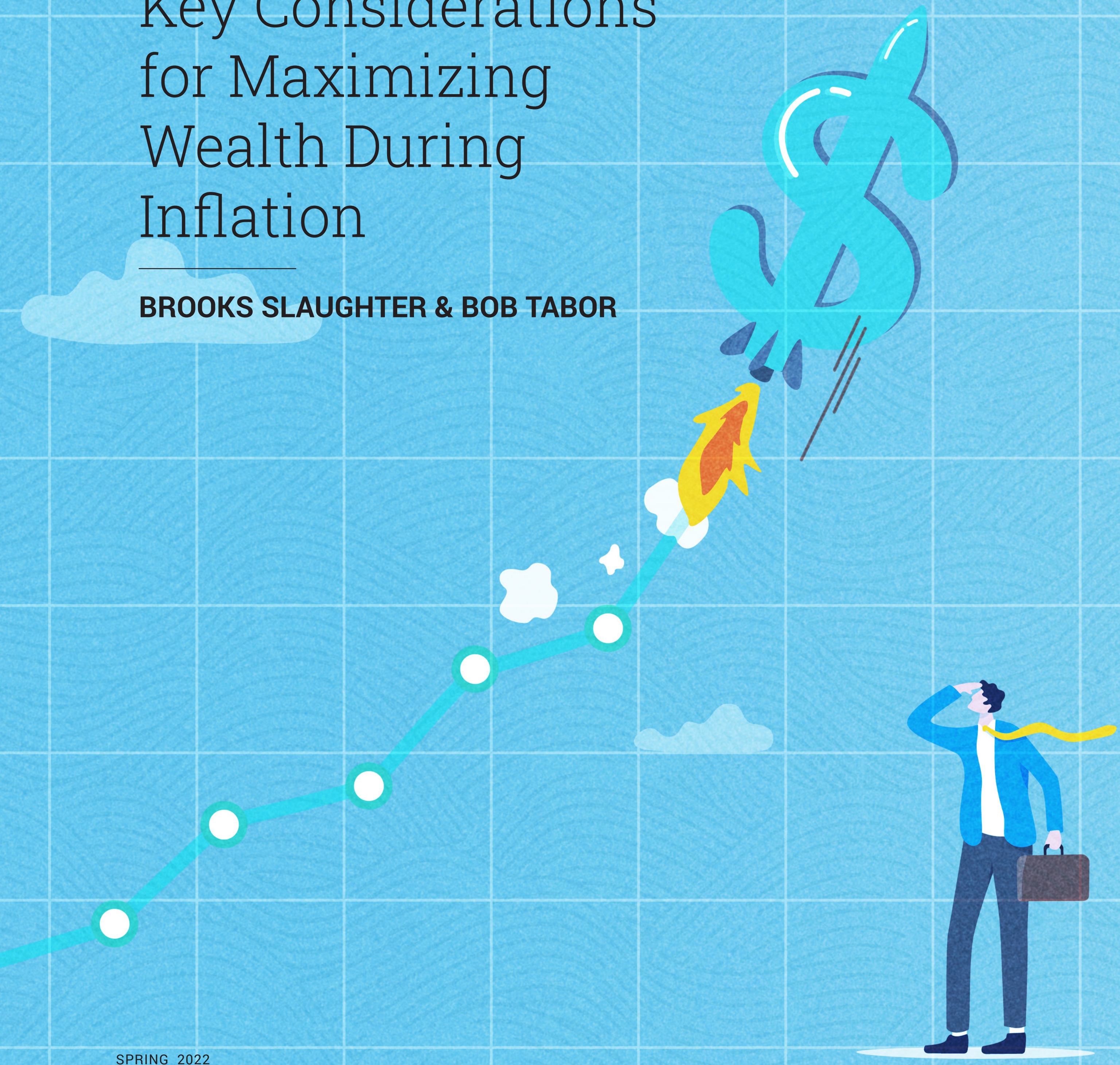
ON COURSE

Key Considerations for Maximizing Wealth During Inflation

BROOKS SLAUGHTER & BOB TABOR



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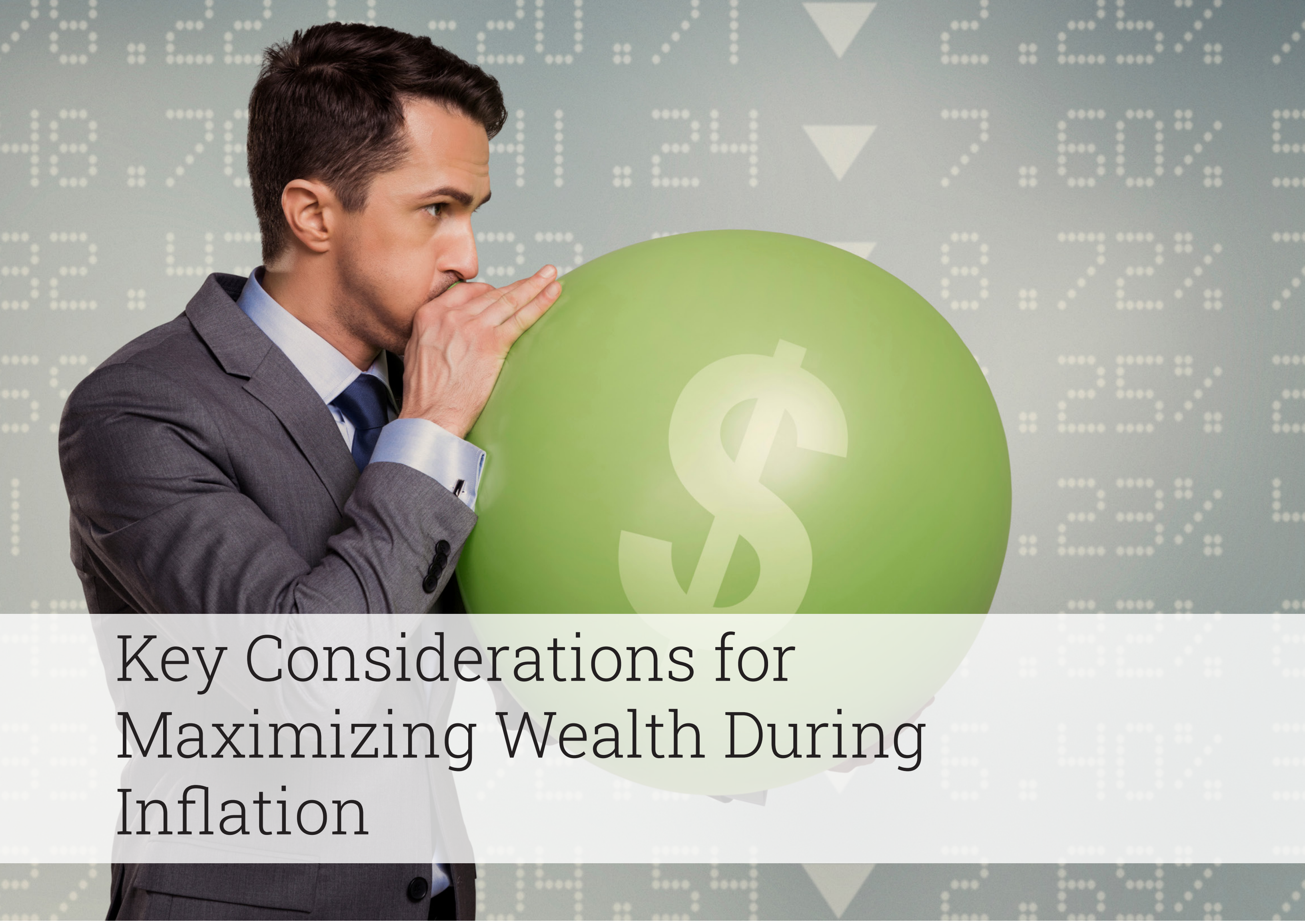

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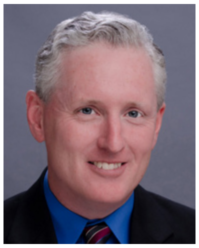
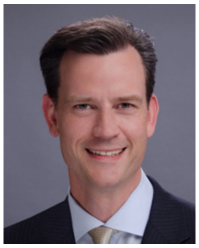


BROOKS SLAUGHTER

President & CEO



BOB TABOR

Executive Vice President

For much of the past year, the world's economies have experienced higher-than-normal inflation. As asset values and the price of goods and services increase, and markets fluctuate, high net worth families should consider certain adjustments that can protect total wealth and take advantage of unique opportunities.

Strategies that work well in an inflationary environment differ from those that find success in non-inflationary environments. This means considerations must be taken in a variety of areas, including debt, estate, taxes, and investments. For those with high net worth, these considerations often mean a shift in strategy.

Considerations for Debt

If you are carrying debt, consider restructuring from variable-rate to fixed-rate terms to protect from interest rate increases and avoid unexpected costs.

This is very important, as we've seen investors utilize variable rate interest structures with their debt while interest rates were very low. As interest rates go up, some will have a guaranteed rate period which maintains the low rate for a time. When there's an expectation of interest rates rising significantly in the future, and if you took advantage of variable rate options when rates were low, it's a good idea to examine your debt and restructure to a fixed rate as variable rates will continue to rise and become more costly in the future. Additionally, take a look at mortgages and other personal debt that may be sensitive to interest rate, as well as business debt with variance in interest rate. Consider converting those, too, to keep your interest rate payments below the market.

Considerations for Estate

It may be a good time to look at your total estate value and compare it to estate tax exemption levels.

Inflation can often cause some hard assets, like real estate, to increase in value. However, when asset values rise with inflation, estate tax exemption levels often do not rise with them. Since the deduction limits haven't been adjusted, it's more possible to run past some limits. Now could be the right time to look at your total estate value and compare it to estate tax exemption levels. Are you getting close to or exceeding levels? It's possible the value of your assets may have risen to the exemption limit without you realizing it. Your wealth manager can help you establish a new balance sheet to update the current value of the estate, and your estate attorney can see if any adjustments need to be made to protect you from estate tax.

Considerations for Investment Real Estate

To protect your net income, you may want to consider raising rent, making in-home adjustments, or selling.

Another likely occurrence during inflationary periods is a steep rise in property values. While an increase in the value of an investment property is great, be mindful of the rise in costs to carry the property, like taxes and upkeep. Investment real estate does not have annual tax increase caps like those found with your primary residence. Many property owners are seeing their tax assessments balloon 20% or more, depending on your region. Also, the cost of property upkeep is increasing as labor and materials feel the impacts of inflation. To ensure you are still receiving appropriate net returns on your property for the risk of ownership, increasing your income from rents is important. With low unemployment and raised wages, renters should be able to absorb some reasonable rent increases.

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Also, re-evaluate your net rate of return on your property using current valuations. Many property owners are finding very low annual percentage returns on current value, as the expected long-term growth of the asset may have already been realized in just the past couple of years. One alternative could be to sell your property, capture the elevated valuation, and re-invest the proceeds in real estate which are offering more suitable rates of return. Utilizing a 1031 exchange, which is purchasing a like-kind property with your proceeds, you may defer the capital gain from the sale. If this is a possible option for you, speak to your wealth manager for more details.

Another aspect to watch closely as property values increase is replacement costs, which rise right alongside property values. This may mean you will need to re-evaluate your insurance coverage. Additionally, the cost of repair on certain items may also increase. It never hurts to revisit your insurance policies to ensure you are protecting the true value of your assets. You may also consider making ad-

ABOUT RICHARD P. SLAUGHTER ASSOCIATES, INC.

Richard P. Slaughter Associates is a leading wealth-management firm specializing in delivering tailored strategies as a fiduciary for high net worth individuals, families, and businesses. Slaughter Associates constructs a comprehensive financial relationship with its clients by delivering expertise in financial planning and asset management while coordinating with tax, insurance and estate professionals. The result is a holistic approach—unique in the financial industry—that generates a clear path to the individual financial goals of the client. Founded in 1991 in Austin, Texas, Slaughter Associates was among the first fee-only firms in the nation, a fiduciary status that allows it the freedom to provide advice that is always in the best interests of the client. Slaughter Associates is a NABCAP Premier Advisor, recognized for its commitment to maintaining top business standards, first-class financial-management capabilities and dedication to preserving transparency in the financial services industry.

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Other Interesting Fact
One of the first fee-only advisor firms in the United States

justments to your home – such as installing safety features to protect you from damages and costly repairs - to combat some of these costs. Hanna Ogle, one of our partners at Watkins Insurance, covered these considerations in more detail.

Adjusting Your Investment Style

Investment values can be volatile during inflationary periods, so you may need to make adjustments to your strategy. As a general rule, better performing investments during inflation are things that you can touch and feel, or are considered basic necessities. For example, gold, metals, lumber, real estate, and other commodities are often high-performing assets in an inflationary environment because their costs can be passed along (for example, higher prices in a grocery store). Stocks can be a good future investment, too, as long as selections include businesses with costs that can be passed along (factories, land, buildings, product inventory). Fixed payments, such as bonds, do not work as well because their rates are set while the prices of everything else increase around them.

Maintaining your lifestyle without adding risk during an inflationary period is possible, but may require making adjustments to your total investment strategy. Any type of repositioning should be done in advance of an inflationary environment coming about – and in advance of interest rate increases – to avoid a significant impact on cash flow or lifestyle.

At Richard P. Slaughter Associates, we help our clients maintain reduced volatility in their portfolios that inflation and rising interest rates can cause. When we see inflation on the horizon, we can analyze your investments for effectiveness in the current environment and going forward. We can assess whether to adjust your portfolio to underweight inflation-sensitive investments, shifting into those that do better in an inflationary environment. We help our clients take advantage of the increases in asset values, then redeploy those into investments that can keep up with inflation rates. Our experience allows us to introduce you to an investment strategy that may be outside your knowledge set and avoid common mistakes like taking advantage of inflated asset value or leaving things in cash. We'll account for certain thresholds of inflation in investment strategies, looking for rates of return above the inflation rate and maintaining a balance that keeps long-term goals in focus.

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