Peak Capital Management

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The Advisor

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JULY 2022

Recession Fears & the Fed's Predicament Rattle Markets

As May ended, investors were focused mainly on inflation and the Federal Reserve's plan to reign it in by raising short-term interest rates. Investors seemed to have made their peace, somewhat, with the Fed's rate hike schedule, and the S&P finished May with a slight gain for the month. But another bad inflation report in early June prompted selloffs throughout the markets. As Wall Street sank, a selloff in the bond market pushed the yield on the 10-Year US Treasury rate up to 3.48%, its highest level in 11 years.

As a result of more bad inflation news, the Fed announced it would get more aggressive. After saying twice that it planned to raise rates by a half-percent in June, the Fed instead approved a three-quarter percent rate hike, its biggest since 1994.[1] Because raising short-term rates — by its nature — slows economic growth, which is already slowing on its own, the Fed's move intensified fears that a new recession is about to hit.

A report by the Atlanta Fed last month argued we're already in a recession, although we won't really know until second-quarter earnings numbers are finalized in August. If those numbers show the GDP shrank from April to June, we'll be in a recession because the economy already contracted in the first quarter.

While the stock market fell again after the Fed's move, all the way into bear market territory, it did so this time to the benefit of the bond market. Whenever a recession becomes the main focus of worried investors, you often get a "flight to quality." That's when a large number of investors pull out of the risky stock market then buy into the relatively safer bond market. That's exactly what happened in June. As a result, bond values increased, prompting long-term interest rates to decrease. The 10-Year Treasury yield went from that decade high of 3.48%, back down to 3% within ten days, then ended the month at 2.97%.[2]

Slamming the Brakes

Regardless of whether the economy grew slightly or shrank in the second quarter, the main issue is that the economy is definitely slowing. This makes the Fed's job

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10 Ways to Boost Savings

Saving money doesn't have to be hard. By embracing some simple lifestyle changes or taking full advantage of tax perks and other savings incentives, you can easily boost the amount of cash you save. Here are some ideas to get you started.

- **Take advantage of savings perks:** If you contribute pretax earnings to a 401(k) plan or IRA, you're saving money beyond your actual contribution amounts. Say your monthly gross pay is $5,000 per month. You currently don't contribute to a 401(k) plan. You decide to start saving 3% each month (or $150) into your employer's 401(k) plan. This $150 comes out of your paycheck pre-tax, which means that even though you're saving $150, your paycheck only shrinks by $112 — in other words, you've saved $38 a month on taxes, or $456 per year. Another way to save? Make sure that you're contributing enough to get your employer match, since this is a great way to increase your savings without actually shrinking your take-home pay.

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Recession Fears

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extremely tricky because it's trying to raise rates just enough to slow inflation but not so much that it brings the slowing economy to a grinding halt and causes the recession everyone is so worried about. As we've discussed before, the main reason its job is so tricky is that it started too late. If the Fed had begun raising rates last year instead of ignoring inflation, it might not be in this predicament. Metaphorically speaking, it could have tapped the brakes and slowed the economy down gradually. As it is, the Fed now must slam the brakes and then determine how and when to speed up again, which is a much trickier procedure.

So again, this is why investors seemed to fully shift their focus from inflation to recession in June, resulting in all the market turmoil we just talked about. What does it all mean for your investments? Well, as you'll see when you look at your latest statements, our stock strategies are down only about 2% on average and still beating the market by a wide margin — and still doing so with a 4% dividend yield.

As for our more conservative strategies, that spike in long-term interest rates naturally brought the value of most bond and bond-like instruments down a little further. Year to date, most of you are probably down a bit more than 10% depending on your specific holdings. That's a lot, but it's not a 20-to-35% drop like the stock market is experiencing.

Why You're Here

Of course, the most important thing is that if you look at the income column on your statements, you'll see it hasn't changed. Even in the midst of all this volatility, your income return has been consistent and reliable all year, and that's why you're here in the first place: because income is your priority, as it should be. And if you're reinvesting the income it's going up — and it's going up at a faster pace now because with bond values down you're able to buy more shares, which means more future income.

And, of course, most of the assets in the bonds and bond-like instruments in your portfolio have a face value that is protected by contract and guaranteed to be paid back if you hold the investment to maturity, assuming there have been no defaults.

So, stay focused on these things as the second half of the year gets underway; stay focused on why you're here! As always, please reach out at any time if you have any questions — and have a great summer!

[1]"Fed Hikes its Benchmark Interest Rate by 0.75 Percentage Point," CNBC, June 15, 2022

[2]YCharts.com

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5 Reasons to Start Saving

If you're interested in getting started with savings, or if you want to save more, here are five reasons to stay motivated.

1. You'll be prepared for emergencies. Here's an alarming fact: most Americans don't have enough money saved to cover even relatively small unexpected expenses, such as emergency room co-pays, minor car repairs, or a broken furnace. Without cash on hand to cover these irregular but inevitable costs, you're more likely to turn to credit cards or loans when the need arises. The result? A downward financial spiral that can be difficult to pull yourself out of.

2. You'll be more independent. Having savings gives you more flexibility and independence. With a healthy amount of savings, you can feel more free to take risks, like starting your own business, heading back to school to train for a new career, purchasing a home of your own, or moving to a new city. Plus, without savings, you're living on the financial edge, and you're more likely to find yourself stuck in situations that you may not be satisfied with. Committing to savings today, even if it's just a small amount, will start to give you the freedom to make different choices.

3. You'll be able to reach your goals. We all have goals. Whatever your dreams, they likely have one thing in common — you're probably going to need some money if you want them to become a reality. Few of those dreams are achievable if you don't save for them.

4. You'll be able to earn more money. Saving isn't just about setting aside what you've already earned. It's also about putting your money to work for you. Depending on where you save and invest your money, you can earn more just by being diligent about saving, rather than spending. And because of the power of compounding earnings, even relatively small amounts can grow significantly, provided you don't touch your principal.

5. You'll be happier. No one wants to suggest money is the only thing that can make us happy. But there's also evidence that *saving* money, even in small amounts, can make you happier. In contrast, having debt (often a consequence of a lack of savings) tends to lead to more unhappiness.

Convinced that saving for the future is the right thing to do? Please call to discuss how you can make regular saving part of your financial plan.

Boost Saving

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- **Get your benefits:** Your employer may offer benefits that could save you money. Flexible spending accounts are common benefits that allow you to set aside pretax income for out-of-pocket medical expenses. Also common are programs for commuters that let you pay for parking or public transit on a pretax basis. Some employers even offer discounts on gym memberships or other services. Take the money you save by participating in these programs and use it to boost your savings.
- **Cut recurring expenses:** Monthly subscription boxes, streaming entertainment services, gym memberships that you don't use — these regular costs can add up. While some may be worthwhile, trimming the fat in the area of recurring expenses can help you save more. Keep what you use and drop the ones you don't use.
- **Buy generic:** Do you always buy the name-brand version of the product? If so, you might be wasting money. In many cases, the generic version of a product is just as good — if not identical — as the pricey, branded version.
- **Make it automatic**: Not sure where your money goes each month? Automate your savings so that you don't have to think about setting aside extra cash.
- **Be generous:** If you itemize your taxes, make sure you're keeping track of all your charitable donations — from checks you write to the value of goods donated.
- **Cut one habit**: Do you indulge in daily soda or an expensive coffee drink? Cut the habit (or, if that's too hard, limit it to two or three times a week). Set aside the money you would have spent.
- **Repair, don't replace:** It's easy to toss a slightly worn or damaged item and buy a new one to replace it. But many of the items we throw out can actually be repaired. By purchasing quality items and taking good care of them, you'll likely save yourself money in the end.
- **Use coupons:** Clipping coupons may seem distinctly old school. Fortunately, you can now take advantage of coupon savings without having to spend an entire Sunday morning sorting through newspaper inserts. When shopping online, always do a quick search for online promo codes. Or sign up for your favorite grocery store's rewards program.
- **Review your insurance premiums:** Raising deductibles or bundling policies could save you a bundle. Also, make sure you actually need the insurance you have — cell phone insurance and warranties are often a waste of money. Finally, make sure you're getting all the discounts you qualify for, like car insurance premium reductions for being a safe driver or homeowners insurance discounts for having an alarm system.

Please call for help analyzing your budget and identifying ways to cut your expenses and save more of what you earn.

Are You Saving Enough to Retire Well?

Are you saving enough to retire well? It depends on what your definition of retire well is.

So how much might the average worker *actually* need?

Assume a current income of $50,000 per year, an 8% return on your savings before retirement, 35% of your portfolio invested in stocks after retirement, inflation of 3% per year, and a life expectancy of 90 years. Not counting any other forms of retirement income (Social Security or pension benefits, for example), you'll need between $1.3 and $2.5 million in your account when you're ready to retire.

That's a big range and the decisions you make can dramatically affect how much you need to save for retirement. If you're 50 when you start saving, for example, you can cut the total amount you'll need to save per month almost in half by delaying your retirement by five years. If you really want to retire at age 65, you can cut how much you need to save substantially if you scale back the retirement lifestyle you're planning.

To determine how much money you'll need to have saved for your retirement, you'll need to consider:

1. How much do you already have saved? If you're 50 years old and you already have $250,000 in your retirement account, you won't have to save nearly as much as if you had no nest egg.

2. How many more years do you plan to work? The longer you are saving and earning returns on those savings, the more money you'll have when you're ready to retire.

3. What is your estimated Social Security benefit? Most Americans will likely receive some sort of benefit from the program. It's important to remember, however, that Social Security is just a supplement to your other retirement savings.

4. How much income will you need in retirement? A huge factor that will determine how you answer this question is whether you'll have a mortgage payment when you're retired. For most people, a mortgage payment makes up about a quarter of their pretax monthly income. So if you plan to have paid off your house by the time you retire, you can keep all of your other expenses the same and still only need 75% of the income you needed when you had a mortgage payment.

Of course, you'll also want to think about the activities you want to pursue. If it's traveling the world, you'll need more income than if your plans are to stay home and golf or spend more time with the grandkids down the street.

Please call if you'd like to discuss this in more detail.

Business Data

Indicator	Apr-22	May-22	Jun-22	Dec-21	Jun-21
	Month-end				
Prime rate	3.50	4.00	4.75	3.25	3.25
3-month T-bill yield	0.89	1.12	1.75	0.08	0.05
10-year T-note yield	2.89	2.85	2.98	1.52	1.45
20-year T-bond yield	3.14	3.28	3.38	1.94	2.06
Dow Jones Corp.	4.33	4.27	4.80	2.48	2.29
GDP (adj. annual rate)#	+2.30	+6.90	-1.50	+6.90	+6.30

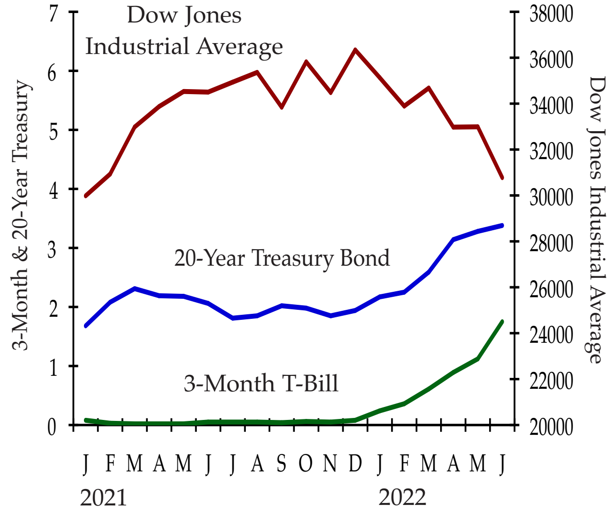
Indicator	Month-end Apr-22	Month-end May-22	Month-end Jun-22	% Change YTD	% Change 12 Mon.
Dow Jones Industrials	32977.21	32990.12	30775.43	-15.3%	-10.8%
S&P 500	4131.93	4132.15	3785.38	-20.6%	-11.9%
Nasdaq Composite	12334.64	12081.39	11028.74	-29.5%	-24.0%
Gold	1911.30	1838.70	1817.00	0.7%	3.1%
Unemployment rate@	3.60	3.60	3.60	-14.3%	-37.9%
Consumer price index@	287.50	289.11	292.30	5.2%	8.6%

— 3rd, 4th, 1st quarter @ — Mar, Apr, May 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

January 2021 to June 2022



Upcoming Events

Find out how claiming your Social Security benefits at the right time could mean an extra $100,000 over your lifetime!

Call 855-586-5632 or register online at www.youRSVP.com and enter code WAMQUL

Hoke Library in **Jensen Beach**

Thursday, August 4th, 6:00pm - 7:00pm

Indian River State College in **Stuart**

Tuesday, August 9th, 6:00pm - 7:00pm

We're proud to sponsor **The Retirement Income Radio Program!**

Listen live every Monday at 11:00am on 1590 WPSL or anytime by visiting our website

https://peakcapitalmanagement.net/radio-show/

Thank You For Your Referrals!

The greatest part of my business is helping my clients succeed in retirement!

The greatest honor of my business is your referrals.

My business is built on word-of-mouth advertising and I would like to thank my many clients that have been kind enough to recommend my services to their friends and family. That is truly the greatest compliment.

PEAK CAPITAL
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