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REGISTERED INVESTMENT ADVISER

FINANCIAL NEWSLETTER

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SPRING 2023

THE CRYSTAL BALL

Bank failures...just what we didn't need at this current inflection point in the economy. Shades of 2008, but with a different twist. Should we be surprised? No, because it is now apparent that many bankers are not good risk managers. So now along with war, fear of recession, inflation, homelessness, crime, political partisanship that borders on embarrassment, we also have to worry about our hard-earned money that we've set aside in the bank being at risk. What the heck is going on here?! The financial leadership in the country had better have their "eye on the ball" or else the chances of an unpleasant financial episode could ensue. [By the way, there were 563 bank failures from 2001 through 2023, according to the FDIC website. They were generally small banks, but they failed nonetheless.]

That said, everything isn't bad and there are many good things out there if we just look out beyond the doom and gloom. Here are a few: A problem that is recognized is a problem that can be solved. Plenty of the financial issues for which we fret are self-inflicted, thus good policy and a little luck can alleviate these troubles. Still on the bright side, the pandemic is off the front pages, the California drought is over (at least for now), and baseball season is starting. Spring is in the air.

The markets will likely remain volatile. It is also likely that we will have some type of recession. Anyone who has been a market participant for the past ten years will say, "So what else is new?" This type of environment happens like clockwork, only the financial clock doesn't keep normal time. It moves to its own pace and can go backwards or forwards, dependent upon the market's whims. Does knowing this help us? Of course it does. It tells us that the craziness will pass, probably not on the timeframe we might want, but it will pass. Certainly, there is nothing written in stone that says 2023 will be a good year for the stock market. Likewise, a bad year isn't carved in stone either.



Many of the problems we are witnessing now are due to the Federal Reserve raising interest rates at a pace that is as fast as any time in the past. Everyone wants to know when the Fed will stop hiking rates. One commentator said succinctly, "The Fed will keep raising rates until they break something." It is clear now that has happened. Thus, we wouldn't be surprised if the Fed pauses their plan of action. Sure, they want to continue to fight inflation, but unless they are willing to pull a "Paul Volker" and put the economy into a major recession, it would make sense to see how things play out over the next few months before making their next move.

No matter what, things will stay interesting. Not the least of which will be the next battle on the debt ceiling. Both the Democrats and the Republicans have dug their heels in and aren't budging. If the men and women in Congress can't negotiate in good faith and put this resolution off to the last minute (or beyond), then we can know for certain that we need new leadership. A debt default would make the banking crisis look like a walk in the park. Keep your fingers crossed that someone will step up, do what's best for the country and guide this to a successful conclusion.

Bottom Line: The markets have a lot to deal with in the coming months. But there are always headwinds. Keep that in mind the next time you feel like throwing your hands up in the air and shaking your head at the craziness of the world. Then remember that the sun will come up tomorrow and it's a brand new day. Look to the future with excitement. Be ready.

Overheard

*"A man who wants to lead the orchestra
must turn his back on the crowd."*

Max Lucado

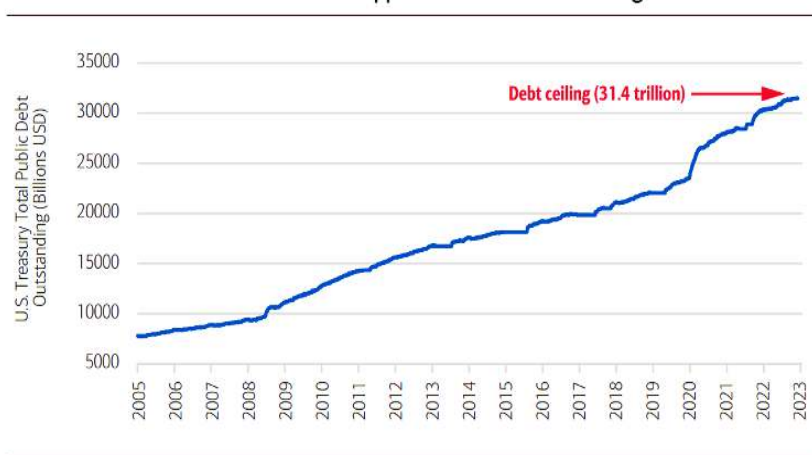
THE U.S. DEBT CEILING DEBATE HEATS UP

What is the debt ceiling? The debt ceiling is the maximum amount of debt that the U.S. government can accumulate. The federal government has a variety of bills to pay (Social Security, Medicare, military salaries, interest on the national debt, etc.). However, it normally runs a deficit each year, meaning it spends more money than it receives in taxes and other revenues. The government borrows money to make up the shortfall by issuing debt to investors around the world, but the total amount that can be borrowed is limited by the debt ceiling. If the debt ceiling is reached, Congress oversees changing it. The U.S. recently hit the debt ceiling of \$31.4 trillion on January 19th.

What is the current state of the federal government's finances? The budget for 2023 includes total discretionary spending of approximately \$1.7 trillion, of which \$858 billion is allocated to defense. The Congressional Budget Office (CBO) projects a total deficit of \$1.4 trillion for fiscal 2023.

How have debt-ceiling concerns affected stocks in the past? In 2011, the U.S. came close to defaulting. After extended negotiations, Congress eventually resolved the crisis by passing the Budget Control Act of 2011. Soon after, Standard & Poor's downgraded the U.S. long-term credit rating for the first time, dropping it from AAA to AA+, even though the U.S. avoided a default. Predictably, stocks reacted negatively. An equity market sell-off began a few weeks ahead of the deadline and picked up afterward, with the S&P 500 falling by 17% over the course of the debt-ceiling debate. Risk assets ultimately calmed in the months following the resolution. It's clearly in the best interest of the country to resolve any debt-ceiling issues, the earlier the better. Still, we are entering another time of uncertainty, so expect markets to be on edge. We are hopeful that this will all work out but are aware of the political situation in the U.S. In the meantime, for investors, it is important to review objectives regularly. Make sure your goals line up with your time frame for investing, risk tolerance, and financial situation.

Exhibit 1: The U.S. Government Has Approached The Debt Ceiling.



Source: Bloomberg, March 6, 2023.

RESOLUTIONS

Even though we are 1/3 of the way through the year, here are 5 resolutions to make for a more successful financial 2023.

First, get your estate in order. If you don't have a will or a trust, make drafting these documents a priority. When you're gone, you want to be remembered for who you are; not the mess you left behind.

Second, confirm the beneficiaries on your accounts; IRAs, 401k plans, annuities, TOD bank accounts, etc. Things change, and as they say in the movie Hoosiers, "Don't get caught watching the paint dry."



Third, if after last year when the S&P 500 shrank 19%, you lost sleep over portfolio results, then you need to reduce exposure in the stock market. You should sell down to your sleep level. Realize when you do this, you can't be sad when the market ultimately recovers and your portfolio trails what your objectives were, unless of course, you changed them.

Fourth, regarding investments, don't listen to pundits telling you a balanced portfolio doesn't work anymore. That's nonsense. Obviously, it didn't work last year as both stocks AND bonds declined. Could we have another bad year? Yes, it might happen. The markets will do whatever they can to separate you from your money. Don't let that happen. Own value, don't panic, maintain realistic objectives, and adjust when necessary. That's the secret sauce to success. And success is defined as meeting your objectives.

And last... if watching the political cable news channels causes you to get all fired up and causes your blood to boil, then shut the TV off and listen to music instead. There's an old saying, "The devil doesn't dance where there's music." If you don't like music, read a book, take a walk, watch a movie, get a hobby, volunteer. You will be happier for it. And remember, healthy and happy is the universal resolution in 2023.

QUALIFIED CHARITABLE DISTRIBUTIONS (QCD)

One growing gifting strategy that many investors have utilized is the Qualified Charitable Distribution (QCD). A QCD is a distribution from an IRA for those over the age of 70½ issued directly to a charitable organization. The organization receives the full gift and the donor's taxable income is reduced by the amount of the gift. Furthermore, if you are required to take Required Minimum Distributions (RMD) from your IRA, the QCD will count toward your RMD.

For those eligible, a QCD is a better gifting strategy than simply making a charitable deduction. This is because a QCD will lower taxable income, which often provides greater income tax savings compared to making a cash gift and claiming an income tax deduction. Since the standard deduction was increased in 2018, it is estimated that fewer than 15% of taxpayers itemize their taxes. If you don't itemize, there will not likely be any tax benefit from your charitable donation, making the QCD even more beneficial. The current QCD limit is \$100,000 and is scheduled to gradually increase with inflation in future years.

If you made a QCD in 2022, you may be wondering why it is not shown your 1099-R. Unfortunately, despite being made permanent by Congress in 2016, tax documents do not have a line item for QCDs to be reported to the IRS. Only the total distribution is reported in Box 1 of the 1099-R without any delineation of the amount that was sent to the qualified charity. Due to this, it is likely that many people will not properly report their QCDs, ultimately leading to paying more tax than owed. If you made a QCD in 2022 or beyond, you'll want to keep records from the charity noting the distribution and be sure to notify your accountant.

Please get in touch with us if you are interested in utilizing this gifting strategy or have any related questions.

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JUST SO YOU KNOW, HERE ARE THE GENERATION LABELS:

Baby Boomers: born between 1946 - 1964

Gen X: born between 1965 - 1980

Millennials: born between 1981- 1996

Gen Z: born between 1997 - 2012

Gen Alpha: born between 2013 - 2025

TD AMERITRADE TO SCHWAB TRANSITION

The transition from TD Ameritrade to Schwab as the custodian for our GVA clients is set to occur over Labor Day weekend (Sept 2-4). It will be over that period that client accounts will be moved from the TD platform to the Schwab platform. As of Tuesday, Sept. 5th, everything formerly at TD will be held at Schwab. The actual movement of our GVA accounts does not require any action from our clients. However, prior to that time, there will be some action items and alerts going out to affected clients.

One of the areas where clients can take early action is in the client platform. Clients at TD currently can use the **AdvisorClient** system to view accounts, get statements, and more. At Schwab, their client platform is called **Schwab Alliance**, and access can be set up in advance of the account transition. Here's a snapshot of the transition timeline and details on when you can set up credentials for Schwab Alliance:

- Roughly 90 days prior to the transition, clients using the AdvisorClient system at TD will see a banner message inviting them to visit the Transition Center where they can learn more about the process.
- Within 60 days of the move, all TD clients will receive a mailing from Schwab notifying them that their account is to be moved.
- About 28 days before the transition, clients using AdvisorClient will see a banner message letting them know their TD account will be closed, and that they can create their Schwab logon credentials for Schwab Alliance. Getting the new Schwab Alliance access set up prior to Labor Day will allow users to see and verify which accounts will move over Labor Day.
- At Labor Day, Schwab will send a final verification letter confirming accounts that were transitioned successfully.

Please note that while we expect this to be a smooth transition, this is a major endeavor so there could be items that need to be sorted out. Our team will be involved throughout the process to help ensure things go well. Also, please be aware that over Labor Day weekend, clients will not have access to their accounts. Finally, as we move forward at Schwab, note that all accounts will be issued new account numbers from Schwab. You will also likely receive a tax document from each custodian early in 2024.

A STORY

A man lived all his life in the Florida Keys and on his deathbed, he knows the end is near. His nurse, his wife, his daughter, and two sons are with him. He asks for two witnesses to be present, and a camcorder to be in place to record his last wishes, and when all is ready, he begins to speak:

"My son, Doug, I want you to take the Ocean Reef houses."

"My daughter, Kelly, you take the apartments between mile markers 100 and Tavernier."

"My son, Kevin, I want you to take the offices over in the Marathon Government Center."

"And my dear wife, please take all the residential buildings on the bay side on Blackwater Sound."

The nurse and witnesses are blown away as they did not realize his extensive holdings, and as he slips away, the nurse says, "Your husband must have been such a hard-working man to have accumulated all this property."

The wife replies, "Not really, he had a paper route!"

PERSONAL NOTES

Sue V. – We are sending you only good vibes. Stay strong.

Jade and Gabe – It's such a pleasure to work with you both.

Bob and Laurie L. – Congratulations on your 50th!!

David and Christina C. – That you're enjoying retirement is what we love to hear.

Michael and Leslie – It was great to see you recently; appreciate the hospitality!

Mark B. – Thanks for the weekly reminders of the good things in life, and the occasional jokes.

Phil's Opinions and Judgments...



On Bank Depositor Protections...

When the government sets a precedent (i.e. covering all the deposits in a failed bank in Silicon Valley), there's no going back. Backing all depositors, big and small, is now a key component of trust in the banking system. Shareholders of banking institutions which fail because of lousy risk management should see their shares zeroed out. That's much different than depositors losing their money. Still, don't go above the confirmed coverage of \$250,000 per person in any one bank. **NOTE: This maximum coverage amount varies for different banks/institutions. Be sure to verify the maximum insured coverage with your specific bank.**

On Confidence...

Once confidence is lost, it's gone. It is imperative that confidence in the financial system is maintained. Confidence is derived from competence. It doesn't matter how many regulations we have if the regulators aren't competent. Seems like an easy problem to solve.

On Do It Yourself Investing...

If you are a DIY investor and you haven't read "**The Intelligent Investor**" by Benjamin Graham, you are doing yourself a disservice. It's not too late to remedy the situation.

On Music...

I really like a well written song. One of the better ones I've heard is "Laughed Until We Cried." It came out in 2007, but it is every bit as timeless now as it was then.

On Opinion Writers...

Peggy Noonan is one opinion writer who is clear, concise, and fair-minded. While I don't always agree with her, I find her commentaries most always interesting and certainly thought provoking. She is an exceptional journalist.

Until next time,


Phil Paul Clete Vance Sylvia