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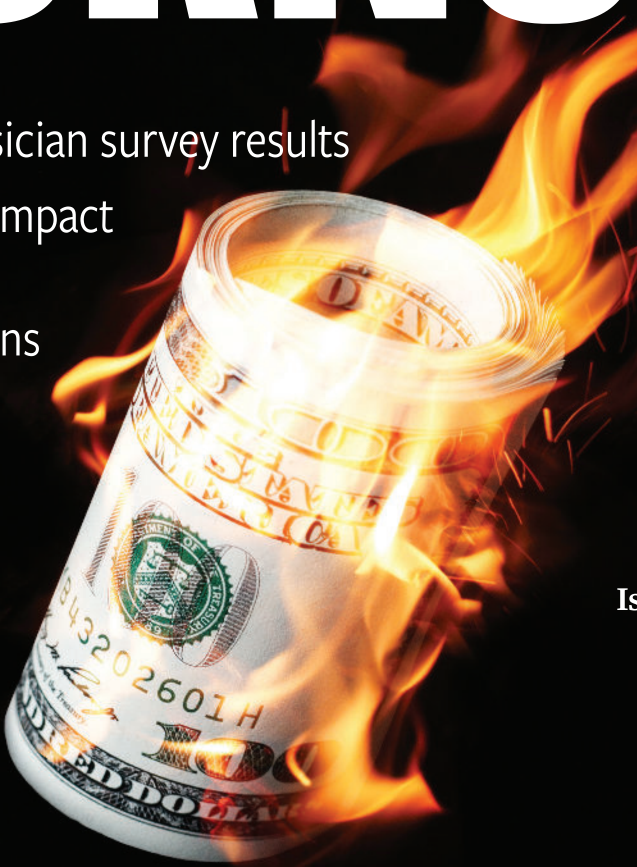

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PHYSICIANS FINANCIAL NEWS®

Inflation survival guide: Forecasts and investment advice for physicians

By Chris Mazzolini
Editorial Director

Inflation is on the rise again. Consumer prices rise again in July, and the all-item Consumer Price Index is up more than 5% year-over-year.

But how concerned should investors be? *Physicians Financial News*® (*PFN*) sat down with David B. Mandell, J.D., MBA, and Andrew Taylor, CFP, of OJM Group, a wealth management firm, to discuss what physician investors need to know about inflation. The conversation was edited for length and clarity.

***PFN*: Let's start with the basics. What is inflation?**

Mandell: It's basically describing a general increase in the prices or decline in the purchasing power of money, right? It describes the increasing costs of products, or goods and services. So I think what's concrete for people, if they've ever had to pay for college education over the last 20 years, or medical care, real estate — they can think about their home — as those things go up in value or go up in price, you might say, then that's an example of inflation. And what causes it: the simple explanation is too many dollars chasing too few goods or services, so the price goes up.

***PFN*: There's been a lot of discussion in the news about inflation increasing. What's causing this uptick in the discussion of inflation? What economic trends are at play right now?**

Taylor: That's a great question. And it's actually the question that we get most frequently from clients, and for good reason. So, you know, the federal government's gone to great lengths to ignite the economy in response to the COVID-19 pandemic. You've had forgivable business loans, multiple rounds of stimulus checks to individuals that have added cash into the financial system. The Federal Reserve has also increased the money supply, so they purchase short term treasury bonds and purchase mortgage backed securities, they've lowered short-term interest rates to, effectively, zero. We've also had the Fed come out and state that they actually want inflation; they like to see the inflation rate at roughly 2%. And finally, investors are actually seeing pockets of inflation in their personal lives. So, if you've considered buying a home, if you're looking at a used car for yourself or your child, or even when going out to dinner, you've witnessed significant price jump in all of those categories. So inflation is on the front of everyone's mind today.

***PFN*: How does what we're experiencing in terms of inflation today, compare with some past incidents? There is always discussion about inflation in the 1970s. How does this compare with previous eras?**

Mandell: The 1970s is the period that in the modern, post-war era, that people think about when they bring up inflation. That was much more severe than what we're talking about now. Andrew just mentioned that 2% is the target, and maybe it's going to go above that. But in the 1970s, inflation averaged more than 7% annually. So just a totally different order of magnitude. And at that time, interest rates reached 16%, 17% for a brief period. It was a different world.

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***PFN*: What are central banks such as the Federal Reserve saying about the inflation forecasts? And what are some of the strategies that they use to control inflation?**

Taylor: For the last year, the Fed's indicated that they're not particularly concerned about inflation. The Fed has stated over and over again that they believe it's transitory. Two big factors have driven the level of inflation that we've had

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specialty only made up only 18% of the firm's engagements. This is down 4% from two years ago. Specialist physicians, on the other hand, made up 64% of Merritt Hawkins' search engagements over 12 months, the release says.

"The recruiting frenzy in primary care is over."

The firm ties this increase in the search for specialists with the population aging and requiring their services. At the same time specialists are, on average, older than primary care physicians and many are nearing retirement which is limiting the supply, the release says.

Overall, the COVID-19 pandemic has suppressed demand for doctors temporarily as the number of search engagements dropped by 25% year-over-year. The same dynamic seems to be having the opposite effect on the market for NPs; which has seen an increase year-over-year. ■

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presently. One is disruptions in the supply chain, which is related to COVID-19. And second is pent up demand, which is also related to COVID-19. It's difficult to spend money now even if you want to. So each of these two pressures have been driving inflation over the last few months, are expected to subside some point in the fourth quarter, or potentially early in 2022.

In the last 12 months, the Fed's also discussed the velocity of money quite frequently; the concern that clients have is, there's been all this stimulus, and there's now a drastic increase in the supply of money in the financial system. In fact, that increase has been, to the tune of 30-plus percent over the course of the last two years, with the stimulus that has taken place. So the question is, if we have all this money in the financial system, now, that wasn't there previously, why don't we have all this inflation? And the response from the Fed is that we really haven't seen the velocity of money increase, which is simply an indication of how quickly the money is circulating throughout the financial system. The Fed is monitoring that closely, and the velocity of money has not really moved until recently. And now we've seen some of these inflationary reports that have that have caused maybe a little bit of disagreement within the Fed over the interest rate policy that they have been stating for months and months, which is lower rates for longer. In June, for example, the Consumer Price Index rose more than 5%, which is a far cry from the Fed's 2% mandate. So you're starting to hear some disagreement amongst the members. It's going to be really difficult to justify the policy of lower rates for longer if we have a couple more reports that are pushing that 5% number.

PFN: From the perspective of physician investors, what are some of the worrying aspects of inflation? And what are the positive aspects?

Mandell: One of negatives is kind of emotional. In that, as a consumer, you are seeing and paying higher prices. So physicians out there who are, for example, trying to buy a used care for one of their children, it's a bit of a nightmare right now. You might pay almost the same price as a brand new car. That doesn't make sense, right? When people see that, they get emotional, and ultimately, we're somewhat rational and somewhat emotional, and part of our job and working with physicians and managing assets and managing, a client's lifetime savings, is to make sure we cut through some of that emotion as much as we can. So, I think one of the negatives is just impacting people and their attitudes, and how they react. Some people kind of stayed the course with their investments. And some people didn't, and they may be paying a price about that today.

I think one of the positives, from a more rational point of view, is if you look at historically, usually moderate inflation — not runaway inflation — has usually been positive for stocks. So equities are typically a good hedge against the erosion of purchasing power, as opposed to bonds. So stocks typically do well. Again, historically, what we see is if inflation continues to rise or continue at a high level, typically, interest rates then follow to rise, and that's what the Fed is going to be dealing with, when that happens that negatively impacts the price of bonds, So, in a sentence, moderate inflation can be good for stocks, could be good for the markets, but it can, over time, be negative for bonds. ■

More online

Check out the full interview at Physicians Financial News®:

https://www.medicaleconomics.com/view/what-physicians-need-to-know-about-inflation

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to grow significantly in coming months from increasing demand in the post-pandemic economy, though constricted supply chains may take a while to open up because of the delta variant. Moreover, the infrastructure bill before Congress that, as of early August, seemed likely to pass, would give the sector a boost.

So much for tailwinds. A likely yet temporary market headwind would be a correction (a 10% drop) or a pullback of 5 to 7%. We're long overdue for a correction, and the chances of this happening every August are increased by people going on vacation, meaning lower trading volume and potentially higher volatility.

A resulting correction or pullback would be a good buying opportunity. ■

Dave S. Gilreath, CFP, is a 40-year veteran of the financial services industry. He established Sheaff Brock Investment Advisors LLC, a portfolio management company based in Indianapolis, with partner Ron Brock in 2001. The firm manages more than $1 billion in assets nationwide.

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