

ALBITZ/MILOE & ASSOCIATES, INC.

REGISTERED INVESTMENT ADVISER

FINANCIAL NEWSLETTER

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THE CRYSTAL BALL

To say 2022 has been a lousy year for the financial markets would be an understatement. Here are some recent headlines: Blue Chips Slide Into a Bear Market; Pound Touches Record Low Against Dollar; War to Cost Global Economy \$2.8 Trillion. To paraphrase Bob Dylan...the times they have a changed. Of course, we recognize there are market cycles and there are business cycles. Market cycles create the roller coaster ride in the stock market while business cycles produce booms and busts in the economy.

It is apparent that a recession beckons, if it isn't already upon us. The Fed has basically told us that they will do what is necessary to slow the economy, thus reducing the inflationary scourge we are all experiencing here in the United States. "There will be pain", as Jerome Powell straightforwardly said.

Back in September, the Fed raised interest rates ¾%. Although very much anticipated, the stock market gyrated but ultimately fell like a rock thrown into a pond, dropping over 500 points on that day. The Wall Street Journal in its own masterful understatement blared the headline: "Fed Lifts Rate, Signal More, Denting Stocks"...denting stocks, that's a new one.

Central banks throughout the world are increasing interest rates. They tell us there is more to come. We already have an inverted yield curve (2 year treasury yields are higher than 10 year treasury yields), which is a good signal for recession. On top of that, we are seeing the U.S. dollar hitting long term highs against currencies like the pound and the Euro. While that may be good for travelers, it's not good for the U.S. export economy.

We don't mean to sound too doom and gloom, but 7% mortgage rates are going to hurt the housing market. Geez, there aren't too many places to hide, but there are a few.

T-Bill yields are as high as they have been in years. I-Bonds are currently sporting a ridiculous



yield. If you can look beyond the next three to six months, some high quality equities are paying sustainable dividend yields well above the 10 year treasury rate.

As we've said before: everyone wants to buy stocks at a certain price, but when that price occurs, they don't want to buy any more for fear prices will fall further. That is a common investor concern and who can blame that mindset? So how low is the stock market going to go? Two years from now, that answer will be clear.

The frustrating part of this whole situation is that it is self-inflicted, from Congressional overspending to the Fed waiting too long to deal with inflation. One comment on Congressional overspending: According to the Wall Street Journal...For fiscal year 2022 (ended on September 30, 2022), individual income taxes rose 29% (\$593 billion), payroll taxes rose 13% and corporate income taxes rose \$53 Billion (14%). Total Federal tax receipts rose 21% for the year to \$4.9 Trillion, the highest ever. Yet spending fell only 8%. It is pretty clear that this year, income tax receipts will not be near as high as last year. When individuals have lower income, the wise thing to do is to cut back on spending. Can we count on reduced spending from Uncle Sam? Let's optimistically say "we'll see."

In the meantime, expect a recession, expect lower stock prices, expect higher interest rates. But on the bright side, expect the sun to rise tomorrow, expect that the Federal Reserve will pivot and eventually reduce interest rates and Congress will come to their senses. And guess what that will do for the financial markets? Be ready.

Overheard

"Both optimists and pessimists contribute to society. The optimist invents the airplane; the pessimist invents the parachute."

YOUR DIGITAL ESTATE PLAN

If you have completed your traditional estate plan (Will, Trust, Directives, etc.), you've taken a big step for the benefit of your family. After you finalized the plan by ensuring personal assets were retitled under your Trust, confirming your beneficiaries are current, and your durable powers are set (healthcare, financial, attorney), you may think you're all set, but we're living in a digital age. Did your traditional estate plan have provisions for your digital estate? Items like your phone, social media accounts, email and more, often "live" on after you're gone and it's wise to consider these digital assets as part of your overall estate plan.

Fortunately, some phone providers and social media platforms are making this planning easier. For example, on an iPhone you can create a "Legacy Contact." [Go to: Settings > Your Name (Apple ID area) > Passwords and Security > Legacy Contact.] At your passing, this contact can access Apple's legacy site <https://digital-legacy.apple.com/>, log on, and upload your death certificate. After being verified by Apple, the Legacy Contact will have partial access to your phone to help ensure you haven't left any loose ends. The access includes things like photos, messages, notes, files, and device back-ups, but excludes Apple ID purchases like movies, music, books, and subscriptions. In the absence of a Legacy Contact, Apple currently requires a court order for access to be granted to your Apple ID.

Facebook also has a Legacy Contact of their own. [Visit: Settings & Privacy > Settings > Personal and account info > Account ownership and control > Memorialization settings > Choose Legacy Contact.] Once set, this contact can oversee your Facebook account after you've passed or opt to have your account deleted. Facebook will require a copy of your death certificate to complete the process. At present, Instagram does not offer this feature, but will accept a death certificate to memorialize your account (which will then have "Remembering" shown next to your profile name). Once set, no changes can be made to the Instagram account.

On Google, there is a setting called the Inactive Account Manager where you set a period of inactivity for your account and then choose what will happen. To set, go to <https://myaccount.google.com/> [Data & Privacy > More Options > Make a plan for your digital legacy.] You can then set the period of time before the account goes inactive, who would be notified, and what can be shared. Alternatively, you can just set that your account is deleted after a set period of inactivity.

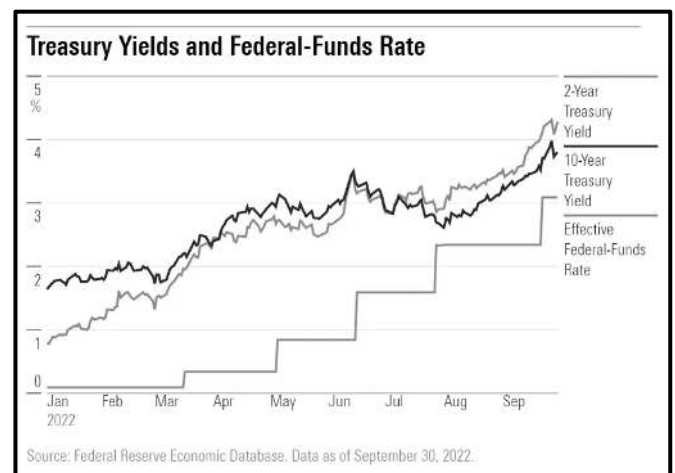
Other phone providers, social media platforms, and internet sites may offer similar legacy services. Consider the sites you use the most/have the most active content on, and get your digital legacy set as part of your broader estate plan.

US TREASURY YIELDS RISE TO HIGHEST IN OVER A DECADE

Underlying the market turmoil has been the Fed's aggressive interest-rate increases and the resulting jump in bond yields. In the third quarter, investors saw two more hikes of .75 percentage points, one in July and the other in September. The effective federal-funds rate now stands at 3.00%-3.25%, its highest level since 2008.

At its latest meeting, the Fed signaled no signs of slowing down its hawkish stance. Fed officials suggested that the fed-funds rate may rise by another percentage point by the end of this year. The latest "dot plot" of Fed officials' forecasts showed that the median expected interest rates would rise to 4.4% by the end of the year.

With this aggressive move by the Fed, US treasuries have now become a key strategy within portfolios. Treasuries can benefit an investment portfolio with consistent interest payments and a lower risk relative to other investments.



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ALBITZ/MILOE VALUE

What value does Albitz/Miloe & Associates provide? Our value is experience, based on the knowledge we've acquired over the past 40 years in this business. It's the service that our firm provides to our clients and ultimately to their beneficiaries. It's the trust we build and the confidence we earn. Trust, confidence, and respect isn't handed out, it's earned. It's the loyalty we show to our clients. It's the intangibles, like the unquantifiable suggestions we make that save and protect time and money. It's the peace of mind our clients have knowing us and knowing what we will do for them. That's our value.

OUT OF THE BLUE THOUGHTS ON BUSINESS

- 👉 The First Rule of Economics: “There ain't no such thing as a free lunch.”
- 👉 From Barry Ritholtz: Returns are driven by factors such as interest rates, corporate profits, inflation and valuations, to name but a few. Knowing this, investors must make probabilistic decisions using incomplete information about an unknowable future. **But of all other things returns are based upon, they are never dependent upon what you need or desire.** Those issues are irrelevant.
- 👉 “The daily changes in the stock market may be the most reported news item outside of the weather. The implicit message is that what is happening in the market today is important and worth your attention.” Marshall Jaffe
- 👉 “Indexes move stock prices when they add or remove a stock, or when they allocate more or less to a stock. Stocks added are almost always trading at high multiples. Discretionary de-selection, when companies are removed for not meeting criteria, are almost always trading at bargain-bin prices.” Rob Arnott
- 👉 Avoid the loudest voice in the room. - From Phil's experience
- 👉 “What the human being is best at doing is interpreting all new information so that their prior conclusions remain intact.” Warren Buffett
- 👉 If Henry Ford had asked his customers, they would have told him they want a faster horse.

CLIENT UPDATE: TD AMERITRADE AND CHARLES SCHWAB MERGER

In 2019, TD Ameritrade Holding Corporation was purchased by the Charles Schwab Corporation. The merger between the two firms has created the largest investment custodian for registered investment advisors providing custody services for over \$7 trillion in client assets. The size and scope of the combined entity should help keep investor costs low and allow for ongoing investments to keep accounts protected and secure.

Presently, the companies are under the same umbrella, but operate independently. This is expected to change toward the middle to end of 2023 when TD Ameritrade accounts will be converted to Charles Schwab accounts. Once completed, our GVA clients can create a login to www.schwaballiance.com to access

their accounts. An archive of account history, historical account statements, trade confirmations, and tax documents should be available.

If you have a taxable investment account, it is expected that you will receive a 1099 tax document from both TD Ameritrade Institutional and Charles Schwab in 2023. If you take distributions from a retirement account, you will also receive a 1099-R from one or both entities depending upon the timing of your distributions. As the transition is scheduled to be completed in calendar year 2023, tax documents for 2024 and beyond will only be issued by Charles Schwab.

We expect this to be a relatively seamless transition with no additional forms or paperwork required, but would not be surprised if we encounter a few speed bumps. Both TD Ameritrade and Charles Schwab have provided us with a high level of support in the early stages of this transition. We'll keep you up-to-date as we have more details. Stay tuned.

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LOW RATES ON SAVINGS ACCOUNTS

In recent months, the Federal Reserve has been engaged in a campaign of raising interest rates aggressively, in its effort to tame the inflation monster. Thus far this has affected mortgage rates (which have doubled since the beginning of the year to 7%), car loans, and credit card balances. However, the yield on a bank savings account now averages a paltry 0.14%.

In the opinion of Wall Street Journal's Joe Pinsker, banks keep payouts low on customers' savings because they have plenty of deposits to cover their lending businesses without the need to attract new depositors. The FDIC (Federal Deposit Insurance Corporation) reported in June that commercial banks held \$16.8 trillion in deposits; most of this sum is sitting in individual checking and savings accounts. For their part, customers, according to studies conducted both in the US and the UK, are reluctant to change banks, due to a perceived huge hassle involved. Actually, some banks, particularly online ones, have begun to inch up their yields to the highest they have been since 2009. Of course, even high-yield savings accounts do not protect from the 8.3% year-over-year inflation, but the annualized yields of 2-3% are better than 0.14%; especially if one tends to keep large balances in one's bank account.

A CONCERN AND A PLAN

If you want to fret about something financial, realize that the markets are going to go where they are going to go. While not necessarily profound, it is a true statement that is born from experience. They will get to that point either in time or they will get there due to some precipitant (an event). What that event will be is unknown; maybe a large financial institution blows up, maybe some black swan precipitant that is not on the radar rears its head, or maybe something really scary like a nuclear weapon being detonated. Speaking only from an investment standpoint, if one day we wake up to hear about some such event having occurred, expect the market to be down a large amount. If you would sell into that panic (and it would be a panic), then you might consider doing some selling now. On the other hand, panics have been buying opportunities on many, many occasions. Plan ahead so that no emotional decision will have to be made during a time of turmoil. Determine now whether you would be a buyer or seller... AND let us know.

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A STORY

A miserly multimillionaire called a family conference. "I'm placing a box of money in the attic. When I die, I intend to grab it on my way up to heaven. See to it that no one touches it until it's my time to go."

The family respected his wishes. After his death, the rich man's wife looked in the attic. The box was still there. "The fool!" she said. "I told him he should have put that box of money in the basement."

PERSONAL NOTES

Jim and Didi E. – We go back a long ways...what great people you are.

Lisa T. – The wedding sure came quickly, didn't it?! Congrats!

Liana H. – Off to college in the blink of an eye...how exciting!

Ralph F. – Your calm demeanor is great and your seasickness cure is priceless.

Paul and Sharon O. – Welcome aboard!

Phil's Opinions and Judgments...



On Recession...

Changing the accepted definition of a recession just to avoid the political fallout of a tough economy is disingenuous. It is best to deal with the issues and correct them.

On Grandparenting...

When I was young, in my mind, being a grandparent meant "old." Now that I am a grandparent (five times over), in my mind, being a grandparent means "joy."

On Baseball...

Aaron Judge's pursuit of the American League home run record was just the shot in the arm baseball needed. It couldn't have come at a better time. And isn't it amazing how exactly 61 years after Roger Maris hit 61 home runs that record was surpassed. The universe sure has a funny way to play with numbers and create that simple twist of fate.

On the IRS Rumor...

The IRS is rumored to receive a ton of money from the ridiculously named "Inflation Reduction Act." Supposedly, they will be hiring 80,000 new agents. If this is true, we can only hope that they will be able to find qualified people and train them properly, so when we call to get an answer to a tax question, we can be sure it will be correct. Don't expect this to happen overnight.

On a Little Levity...

A man was accused of stealing his friend's thesaurus. His reply was, "I am appalled, stunned, shocked and aghast of that accusation."

Until next time,


Phil Paul Clete Vance Sylvia