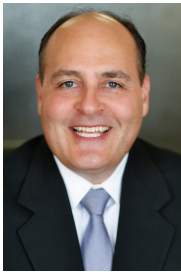


Financial Insight Quarterly

Your Source for Financial Well-Being



Blaise Benoist, AIF®
Benoist Wealth Strategies, Inc.
Managing Partner, BWS
Branch Manager, RJFS

390 N. Orange Avenue • Suite 2300 • Orlando • FL • 32801
407-900-2185
blaise.benoist@benoistws.com • www.benoistws.com



Homeownership Rate Spikes During Quarantine

The U.S. homeownership rate jumped by 2.6% in the second quarter of 2020, the largest quarterly increase on record, bringing it to a level last seen in 2008. Part of this unexpected increase may be due to a change in the survey process because of the coronavirus, as well as a drop in the number of rental units as renters moved in with family or took on roommates. However, many renters bought homes, spurred by low mortgage rates.

Homeownership increased across all age groups, but the biggest jump was among those under age 35, whose 40.6% rate was the highest in almost 12 years. Americans age 65 and older have the highest rate of homeownership at 80.4%.



Sources: U.S. Census Bureau, 2020; Bloomberg, July 28, 2020; MarketWatch, July 29, 2020

Printing Money: The Fed's Bond-Buying Program

The Federal Reserve's unprecedented efforts to support the U.S economy during the COVID-19 pandemic include a commitment by the Federal Open Market Committee (FOMC) to purchase Treasury securities and agency mortgage-backed securities "in the amounts needed to support smooth market functioning and effective transmission of monetary policy."¹

The Fed buys and sells Treasury securities as part of its regular operations and added mortgage-backed securities to its portfolio during the Great Recession, but the essentially unlimited commitment underscores the severity of the crisis. The Fed is also entering uncharted territory by purchasing corporate, state, and local government bonds and extending other loans to the private sector.

Increasing Liquidity

The Federal Open Market Committee sets interest rates and controls the money supply to support the Fed's dual mandate to promote maximum employment and stable prices, along with its underlying responsibility to promote the stability of the U.S. financial system. By purchasing Treasury securities, the FOMC increases the supply of money in the broader economy, while its purchases of mortgage-backed securities increase supply in the mortgage market. The key to increasing liquidity — called quantitative easing — is that the Fed can make these purchases with funds it creates out of air.

The FOMC purchases the securities through banks within the Federal Reserve System. Rather than using money it already holds on deposit, the Fed adds the appropriate amount to the bank's balance. This provides the bank with more money to lend to consumers, businesses, or the government (through purchasing more government securities). It also empowers the Treasury or mortgage agency to issue additional bonds knowing that the Fed is ready to buy them. The surge of bond buying by the Fed that began in March helped the Treasury to finance its massive stimulus program in response to the coronavirus.

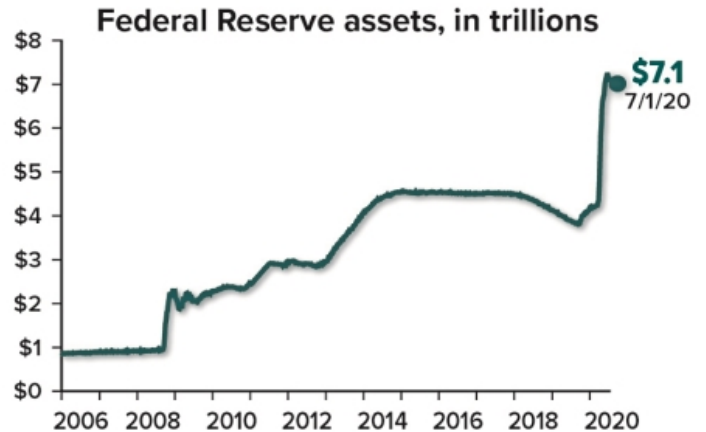
By law, the Fed returns its net interest income to the Treasury, so the Treasury securities are essentially interest-free loans. The principal must be paid when the bond matures, and the bonds add to the national debt. But the Treasury issues new bonds as it pays off the old ones, thus shifting the ever-growing debt forward.

Protecting Against Inflation

Considering the seemingly endless need for government spending and private lending, you may wonder why the Fed doesn't just create an endless supply of money. The controlling factor is the potential for inflation if there is too much money in the economy.

Big Balance Sheet

The Federal Reserve's assets grew with quantitative easing during and after the Great Recession. In late 2018, the Fed began to reverse the process by allowing bonds to mature without replacing them, only to back off when markets reacted negatively to the move. The 2020 emergency measures quickly pushed the balance sheet over \$7 trillion.



Source: Federal Reserve, 2020

Low interest rates and "money printing" led to high inflation after World War II and during the 1970s, but the current situation is different.² Inflation has been low for more than a decade, and the economic crisis has severely curtailed consumer spending, making inflation unlikely in the near term.

The longer-term potential for inflation remains, however, and the Fed does not want to increase the money supply more than necessary to meet the crisis. From a peak of \$75 billion in daily Treasury purchases during the second half of March, the FOMC began to gradually reduce the purchase pace in early April. By mid-June, it was down to an average of \$4 billion per day and scheduled to continue at that pace through mid-August, with further adjustments as necessary in response to economic conditions.³

U.S. Treasury securities are backed by the full faith and credit of the U.S. government as to the timely payment of principal and interest. The principal value of Treasury securities fluctuates with market conditions. If not held to maturity, they could be worth more or less than the original amount paid.

1) Federal Reserve, March 23, 2020

2) *The Wall Street Journal*, April 27, 2020

3) Federal Reserve Bank of New York, 2020

Incapacity and Advance Medical Directives

At some point in your life, you may lose the ability to make or communicate responsible health-care decisions for yourself. Without directions to the contrary, medical professionals are generally compelled to make every effort to save and sustain your life. Depending on your attitude toward various medical treatments and your views on the quality of life, you may wish to take steps now to control future health-care decisions with one or more advance medical directives.

What Is an Advance Medical Directive?

The laws of your state may allow you to adopt one or more advance medical directives to manage your future medical care. There are three main types of advance medical directives: (1) a living will, (2) a durable power of attorney for health care, and (3) a do-not-resuscitate order. Each has unique characteristics and is useful under specific circumstances. You may find that one, two, or all three advance medical directives are necessary to express all your wishes regarding medical treatment.

Living Will

A living will is a legal document that specifies the types of medical treatment you would want, or not want, under particular circumstances. In most states, a living will takes effect only under certain circumstances, such as a terminal illness or injury. Generally, one can be used solely to decline medical treatment that "serves only to postpone the moment of death."

Durable Power of Attorney for Health Care/Health-Care Proxy

A durable power of attorney for health care (DPAHC), also known as a health-care proxy, is a legal document in which you appoint a representative to make medical decisions on your behalf if you become unable to make or communicate them yourself. It allows you to exercise control over your health care through this representative, who will have the authority to make most medical care decisions for you.

You may want to appoint such a representative to act on your behalf. If you don't, medical professionals will generally be compelled to do everything possible to save and sustain your life. A DPAHC can resolve conflicts and help ensure that your choices regarding medical treatment are respected. A DPAHC may not be practical in an emergency — your representative must be present to act on your behalf.

Do-Not-Resuscitate Order

A do-not-resuscitate (DNR) order is a legally binding order, signed by both you and your physician, that directs medical personnel not to perform cardiopulmonary resuscitation (CPR) or other invasive procedures on you if you stop breathing or your heart stops beating. A DNR is the only advance medical directive specifically intended for use in an emergency. There are two types of DNRs: One is effective only while you are hospitalized; the other is used by people outside the hospital. ID bracelets, MedicAlert® necklaces, and wallet cards are some methods of noting DNR status.

More to Consider

- The laws on advance medical directives vary considerably from state to state. If you spend a significant amount of time in a state other than where you live, you may want to research that state's laws as well.
- Review your advance medical directives periodically to ensure they reflect your current wishes and attitude.
- Discuss your advance medical directives with appropriate persons (perhaps your doctor, your DPAHC representative, your family, and your friends).
- If you have multiple advance medical directives, make sure your instructions are stated consistently throughout. In many states, the most recent document prevails in case of a conflict.

Incapacity and Advance Medical Directives

ADVANCE MEDICAL DIRECTIVE

Living will

Durable power of attorney for health care

Do-not-resuscitate order



USED TO

Decline medical treatment for terminal illness or injury

Appoint representative to make medical decisions for you

Direct medical personnel not to perform CPR

Lessons from the Lockdown: A Back-to-Basics Holiday

If there is one thing the COVID-19 stay-at-home orders demonstrated, it was the need to find joy in simple pleasures. In fact, 43% of respondents to one survey said they had "changed their ways for the better" as a result of the lockdown.¹ By applying some of the lessons learned from pandemic purgatory to the holiday season, families may be able to create new and meaningful traditions while saving money.

Travel. While confined to their homes for several months, people discovered the benefits of virtual get-togethers via video calls. The same survey cited above found that many people who used videoconferencing technology reported that they connected more with loved ones during the lockdown than before restrictions were put into place.² This holiday season, if you can't be with your loved ones, consider scheduling a virtual gathering to open gifts or share a meal together. An added benefit of less time and money spent on travel could be lower stress overall.

Experience vs. "stuff." Of course, sharing experiences in person can be more rewarding than a video chat. Stay-at-home orders prompted many people to reflect on how much they took for granted, especially the opportunity simply to spend time with loved ones they don't see on a regular basis. As many grandparents would likely contend, time spent with family can be a much more valuable gift than the latest gadget or fashion trend. Moreover, while in lockdown,

many families discovered they could actually live without many of the material goods they purchase on a regular basis. Rather than spending a lot on "stuff" this season, consider intentionally downsizing the piles of gifts exchanged and focusing more on the shared celebrations and traditions.

In April 2020, during the height of the stay-at-home orders, the nation's personal savings rate hit an all-time high of 32%.³

Food. During the lockdown, many people rediscovered the simple joy of preparing and eating home-cooked meals and baked goods. And because ingredients were often limited due to supply-chain disruptions, creativity became a valuable kitchen skill. This holiday season, instead of spending a small fortune dining out, why not put some of that pandemic culinary prowess to work? Simple meals that the whole family helps prepare can be cost-effective as well as memory-making. Wrapped up with a beautiful bow, your creations can also make thoughtful, inexpensive, edible gifts. (You might also consider supporting local businesses by having food gifts delivered or purchasing gift cards.)

1-2) OnePoll, studyfinds.org, May 23, 2020; 3) U.S. Bureau of Economic Analysis, June 30, 2020

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