

THE \$TRATEGIST

Where is Inflation?

By Thomas M. Wargin, CFP®, CFA

The most recent economic prognostications project that the Fed will finally start to raise interest rates in the second or maybe third quarter of this year. Of course everybody expected rates to increase back in 2013 or 2014. Most of that is based on the improving economy and jobs numbers, and the notion that sooner or later inflation will start rearing its ugly head. I guess it's later rather than sooner.

Certainly the Fed would love to see inflation, since all Central Banks seriously detest deflation. It seems nobody has ever won the war with deflation and it can cause a lot of bad things to happen that are hard to stop. However, I was re-reading an article titled "Still Racing to Zero," that appeared in the Novem-

ber/December 2013 issue of *CFA Institute Magazine*, which was an interview with Richard Hokenson, a demographics expert. He postulates that

"the world we are in now is structurally disinflationary." His thesis is that rates move in response to demographics and that aging populations crush inflation. As I discussed in the last newsletter, all developed countries have populations that are aging.

What does this have to do with stock and bond markets? Low to moderate inflation is generally good for the stock market. However, with deflation and declining asset prices, the only asset class



that does well is highest quality bonds; this is usually government bonds. There is a good kind of deflation, which is coupled with increasing productivity. Some have made the claim that this type is currently occurring due to the increasing use of computerization and mobile abilities.

At the end of 2014, inflation as measured by the CPI was 0.8% for the previous 12 months. The 10-year

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Planning Notes

By June A. Schroeder, RN, CFP®

You're Only as Strong as Your Weakest Link

Some lenders, especially mortgage lenders, evaluate one or more of your FICO® Scores in the credit review process. If a lender pulls all three, they may require that all three scores pass their score cutoff. Alternatively, they may take the middle of the three scores and require that it pass their score cutoff

criteria. What this means to you is that even if one of your FICO Scores is high, you could still be affected by the lower scores. The lender's score cutoff criteria could put you into a different interest rate or possibly result in a denied credit decision.

When applying for a mortgage with a co-applicant (such as a spouse), lenders will mostly likely pull all three FICO Scores on all applicants. They may require that all the scores pass their

score cutoff criteria—that means your co-applicant's low credit scores could push you below the cutoff criteria. It's great if your FICO Score is higher than your co-applicant, but it may not mean instant approval. Make sure your spouse or partner is paying as much attention to his/her FICO Scores and credit reports as you are. If you find that one or more of your collective FICO Scores are low, consider waiting until you've

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Client Alerts

By Shannon Nook, RP®

Office/Holiday Hours

- Monday through Wednesday
8:30 a.m. to 5:30 p.m.
- Thursday and Friday
8:30 a.m. to 5 p.m.

Later appointments by request.

Closed: Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving and Friday after, Christmas Eve and Day.

Tax Appointments

Richard Mikula will be setting appointments and coordinating them with your annual review when appropriate. Or you may just drop off

your tax information and schedule a pick up date.

Keith Helm from Liberty Accounting will once again meet with mutual clients at our office on February 17 & March 17. Please call Keith directly at 262-522-3655 to schedule an appointment.

Max Out Your 2014 IRA By April 15

Time flies so act now. Roth or IRA limits (based on earned income of self or spouse) are \$5,500 per individual, plus \$1,000 for individuals age 50 or older. These numbers stay the same for 2015. We will try to contact you in February if we notice that a contribution or addition might be a good idea!

Inflation, cont.

Treasury bond was at 2.19%. This compares to 2.85% at the start of the year. While these numbers seem low to us, in Germany the rate is 0.66% and in Japan it is 0.42%. So money has been flowing into our bond and stock markets.

While the consensus is that short-term rates will increase this year, there is some disagreement about longer maturity bonds. It is our belief that long-term rates could continue to decline even as short-term rates rise. If this happens, the stock market may continue to rise also. Since the consensus is usually wrong, it may very well be possible that short-term rates will not rise this year either reinforcing the disinflationary or possibly deflationary bias.

With oil and gas prices having declined substantially to start the year, and that being a large part of inflation measurements, it will be interesting to see how this year ends. For us, increasing volatility brings increasing opportunities. Have a safe, healthy, and happy 2015!

Planning Notes, cont.

had a chance to bring those scores up the scale.

It is a great time of the year to go to www.annualcreditreport.com and check out at least one of your scores. U.S. average score is 692, with a highest of 850. Timely payments and borrowing less than you are approved for are the two main factors in determining your credit score.

Tax Tips

This tax season is the first time we will all have to report to the IRS whether we have health insurance. Many will just check a box, but for some there

are forms to file and/or fines to pay. February 15 is the last day of open enrollment under the health law, so make sure you are covered or be prepared to pay a fine.

For you itemizers, be sure to tally the miles traveled for your charitable pursuits. At \$0.14/mile it can add up. Between me and my husband and several thousand miles of travel, we save about \$100/year in taxes in addition to the personal gratification payout we get from our volunteering. You can't deduct unless the organization is a 501(c)(3) tax-exempt organization. Check that out at <http://charitycheck101.org>.

Featured Artist

By Shannon Nook, RP®

Rachel Hughes from REHughes Design has unveiled her passion for graphic design using beautiful, womanly images to illustrate her passion for life, inspired by Día de Muertos, the annual, colorful Mexican celebration honoring the dead.

Stop in and view her pieces created with Sharpie, acrylic, and varnish on wood. Or visit her website at www.rehughesdesign.com. We found Rachel through our part-time client service specialist, Jessica, who just happens to be related to her through marriage.

Financial Funny

Diner to waiter in a very expensive restaurant, "What's the catch of the day?"

Waiter: "You are!"



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