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VOLUME 21 | EDITION 06

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"Are we seeing the return of inflation? Or deflation?"

By Kevin Burns

WE HAVE A SOLUTION.

The Federal Reserve has just started QE3 (Quantitative Easing Round 3), and thoughtful investors are beginning to fear a return of inflation or perhaps even hyper-inflation. Those of us who lived through the 1970s remember how damaging inflation can be to a family's wealth.

The Fed prints money to increase liquidity and drive down interest rates with the goal of reviving a sluggish economy. This action drives down the U.S. dollar and changes the dynamics of our debt, of which the Fed is the largest buyer. The deficit then continues unabated and the national debt continues to explode.

How do we get off this path? History suggests that we will need to inflate our way out of it. Having spent over thirty years in the financial industry, we recognize that we need to consider the flip side and ask ourselves, "What if the inflation hawks are wrong and deflation is in our future? What should an investor do?"

Historically, assets considered a hedge against inflation included hard assets such as real estate, fine art, commodities, master limited partnerships (MLPs), real estate investment trusts (REITs) and stocks. Today, they include Treasury inflation-protected securities (TIPS). On the other hand, asset classes that have historically underperformed in inflationary environments include government bonds and other taxable fixed income vehicles.

Many investors have already flocked into inflation hedges (particularly gold), and many of them may already be overvalued and expensive to own. To hedge a portfolio against inflation, investors should consider such factors as the inflation sensitivity, reliability and cost-effectiveness of this hedge. For example, commodity futures and gold have been sensitive to inflation historically but often are not cost effective. However, many "experts" believe we have not even seen the tip of the iceberg with these asset classes. So how can an investor build a portfolio that can grow in either of these environments?

A well-thought-out family blueprint is an absolute necessity. This includes an asset allocation that offers some protection in all environments. For instance, depending on a family's risk profile and cash flow requirements, a well-balanced portfolio may include:

Investments to protect against inflation: **TIPS:** These offer very low returns, but also a guaranteed hedge against rising prices; **commodities:** In inflationary environments, commodity prices typically rise; **MLPs:** Increasing cash distributions based on CPI might make this under-owned, high-income, tax-deferred asset class rise; **REITS:** These often own commercial properties and apartment buildings, which in periods of inflation have the ability to increase rents; **equities:** Public companies are often able to pass along rising costs to consumers.

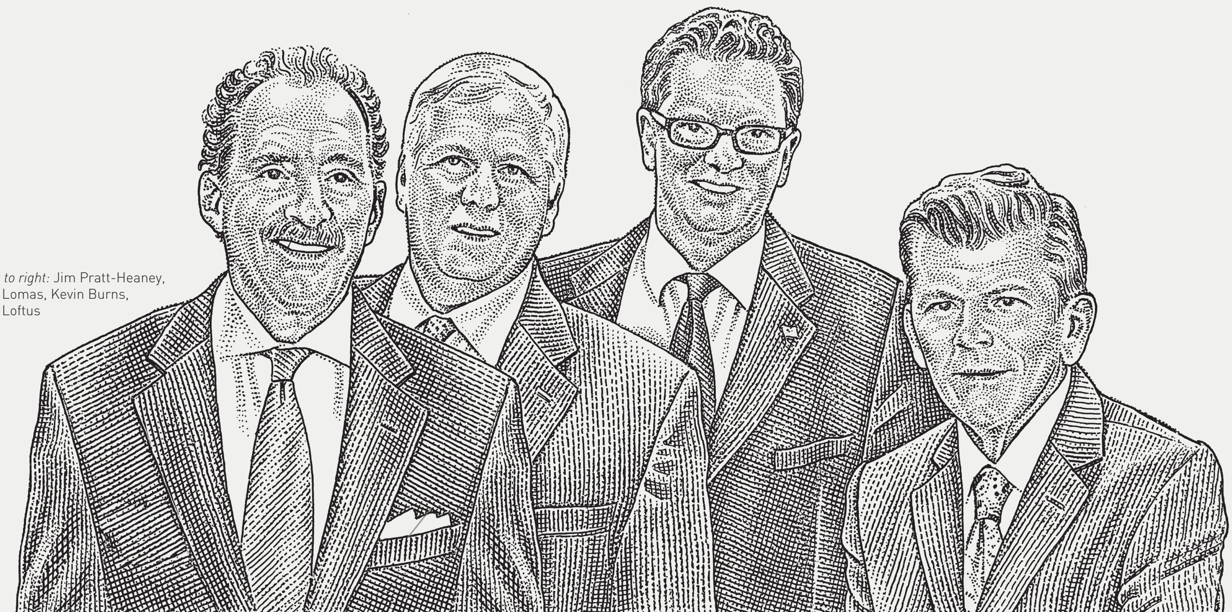
Income and deflation protected investments: **tax-free municipal bonds:** These may be an excellent asset class in a diversified portfolio. We often focus on the short- and intermediate-term, highest-rated bonds in this asset class; **high-grade corporate bonds:** These offer consistent cash flow and stated maturities; **alternative investments:** These absolute return vehicles have very little correlation to the above asset classes.

The key to successful investing remains these three principles that we have followed for decades: diversify asset classes; diversify management style; and rebalance periodically to plan. Our experience has shown that a dynamic, flexible portfolio, rebalanced over time, can succeed in inflation or deflation?

> *"Many investors have already flocked into inflation hedges (particularly gold), and many of them may already be over-valued and expensive to own."*
>
> — Kevin Burns

How to reach Kevin Burns

I look forward to discussing how I can help you reach your financial goals. I can be reached directly at 203.683.1525.



Left to right: Jim Pratt-Heaney, Bill Lomas, Kevin Burns, Bill Loftus

Who Are Our Clients?

LLBH Private Wealth Management is a Registered Investment Advisory (RIA) firm, created to work with entrepreneurs and senior executives who became wealthy because they made great decisions. Our disciplined process ensures that we see the complete picture of your financial situation so that we can make informed and suitable recommendations to help you accomplish your goals and objectives. Our process also works for those who have been thrust into decision-making roles due to life-changing events such as retirement, the sale of a business, a divorce or a death in the family. Just as they do in their professional lives, our clients want a thorough and candid process in order to make smart decisions about their financial lives. Simply put, LLBH clients respect our ability to get things done.

Assets Under Management
$900 million

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$10 million (investment services)

Largest Client Net Worth
$500 million

Financial Services Experience
120 years (combined)

Compensation Method
Asset-based

Primary Custodian for Investor Assets Pershing, A BNY Mellon Company

Professional Services Provided
Planning, investment advisory, money management, advanced wealth transfer planning and corporate services

Association Membership
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