Nicholson Financial Services

Did You Know...?

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RAYMOND JAMES®

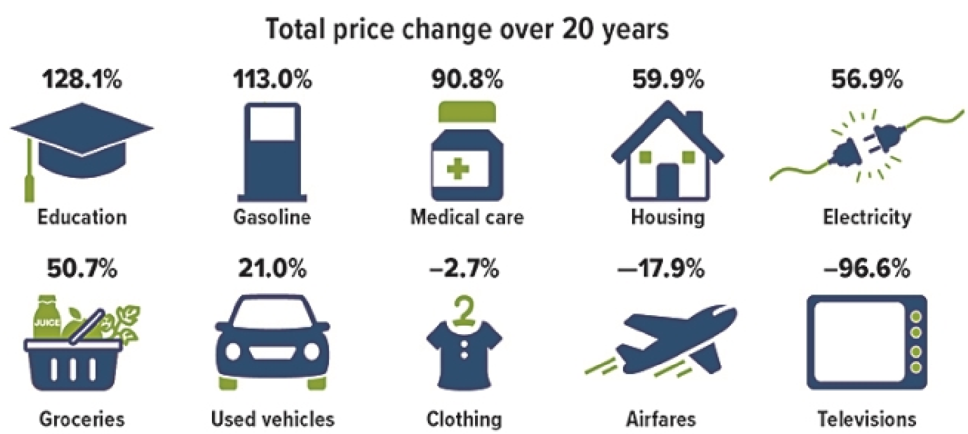
5.4%

Rise in CPI-U over the 12 months ending September 2021. This matched June and July 2021 as the largest 12-month increase since the year ending August 2008. By contrast, the average annual increase for the 20-year period ending September 2021 was just 2.2%.

Source: U.S. Bureau of Labor Statistics, 2021

Two Decades of Inflation

After being largely dormant for the last decade, inflation roared back in 2021 due to various factors related to the pandemic and economic recovery. For perspective, it may be helpful to look at inflation over a longer period of time. During the 20-year period ending September 2021, the Consumer Price Index for All Urban Consumers (CPI-U), often called *headline inflation,* rose a total of 53.8%. While the prices of some items tracked the broad index, others increased or decreased at much different rates.



Source: U.S. Bureau of Labor Statistics, 2021 (data through September 2021)

Following the Inflation Debate

During the 12 months ending in June 2021, consumer prices shot up 5.4%, the highest inflation rate since 2008.[1] The annual increase in the Consumer Price Index for All Urban Consumers (CPI-U) — often called headline inflation — was due in part to the "base effect." This statistical term means the 12-month comparison was based on an unusual low point for prices in the second quarter of 2020, when consumer demand and inflation dropped after the onset of the pandemic.

However, some obvious inflationary pressures entered the picture in the first half of 2021. As vaccination rates climbed, pent-up consumer demand for goods and services was unleashed, fueled by stimulus payments and healthy savings accounts built by those with little opportunity to spend their earnings. Many businesses that shut down or cut back when the economy was closed could not ramp up quickly enough to meet surging demand. Supply-chain bottlenecks, along with higher costs for raw materials, fuel, and labor, resulted in some troubling price spikes.[2]

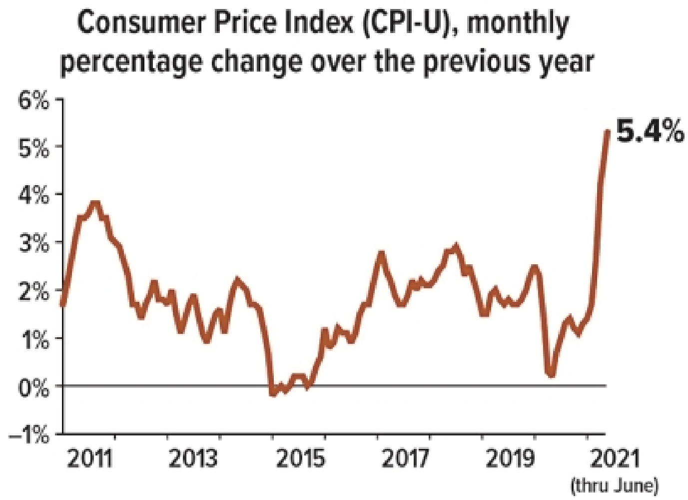
Monitoring Inflation

CPI-U measures the price of a fixed market basket of goods and services. As such, it is a good measure of the prices consumers pay if they buy the same items over time, but it does not reflect changes in consumer behavior and can be unduly influenced by extreme increases in one or more categories. In June 2021, for example, used-car prices increased 10.5% from the previous month and 45.2% year-over-year, accounting for more than one-third of the increase in CPI. Core CPI, which strips out volatile food and energy prices, rose 4.5% year-over-year.[3]

In setting economic policy, the Federal Reserve prefers a different inflation measure called the Personal Consumption Expenditures (PCE) Price Index, which is even broader than the CPI and adjusts for changes in consumer behavior — i.e., when consumers shift to purchase a different item because the preferred item is too expensive. More specifically, the Fed looks at core PCE, which rose 3.5% through the 12 months ending in June 2021.[4]

Competing Viewpoints

The perspective held by many economic policymakers, including Federal Reserve Chair Jerome Powell and Treasury Secretary Janet Yellen, was that the spring rise in inflation was due primarily to base effects and temporary supply-and-demand mismatches, so the impact would be mostly "transitory."[5] Regardless, some prices won't fall back to their former levels once they have risen, and even short-lived bursts of inflation can be painful for consumers.



Source: U.S. Bureau of Labor Statistics, 2021

Some economists fear that inflation may last longer, with more serious consequences, and could become difficult to control. This camp believes that loose monetary policies by the central bank and trillions of dollars in government stimulus have pumped an excess supply of money into the economy. In this scenario, a booming economy and persistent and/or substantial inflation could result in a self-reinforcing feedback loop in which businesses, faced with less competition and expecting higher costs in the future, raise their prices preemptively, prompting workers to demand higher wages.[6]

Until recently, inflation had consistently lagged the Fed's 2% target, which it considers a healthy rate for a growing economy, for more than a decade. In August 2020, the Federal Open Market Committee (FOMC) announced that it would allow inflation to rise moderately above 2% for some time in order to create a 2% *average* rate over the longer term. This signaled that economists anticipated short-term price swings and assured investors that Fed officials would not overreact by raising interest rates before the economy has fully healed.[7]

In mid-June 2021, the FOMC projected core PCE inflation to be 3.0% in 2021 and 2.1% in 2022. The benchmark federal funds range was expected to remain at 0.0% to 0.25% until 2023.[8] However, Fed officials have also said they are watching the data closely and could raise interest rates sooner, if needed, to cool the economy and curb inflation.

Projections are based on current conditions, are subject to change, and may not come to pass.

1, 3) U.S. Bureau of Labor Statistics, 2021; 2) *The Wall Street Journal,* April 13, 2021; 4) U.S. Bureau of Economic Analysis, 2021; 5-6) Bloomberg.com, May 2, 2021; 7-8) Federal Reserve, 2020-2021

P/E Ratios Offer Multiple Perspectives on Value

Many factors go into decisions on buying or selling shares of a particular stock, but the price/earnings (P/E) ratio can be a helpful starting point for evaluating whether a company's stock is under- or overpriced. The P/E ratio is calculated by dividing a stock's current price per share by the company's earnings per share over a 12-month period. This ratio quantifies what investors may be willing to pay for one dollar of earnings.

For example, a P/E of 20 means an investor would pay $20 for every $1 the company earns over the 12-month period. By this standard, a stock with a P/E of 25 could be considered more "expensive" than a stock with a P/E of 20, regardless of the share price. A higher multiple also indicates that investors may expect higher growth from the company compared to the overall market.

Past and Future

There are two main types of P/E ratios. *Trailing P/E* is based on the company's actual reported earnings per share for the previous 12 months. Because earnings are reported quarterly, that part of the equation will generally remain the same for the entire three-month period, but the stock price may change every trading day.

Forward P/E is based on the company's projected earnings over the next 12 months. The forward P/E can also fluctuate with stock prices and as earnings projections are updated.

Trailing P/E is generally considered a more objective metric than forward P/E, because earnings projections are essentially opinions that may not turn out to be accurate. However, some investors prefer to focus on forward P/E, because a company's past performance may have little to do with its future prospects.

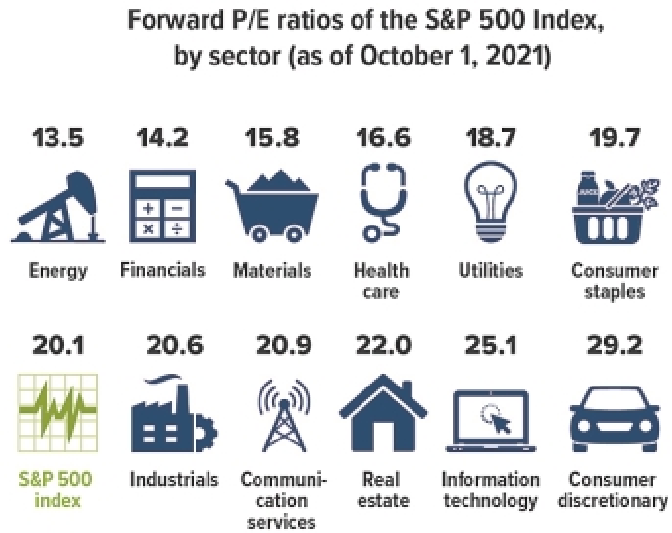
Use Ratios Wisely

Knowing a company's P/E ratio may provide some insight, but only if you use it to make appropriate comparisons. It is generally more meaningful to compare ratios of companies in the same industry or one company against the industry average. This is because P/E ratios can vary widely among industries and may also change for an entire industry as it faces challenges or goes in or out of favor with investors.

You might also compare a company's current and past performance, but keep in mind that P/E ratios typically rise and fall with stock prices; if prices rise and earnings stay about the same, P/E ratios increase, and vice versa. So an increase or decrease in a company's P/E ratio that moves with the broader market may not tell you much about the company's performance.

On the other hand, a substantial change in a company's P/E ratio that is not in step with the market could be caused by an unexpected increase or decrease in reported or projected earnings, or by a shift in investor confidence in the company.

Different Industries, Different Ratios



Source: FactSet, October 1, 2021. The S&P 500 is an unmanaged group of securities that is considered to be representative of the stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. A portfolio invested only in companies in a particular industry or market sector may not be sufficiently diversified and could be subject to a significant level of volatility and risk.

As of October 1, 2021, the average forward 12-month P/E ratio for stocks listed in the S&P 500 was 20.1. This is significantly higher than the five-year average of 18.3 and the 10-year average of 16.4.[1] But that may or may not mean that the market as a whole is overpriced.

It's possible that earnings projections could be off by a wide margin — and that P/E ratios could be more difficult for investors to interpret — until the disruptive effects of the pandemic are well behind us. In fact, it's generally a good idea to consider additional types of data, such as dividends and longer-term growth expectations, when evaluating potential stock investments.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

1) FactSet, October 1, 2021

Your Social Security Statement: What's in It for You?

The Social Security Administration (SSA) provides personalized Social Security Statements to help Americans age 18 and older better understand the benefits that Social Security offers. Your Statement contains a detailed record of your earnings and estimates of retirement, disability, and survivor benefits — information that can help you plan for your financial future.

You can view your Social Security Statement online at any time by creating a *my* Social Security account at the SSA's website, ssa.gov/myaccount. If you're not registered for an online account and are not yet receiving benefits, you'll receive a Statement in the mail every year, starting at age 60.

Benefit Estimates

Your Social Security Statement tells you whether you've earned enough credits by working and paying Social Security taxes to qualify for retirement and disability benefits and, if you qualify, how much you might receive. Generally, retirement benefits are projected for up to nine claiming ages, including full (ages 66 to 67), early (age 62), and late (age 70). If you qualify, you can also see the benefit amount your survivors might receive in the event of your death.

The amounts listed are estimates based on your average earnings in the past and a projection of future earnings. Actual benefits you receive may be different if your earnings increase or decrease in the future.

More than 50 million individuals have established online Social Security accounts.

Source: Social Security Administration, 2021

Amounts may also be affected by other factors, including cost-of-living increases (estimates are in today's dollars) and other income you receive, and are based on current law.

Annual Earnings

In addition to benefit information, your Social Security Statement contains a year-by-year record of your earnings. This record is updated when your employer reports your earnings (or if you're self-employed, when you report your own earnings). Earnings are generally reported annually, so your most recent earnings may not yet be on your Statement.

Because Social Security benefits are based on average lifetime earnings, it's important to make sure your earnings have been reported correctly. Compare your earnings record against past tax returns or W-2s. If you find errors, let the Social Security Administration know right away by calling (800) 772-1213.