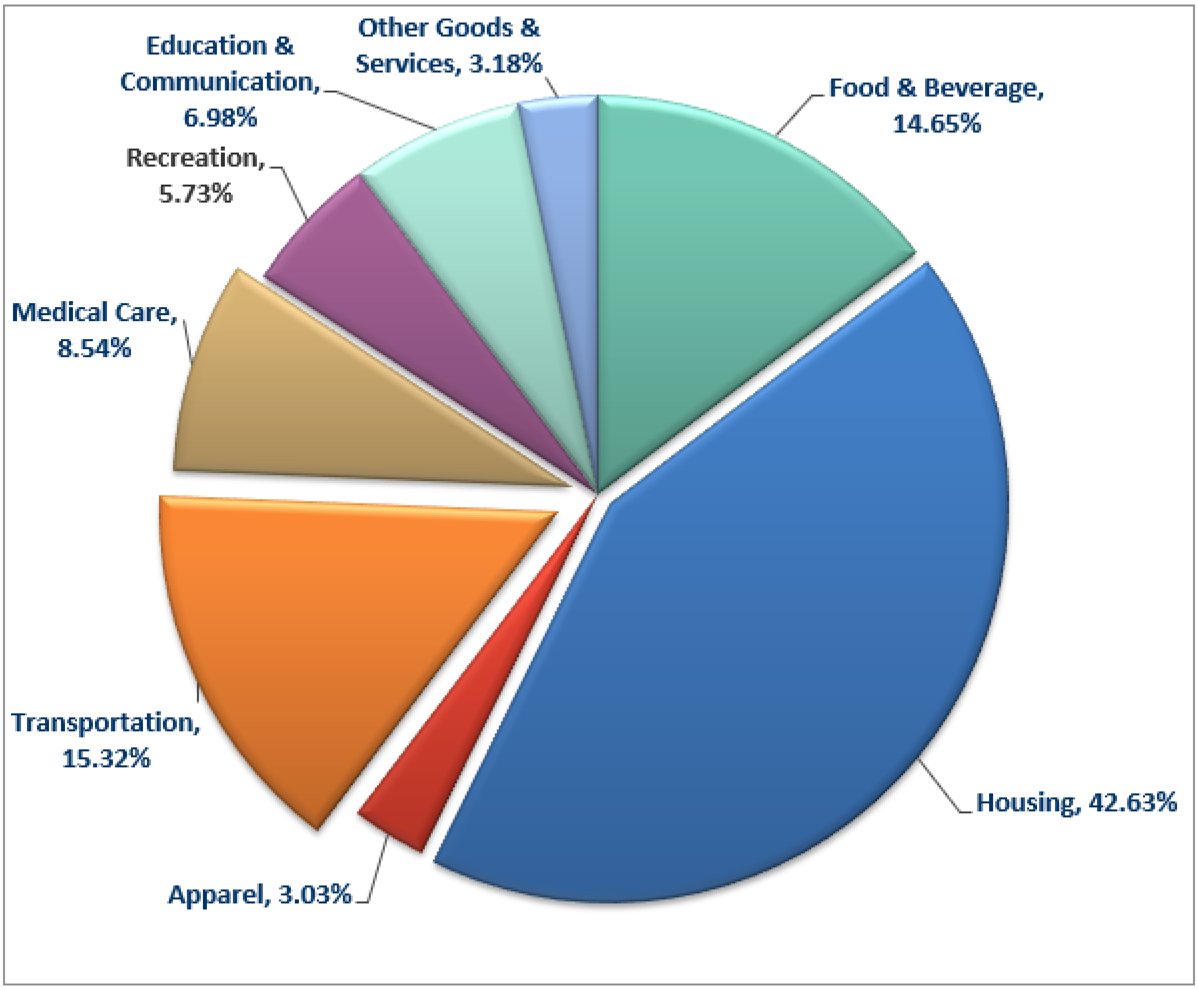

To piggyback off Michael Lebowitz?s article [The Only Benchmark of Wealth,](#) it?s important for investors when it comes to financial planning, to understand how inflation affects not only their wealth, but their emotions and behavior. Here are several points to consider. **Inflation is personal to and differs for every household**. My household?s inflation rate may differ from yours. Thanks to an inflation project undertaken by the Federal Reserve Bank of Atlanta, there?s now a method to calculate a personal inflation rate. A smart idea is to compare the results of their analysis to the inflation factor your financial professional employs in retirement and financial planning. Instruct your adviser to complete an additional planning scenario which incorporates your personalized consumer price index and see how it affects your end results or outcomes. The bank has undertaken a massive project to break down and study the elements of inflation along with the creation of a myCPI tool which captures the uniqueness of goods that individuals purchase. Researchers estimate average expenditures using a calculation which incorporates various cross-demographic information including sex, age, income, education and housing status. The result is 144 different market baskets that may reflect a closer approximation to household?s personal cost of living vs. the average consumer. It?s easy to use and sign up for updates. Try it! **My personal CPI peaked in July 2008 at an annualized rate of 5.2%. Currently, it?s closer to 1.2%. For retirement planning income purposes, I use the average over the last decade which comes in at 2.1%.** The tool can help users become less emotional and gain rational perspective about inflation. Inflation tends to be a touchy subject as prices for *everything must always* go *higher* (which isn?t the case). I?ve witnessed how as a collective, we experience brain drain when we rationalize how inflation impacts our financial well-being. It?s a challenge to think in real (adjusted for inflation) vs. nominal terms. I hear investors lament about the ?good old days,? often where rates on certificates of deposit paid handsomely. For example, in 1989, the year I started in financial services, a one-year CD yield averaged 7.95%. Inflation at the time was 5.39%. After taxes, investors barely earned anything, but boy, those good old days were really somethin? weren?t they? We?re inflation experts because it co-exists with us. It?s an insidious financial shadow. It follows us everywhere. We just lose perspective at times as the shadow ebbs and flows, shrinks and expands depending on our spending behavior. Interestingly, as humans, we tend to anchor to times when inflation hit us the hardest. At C-Town, one of my responsibilities was to update prices (usually higher), on canned items. Not an easy task. You see, back then, every stock boy (not trying to be a Neanderthal here, stock girls weren?t a thing as they were employed mostly as cashiers at checkout in front of the store), was equipped with a heavy metal ?stamper,? that was holstered by leatherette holders, attached to our belts when not in use. I kid you not. We resembled urban-western gunslingers with those contraptions. A stamper was equipped with a long handle to ensure a firm grip. Forged to the handle was a self-contained printing mechanism that held a soaked pad of deep-purple ink and a row of 6 horizontal rubber strips of numbers and symbols that a user was able to manipulate with a couple of fingers, sort of like a series of ink-laden dials. A stocker set the price he wanted, followed by the symbol for dollars or cents, applied downward pressure on the handle which forced down the mechanism?s rubber numbers to hit the ink and stamp the top of a can or whatever we wanted to stamp. Frankly, it was a messy ordeal. My left thumb and middle finger were stained purple at least through 1980! In the mid-70s, pages of price changes came in weekly. It was the inevitable nature of the ominous inflation beast. Every can of tuna, cat & dog food, coffee (and some cans were 3 times the size of what?s available today), had to be wiped clean of current prices and stamped with fresh numbers that made the elderly patrons in the neighborhood groan loudly from the aisles. Several customers possessed an eerie inflation spider sense and knew to stock up before price-change day. So, I understand the intimate journey with inflation. On the other side of the spectrum, deflation was an outcome of the Great Depression. Simply, the overall price levels of goods and services collapsed by 25% with commodity or farm goods-related product prices declining more to compete for whatever aggregate consumer demand remained. If you were lucky enough to remain employed and not leveraged into the stock market, it was like receiving a 25% increase in pay. Several economists argue that the lingering effects of the Great Depression including 25% unemployment, could have been assuaged if employed workers were receptive to a decrease in wages to match prices. In other words, workers had a difficult time comprehending that in real, inflation-adjusted terms, a cut in pay would not have affected their ability to purchase goods and services. Obviously, this is an overly simplistic explanation to illustrate a point. There were multiple factors negatively affecting labor such as the deflation of risk asset valuations (like stocks), and the negative impact of deflation as it increased the cost of servicing household debts. The goal is to think rationally when it comes to inflation. MyCPI is a good start to understanding how pricing pressure can affect a household. The comparison of personalized CPI to your broker?s financial planning input should at least spark enlightening discussion between you and your adviser. **Plan for inflation in retirement, but you may be surprised by what affects your spending.** I love westerns, especially *"The Big Valley."* Rich story lines and robust acting by Barbara Stanwyck as the matriarch of the Barkleys, along with Lee Majors and Richard Long as members of a California ranching family, have captivated me for years. Your spending in retirement is mostly a big valley. I?ll explain. I partner with clients who have been in retirement-income distribution mode for over a decade. •In other words, they are re-creating paychecks through systematic portfolio withdrawals and Social Security retirement benefits. Although we formally planned for an annual cost-of-living increase in withdrawals, rarely if at all does this group contact me every year to increase their distributions! There?s a time series in retirement where active-year activities, big adventures conclude, and retirees enter the big valley of level consumption. I call it the *?been there done that*,? stage where a retiree has moved on; the overseas trips have been fulfilled and enrichment lives a bit closer to home. Retirees move from grandiose bucket list spending to a long period or valley of even-toned, creative, mindful endeavors. It?s a sweet spot, an extended time of good health; so, healthcare is not so much an inflationary or heavy spending concern. The big valley stage is just a deeper, relaxed groove of a retirement lifetime. A thorough analysis I refer to often because it reflects the reality I witness through clients, was conducted by David Blanchett, CFA, CFP• and Head of Retirement Research for Morningstar. The research paper, *"Estimating the True Cost of Retirement,"* is 25 pages and should be mandatory reading for pre-retirees and those already in retirement. David concludes:

> *?While research on retirement spending commonly assumes consumption increases annually by inflation (implying a real change of 0%), we do not witness this relationship within our dataset. We note that there appears to be a ?retirement spending smile? whereby the expenditures actually decrease in real terms for retirees throughout retirement and then increase toward the end. Overall, however, the real change in annual spending through retirement is clearly negative.?*

David eloquently defines spending as the ?retirement spending smile.? As a fan of westerns, I envision the period as a valley bracketed by the spending peaks of great adventures on one side, healthcare expenditures on the other. Hey, I live in Texas. This analogy works better for me. In comprehensive financial planning, it?s prudent to be conservative and incorporate an inflation rate to annual spending needs. Medical costs affect retirees differently. Unfortunately, it?s tough as we age to avoid healthcare costs and the onerous inflation attached to them. Thankfully, proper Medicare planning is a measurable financial plan expense as a majority of a retiree?s healthcare costs will be covered by Medicare along with Medigap or supplemental coverage. Unfortunately, many retirees are ill-prepared for long-term care expenditures which are erroneously believed to be covered by Medicare. Generally, long-term care is assistance with activities of daily living like eating and bathing. **At Clarity, we use an annual inflation factor of 4.5% for additional medical expenses *(depending on current health of the client)*, and the cost of long-term care.** David suggests an alternative inflation proxy for older workers. The Experimental Consumer Price Index gs

Table 2: Different Consumer Price Indexes

	Expenditure Weights			from CPI-U	
Expenditure group	CPI-U	CPI-W	CPI-E	CPI-W	CPI-E
Apparel	3.5%	3.6%	2.4%	0.1%	-1.1%
Education and communication	6.7%	6.7%	3.8%	0.0%	-2.9%
Food and beverages	15.0%	15.7%	12.8%	0.7%	-2.2%

makes tremendous sense for the CPI-E to attach greater weightings to medical care and housing. Generally, the share of expenditures on medical care is double that of the CPI-U or W populations. Your financial partner should be adjusting healthcare inflation accordingly in your financial plan. As the U.S. economy heats up and pricing pressures ensue, the topic of inflation is going to gain traction and grab headlines when compared to recent years. As we have a difficult time processing the topic objectively (there?s always purple ink on our fingers so to speak), it?ll be crucial for financial partners to be pragmatic and assist you with the interpretation of inflation on your household?s terms. **Because inflation is indeed personal.** The objective is to manage ?*inflation-phobia,?* accordingly to ensure that financial planning reflects reality. Your reality.