ALBITZ/MILOE & ASSOCIATES, INC.

REGISTERED INVESTMENT ADVISER

FINANCIAL NEWSLETTER

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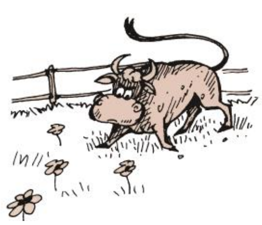
THE CRYSTAL BALL

It is a curious time in the United States and especially in the financial markets. Some of the indexes are up nicely this year but bonds are down again in 2023 after a devastating 2022, and a high percentage of individual stock prices are down. The so-called Magnificent 7 tech companies have been the leaders this year. However, they too had disastrous price declines last year. What is going on?! What we call headwinds, author John Mauldin calls tensions. Here's a brief list of issues in the minds of investors and pretty much everyone else. Inflation; War; Recession; Crime (and seemingly no consequences other than to the victims); Immigration; Education; Race; Dysfunctionality of Politics (highlighted by the Speaker of the House getting summarily dismissed); Income Inequality; Culture Wars; Worries about the Climate; Loss of Confidence in the Pharma Industry. It's amazing how we can even get out of bed in the morning. Somehow though, we soldier on.

So what's next? We figure there will be a slowdown in the economy because that's what the Federal Reserve wants. Why else would they have raised interest rates at such a rapid pace? Of course, their plan has consequences, some intended and some unintended. Banks are struggling with balance sheets that show losses on their bond holdings, the real estate business is stressed all down the line from mortgage brokers to real estate agents, and the stock market now has competition with CDs and Treasury Bills yielding over 5%. Needless to say, these things are not a recipe for a roaring bull market. However, earning interest is not a panacea for an investor looking for growth of capital.



So what do you do? First you have to realize that there is no magic wand to wave to get rid of these perplexing issues. It took time to get into this mess and it will take time to get out of it. So patience will be at a premium. An investor who has a solid portfolio, holding companies that are well-managed with strong balance sheets, should be able to weather the current economic environment. That is not to say a good company can't see its stock price fall, but it is to say that the odds are pretty good that they will make it through to the other side when things settle down. Next, it is wise to have balance within the portfolio. Own some blue chips, some small caps, some utilities, some real estate, some fixed income. Lastly, make sure you have enough cash that allows you to sleep at night. This cash can be in CDs and Treasuries. With the current relatively high yields on cash holdings, that safe money should stop any insomnia due to worrying about the market.

With that said, remember this: We are all prone to making decisions that are based on emotion. It is easy to get caught up in the fear of missing out (FOMO) when others appear to be making money on some investment theme. Further, it is also easy to get caught up in the negativity when watching the markets fall. A successful investor recognizes this and does his/her best to avoid reacting to these emotional events. We've always said, if you are going to panic, panic early. Don't wait until there is a rush for the exits, which typically is the time to buy, not sell.

Anyway, crazy times come along periodically and here we are again. Those of you who remember the year 1968 can bear witness to that truth. Chaotic would best describe that historic year, but we got through it. When you think about it, there is always something that makes us shake our heads. So stay optimistic, and although we may end up with a few more gray hairs, we'll get through this.

Overheard

"Until the lion learns how to write, every story will glorify the hunter."

Chinua Achebe

RECESSIONS

We keep hearing the question as to whether we are going to have a recession or not.

That certainly is an important debate to have and an easy question to answer. The answer is yes; we will have another recession. The more important question is: When?

Interestingly, it is possible that we already had a recession. Last year we had two quarters in a row of declining GDP (gross domestic product) and that used to be the definition of a recession. The definition has now been changed to: a significant decline in economic activity spread across the economy and lasting for more than a few months. If you want to change the narrative, just change the definition. Realistically, it's impressive that the Fed has raised rates over 5% without tanking the economy. For now, the economy is still expanding, and the jobless rate is the lowest it's been since 1969.

A little historical perspective…since 1945 there have been 12 economic expansions and 13 recessions. Recessions usually last 6 months to 18 months. Expansions have lasted 5 to 11 years…the past 4 expansions averaged 8 years.

You can hang your hat on those statistics, but they provide no solace on what the next recession is going to look like. Many smart people don't believe there is such a thing as a "soft landing" (i.e., mild recession).

The other point to the question is: Is worrying about a recession the right question stock investors should ask? That answer is also yes. Stock prices typically fall prior to and during a recession.

On the bright side, you get your best buys in the midst of a recession, and as long as there are no governmental policy mistakes, we shouldn't be too worried about a horrendously bad recession in the next 12 months. Keep your fingers crossed.

ON RETIREMENT PLANNING

We dusted off some old articles we have saved and wanted to share this insight with you. It came from a study by research economist, Wenliang Hou, where he listed the five sources of risk faced by a household contemplating retirement. 1) Longevity risk - meaning that the retiree may either die sooner than anticipated or live longer and run out of money; 2) Market risk - meaning losses in investment portfolio values, which in turn reduces the ability to generate a cash flow from assets; 3) Health risk - causing unanticipated costs from illness; 4) Family risk - the death of a spouse or family members needing financial assistance; 5) Policy risk - such as Social Security or pension benefits reduction. Everyone has to rate these risks as they relate to their own situation. It is not wise to think that none of these risks will occur.

We suspect that most people rate longevity risk high on their list. Although there are so many variables to each one of these risk factors, it is impossible to quantify each. Our job when working with clients who are deciding whether to retire or keep working is to make sure these factors are considered before making a final decision. And further, to remind the potential retiree that nothing is set in stone and adjustments will have to be made over the years to maintain a successful retirement.

One last bit of wisdom, gleaned from a mentor who grew up during the Great Depression: "If you had a job during the Depression, it wasn't so bad."

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On the graph to the right, the labor force participation rate is shown. These numbers are generated by the U.S Bureau of Labor Statistics. The participation rate is calculated by dividing the labor force by the total working-age population. The working age population refers to people aged 15 to 64. Although the rate seems low (partially due to dependent care demands, increased unemployment benefits and people just not wanting to work), it is ticking up a bit now. This has bolstered hopes that the Federal Reserve will be able to reduce inflation without driving up unemployment. We'll see how that works out.

DONOR-ADVISED FUND:
A VEHICLE FOR CREATING IMPACT AND TAX BENEFITS

A donor-advised fund is essentially a charitable investment account.

How it works…

Step 1: Contribute cash, securities or other assets to a donor-advised fund.

Step 2: Take an immediate current-year tax deduction.

Step 3: Invest those funds for tax-free growth.

Step 4: Strategically recommend grants to any IRS-qualified public charity. You can do this now or in the future; whenever you're ready.

When to use…

* You want to contribute now and get the current-year tax deduction, BUT grant money to charity at a later date.
* You have a higher than normal income year and want the current-year tax deduction.
* You have highly appreciated investment (stock, mutual fund, real estate).
* You want to give a gift anonymously.
* You want a less expensive alternative than a private foundation.
* You want a vehicle to teach children the merits of charitable giving (research and decide where money goes as a group for many years).

Things to remember…

☝ Once given, gifts cannot be taken back from the fund, and must go to a charity.

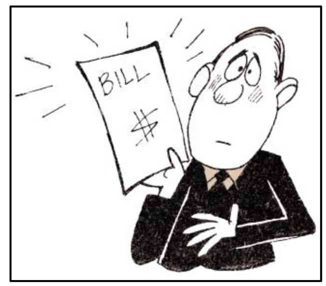
☝ There is no minimum requirement to make a grant each year (a private foundation requires at least 5% per year).

☝ Minimum opening account balances, investment options, fees, and ability to transfer from one institution to another can vary depending on the donor-advised fund company.

If you have interest in establishing a donor-advised fund, please give us a call and we can help guide you toward your charitable goals.

HOMEOWNERS INSURANCE WOES

Property and homeowners insurance policy owners have been facing very difficult times this year. In states like CA and FL where there have been repeated and widespread events like wildfires, hurricanes, and flooding, homeowners seeking to insure their property are being faced with a declining array of options for coverage. Earlier this year, American International Group (AIG) put curbs limiting sales on hundreds of zip codes in the US due to wildfire risks. Then, State Farm and Allstate opted to stop writing new homeowners business altogether in CA, while Farmers Group announced they limited sales of those policies in CA after stopping sales of new policies earlier in the year in FL.



This leaves homeowners wondering, "why is this is happening?" The insurers have cited reasons like high inflation, soaring rebuild costs, and more frequent events that keep risk levels high. Regulations were also cited as many states (like CA) have put limits on the amount of price increases that can be applied to premiums. If state regulations won't allow premiums to be increased to the point where losses can be absorbed while the carrier remains profitable, then the affected companies tend to pull back or out of those markets.

Fortunately, an insurer cannot cancel your coverage mid-term. Now is the time to look at when your renewal will be and set a plan well ahead of time just in case. This is especially true if you live in a fire or flood zone as those may be more likely to see change (premium increase or cancellation) upon renewal. If you've had coverage via AIG, Allstate, State Farm, or Farmers, talking with your agent prior to renewal is wise. Even if your agent is captive under one of these companies, they may be able to broker out the renewal to another carrier if their company no longer provides coverage.

For residents in CA, there are additional safeguards. One is known as the California Fair Plan. This association was set up to offer coverage to homeowners in CA who can't secure other coverage. The Fair Plan is there as a temporary safety net, but is not set up to be a long-term provider. Coverage under the Fair Plan may be more limited than what you had from your private insurer, but some coverage on your home is better than no coverage. Additionally, if you are a CA resident living near or within zip codes covered under a state of emergency declared by the governor due to wildfires, a new law prevents your current homeowners policy from being cancelled or nonrenewed for one year following the declaration.

THE HALL OF FAME

A special congratulations to Vance Albitz for his unanimous induction into the UC San Diego Sports Hall of Fame. Many of our readers and clients aren't aware that before joining our firm eight years ago, Vance was a standout athlete (baseball) at UCSD and still holds many of the school records, such as most hits and assists. He was named National Defensive Player of the Year (twice), and was a two-time All-American.

After college, Vance played professional baseball in the Cardinals and Angels organizations. During that time, he started a charitable organization called **Gloves for Troops**, which has sent over 3,700 baseball gloves and baseballs to our soldiers overseas. As our clients will attest, we are fortunate to have Vance as part of our team here at Albitz/Miloe and Associates, Inc. And, a Hall of Famer on top of that! Congrats!

A GOLF STORY

An older man and a young man were participating in a golf tournament. The young golfer set up to make his shot on the long par 5, but the old man just had to say, "When I was young, I would hit my tee shot over the trees rather than taking the dogleg around them."

The young golfer thinks to himself, "If this older guy can cut the dogleg by going over the trees, then so can I." Unfortunately his shot went into the trees causing him to take a two shot lost ball penalty. At that point the old man says, "Well I probably should have told you that when I was young, those trees were only 6 feet tall."

PERSONAL NOTES

Mary C. – Thanks for reminding us of the Silent Generation!

Art and Ginny N. – We value your trust and confidence.

Mike and Naomi N. – It's great to work with you and your family.

Steve and Linda M. – We go back a long way and your input is always appreciated.

Judy B. – We only have respect for all that you do.

Phil's Opinions And Judgments

On Music…

Ronnie Dunn's 2011 song "*Cost of Livin'*" should be the signature song for the 2024 election. Listen to it and you'll see what I mean.

On Human Nature…

Sometimes the truth is right in front of us but because no consequences have yet occurred, we take for granted that the reality of that truth is irrelevant. Then when the consequences show their face, we bemoan the fact that we should have known better. It's human nature.

On High Mortgage Rates…

Many are bewildered by the "high" mortgage rates that now permeate the real estate market. The reality is that these rates are normal…the extremely low rates of the last 10 years were the anomaly. So when you hear the financial talking heads saying "Rates will stay higher for longer," all they are really saying is things are getting back to historical norms.

On the Most Ridiculous Story Line of the Year…

Elon Musk and Mark Zuckerberg were talking about an MMA style cage fight between the two of them. I think two of the richest guys in the world might want to show a little more dignity. Hard to say what that says about society, but it is saying something, and it is a bit dispiriting.

Until next time,

Phil Paul Clete Vance Sylvia