GATEWAY
INVESTMENT MANAGEMENT
OF
RAYMOND JAMES®

THE COMMUNIQUE

July 2022

MAJOR INDICIES	LAST	MTD	QTD	YTD
S&P 500	3845.08	1.58%	1.58%	-19.33%
Dow Jones Industrials	31037.68	0.85%	0.85%	-14.59%
NASDAQ Composite	11361.85	3.02%	3.02%	-27.38%

U.S. TREASURIES	YIELD
5-yr Treasury Note	2.97%
10-yr Treasury Bond	2.93%
30-yr Treasury Bond	3.13%

Information as of July 6, 2022 Source: Thomson Reuter's Thomson One

MARKET COMMENT

The Yield Curve, Economy, and Markets

As you might recall, June's article discussed the recent yield curve inversion – which occurs when short-term interest rates rise above long-term interest rates and has frequently (but not always) signaled a pending economic recession. We finished that article with the question: "Should we anticipate our economy falling into a recession next April, and if so, how is this going to affect our investment strategy?" and that is exactly where we are going to pick up this month. Below are some thoughts on how the future may unfold.

The 2-year and 10-year Treasury notes are again inverted as we write this article. Over the last several weeks these bonds have moved all over the board, from inversion back to normalization, then back to inversion. This seems to be the markets continuing to work through the current economic data and the shifting Federal Reserve "talk" about future interest rates increases. Previous instances of yield curve inversions show that it can take up to 12 months from the initial inversion to determine if the economy is truly in a recession. Considering that the stock market is always looking 6 -9 months into the future, the market may be due for a collision course with economic realities in the coming months.

Using the 6 -9 month forward looking principle, we may very well see the market "throwing in the towel" sometime this Fall. If a final decline (capitulation) does occur, it could set a new base for the beginning of a major future stock market advancement. Of course, no one really knows if this will happen, but using history, and the market action over the coming months, we will continue to watch to see if these principles ring true. If nothing else, history suggest that when the "experts" announce that we are in an official recession – which is defined as two consecutive quarters of negative economic growth – markets have already experienced considerable pain months earlier and usually begin moving substantially higher, anticipating the demise of the recession. We believe the coming months could establish an absolutely stellar buying opportunity in the stock market that has not been seen for a long time, which means phenomenal future earnings potential.

We will be closely monitoring the Fed "talk, as well as the current economic indicators, as we watch for historical stock market sign posts at the bottom of this "bear" market. You might be wondering: what are those sign posts? Well, we'll leave that topic for next month.

As always, we truly appreciate your trust and confidence, especially during these challenging times.

PLANNING STRATEGY

Raymond James "Point of View" article. M22-4671846

When Should You Ignore Conventional Retirement Advice?

In certain cases, taking a less traditional route may be a better financial fit.
It's human nature to want to take mental shortcuts, like following the crowd to find that best-selling gadget on Amazon. We read all the reviews and think, "If it worked for all these people, it could work for me."

But when it comes to important retirement decisions, relying on truisms instead of getting tailored recommendations from us can lead to less-than-ideal outcomes.

Here, we explore three scenarios where we can guide you in being a retirement rebel.

Spending in retirement

As they age, retirees usually spend less on average. Though healthcare costs rise in later years, that is often offset by a drop in spending on nonessentials like travel.

Age 55-64 | $64,937
Age 65-74 | $52,356
Age 75-plus | $40,839

Source: Bureau of Labor Statistics, 2020

Conventional advice: Don't claim Social Security at age 62

Hear ye, hear ye. Claiming Social Security early translates to a 30% smaller check if you claim at age 62 but your full retirement age is 67 (when you're able to collect 100%). However, for a select few, claiming early may be worth it.

An example is someone who is wealthy and plans to retire at 62 and live off large withdrawals from pre- tax retirement accounts. This will push them into a higher tax bracket than the alternative – taking Social Security payments at 62 to reduce the amount withdrawn from those accounts. Claiming early also gives retirement assets room to continue compounding. Plus, your tax bill could be smaller due to the tax treatment of Social Security income. Finally, the extra income can enhance what financial planners call the "go-go" years, a period at the beginning of retirement when we can expect to have the most time and energy.

On the other hand, delaying Social Security can act as longevity insurance, if outliving your money is a big concern. Those who decide to defer their Social Security benefit earn delayed retirement credits, starting the month they reach full retirement age, or FRA (currently 66 and rising to 67 for people born in 1960 or later). For every month you delay filing between your FRA and age 70, Social Security increases your eventual benefit by two-thirds of 1% – a total of 8% each year you wait.

The bottom line? There's no single optimal time to claim benefits that fits everyone. It's your money, so get some tailored advice to make your retirement income work best for you. Social Security decisions should take into account many factors, including spousal and survivor benefits, so make sure to talk to us and your tax advisors to find the strategy that best fits your situation.

Conventional advice: Sell your home and downsize

Because housing plays a major role in personal finances and wealth, experts like to recommend shrinking your expenses by shrinking your square footage. However, this highly personal decision is, at its core, about the lifestyle you want. Don't cram yourself into a tiny home if you need room to spread your wings.

Some retirees choose to upsize to a home suited to multigenerational living, welcoming aging parents, adult children and even grandkids into a shared space. Others choose to relocate to a home of similar size in an area with a lower cost of living to increase their spending power. Still others plan to stay put indefinitely due to their attachment to a place they've made memories in, regardless of cost. In its most recent study conducted in 2018, the AARP found that nearly two-thirds of U.S. adults want to stay in their current home for as long as possible.

If you do plan to downsize, keep in mind the transaction costs that can eat into the profit from selling a home. Your advisor can help you run the numbers to see what it takes for you to come out ahead. If you are set on moving in retirement, think about selecting a place with practical amenities that make aging in place easier, such as a step-free entryway and shower. It could be smart to choose a living space that can appeal to a variety of age groups.

If you downsize, consider that selling and moving costs might equal 10% of the sale price of the home. Source: Bankrate.com

Conventional advice: Pay off your mortgage before retiring

Zeroing out a big debt like a mortgage feels like a giant weight lifted. But if you let the zeal for zeroes cloud your vision, your paid-off house might become a prison with liquidity locked inside.

Let's say you use the majority of your savings to pay off your mortgage. Now you own your home free and clear – but the next time you have an emergency or a big opportunity, you'll have a more difficult time coming up with the cash. You might even have to take out a home equity loan, and now you're right back at square one.

Before you pay off the mortgage, first take a realistic look at whether your house will suit your needs in retirement or if you'd rather relocate. Even if you're sure you're not going to move, you still might prefer to maximize your income by investing your money instead of using it to pay low-interest debt. There's also the ability to deduct the interest you pay on a home loan on your taxes to consider.

The question is whether the comfort of having reserves with a mortgage is more appealing than the comfort of owning a home outright, but with less money in the bank. If you're having trouble deciding, talk to us and consider your options.

Find the right financial fit

Whether you end up going with the conventional advice or going your own way, a professional's opinion on your retirement income strategy could help you make the most of your resources – and help you find the lifestyle that feels just right for you.

Sources: SSA.gov; Center for Retirement Research at Boston College; Bankrate.com; AARP; Bureau of Labor Statistics. While we are familiar with the tax provisions of the issues presented herein we are not qualified to render advice on tax matters. You should discuss tax or legal matters with the appropriate professional.

LIFE & LEISURE

Raymond James "Point of View" article. raymondjames.com

An Empty Nest Could Mean a Fuller Wallet

When children leave home, you may have extra resources to invest in yourself.

"Pomp and Circumstance" plays. You beam with pride as your child moves the tassel from one side of the mortarboard to the other. Congratulations. Your kiddo just graduated college. With any luck, they've already secured a job in their chosen field and are ready to start paying their own bills. Your financial obligations have suddenly diminished.

Now what?

Well, you just got a raise, so to speak. The money once reserved for your child's needs and wants is once again available to fulfill your own. While you may be tempted to splurge on a pricey vacation, consider these other uses first.

Be realistic

You'll never stop caring for your kids, both emotionally and financially. Many parents want to continue offering their children extra support, whether it's a down payment on a house or college funds for future grandchildren. If you'd still like to help out financially, talk with us about the most efficient way to accomplish this without losing track of your own financial goals.

Protect your legacy

This is a good time to update your will. The previous iteration likely named guardians for your minor children, which may not be necessary now that they're young adults. If you're inclined to charitable giving, the extra money that once went to tuition could be reallocated to a cause that's near and dear to your heart.

You may also want to make one of your children the executor of your estate. And if you haven't already, you should consider designating your spouse or one of your grown children to have powers of attorney for your healthcare and finances in case of incapacitation. Of course, whenever there's a change in circumstances, you should review the beneficiaries on your retirement, savings and brokerage accounts, as well as your insurance policies.

Think about insurance

Speaking of insurance, you may be over-covered as an empty nester. Take the time to review your policies now that your children are no longer financially dependent on you. If you're overpaying for life insurance premiums, you may want to cut back on coverage and pocket the savings. You'll need some professional guidance here to make sure you maintain adequate coverage going forward.

Your child can stay on your healthcare policy until the age of 26. But if your child is eligible for his or her own employer-sponsored coverage and leaves your plan as a result, you could save money. The same holds true for auto insurance. Removing your child from your policy could lower the cost as much as 50%, according to the Insurance Information Institute.

Remember: Medical providers may be prohibited from sharing information with you about your now-adult child's health. Talk with your kid about whether they'd like to authorize you to have access in an emergency situation.

This is also a good time to think about long-term care insurance. Studies show that long-term care, which generally is not covered by Medicare, could deplete your retirement savings. Buying a policy when you're younger and in good health will be easier than trying to purchase one as you get older.

Treat yourself

Boston College's Center for Retirement Research found that spending on nondurable goods, the fun things, jumped more than 50% per person for empty nesters. That's understandable after years of paying for dance lessons and soccer dues. So if your budget allows, make plans to travel, return to school, start a business or do whatever you've dreamed of. Ask us to help you set aside a certain percentage for the fun stuff.

Move on

Consider where you'd like to live. Are you perfectly happy in your current home? Would you prefer a smaller house or a beachfront condo? Do you want something less expensive so you can invest the difference? If downsizing frees up some equity in your home, you could reallocate that money to other goals like starting a new career or funding retirement.

Moving to a smaller home might provide additional resources for your later years, which could make up for a less-than-stellar savings track record. In addition to using that home equity to bolster your retirement savings, you could also benefit from a lower cost of living, maintenance costs, property taxes and insurance premiums.

Focus on you

Now that you have more time and resources, you can prioritize your future. Talk about this life change with your professional advisors and make sure your financial plan reflects your new circumstances. For example, you may want to adjust your asset allocation to reflect your new goals or use the extra money to step up investments in your overall portfolio, potentially increasing your net worth.

Next steps

- Consider making a catch-up contribution to your retirement savings
- Update your will and other beneficiary accounts
- Review your insurance policies
- Discuss long-term care coverage

Guarantees are based on the claims-paying ability of the issuing company. Long-term care insurance or asset-based, long-term care insurance products may not be suitable for all investors. Surrender charges may apply for early withdrawals and, if made prior to age 59 ½, may be subject to a 10% federal tax penalty in addition to any gains being taxed as ordinary income. Please consult with a licensed financial professional when considering your insurance options.

Quote of the Month: "As far as the laws of mathematics refer to reality, they are not certain; and as far they are certain, they do not refer to reality." - Albert Einstein

For questions or additional information please contact:

Raymond James & Associates

9900 Clayton Road, Saint Louis, Missouri 63124

Jim Pohlman, CFP®
Senior Vice President, Investments
James.Pohlman@raymondjames.com
T 314-214-2122

Hunter Martiniere, J.D
Financial Advisor
Hunter.Martiniere@raymondjames.com
T 314-214-2152

Vickie Bollinger
Senior Registered Sales Assistant
vickie.bollinger@raymondjames.com
T 314-214-2175

Planning - https://www.raymondjames.com/commentary-and-insights/retirement-longevity/2022/06/08/when-should-you-ignore-conventional-retirement-advice
Life & Leisure - https://www.raymondjames.com/commentary-and-insights/family-life-events/2022/07/06/an-empty-nest-could-mean-a-fuller-wallet