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SPRING 2022

THE QUARTERLY

The Implications of War

BY JAMES WALDEN, CFA
Partner and Chief Investment Officer

In last quarter's newsletter, we shared early thoughts on the new year in an article titled "2022: Looking Past the Pandemic." It seemed unlikely then that we'd now be looking at the implications of a war.

While the most obvious and important impact includes the human toll in Ukraine, we'll focus on the economic and market implications for this narrative.

The most significant impact on the U.S. is the spike in various global commodities, due in part to the invasion's related supply shock. (Commodity prices were already rising from higher demand from the post-COVID expansion.) West Texas Intermediate crude oil (the benchmark for oil prices in the U.S.) shot up from $75.21 a barrel on December 31, 2021, to $123.70 at market close on March 8, 2022, before settling back down to about $103 as of this writing. Russia accounts for about 12% of global crude oil production. Its contribution to the world's natural gas production is even greater. Meanwhile, corn and wheat prices are up around 30% each year-to-date. Combined, Russia and Ukraine account for a low- to mid-teens percentage of the world's production of each crop.

This comes as the world was already struggling with inflation. The combination of consumer demand fueled by massive stimulus and COVID-related snags in global supply chains created decades-high inflation. Headline CPI was up 7.9% in February (most recent data available). Core CPI, which excludes volatile food and energy prices, was up 6.4%. We had seen evidence that a shift in spending toward services from goods and some improvement in global logistics could provide inflation relief starting around now. But it now seems likely that inflation will remain higher for longer.

The Federal Reserve is (finally) responding to higher inflation. During its March meeting, the Fed raised its federal funds interest rate target by a quarter percentage point. This was the first increase since taking it down to around 0% to help fight the pandemic-induced recession. At the moment, financial markets are anticipating the Fed will increase its target by CONTINUED ON PAGE 2 ▸

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TAKE NOTE!

Our office will be closed on the following dates:

FRIDAY, APRIL 15
Good Friday

MONDAY, MAY 30
Memorial Day

MONDAY, JUNE 20
Juneteenth National Independence Day (observed)

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at least an additional 2.25 percentage points. The Fed also expects to soon begin reducing the number of securities it owns (i.e., "quantitative tightening") to further normalize monetary policy. All else equal, this suggests higher interest rates, which the Fed hopes will cool the economy and high inflation.

Thankfully, the U.S. economy is in relatively good shape. The job market should remain strong and consumer balance sheets remain healthy. This helps mitigate some of our concerns.

But the risks are high and rising. We could see the war in Ukraine escalate, whether by design or mistake. And there's a risk of a policy misstep by the Fed. If the Fed doesn't tighten enough, it could fall short in its effort to tame inflation. If it tightens too much, the Fed could cause a recession. All of this comes as we had already seen mounting evidence of an economic slowdown toward the back half of the year, regardless.

We are decidedly defensive in positioning client portfolios. As of this writing, we are temporarily holding an elevated amount of cash across most portfolios. We have reduced exposure to both stocks and bonds. In most accounts, we have no direct exposure to small companies or emerging markets. And we hold a modest position in gold to help offset geopolitical uncertainty.

We will continue to adjust investments as necessary. In the meantime, please don't hesitate to call in with any questions or concerns.

The Founder's Corner

Confessions of a Lifetime Planner

BY RANDY CLAYTON, CFP®, CLU®
Founding Partner

After 40 years of advising clients about various financial decisions, I have a confession to make: I don't believe I ever fully appreciated the psychological aspect of preparing for retirement until now. Why now, you ask? This year is the first in the last 40 years that Debra and I will not have a salary, or in other words, no regular paycheck. While we still hold an ownership interest in Clayton Wealth Partners, we are now starting to live largely off the money we have saved and accumulated. For the record, this is not a "cobbler's sons/shoe story." We have always practiced what we preached and planned for this moment. We have followed the same advice and projections we have been giving clients for years. While there are no certainties when it comes to retirement projections, Monte Carlo simulations are performed to run through thousands of scenarios of investment rates of return, inflation, deflation, life expectancy, long-term care needs, etc. While all those logical projections tell us we are ready to live off the savings and investments we've accumulated for four decades, what I failed to fully appreciate was how psychologically difficult it would be to start withdrawing that money to live on. And this is coming from someone with a Bachelor's Degree in Psychology! I suspect many of you have felt or are currently feeling similar emotions, even when all reason and logic suggest you are ready for this step in your life.

Over all the years, we've seen clients who spent too fast, some a little too slow, and some just the right amount (sounds like the story of the three bears). The logical part of my brain knows we have planned, saved, and done what we needed to do to make everything work. But for some strange reason, it feels like cheating, withdrawing too much and saving too little. It's not that we have a strong desire to make our children rich or leave a large sum to charity, and we certainly do not plan to live to be 100 years old. So, what's the big deal? Honestly, I don't know. However, it's clear to me in all those projections there was an emotional calculation I had not quite counted on or performed.

The last 12 months leading up to living on the portfolio, I have acted like a miser, not wanting to spend money, with COVID only making those miserly tendencies easier and more acceptable. Intellectually, I know I need to change. However, the jury is still out on whether I can overcome my illogical fears. The next time you see me, or I write, I'll share with you my progress, or regression. As we go through the joys and challenges of easing into retirement, my plan is to occasionally write about the experience and share with you what retirement looks like though the lens of someone who's advised others for nearly a half-century on how to reach this point. Thankfully, at CWP, we have a large collection of clients and qualified staff who have had a variety of experiences and we are always actively learning from all of them—from both a logical and emotional perspective.

Is the Title/Deed to Your Home Safe from Identity Theft?

BY ERIC PURCELL, CFP®
Wealth Advisor

The last decade has seen a dramatic rise in identity theft in the U.S. Once your identity has been stolen, the thief can use your information to make purchases with your credit cards, open accounts, and steal your tax refund. Given that identity thieves can wreak havoc on nearly every aspect of your financial life, we explore the risk these criminals pose to your home's deed.

A deed is a written document declaring legal ownership of a property. This official document should describe the property and include the parties' names (e.g., ownership transfer from a seller to a buyer of the property). A deed is filed and held at the register of deeds office for the county where the property is located.

Your home's deed is not immune from identity thieves. Their methods include creating a fraudulent deed providing the legal description of the property and listing the transfer of ownership from you as the seller and them, or someone else, as the buyer. A forged signature and notary seal would permit the impostor to pay the filing fee and file the deed with the county register of deeds office. Unless the office finds an error, the deed is filed. Done, but how successful is title theft?

While rare, title theft does happen. If you are closing on a property purchase and are mortgaging the property, the lending mortgage company will require lender's title insurance while the borrower (you) has the option of having title insurance. This is an added layer of protection for the bank, in addition to their internal checks and balances, when reviewing and processing mortgage applications. Title insurance is a one-time fee added to the loan's closing costs and designed to eliminate the risk of any title defects/fraud before the closing of the loan. The title insurance company reviews the validity of the title and past titles of the property throughout its existence. If no irregularities or title fraud are present on the property, the title insurance company has performed its end of the bargain. It will no longer review the title of your property after closing. If defects or title fraud are found, the title company will report this, and the transaction will not occur.

But what if the title insurance company failed to find a title defect or fraud that existed at the time of closing? In that case, the title company will pay damages for the loss as stated explicitly in the policy. What about title insurance after closing the property, or what if the house is already paid off?

After closing or paying off your home, you no longer have the protection afforded by title insurance. As an added layer of protection, there are companies offering what is known as a home title lock. A home title lock monitors your deed and provides alerts of any changes for $19.95/month. It provides ease of mind and convenience for the client, but it does not prevent or insure against title theft. It simply reports when a change has been made.

This is something you can do yourself if you check your property records regularly with your county's register of deeds office. Don't get me wrong—reporting a change is better than nothing, but is it worth paying $19.95 a month for?

Shawnee County (SNCO) Register of Deeds Director Becky Nioce recently informed me that SNCO offers a FREE service in the Property Fraud Alert system, which notifies individuals when there is activity involving their property with the Register of Deeds office. It provides advance notice of possible fraudulent activity, including notice of fraudulent liens or mortgages. "Participants can choose whether to receive their alerts via e-mail or over the phone. I encourage all property owners to visit the Shawnee County Register of Deeds website at www.snco.us/rd or www.propertyfraudalert.com and add this extra layer of identity protection," Director Nioce said.

To prevent title theft, I recommend you diligently check the deeds to your properties in their respective county offices. If you own property in SNCO, sign up for the Property Fraud Alert free service offering. If you don't have properties in SNCO, check with your county's register of deeds office to see if they have a similar service offering. Open and review all mailings received from mortgage and title companies regardless of whether you recognize the company, but do not sign anything you are unsure of and have a trusted second source review. Finally, open and review any mailings received under your address but directed to someone else's name—don't just throw them away, assuming they're a mistake, as they could be a red flag indicating fraudulent activity. And as always, don't hesitate to contact your Clayton Wealth Partners advisor if you suspect any fraud or have questions.

ADV Part 2A Brochure

As SEC-Registered Investment Advisors we are required to annually deliver to each client, without charge, either a current Brochure (ADV Part 2A) that includes a Summary of Material Changes, or the Summary of Material Changes to the Brochure (i.e., Item 2) that includes an offer to provide our current Brochure without charge. Following is our delivery of the 2022 Summary of Material Changes:

SUMMARY OF MATERIAL CHANGES

- Item 4—When making rollover recommendations, and for purposes of complying with

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the DOL's Prohibited Transaction Exemption 2020-02 ("PTE 2020-02") where applicable, we provide an acknowledgment that when we provide investment advice to you regarding your retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act and/or the Internal Revenue Code. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interest ahead of yours.

- Item 4 was also updated to disclose that we offer quarterly seminars and monthly newsletters. Both services are complimentary.

From time to time, CWP may amend this Firm Brochure to reflect changes in business practices, changes in regulations, and routine annual updates as required by the securities regulators. This complete Firm Brochure **or** a summary of Material Changes shall be provided to each client annually or if a material change is made.

A copy of the complete Firm Brochure may be requested, at any time, by contacting CWP at messages@claytonwealthpartners.com or at (785) 232-3266 or sending a request to Clayton Wealth Partners, 716 South Kansas Avenue, Topeka, KS 66603.

Welcome, Emma Gustin!

We hope you will join us in welcoming Emma Gustin as a Wealth Advisor Intern at Clayton Wealth Partners this summer. She is pursuing a Bachelor of Science in Personal Financial Planning at Kansas State University, with a minor in Leadership Studies. Emma will start with CWP on May 16.

QUARTERLY SEMINARS RETURN!

We will be back in person at the CWP offices next month for our quarterly client seminars. As usual, our team will speak on current financial and economic topics. We anticipate the seminars to fill up, so please RSVP if you would like to attend on one of the dates listed below, as seats are limited.

If you are unable to attend in person or have enjoyed joining us virtually during the pandemic, we will also continue to conduct a live webinar. We will email out the registration details in advance. If you cannot join us live, we plan to email a recording of the webinar following the broadcast.

We hope you will plan to join us in person or virtually or enjoy the recorded version of our quarterly presentation. We look forward to seeing you!

Dates and Times:

TUESDAY, MAY 10
Noon—In Person, Lunch provided

WEDNESDAY, MAY 11
Noon—In Person, Lunch provided

THURSDAY, MAY 12
Noon—Live Webinar ONLY
(Registration information will be sent via email)

THURSDAY, MAY 12
5:00 p.m.—In Person, Light Hors D'oeuvres

YOUR ADVISORY TEAM

BARBARA DUNCAN, CFP®
Partner, Senior Wealth Advisor

ELIZABETH YOUNG, CFP®
Partner, Senior Wealth Advisor

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