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THE ADVISOR

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See Page 4 for Upcoming Events!

Good News for Wall Street, Bad News for the Economy

July brought a mix of good news and bad news for the economy and financial markets. On the good side, the stock market rebounded after hitting its lowest level of the year in June. On the bad side, the U.S. economy shrank again in the second quarter, signifying that we are officially in a recession. Maybe. Let's start there.

Historically, two consecutive quarters of economic shrinkage make a recession. The U.S. economy shrank by 1.6% in the first quarter. On July 28 the Commerce Department reported that it shrank again by 0.9% in the second quarter.[1] So, technically we are already in a recession. But this time around, some officials are saying, "Not so fast." They're arguing that the textbook definition is too broad and doesn't really hold up in our current situation. For one thing, they point out that the economy's contraction in the first quarter had more to do with the trade deficit than with a slowdown in spending and manufacturing. For another, they note that several areas of the economy are still quite strong, especially employment. With that in mind, they argue we should let the National Bureau of Economic Research determine whether we're in a recession based on its definition, which is "a significant decline in economic activity that is spread across the economy and that lasts more than a few months."

One of the officials making this argument is Federal Reserve Chairman Jerome Powell. He probably already knew about the second quarter shrinkage when he insisted the day before that we're not in a recession, and that the very idea made no sense. His comments came shortly after the Fed raised short-term interest rates by three-quarters of a percent for the second time in two months to try to curb inflation, which stands at a 40-year high of 9.1%.[2] It's no surprise Chairman Powell would reject the recession argument since saying we are in a recession might make it a self-fulfilling prophecy. That's due to the "reverse wealth effect," which we've discussed many times. When people "feel wealthy" due to a rising stock market and strong economy, they're more apt to spend, making the economy even stronger. That's the wealth effect. But when they "feel poor" because the markets are down or because the government says we're in a recession, they're less apt to spend, which makes matters worse. Chairman Powell doesn't want that because if spending decreases too much we could end up in a true recessionary spiral, which would force the Fed to stop raising short-term rates and possibly start lowering them again. That may eventually happen anyway, but the Fed wants to fight it for now.

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Myths about College Planning

The college planning, admission, and financial aid process can seem opaque to both students and their parents. And given all the concerns about rising tuition and confusion about how aid is allotted, it's not surprising that some myths have arisen about the best way to plan for college costs.

The truth is that much conventional wisdom about college planning is more fiction than fact. Below, we bust some of the biggest college planning myths so you'll be better prepared to give your children the start in life they deserve.

Myth #1: We earn too much to qualify for financial aid. Some families with high incomes and a lot of assets may indeed not qualify for need-based financial aid. But chances are, you aren't one of them. The truth is, financial aid formulas are complicated, and it's hard to predict how much or what type of aid you might get if you don't apply. Filling out the Free Application for Federal Student Aid (FAFSA) as well as any institutional aid forms is almost always worth it, just to see what happens.

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Good News for Wall

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Wall Street's Take

Also, for now, Wall Street is siding with the Fed, which is why the stock market basically shrugged off the report about the second quarter contraction and continued to rally as July ended. After the Fed approved its three-quarter percent rate hike, the S&P 500 jumped 2.6%. It then added another 1.2% the next day, after the release of the Commerce Department's report.[3] The rally suggests that investors had anticipated the Fed's three-quarter percent increase and the prospect of second-quarter shrinkage, and priced them in ahead of time. It also capped off a strong six-week run for the stock market, which has been on the upswing ever since mid-June, when all three major indexes were in or near Bear Market territory. Will this optimism last?

For a while, maybe, but even many economists who agree we're not in a recession yet still believe one is probable by next year. The bond market appears to be siding with them. Since mid-June, the yield on the 10-Year Treasury rate has fallen by over 0.70%.[3] That suggests the bond market is already "pushing back" against the Fed's efforts to continue raising short-term rates for fear that it could make the coming recession worse. Remember, long-term interest rates need to rise ahead of short-term rates to avoid a completely flat or inverted yield curve. With the Fed's benchmark short-term rate now at a range of 2.25% and 2.50% (its highest level since before the Financial Crisis) and the 10-Year at 2.62%, the curve is already nearly flat. And by another measure, the yield curve is already inverted because the interest rate yield on a two-year government bond is now higher, at 3.10%, than it is on the 10-year bond.

If all of this sounds familiar it's because we saw this same dynamic play out in 2018, the last time the Fed was actively raising short-term rates. Back then, inflation wasn't such a concern, and we weren't in a recession by any measure. Still, by the end of the year, the bond market (which is often said to be "smarter" than the stock market) saw a potential recession coming and started pushing back hard. By December the Fed was forced to halt its rate hikes and then start raising rates again as the economy worsened in 2019.

What's Next?

So, with the bond market already pushing back, what will the Fed do at its next meeting in September? That probably depends on inflation more than anything else. If we see inflation come down in August to 5% or 6%, we think the Fed may sit on its hands. Either way, we also think that if the bond market is right and the "real" recession has yet to start, it means the stock market could sink back into a Bear Market that exceeds the lows we saw in June. That's the bad news. But the good news for bond investors is that the headwinds caused by rising interest rates may now have peaked. We're not ready to carve that in stone yet, but signs are currently pointing in that direction.

Naturally, you'll see all of July's good news reflected in your latest statements. Most of our portfolios had a positive month. Our dividend strategies are back in the black and beating the markets again, and values on our bonds and bond-like instrument have recovered about a third of their year-to-date losses, on average. That's great, of course, but ultimately, it's unimportant because just as your income return remains the same when your values are falling, it does so too when your values are rising — which is the main reason you're investing for income in the first place! As always, call our office if you have any questions or concerns, and enjoy your summer!

[1]"US Economy Shrinks Again," The Street, July 26, 2022

[2]Fed Raises Interest Rates by 0.75%," Yahoo News, July 27, 2022

[3]"Market's Recent Rally Could Be Unwelcome for the Fed," Yahoo News, July 29, 2022

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Financial Management for College Students

You're off to college. It's an exciting time filled with firsts — the first time living away from home, the first time you're on your own for meals and laundry, and the first time you have to manage your own money. It's important to get off on the right foot with managing your money, because the financial decisions you make now will impact you later. Following are some tips:

Develop a Budget — First make a list of your monthly income sources, including wages, savings, and any allowance from your parents or others. Next, you will want to make a complete list of all of your expenses, including school supplies, laundry, meals outside of your food plan, and personal care items. On a monthly basis, you should track your expenses and add new expenses as you discover them. Hopefully, you will have more income than expenses, but if not, you need to start deciding what stays and what goes.

Identify Wants Versus Needs — Part of becoming financially responsible is learning the difference between wants and needs. You will need to determine the amount of money that is absolutely essential to pay your expenses each month. After a few months, it will become easier to distinguish wants from needs. As you track expenses on your budget, you will be able to ensure the essentials are covered and determine how much you have left over.

Set Up Checking and Savings Accounts — Find a bank or credit union on campus to establish a checking and savings account. You will want to make sure they have convenient ATMs on or near campus so you can avoid any out-of-network ATM charges. Most financial institutions offer free checking and savings accounts to students, but you should make sure you understand what fees may be associated with your accounts and any policies that will impact your accounts.

Use Credit Cards Wisely — While it can be a double-edged sword, you need to use credit to establish a good credit rating. This will be important when applying for a job, securing an apartment, and buying a car. You should open a credit card and use it to pay for expenses, being sure to pay off the balance each month. By doing this, you are showing you are financially responsible and you are establishing a good credit history.

Myths about College

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Myth #2: I'll never be able to afford to send my child to a private school. There's no doubt that private colleges and universities are expensive, and there's a lot of debate about whether they're worth the cost. But keep in mind that while the sticker price may be high, private schools typically have more money to spend on financial aid than their public counterparts. And if a student is exceptionally talented, a private school may offer generous financial aid to encourage him/her to attend. If your child is considering private schools, research the net price, not the sticker price, to get a sense of what it might really cost to attend. You should be able to find calculators to help make these estimates on a school's website.

Myth #3: It's better to borrow money from my retirement accounts for tuition than to have my child take out student loans. Borrowing money from your 401(k) or other retirement accounts to pay for college is not always a good idea. Unless you've oversaved for retirement (and few people have), you're going to need that money when you stop working. Pausing your contributions or drawing down your balance will set you back significantly. While you don't want to overburden your kids with debt, a small amount in student loans may give them skin in the game, so to speak — and modest student loan debt at a low interest rate won't jeopardize your child's future. By keeping your retirement savings safe, you'll also be less likely to have to turn to your children in the future for financial help.

Myth #4: I'm not sure my child will attend a four-year college, so I shouldn't bother to set up a 529 plan. The funds you put in a 529 plan can be used for qualified expenses at a wide variety of schools, including community colleges and accredited trade and vocational schools. You can even use the money at some foreign schools. Plus, if your child ends up not needing the money, you can name a new beneficiary for the funds, like another child, your brother or sister, a niece or nephew — even yourself. In the worst-case scenario, you simply use the money for noncollege expenses, though that comes with a penalty. But whatever you do, don't let the chance that your child won't attend school stop you from saving.

Myth #5: My child is a genius or a great athlete. I'm sure they'll get a scholarship, so I don't need to save. Scholarships are a great way to help for college, and a significant amount in gift aid for education is awarded to students every year. But unless your child is a true phenom, you can't be sure he'll get a piece of that pie — or how much, if he does. Plus, you really should start saving for college when your children are very young, well before you have any idea of whether they're math geniuses or football stars.

Myth #6: We should put all the money we save for college in a 529 plan. Not necessarily. A 529 plan has many advantages, like tax-free withdrawals for educational expenses. But you may want to diversify your savings. If your son or daughter gets a scholarship, drops out, or doesn't attend college, you can use those other savings however you want, without paying a penalty (unlike a 529 plan).

Myth #7: I should put college savings in my children's names. It certainly seems like it might be a good idea to keep your child's college savings in his/her own name. But that's not always a good idea. For one, college financial aid formulas generally see 20% of a student's total assets as being available to pay for education every year, compared to just 5.6% of a parent's assets. More assets in their name could translate into less financial aid for your child. Plus, once your child turns 18, that money is his/her to do with as he/she wishes (unless it's money held in a trust with restrictions on its use). Not all young adults will have the wisdom to use that money wisely.

4 Reasons for Your Child to Work Part-Time

Don't feel guilty about your children working while attending college or feel that a part-time job will only interfere with their college experience. Working as little as a few hours a week can be remarkably beneficial.

It Boosts Accountability— Encouraging your children to work part-time as soon as possible and setting a portion of their earnings away for college can give them a much better appreciation for their college education. Nonworking students can struggle to understand just how expensive their tuition and living expenses are and the sacrifices involved in paying those costs.

A part-time job provides them with a stronger sense of the work and sacrifice involved in paying their tuition and other expenses.

It Can Cut Down on Costs — Even the smallest contributions can quickly accumulate, decreasing the balance of their tuition bill, paying for the new laptop they need, or cutting down on the monthly student loan payments they'll owe after graduation. Whether they contribute $50 or $500 a month, it's either money they won't owe after graduation or money saved that you can put toward your retirement or investments.

It Teaches Life Skills — Whether they're answering phones or delivering pizzas, part-time jobs provide teenagers and young adults with a different set of skills than what they'll derive in class. Because they're interacting more with adults in a real-world setting, they'll develop the vital communication and problem-solving skills that they'll need in their post-college career much sooner, which could lead to greater opportunities earlier on. Moreover, regardless of whether they're in high school or college, working even a few hours a week while attending school allows them to master work-life balance, so they're better equipped for the realities of adulthood.

It Encourages Networking — There's a well-known saying that success is closely linked with who you know. Sure, they'll make friends in the dorm, but a part-time job encourages them to connect with peers on a different level that could lead to valuable opportunities in the future. A job allows them to further develop their individual talents and strengths.

Business Data

Indicator	Month-end May-22	Jun-22	Jul-22	Dec-21	Jul-21
Prime rate	4.00	4.75	5.50	3.25	3.25
3-month T-bill yield	1.12	1.75	2.52	0.08	0.05
10-year T-note yield	2.85	2.98	2.67	1.52	1.24
20-year T-bond yield	3.28	3.38	3.20	1.94	1.81
Dow Jones Corp.	4.27	4.80	4.51	2.48	2.14
GDP (adj. annual rate)#	+6.90	-1.60	-0.90	+6.90	+6.70

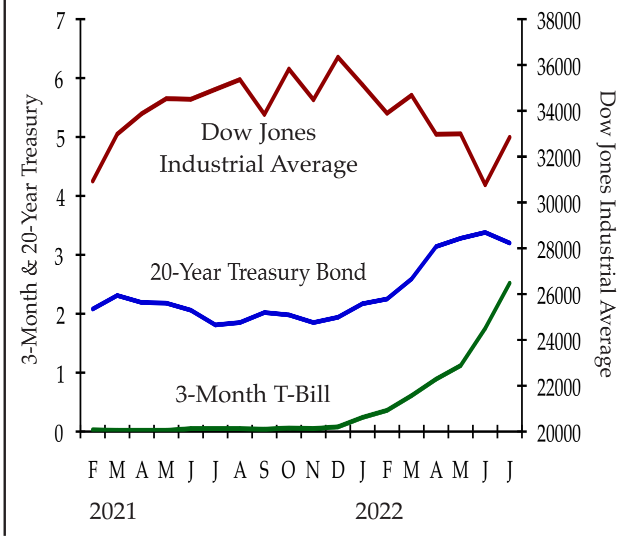
Indicator	Month-end May-22	Jun-22	Jul-22	% Change YTD	12 Mon.
Dow Jones Industrials	32990.12	30775.43	32845.13	-9.6%	-6.0%
S&P 500	4132.15	3785.38	4130.29	-13.3%	-6.0%
Nasdaq Composite	12081.39	11028.74	12390.69	-20.8%	-15.6%
Gold	1838.70	1817.00	1753.40	-2.9%	-4.0%
Unemployment rate@	3.60	3.60	3.60	-14.3%	-39.0%
Consumer price index@	289.11	292.30	296.31	6.6%	9.1%

— 4th, 1st, 2nd quarter @ — Apr, May, Jun Sources: *Barron's, Wall Street Journal*

Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

February 2021 to July 2022



Upcoming Events

Are you aware of the new Tax Laws & recent changes to qualified retirement accounts & IRS mandated Required Minimum Distributions? You are invited to join us for this No Cost class to find out what you need to know to help avoid the 50% IRS penalty.

Call 888-962-5416 or visit www.youRSVP.com and enter code WELSUH to reserve your seat(s):

Hobe Sound Public Library
Wednesday, September 14th, 6:00pm – 7:00pm
Hoke Library in **Jensen Beach**
Thursday, September 22nd, 6:00pm - 7:00pm

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