S.F. EHRLICH
ASSOCIATES, INC.

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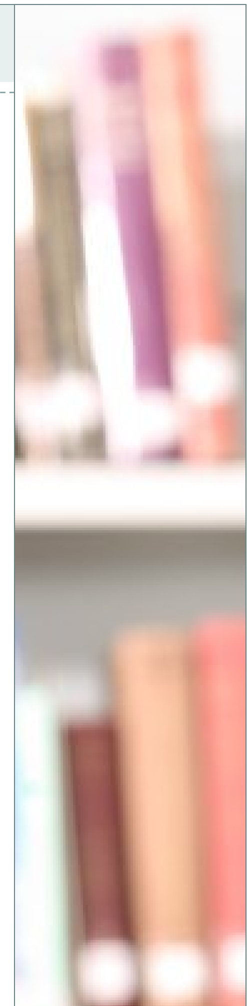

Managing Your Money

STAN'S WORLD—EMBRACING CHANGE (AND PASTRAMI)

Since moving to Westfield more than 15 years ago, Pearl and I have celebrated New Year's Eve the same way. We start with elegant hors d'oeuvres (think cocktail franks), attend a concert at the high school by the New Jersey Festival Orchestra, and conclude with a dinner that would be appreciated by any transplanted New Yorker.

And what does a New York City emigre enjoy? Pastrami, coleslaw, potato knishes, green pickles, deli rye, and Dr. Brown's soda. If you weren't born and raised in the City, I can't explain this to you, but my mouth is watering as I'm sitting here typing. Trust me; this is my heavenly way to end one year and start the next. (In truth, this is my heavenly way to end a Tuesday and start a Wednesday. From a cardiac perspective, however, once a year is more than sufficient.)

This year, the Omicron variant of COVID is running rampant in New Jersey, so we decided to pass on the symphony. Rest assured, I did, however, make it to Livingston Bagel shortly after its 7 am opening time. I can still order pastrami through my N95 mask. Unfortunately, it seems like I'll be ordering through my N95 mask for a while.

As a financial planner, the consequences of the pandemic pose more than a passing interest because there are potential ramifications to clients. Specifically, will those of us who are doing less and spending less continue to do so? If that occurs, do we need to save as much to retire?

Or, is this merely a 21, 24, 36-month blip that will eventually end with a tsunami of buying as we've seen in the housing and auto sectors? Will workers have visions of early retirement with scaled-down lifestyles as they relocate to less expensive regions of America?

STAN'S WORLD—EMBRACING CHANGE (AND PASTRAMI) (CONT'D)

Think of all the new businesses that have (and will) evolved to carry us through the pandemic and beyond. In and around Westfield, for example, there is a company called Wonder that prepares your pre-ordered dinner in their on-demand gourmet food trucks. The truck parks in your driveway so the chef can cook your meal, carry it through your front door, and place the food directly on your dinner table. Each Wonder truck prepares a different type of food, which can all be ordered through the Wonder app.

Based upon the number of Wonder trucks that I've seen, it looks like the business is growing nicely. That's not surprising when you consider that the CEO is Marc Lore, the former CEO of Walmart.com. (Lore sold his previous start-up, Jet.com, to Walmart for $3.3 billion, so start-up capital is probably not an issue.) I suspect you'll hear a lot more about Wonder in the months ahead.

If you're entrepreneurial, the possibilities for new businesses are endless. The opportunities have probably always been endless, but technology is driving change at a breath-taking pace. And there are many more changes unfolding.

By example, I recently spoke to an employee of a large company who is currently working from home, along with thousands of her fellow employees. She told me her company is bringing staff back to the office in rolling shifts, beginning in January. She's been with the company for years (though she's only 34) and she told me she's never going back to the office. She said she's as productive at home as she is sitting at her office desk, and she's not going to subject herself again to the expense and time of commuting.

When I asked what she planned to do if they compel her to return, she didn't have a concern in the world about what's next. She sees endless possibilities for someone with her skillset (financial technology). As she knows job prospects in her field far better than I do, I suspect she's right. If this young lady is representative of her generation, that means millions more thirty-somethings in white-collar jobs may be prepared to do the same.

At relatively young ages, a whole generation may have discovered there are things that are more important than long commutes and endless meetings. That begs corollary questions: What will the office workplace look like in 2022 and beyond? What happens to all those new office buildings scattered around New York, Miami, Los Angeles, Austin, etc.?

As we move into 2022, things are changing before our eyes, with potentially profound implications for all of us. Want more proof? Did you ever think you would sit at your kitchen counter and have a Zoom call with your doctor?

STAN'S WORLD—EMBRACING CHANGE (AND PASTRAMI) (CONT'D)

Embrace the changes. Learn to adapt to as much of the new technology as you can. (Here's a tip: Use YouTube videos to learn how to do almost anything.) Technology is making our lives easier, and making us all more efficient. Think of what you'll do with the free time as a Roomba rolls around your house. (Oh, come on; Google it!)

That's a lot to ponder, so I'm going old school and surrendering to a primal instinct. I've got some leftover pastrami, deli rye, pickles, and a potato knish. Between my sandwich and my NordicTrack bike, bring it on 2022.

WHERE DID ALL THE WORKERS GO?

In between COVID surges, you may have noticed that it's getting harder and harder to find salespeople in stores or staff in the supermarket. When was the last time you called an 800# and had the call answered by a human in a reasonable amount of time? In other words, while you may be itching to help the economy by spending some of your hard-earned money, you may have noticed there are fewer people around to take it.

When the pre-COVID labor force didn't return in full after the first surge, some analysts concluded that enhanced unemployment benefits kept workers at home. They speculated that when enhanced benefits ended, the workforce would quickly return to normal. They were wrong, and you don't have to read the news, watch the news, or walk by storefronts with "Help Wanted" signs to know that.

There are many reasons why we currently have a labor shortage. When, or even if, the shortage will soon be alleviated is subject to even more conjecture.

First, COVID appears to have forced many older Americans into early retirement. As noted in CNN.com[1], "Last month, there were 3.6 million more Americans who had left the labor force and said they didn't want a job compared to November 2019….Older Americans, ages 55 and up, accounted for (a) whopping 90% of that increase."

The reasons why such a large number of seniors left the workforce are driven by both economics and health concerns. Fears of getting COVID certainly caused many to throw in the towel, but so did their improved economic situation. A rising stock market, a vibrant housing market, and increased savings (partially due to lockdowns and fewer avenues for spending) all enhanced the economic well-being of many older Americans. Unless their personal finances change, they're unlikely to come back. (In the same article, Goldman Sachs notes: "Nearly 70% of the 5 million people who left the labor force during the pandemic are older than 55…").

WHERE DID ALL THE WORKERS GO? (CONT'D)

As for younger, lower-income workers, the data reflects they also have been impacted by enhanced savings. When we went into lockdown in April 2020, the personal savings rate (the amount of money saved from each paycheck) went from 8.3% to 33.8%. (It's now back to 7.3%.)[2] For some households, having an extra few thousand dollars in savings – easily accumulated between three rounds of stimulus and a suspension of student debt payments – may have provided all the financial incentive needed to postpone re-entry into the labor force. They're likely to come back, though not necessarily to their former jobs.

As competition for labor has heated up, companies are offering higher salaries and more benefits. Why would anyone return to a lower-paying position when there is more money to be found from a competing company down the street? (With so many people working from home, the phrase 'down the street' is now a relative term. If you're working from home, does it matter if the office is 2 miles or 200 miles away?)

And let's not forget the number of families who lost childcare or whose children were put into remote schooling. Many families that used to have two working parents dropped down to one. As circumstances change, the second parent may return to the labor force.

Lifestyle decisions have also impacted the labor force. "Americans are also quitting their jobs in record numbers – more than 4 million each month since July – but much of that quitting is happening among young people who are leaving for other jobs or better pay. They're not leaving the workforce entirely." Some of these lifestyle changes have even fueled a boom in housing markets in certain parts of the country. When prices in New York City cooled after COVID hit, prices in the Hudson Valley – just north of the city – skyrocketed.

The takeaway is understanding that dysfunction in the workforce will continue until it reaches a sort of equilibrium. For now, job listings (and those "Help Wanted" signs you see in storefronts) far outnumber comparable job seekers. Thus, when you read that there are X million people looking for work, and there are also X million jobs available, don't assume everything is back to normal. Due to what has occurred over the past two years, people looking for work are demanding higher salaries, better benefits, and improved working conditions. Those employers that don't respond accordingly will continue to be short-staffed and/or face high employee turnover. As a consumer, don't expect customer service to improve any time soon.

INFLATION: TIME TO WORRY?

Writing in the NY Times Business section[3], Jeanna Smialek provided a brief yet thorough treatise as to what causes inflation and how it might affect us over the near term. Considering that articles about inflation have been widespread of late, it might be useful to understand how it might impact both your purchasing power and portfolio

What causes inflation? "In the short term, high inflation can be the result of a hot economy – one in which people have a lot of surplus cash or are accessing a lot of credit and want to spend. If consumers are buying goods and services eagerly enough, businesses may need to raise prices because they lack adequate supply. Or companies may choose to charge more because they realize they can raise prices and improve their profits without losing customers." When COVID struck, a lot of manufacturing facilities closed, and reopening them has caused supply chain problems as they attempt to ramp up production. The combination of limited supplies and pent-up demand by consumers have also contributed to significant price increases. (It's the classic Supply and Demand curve from Economics 101.) The auto industry is just one example; not only did a computer chip shortage crimp production, but consumers rushed out to buy cars.

Where is inflation headed? There is some speculation among economists that inflation will slow as supply lines become more efficient, with more goods on the shelves leading to lower prices. While labor costs have gone higher for both blue and white-collar jobs, many of those pay increases have been factored into pricing. It's unlikely that labor rates that quickly moved to $15-20/hour will take another dramatic leap anytime soon. While it's likely that inflation will slow, there's always the possibility that rising prices will force still higher labor costs (followed by even higher prices), a cycle that never ends well.

Is inflation bad? The answer depends on where you sit. For retirees on fixed incomes, or families with modest incomes, low inflation means dramatically smaller losses in spending power. (Loss of spending power is ultimately the true definition of inflation.) If you're an investor, retired or otherwise, low inflation also results in less income on the bond side of a portfolio. When publicly traded companies borrow money to expand, they sell bonds to investors to raise capital. Low inflation means low interest rates to those bond-holders, and it's those bonds that comprise the bond funds in portfolios. Higher inflation would translate into additional income. In that regard, modest inflation would be welcome for investors. Even if you're a wage earner who just had a significant increase in hourly wages, you're still ahead if the increase in your salary exceeds the increased cost for goods that you buy.

INFLATION: TIME TO WORRY? (CONT'D)

How does inflation affect the stock market? Through the end of November 2021, the rate of inflation was 6.8%, the highest rate in almost 40 years, driven mostly by increased labor costs and a supply shortage. In response, the stock market has continued it's steady upward march, assuming supply shortages will be eliminated and labor costs will mitigate. Of course, if the rate of inflation doesn't slow, the outlook for the stock market could turn down. "Really high inflation typically spells trouble for stocks…Financial assets in general have historically fared badly during inflation booms…Companies that lack pricing power – meaning they cannot easily pass costs on to customers – suffer the worst, because they are forced to absorb input cost increases by taking a hit to their profit margins." Obviously, we'll learn a lot more in the months ahead.

S.F. EHRLICH ASSOCIATES, INC.

S.F. Ehrlich Associates, Inc. has been providing financial advice on a fee-only, independent basis for over 25 years.

Managing Your Money is compiled entirely by Stanley F. Ehrlich and John Zeltmann.

Questions or comments are always welcome (and encouraged!).

Did we mention? If you have a friend or family member who you think might benefit from a discussion with us about financial planning and asset management, please pass along our phone number and email address. Long-term growth is not only crucial to portfolios, it's also critical to a business.

If you have a friend, co-worker, or relative who's in need of financial advice due to a pending or actual job loss, please give them our contact information. We're always glad to speak **pro bono** with people who need a hand.

CLIENTS: Please remember to contact S.F. Ehrlich if: a) there are any changes in your financial situation or investment objectives, b) you wish to impose, add or modify any reasonable restrictions to our investment management services, or c) you've changed your permanent residence.

S.F. Ehrlich Associates, Inc.
15 Alden Street, Suite 12
Cranford, NJ 07016
Fax: (908) 789-1115

Stanley F. Ehrlich
Phone: (908) 789-1100
stan@sfehrlich.com

John Zeltmann, CFP®, CFA
Phone: (908) 789-1944
jzeltmann@sfehrlich.com

[1] Morrow, Allison, and Anneken Tappe. "How Millions of Jobless Americans Can Afford to Ditch Work." CNN, 29 Dec. 2021.

[2] Mitchell, Josh. "New Hope for Easing Labor Shortage." The Wall Street Journal, 20 Dec. 2021.

[3] Smialek, Jeanna. "Explaining Inflation: Effects on the Economy Are Stark and Nuanced." The New York Times, 24 Dec. 2021.