ATHENA WEALTH STRATEGIES

COMMITMENT. WISDOM. GUIDANCE

# QUARTERLY NEWSLETTER

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## What's In This Quarter's Issue:



## The Current Market

*By: Maritza Rogers, CFP®, CRPC*

The last market cycle was led by growth in equities in part due to advancements in technologies, low interest rates and a lack of profit in low-risk investments. Given historically low interest rates, cash and bonds were just not that attractive when you could potentially earn much more in the market.

However, since the start of 2022, the markets have entered a new cycle. With the pandemic, the government implemented an expansionary monetary policy to avoid a recession, injecting an enormous amount of stimulus into the economy. What we saw was a reduction in interest rates, purchasing of bonds, and a reduction in the reserve ratio. That stimulus has, as pandemic restrictions eased and the economy reopened, lead to inflation. Inflation has also been affected by the supply shortage, increased wages due to the constricted labor force, and the effects of the Ukraine war on oil, food, and other commodities prices.

The governments approach now is to now contract the monetary policy by increasing interest rates, selling governmental bonds, and increasing the reserve ratio. History is repeating itself in many ways, bringing to mind the oil shock of 1978-1979. I did a bit of research and found a piece put out by the Federal Reserve in 2013: Oil Shock of 1978–79 | Federal Reserve History by Laurel Graefe, Federal Reserve Bank of Atlanta (https://www.federalreservehistory.org/essays/oil-shock-of-1978-79)

***Here is an important snippet that I found very interesting:***

*"The policies ultimately proved successful in breaking the cycle of stagflation in the United States. Volcker guided the Fed in raising the federal funds rate from 11 percent at the time he took office to a peak of 19 percent in 1981, and the policy moves successfully lowered the rate of twelve-month inflation from a peak of nearly 15 percent to 4 percent by the end of 1982. Though the Fed's resolve under Volcker was effective in reducing inflation, the monetary contraction—combined with the impact from the oil price shock—pushed the economy into the most severe recession since the Great Depression and spurred strong popular opposition."*

# The Current Market Cont.

We need to ask ourselves: “Will this be similar?” If so, what we also know is that inflation’s effect on the economy caused everything to go up including the valuation of companies. If we look into the future, that means that investments will also be higher in price if you can wait it out. However, with market declines during this market cycle, investors’ fear will lead to pulling out of the markets and into fixed income. We are now seeing rising interest rates which supports the broadening opportunity in fixed income. Across the bond market, risk and return have improved, yields have increased by almost double, and income has reset to normal levels, enhancing the relative value of bonds to equities.

On June 15th, 2022 the Federal Reserve increased short-term interest rates by .75% in its effort to move to a contractionary monetary policy. The markets sold off in anticipation of that rate hike. One thing to be on the lookout for is an inverted yield curve which means that short-term rate exceeds long-term rates. Historically, this has served as a warning sign that a recession is coming. The Treasury yield curve inverted on June 13th but bounced back so economists are alert.

So where does that lead us? To best to position your assets with consideration to risk tolerance and time horizon, depending on your particular situation and circumstance not the short-term market conditions. A dramatic change in risk level as a reaction to market conditions is almost always a sign of moving behind the market - and can cause an investor to sell low and buy high, hindering their ability to reach their goals. Given inflation expectations, long term growth remains an important factor in investment selection despite short-term volatility. While we occasionally recommend shifts and adjustments (such as a rebalance) during volatile times, all changes must be done with an eye to the greater plan and a disciplined focus on the long term.

# Transitioning into Retirement & Developing an Income Plan

BY: KAITLYN ZAWADA, CRPC

Financial independence is a significant milestone in one's life that requires thought and preparation not only to achieve, but to also maintain for the remainder of your lifetime.

In the years leading up, much emphasis is placed on saving and investing to accumulate the resources necessary to support your retirement. There are key questions to ask yourself when determining if you have sufficient resources and are ready to make that transition.

### One question is: what will your spending look like in retirement?

Conventional wisdom says that 70-100% of your pre-retirement income will be necessary to maintain your standard of living in retirement. However, depending on your goals and desired lifestyle that may not be the case. Expenses may surpass pre-retirement spending with travel, pursuing new hobbies, health insurance costs, and increased medical expenses as you age.

If you are a homeowner, renovations and home maintenance projects are also important to consider and budget for in your retirement plan.

### Another question to ask yourself is: what other goals/objectives do I wish to accomplish in retirement and how will that impact my ongoing budget?

- Some retirees wish to relocate in retirement or split their time between two places. If that is the case, relocation and home purchase costs may need to be factored.
- Other retirees want to help cover college costs for their grandchildren and/or provide ongoing family support.
- Leaving a legacy for heirs and/or chosen charities may also be a priority.

# Transitioning into Retirement & Developing an Income Plan Cont.

## Once you've determined your budget, the next question to consider is: What retirement income streams will you have to meet your expenses?

**As you prepare for retirement, it is important to determine what resources are available to cover your expenses and how you will manage your cashflow on a fixed budget when you are no longer receiving a regular paycheck.**

If you are eligible for Social Security, you can access your estimated benefit by going to www.ssa.gov. This will provide you with a statement detailing what monthly benefit you can expect to collect at age 62 (youngest age to collect), full retirement age (FRA – when you qualify for unreduced benefits regardless of any earned income you may continue to receive), and age 70 (maximum benefit you will receive).

You Social Security benefit will increase by 8% for each full year you wait to begin collecting between your FRA and age 70. Depending on your desired retirement age, you will have to decide whether to collect once you retire or defer collecting for an increased benefit amount.

If you are eligible to collect a pension, you will have to select your retirement payout election including whether to take a lump sum distribution or lifetime monthly payments with a possible period certain (minimum number of guaranteed payments) and/or survivor benefits.

Other possible income sources including employee stock options, earned income (if you plan to continue working in some capacity during retirement), and/or any annuities you own will also need to be factored in.

Once those income sources are determined, it is important to assess if there is a need to bridge any income gaps with distributions from your investment assets.

At age 72, the IRS will require you to take required minimum distributions (RMDs) based on the year-end value of your pre-tax accounts like IRAs and 401(k)s and a life expectancy factor. Once you reach age 72, if you are reliant on using your RMDs to meet expenses this will become a part of your income plan. Otherwise, you could consider reinvesting all or a portion of this money in a taxable account.

## When you've determined your budget, retirement goals, and income sources, one of the last remaining questions is: how can I protect myself against possible risk factors such as: longevity, inflation, market downturns?

The key components to protecting your financial independence are monitoring your spending habits and ensuring you maintain an appropriate investment allocation that is both in alignment with your risk tolerance and gives you enough growth potential to weather any possible increases in your expenses and big ticket costs. In terms of longevity risk, by monitoring your outflows and maintaining your portfolio allocation for investment growth, this also helps to mitigate against the risk of prematurely depleting your portfolio assets.

In addition to setting up retirement account distributions to help mimic the monthly or biweekly paychecks you are used to receiving, in some cases guaranteed income products can be used to create an individually owned pension. Some of these are designed specifically to protect against the risk of outliving your assets, though in many cases proper planning can illuminate whether outliving one's assets is a significant risk in the first place.

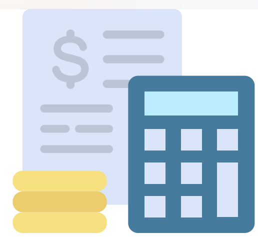
# ADULTING 101

## Budgeting and Unexpected Expenses

It is the unfortunate truth that unexpected expenses will bulldoze their way into our lives, throwing us into a frenzy on how to pay for such an unplanned amount. What would happen if you were faced with a hefty car repair invoice that needed to be paid immediately? In times like these, an emergency fund will serve as an extremely reliable resource, especially for unexpected and urgent circumstances. The idea of knowing that there is a separate reserve intended for this reason is incredibly reassuring, and may also prevent credit card debt or a leaky duct-tape "solution." This would not be the case if one did not have a good grasp of their overall budget and monthly expenses.

Whether these unexpected expenses entail making home repairs, paying off medical bills, or other financial disruptions, preparing yourself for planned and unplanned expenses can immensely lift the burden and anxiety of figuring out how to afford such costs. The first step is to understand how to budget and manage your spending. From there, you can safely determine and build an appropriate emergency fund that may act as a safety net to a handful of expenses that may come your way.

## CREATE A BUDGET AND EVALUATE YOUR EXPENSES



***Determine what is your monthly net income and track your monthly expenses.***

One commonly used budgeting method is the **50/30/20 budget**. The concept of this framework is to allocate your expenses into three basic categories: fixed expenses, discretionary expenses, and savings/debt payoff. Examples of fixed expenses include the cost of rent or mortgage, whereas discretionary expenses are used for entertainment, eating out, or shopping.

In this scenario, 50% of your monthly net income should be dedicated to fixed and necessary expenses. Likewise, another 30% should be spent on any discretionary expenses, while the remaining 20% will be used towards paying off any high-interest debt or set aside in your savings.

**Please keep in mind that this budgeting method is only a basic framework that may not apply to every individual's financial situation**. Allocating 20% of net income to savings may not seem like a lot to one person, while another may find it to be impractical or unrealistic. For those with aggressive goals (such as retiring very early), it may not be nearly enough. Customize your budgeting technique to suite your specific needs and goals.

# ADULTING 101 CONT.

## CREATE AN EMERGENCY FUND

**Once you have a grasp of your budget and expenses, begin building your emergency fund**. Ideally, it should sustain at least three to six months of your living expenses and should also act as your target funding goal. If that seems out of reach, start with a more reasonable target such as $500 or $1,000 and build from there - even a small reserve can save the day in a lot of situations.

Have a detailed and measurable goal each month of how much you are able to allocate to towards your emergency fund, whether that is $50 or $200 per month. Your emergency fund should be stored in an account that is readily and easily accessible at ANY time, such as a high-yield savings account or traditional bank account. This is not the money that should be invested for long term growth. It should be in cash and not subject to short term fluctuations since you never know when you will need it.

## SET IT AND FORGET IT, BUT REVISIT FROM TIME TO TIME

The easiest way to include emergency savings in your monthly budget is by setting up an automatic transfer that happens shortly after you receive your paycheck. Once you reach your target, you may want to consider stopping that transfer or redirecting the monthly amount towards longer term objectives.

We hear from people all the time who are hit with a car repair, an emergency vet bill or even an invitation to a sibling's destination wedding. **Do not feel guilty that you've put the money aside when you need to use it but do make sure you put a plan in place to rebuild your reserves for the next surprise.**

Having to pay for an unexpected expense can be stressful and burdensome. Being prepared for these events will save you one less headache, especially from a financial perspective. Stick to your budget and be consistent in your spending and saving. Your grounded habits and a well-funded emergency fund will become your best friend in the face of all sorts of financial disruptions.

# QUESTIONS WE CAN'T ANSWER

## By: Robin Starr, CFP®, *CDFA®, CRPC

There are a lot of questions a financial planner can help you answer, such as:

- *Is your retirement savings on track?*
- *If you die prematurely, can your family keep your existing lifestyle?*
- *Do you have enough cash for emergencies?*

<u>Not all financial questions have answers, though.</u> I spoke with someone recently who had money set aside for a major home project. She had a more than adequate emergency fund and an after-tax investment account.

And a growing suspicion that the renovations would go way over budget.

The investment account was close to 100% stock and (as with most stocks) had gone down about 20% in the first half of 2022 - but was still up significantly from her original investment. Given the long term growth, the account would incur taxes if sold.

Should it be moved to cash?

As a planner, we can talk through these issues, which may include:

- Selling while down vs. the potential that the market declines another 20% by the time the money is needed
- Realizing taxes unnecessarily vs. worrying that they funds won't be there when you need them.

We can help clients understand and feel confident about the choices that they do make.

But we can't tell which way the market will move in the next 6-12 months. Nobody can.

We can't predict if you'll actually be permanently disabled or pass away while your children are young. We can discuss the possibilities and make sure you're prepared.

We can help prevent 90 or 100 year old you from running out of money prematurely, but we can't know whether your retirement will last 5 years or 50.

Ultimately, financial planning is about planning for the possibility and estimating the probability of different futures - not knowing what will come. Clarity sometimes just means understanding the questions where definitive answers don't exist.

**Not practicing Divorce Planning on behalf of Lincoln Financial Advisors*

## Virtual Events:

### *Missed a Webinar?*

**Past webinars can be viewed on Athena's website under the "Current Topics & Events" tab. Listed below are some of the topics available:**

- *Guide to the Markets with J.P. Morgan*
- *Signs of Dementia & Aging - How to Plan for the Future*
- *How to Be Prepared for Fire Season in California*
- *"I Owe How Much?!" Understanding and Taking Control of Your Student Loans*
- *"What If?" Parent Contingency Planning*

**Visit Athena's website to access the webinar recordings today!**

*www.athenawealthstrategies.com*

## Contact Us

### Schedule a Meeting

*Be sure to bookmark these links:*

**Julie VanTilburg, CFP®**

Co-Founder | Financial Planner

https://my.timetrade.com/book/QXH71

**Robin Starr, CFP®, CDFA®, CRPC**

Co-Founder | Financial Planner

https://my.timetrade.com/book/S4P1J

**Kaitlyn Zawada, CRPC**

Associate Financial Planner

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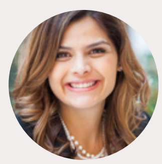

**Maritza Rogers, CFP®, CRPC**

Co-Founder | Financial Planner

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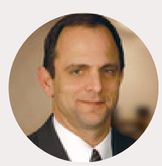

**Jeff Better, CLU®, ChFC®, CRPC, CPFA**

Financial Planner

https://tinyurl.com/Jeff-Better