

TILIA



NEWS

INVESTMENT MANAGEMENT | FIDUCIARY ADVICE | RETIREMENT PLANNING

Investor Risk Tolerance Grows with the Rising Market

Portfolio Allocation should be a reflection of your risk tolerance *and* risk capacity.

Looking back just 18 months ago, it may be hard to remember how grim the broad outlook for families, jobs, the economy and markets was. You may also remember how you felt about your personal finances then. Consider how your risk tolerance - defined as your willingness to accept portfolio volatility - may have changed during that critical time. A natural response may have been to say that you did not want *any* risk in your portfolio, necessitating a shift to treasury bonds or even all cash. Your subsequent return since then would have been nearly zero.

Jumping forward to early September of 2021, the S&P 500 index has closed at all-time highs 54 times just since January. The stock market climb upwards as the economic picture improves

The Rise of "Buy Now Pay Later"

Consumers purchasing goods online lately have likely noticed a new payment option: Buy Now Pay Later (BNPL).

The concept isn't new, but the terms for consumers are preferable to credit cards in several ways. First, the default payback periods of 6 weeks to 3 months generally incur zero interest costs for the consumer. If you choose a longer payback period, you'll likely pay interest, but at a lower rate than most credit cards. Customers utilizing BNPL are also not subjected to a "hard" credit inquiry, as they would be if applying for a store or traditional credit card. There are trade-offs at the same time. BNPL customers don't have the option to make only a minimum monthly payment, as they do with credit cards, and each transaction is approved independently vs. having a revolving line of credit that is purchase-agnostic.

BNPL stocks have been red hot lately, after Square & PayPal each agreed to pay billions to acquire leading players in the market. Strong quarterly results from the group has added more fuel to the fire. Perhaps the most interesting aspect of the bull thesis for BNPL companies is the idea that they are creating a new "payment rail" that has the potential to bypass the major card processors (Visa, Mastercard, Amex, etc). When a consumer makes a purchase via BNPL, the company could push them to make the payments via ACH from their checking account, which would cut card processors

can lead to a sense of increased risk tolerance among investors. This is also natural, though elevated risk tolerance can lead to unnecessary risk taking. When times are good, investors start behaving like the current environment will go on forever. When there is economic turmoil, investors often extrapolate that rough patch and fail to see the light at the end of the tunnel.

This is where a fiduciary advisory team is helpful.

As valued clients, we consider your risk tolerance as much as your *capacity to bear those risks* when recommending adjustments to your portfolio. Risk capacity is your financial ability to withstand portfolio volatility, which is a function of your balance sheet, investment time horizon and desired terminal portfolio value. It's part of why we ask about your larger financial goals. We serve as trusted partners in your journey and want to ensure you get to where you're going. As your life and financial circumstances change, so too will your capacity and tolerance for risk.

Sources: WSJ, Kitces.com

out of the transaction completely. It's too early to tell if BNPL poses a credible threat to the payment incumbents, but with market-darlings Square & PayPal getting involved, it is sure to be a closely followed trend moving forward.

The scale of the BNPL market is expected to grow from the current size of ~ \$5 Billion to over \$20 Billion by 2028. For now, BNPL debt is not a part of what traditional lenders see when assessing applicants for things like mortgages and car loans. This opacity represents a growing problem for lenders and is something to keep an eye on in the future.

From a personal financial planning standpoint, we encourage you to fight the urge to "pay later" for your online buys. While BNPL can be a useful budgeting tool if done right, it's yet another way to fall into the debt trap when utilized liberally.

Sources:

<https://www.latimes.com/politics/story/2021-08-11/buy-now-pay-later-apps-how-they-work>

<https://www.grandviewresearch.com/industry-analysis/buy-now-pay-later-market-report>

<https://www.joincolossus.com/episodes/46164128/rampell-visa-the-original-protocol-business?tab=transcript>