CAPTRUST

Client Conversations – Summer 2022

Q: What’s a trusted contact? Should I name one for my investment accounts?

Extra layers of security are excellent words to live by in these uncertain times. One easy step to take is adding a trusted contact person to your investment accounts. You may have received an email request from CAPTRUST to do just that, whether on a new account or one you’ve had for a while. So what in the world is a trusted contact, and should you have one?

A trusted contact is simply a person you authorize your investment firm to get in touch with in case of any difficulty reaching you or suspicion of potential fraud or financial abuse affecting your account. This person could be a spouse, a relative, a professional like your attorney or accountant, or any reliable person of your choosing over age 18.

Financial exploitation and fraud is rampant, and older Americans were scammed out of $1 billion in 2020, according to a report from the Federal Bureau of Investigation. As part of an effort to safeguard financial accounts, the Financial Industry Regulatory Authority (FINRA) introduced a rule in 2018 requiring financial institutions to ask clients to establish a trusted contact. Note that while a financial institution is required to ask you for this information, the choice is yours whether or not to provide a trusted contact.

If it’s not required, should you bother? In this age of identity theft and synthetic identity fraud, both FINRA and the Securities and Exchange Commission’s Office of Investor Education recommend that you designate a trusted contact for your accounts.

Imagine that your financial advisor has repeatedly tried to reach you without success for an urgent matter regarding your accounts. By having preauthorization to reach out to your established trusted contact, your advisor would have greater ability to help in a variety of situations, such as:

- You’re on vacation.
- You’re having health issues or are in the hospital.
- You’ve been displaced by a fire or natural disaster.
- You’re a victim of identity theft.

As you can see, the trusted contact should be someone who is able to reach you easily to convey a message. This person might need to confirm your health status, confirm the identity of someone with power of attorney for your account, or confirm the identity of an executor or trustee who is working on your affairs.

A trusted contact is not the same as a power of attorney. The trusted contact does not have any authority to:

- make trades or execute transactions;
- act on your behalf; or
- engage in activity on your account.

You’d have to separately authorize this person to allow any such actions. However, the financial institution does have the ability to place a temporary hold on disbursements from the account if financial exploitation is suspected.

Adding a trusted contact is a bit like turning on two-factor authentication on your phone—an extra step that might make all the difference in protecting your account from fraud or scams.

Q: I have been hearing about stagflation. What is it, and is it something to be concerned about?

Stagflation is about as fun as it sounds, especially if you remember the 1970s, with its steep oil prices, runaway inflation, and terrible joblessness. No investor wants to suffer through that again, but the Federal Reserve’s coming actions to curb inflation that’s the highest it’s been in many years are causing some anxiety about the potential for stagflation.

The Fed has signaled that it will act aggressively by raising interest rates to get control over inflation, which has been over 8 percent over the past 12 months. Its goal is to raise rates just the right amount to shrink consumer demand somewhat, gently tapping the brakes on the economy and tamping down inflation. But this maneuver will be hard to get perfect. If the Fed overshoots and cools the economy too much, it could trigger a recession and many lost jobs.

With the blunt instruments it has, the Fed can only try to rein in demand; it has no tools available to increase the supply side of the equation. A series of external blows—COVID-19 lockdowns, global supply chain problems, and the war in Ukraine—have severely limited the supply of some goods, which is why prices are going up. Unfortunately, the Fed can’t control whether any more supply-side shocks, like more pandemic lockdowns, are still to come. Further supply-side problems could cause prices to continue to rise and trigger stagflation.

However, we are not in a period of stagflation yet. The technical definition of stagflation involves the triple threat of:

- elevated inflation;
- slowing economic growth; and
- high unemployment.

Unemployment currently is nowhere near high. In fact, the opposite is true. Because of the extraordinarily tight labor market, the current economy doesn't meet the criteria for stagflation. Companies everywhere are having great difficulty hiring enough workers, as evidenced by the Great Resignation and rising wages.

The fact that there are unfilled jobs in the system gives the Fed some latitude. The perfect scenario would be for the Fed to slow the economy at just the right pace to remove six million excess jobs, relieving wage inflation, and bringing down price inflation. The danger is, if Fed actions remove too many jobs, rising unemployment could result.

These uncertainties have driven the stock market down some 15 to 30 percent in various sectors. For investors, it's certainly challenging to position your portfolio for stagflation. The best approach is to make sure you've got ample liquidity to let the market work through this period of volatility. The key to success is to buy enough time with your liquidity bucket to ensure that you are not forced to turn a temporary decline into a permanent loss. You don't want to have to sell until you identify a good time to exit.

As always, diversification is your friend. Stay patient and try to keep emotion out of your investment decisions. Reactive emotional decisions can erase decades of good decisions, wreaking havoc on a sound financial plan.
