S.F. EHRLICH
ASSOCIATES, INC.

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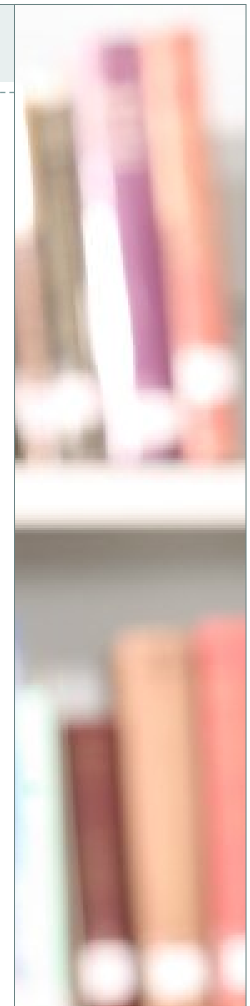

Managing Your Money

STAN'S WORLD—DANCING WITH MYSELF

Those of a particular generation may recall a commercial on TV for a hair restoration company. The late Sy Sperling would look into the camera and say: "I'm not just the president of Hair Club for Men, I'm also a client." (Perhaps I also should have been a client of Hair Club for Men, but that ship has sailed.) If we replace the words 'Hair Club for Men' with S.F. Ehrlich, I could do a similar commercial. I'm referring to the "I'm also a client" comment because I usually try to give myself the same advice I give to clients.

I drive an 11-year-old car, and I find I'm having a personal tug-of-war as to whether or not I should replace it. Yes, an 11-year-old car lacks numerous safety features that now come standard on most cars. When I back up, for example, I actually have to use my mirrors (it does have a camera) to see if anyone is behind me, because the driver also serves as the cross-traffic monitoring system. I even have to park the old-fashioned way, by actually turning the wheel and stopping only when I hit something. (Perhaps my high school driver's ed instructor left out a few steps?)

On the other hand, the car only has 70,000 miles. When our office was in Westfield, I typically drove one mile each way from home to office. Now, after moving our office to Cranford, I drive two miles each way. And not having a car payment is, well, nice.

The other day I read an article that said the price of cars has gone up so much that some used cars are now selling for more than their purchase price! Can you imagine buying a car and then selling it for more money in a year or two? Perhaps I should check to see if my 11-year-old paperweight is worth more than I paid? (Wouldn't that be a story for *Stan's World*?)

STAN'S WORLD—DANCING WITH MYSELF (CONT'D)

I'm imagining the dialogue between Stan the financial planner and Stan the client if the second Stan was sitting on the other side of the desk from the first Stan:

1. **Client Stan:** "Stan, I was thinking of buying a new car. My car is 11-years old. What do you think?"
2. **Planner Stan:** "Great question, Stan. Let me ask you a few questions: How much do you drive?"
3. **Client Stan:** "I drive 2 miles each way, five days a week. You know that Stan, you were with me in the car this morning when we drove here."
4. **Planner Stan:** "Good point, Stan. What else might you do with the monthly payment if you weren't going to use those dollars to pay off a zero or low-interest car loan?"
5. **Client Stan:** "That's a good question. Maybe donate more money to the food pantry or soup kitchen. I also haven't ruled out more trips to the bakery."
6. **Planner Stan:** "You know, Stan, while discretionary capital is always nice, an 11-year-old car doesn't have the safety features of a new car. I don't want to offend you, but as we get older, reflexes aren't as sharp as they used to be. And, Stan, even though you look like a man in his early 40's, more safety features is a good thing." (Did I lose credibility when I said early 40's? More believable if I wrote 50's? 90's?)
7. **Client Stan:** "While I hate to admit it, you do make a good point about the safety features."
8. **Planner Stan: "**Here's a thought. Why don't you make a few extra charitable donations and bakery runs over the next two or three months with the money you would otherwise spend on a zero or low-interest car loan, and then buy the new car?" (Notice how I keep emphasizing taking a car loan only if interest rates are zero, or extremely low? Both Stans know that interest paid on car loans is not tax deductible.)
9. **Client Stan:** 'I like that, Stan. Boy, it's great to have you as my financial planner. Your advice is impeccable." (Hey! It's my dialogue. It's possible the advice could be impeccable.)

Time to go. I have to write a check to the food pantry and then start researching a new car. When I'm done, I'm going to Google how problematic it is to talk about myself in the third person. My financial planner once told me that's not a good thing, and the guy really is smart. And he looks like he's in his early 40's.

(<u>EDITOR'S NOTE</u>: The day this article went to print, it should be noted that Planner Stan and Client Stan experienced a breakdown in his (their?) 11-year-old car. While Planner/Client Stan spent considerable time deliberating the decision of whether or not to keep the car, it appears the car's transmission felt otherwise.)

THE 60/40 PORTFOLIO IS DEAD. LONG LIVE THE 60/40 PORTFOLIO!

If you've seen this movie before, raise your hand. Every year, business writers and market observers try to steer their audiences to their portfolio choices du jour. Small-cap growth? Dead! Large-cap value? Buy! International? Never! Emerging markets? Garbage! Bitcoin anyone?

With interest rates still trending near historic lows, the last year has seen a multitude of articles on fixed income, with some columnists even questioning why anyone would own any bonds. If they're right, then why do we buy them for client portfolios?

The 60/40 portfolio is classic. It means 60% of assets are invested in equities, while 40% is invested in fixed income and cash. Of course, there are variations to the same theme: 50/50; 40/60; 80/20; et al. Typically, the greater the equity exposure, the higher the volatility. The higher the volatility, the more a portfolio will fluctuate. Thus, more equities means larger drops when markets fall.

Just like all equities aren't created equal (small-cap, large-cap, value, growth, domestic, international, emerging markets, and more), neither is the case with fixed income. Fixed income includes bonds with short, intermediate, and long-term maturities, issued by both domestic and foreign entities. Like stocks, most bonds are traded on a minute-to-minute basis. Bonds that mature in 20 or 30 years typically fluctuate far more in price than bonds that mature in just a year or two.

In brief, the argument against owning bonds when interest rates are low is that investors will receive a low return on their fixed income dollars. That is indisputable. But, the reasons to own bonds are multiple, and they do not vary because interest rates are high, or low. Among the primary reasons investors own bonds is to: (a) reduce volatility in their portfolio, as bond prices (often) fluctuate less than equities; (b) provide a reliable source of cash for ongoing withdrawals, and (c) serve as a readily available cash reserve for unexpected events. In other words, bonds provide the fuel that keeps the engine running. While 25-year-olds may not have to worry about owning bonds in their 401(k) plans, older investors usually have cash flow needs that can only be met with a helping of fixed income in their portfolio.

Of course, some observers pitch owning dividend-paying stocks as opposed to low-yielding bonds. Frankly, that can work, until it doesn't. The problem with depending on equities for ongoing cash needs is that when the markets go south, they drag good companies down with them. Even if you own good quality stocks that pay respectable dividends, you can potentially lose a lot of principal during a bear market. In fact, the losses may even be far greater than the dividends that the stocks were paying. When the spam hits the fan, owning boring bonds has kept many investors from losing sleep.

THE 60/40 PORTFOLIO IS DEAD. LONG LIVE THE 60/40 PORTFOLIO! (CONT'D)

"There will be periods where stocks sink and returns are compromised, such is investing. But investors using a 60/40 portfolio shouldn't let the threat of rising interest rates lead them to more risky portfolios that could thwart their investing goals." ("Long Live the 60/40 Portfolio" by Jason Kephart, Morningstar, May 6, 2021.) [1]

THEY'RE COMING FOR YOU: PASSWORDS, HACKING, AND MORE

Security is very important to us, and we think it should be equally important to you. That's why we frequently include articles about what you need to do to help protect yourself against identity and other theft.

Unfortunately, you may be victimized as a result of shortcomings by others. If you have a credit card from a company whose servers get hacked, there's little you can do to prevent your personal information from being stolen. On the other hand, we sometimes contribute to our own victimization, so let's review a few steps you can implement with little or no cost.

First, a question: Do you know how long it would take a hacking program to figure out your 8-digit, all numbers password? The answer: Instantly. That's right; no time at all. How about a 10-digit all numbers password? Instantly! How about a 13-digit, all numbers password? 4 minutes.

Clearly, the object of pointing out the lack of security in a pure numerical password is to demonstrate that passwords should be more than just numbers or letters. (By the way, it takes 2 minutes to hack a 9-digit all lower-case password.) As you can see by the chart below, using numbers AND lower-case letters AND upper-case letters AND symbols yields the best results. How can you go wrong with a 10-digit password that combines all the above and would take a hacking program 5 years to hack! (Tip: Kiplinger's Personal Finance[2] recommends using a password manager, like Dashlane, Keeper or Lastpass, "to securely store login credentials and to generate strong, unique passwords for each account.")

Here's a tip that never gets old: never (NEVER!) open a link included in an email. If you get an email from "Social Security," for example, that includes a link for you to use to read an important notice, go directly to the Social Security website and log in from there. (Always Google the website you are looking for, as opposed to using any link included in an email.)

THEY'RE COMING FOR YOU: PASSWORDS, HACKING, AND MORE (CONT'D)

TIME IT TAKES FOR A HACKER TO CRACK YOUR PASSWORD

Number of Characters	Numbers Only	Lowercase Letters	Upper and Lowercase Letters	Numbers, Upper and Lowercase Letters	Numbers, Upper and Lowercase Letters, Symbols
4	Instantly	Instantly	Instantly	Instantly	Instantly
5	Instantly	Instantly	Instantly	Instantly	Instantly
6	Instantly	Instantly	Instantly	1 sec	5 secs
7	Instantly	Instantly	25 secs	1 min	6 mins
8	Instantly	5 secs	22 mins	1 hour	8 hours
9	Instantly	2 mins	19 hours	3 days	3 weeks
10	Instantly	58 mins	1 month	7 months	5 years
11	2 secs	1 day	5 years	41 years	400 years
12	25 secs	3 weeks	300 years	2k years	34k years
13	4 mins	1 year	16k years	100k years	2m years
14	41 mins	51 years	800k years	9m years	200m years
15	6 hours	1k years	43m years	600m years	15 bn years
16	2 days	34k years	2bn years	37bn years	1tn years
17	4 weeks	800k years	100bn years	2tn years	93tn years
18	9 months	23m years	6tn years	100 tn years	7qd years

Source: Hive Systems, with data from www.howsecureismypassword.net

To confirm that an email is suspicious, hover over the sender's address. An email allegedly sent from Social Security may have a return address of SocialSecurityNotice.com. In fact, the real address of Social Security is SSA.gov, so seeing a potentially phony return address would be the first clue that the email was, in fact, a phishing scheme.

Another tip that you shouldn't disregard involves those annoying notices you often see on your iPad, iPhone, and computer screens alerting you to update your software. Do it! Many software upgrades involve enhanced security because Apple, Microsoft, and others are trying to stay one step ahead of the hackers. And make sure your computer security is enhanced with an anti-virus program like McAfee or Norton. They're the first line of defense in protecting your computer.

We get too many calls telling us that passwords had to be changed due to security breaches. We know it's time-consuming, unsettling, and potentially costly. Often, these kinds of disruptions to your life can be avoided, but you have to initiate your own defenses for them to work.

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.

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[1] Kephart, Jason. "Long Live the 60/40 Portfolio." Morningstar, 6 May 2021.

[2] Gerstner, Lisa. "Protect Yourself Against New ID-Theft Schemes." Kiplinger, 27 May 2021.