Norman J. Politziner's
Financial Planning

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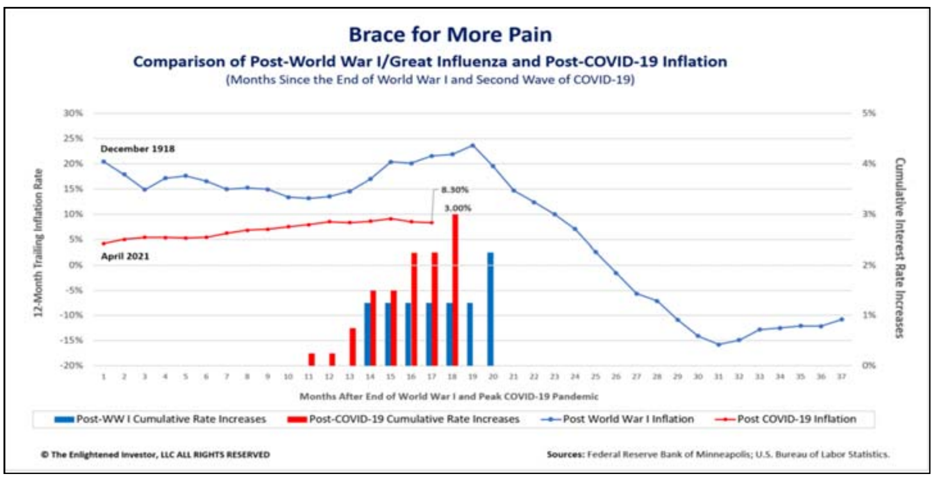
Fed Policy, Inflation And The Investment Outlook

The Standard & Poor's 500 stock index fell into a bear market on June 13, 2022, rebounded in the summer, and then tanked again as summer ended; autumn begin with the fall continuing. Despite aggressive Federal Reserve tightening since March, inflation has remained stubbornly high. When the post-Covid financial pain will stop?



Using history as a guide, the bad news is probably not all behind us, but it's also not so far from ending, according to financial historian Mark J. Higgins. Mr. Higgins, says the post-Covid financial challenges facing the U.S. are a lot like the post-pandemic years following The Great Influenza of 1918 and World War I.

To illustrate the point, the blue line in the chart below shows the trailing 12- month inflation rate for the 37 months after the peak of The Great Influenza of 1918, and the red line shows the trailing Fed Policy, Inflation And The Investment Outlook 12-month inflation rate for the 17 months since the end of the COVID-19 peak period of quarantine in April 2021. Twenty months after the peak in the Spanish flu, Fed tightening finally broke the back of the inflation cycle, throwing the economy into a recession.

The red line, representing the annual inflation rate in today's post-Covid world, is approaching the pivotal 20- month mark of the post-pandemic inflation crisis a century ago. Meanwhile, the blue bars show the cumulative interest rate increases by the Federal Reserve after the 1918 pandemic and the red bars show the Fed's actions, so far in the post Covid-19 era. "We are right about at the point when disinflation starts and the economy enters recession," says Mr. Higgins.

So, what does this historical parallel mean to investors? It means investors should expect:

1. more rate hikes by the Fed to

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Looking Back and Forward

One year ago, in my 4th Quarter 2021 newsletter, we wrote about increased volatility of the stock market and a possible inverted yield curve (when long-term bond rates are lower than short-term bond rates), and inflationary pressures.

Well, after a turbulent first three quarters, as we come up for breath, we can see that inflation is still up, but going down, unemployment is still low, but jobs are still going unfilled, and the government is still spending too much money and creating too much debt.

In my mind, looking forward, the big picture is that we have one of the best economies in the world and our average workforce age is much lower than our biggest competitors, China, Europe, and Russia.

China's working-age population begins to drop sharply in the next few years. European working-age population has already begun to drop, and Russia is already, in my opinion, an economic basket case.

So, good for us. Bad for them.

Furthermore, our Covid response, as horrible as the disease was, has worked and anyone who wants to work can get a job. Not so in much of the world.

Things are tight now but will get better even with a possible recession in 2023. That is my long-term prediction.

Stay safe. Wishing you a happy, healthy, and prosperous new year.?

Norm

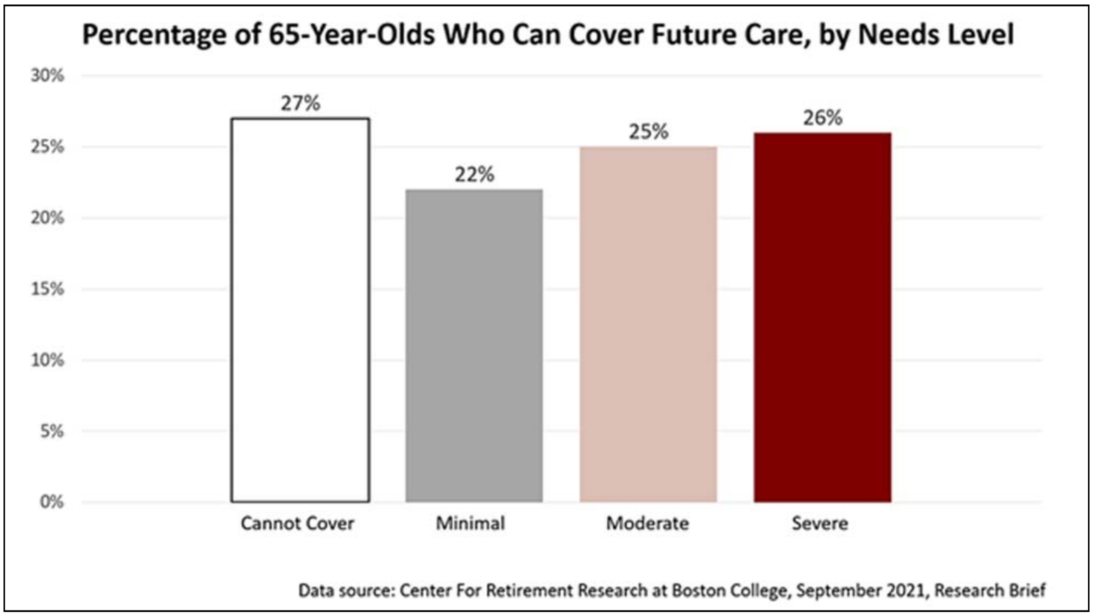
Answering Some Difficult Personal Financial Questions

At age 65, only about 20% of American retirees have family and financial resources to cover high-intensity care for at least three years. About 30% cannot afford any help at all. The remaining half of older adults lie somewhere in between not being able to afford any care and having a long-term safety net should they be stricken by a prolonged health crisis.

These are the grim conclusions of The Center for Retirement Research (CRR) at Boston College. Part of a consortium of research groups funded by the U.S. Social Security Administration since 2018, CRR's research paints a gloomy picture of the retirement struggle most Americans are facing.

In a September 2021 research brief, CRC examined the resources available to 65-year-olds to meet their needs for different long-term services and support (LTSS). CRC's analysis considered "informal" care from family members, as well as care paid for out of a retiree's pocket, and it categorized older adults by their ability to afford minimal, moderate, and severe care needs.

With about a third of America's retirees lacking resources for even minimal care, and only a fifth able to afford care for a severe personal health crisis, such as a stroke or chronic disease, this problem is expected to cause enormous social and political issues in the decades ahead as baby boomers age. However, even if you have family support and enough money to care for a severe health event requiring long-term care, proper planning requires answering some difficult personal financial questions:



Can you afford to self-insure in your old age?

Have you done the financial math to ensure you could pay for a severe-care event in your retirement years, figuring on living through age 85 or 90?

Have you paid for long-term care insurance that has grown more expensive or now provides lower benefits than it used to?

The earlier you get started on planning your retirement portfolio and income needs, the easier it is to find solutions and gain peace of mind. ●

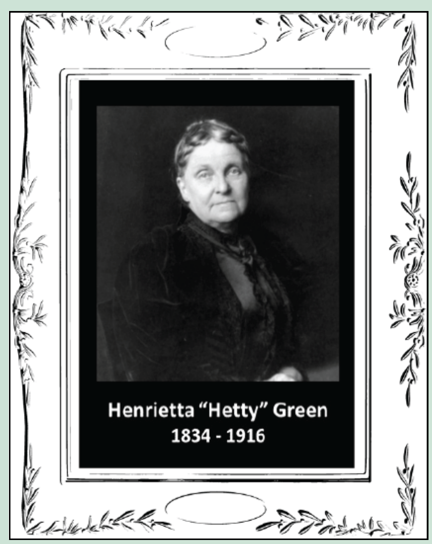
The Warren Buffett Of The Early 1900s Was A Woman: Here's

In an era of financial titans like Elon Musk, Jeff Bezos, and Warren Buffett, it's hard to imagine that, at the turn of the 19th century, one of America's dominant investors was a woman. But it's true.

Born in 1834, in New Bedford, Massachusetts, Henrietta (Hetty) Green came from a wealthy family and, as a child, she read financial reports to her grandfather. The knowledge stuck, and she became the greatest value investor of her era and an influential figure in America for many decades.

She was a key figure in rescuing the U.S. Treasury from a frightening financial crisis. The Panic of 1907 was the last major financial crisis to occur without the support of a central banking system in the United States. If not for J. Pierpont Morgan's effort to secure financial support from banks and trusts, along with a small group of individual investors, including Hetty Green, the entire U.S. financial system would have collapsed, and the nation almost certainly would have descended into a Great Depression-level event. Historical accounts indicate the Panic of 1907 was so terrifying that it led to codification of the nation's central banking system, the Federal Reserve Act of 1913.

Less well-known, however, is the


Henrietta "Hetty" Green
1834 - 1916

Where Your Money Goes When You Die

Since a 1965 book by financial planner Norman Dacey popularized avoiding probate, the strategy has become ingrained in the American financial psyche, and the U.S. financial system has accommodated consumers by making it easy to set up IRAs and other brokerage accounts to avoid probate.

Now, with the first generation of Americans who set themselves up to avoid probate starting to die, the quiet evolution of avoiding probate has created an urgent need for Baby Boomers to understand what will happen to their assets when they die. Once the domain of legal professionals only, strategies for estate planning and avoiding probate are today part of the financial advice process.

Since the 1980s, states changed property laws to make avoiding probate easier. Now, naming the beneficiaries of your IRA, Roth IRA, and other federally qualified retirement accounts avoids probate and that puts a financial advisor at the center of a crucially important estate planning decision.

Probate is the term for a legal process of distributing your assets after you die. It's historically been court-supervised, but most states now offer an independent administration option and takes months or years. Probate opens your will to objections from disgruntled family members, heirs who feel shortchanged, and makes public a record of personal information about your estate.

"Avoiding probate became standard operating procedure for the entire generation of Baby Boomers with the advent of irrevocable trusts," said L. Paul Hood, Jr., who teaches estate tax planning to legal, accounting, and financial professionals. "Now, as Baby Boomers are starting to die, many don't completely understand that their financial advisor – and not their attorney – plays a pivotal role in ensuring your estate passes to beneficiaries outside of probate and in conformity with your wishes."

In addition to beneficiary-designation assets, most property that used to pass via probate can avoid it altogether now if properly titled. Real estate can pass by joint tenancy with rights of survivorship. Bank accounts can pass to the account beneficiary via a pay-on-death (POD) account. Marketable securities can pass to the account beneficiary via a transfer-on-death (TOD) account. In joint tenancy, POD and TOD accounts, the accountholder's will is irrelevant, even if it conflicts.

What if the account holder wants to change the account beneficiary in a POD or TOD account? They don't need to go to their estate planning lawyer; they need only visit (even electronically) the account sponsoring organization.

Unfortunately, with the rampant increase in elder financial abuse, it's now incumbent on the employees and representatives at banks and brokerages to keep watch for vulnerable seniors being taken into offices to change account beneficiaries without their consent or understanding. Given that account-sponsoring organizations now effectively control ultimate disposition of the accounts on death, it's increasingly clear that organizations that don't take adequate precautions to protect the vulnerable and elderly are going to be sued if they fail to do so.

Depending on your personal circumstances, a legal professional specializing in estate planning can be called in to assist in certain instances, including:

- family members with special needs
- transfer ownership of a business or investments
- gifting your residence to heirs
- leaving assets to charity
- estate is valued at more than $12.06 million

Estate planning is central to fulfilling our role as your trusted financial advisor. If you have questions about what happens to your assets when you die, please do not hesitate to contact us.●

The Inspiring Story Of Hetty Green

Less well-known, however, is the role played by Hetty Green. In an era in which women were forbidden from holding a position on a corporate board or even exercising the right to vote, Hetty Green was invited to the Morgan Library in midtown Manhattan to brainstorm solutions to the national financial emergency.

In contrast to J. P. Morgan, Hetty Green saw the crisis emerging and had prepared for it by raising a mountain of cash in advance. This enabled her to assist, not only with her great financial mind, but also with her wallet. She lent generously at reasonable rates to steer the nation clear of a self-reinforcing deflationary vortex.

Hetty Green's financial help during the Panic of 1907 was the most public accomplishment of her long career, but her achievements in prior decades were no less impressive. She remains one of America's all-time best investors.

For more on Hetty Green's inspiring story, visit the Museum of American Finance online at www.moaf.org, and read the Fall cover story of *Financial History* magazine.

Financial historian, Mark J. Higgins, contributed to this article. His full ï¬nancial history of the U.S., The Enlightened Investor (Greenleaf Book Group), is expected in bookstores in Fall 2023.●

"Simplification" Of College Financial Aid Requires Attention Now

The Consolidated Appropriations Act (CAA) of 2021, signed into law December 27, 2020, by President Donald J. Trump, was a massive $2.3 trillion spending bill. At 5,593 pages, Wikipedia says, it was also "the longest bill ever passed by Congress."

Buried in CAA is a section on college-student aid dubbed "FAFSA Simplification." It reduces the number of questions on the Free Application for Federal Student Aid (FAFSA) form from 108 to 36. It affects your college funding financial plan starting in 2022.

A FAFSA form must be completed by current and prospective undergraduate and graduate college students to determine their eligibility for student financial aid for a given academic year. The form must also be submitted to determine eligibility for many scholarships and merit-based college funding programs, in addition to need-based college financial aid.

"The simplification of the FAFSA form effectively redefines how eligibility for aid will be determined," says Kalman Chany, author of "Paying for College, 2022: Everything You Need to Maximize Financial Aid and Afford College." "There will be winners and losers."

In changing the eligibility criteria, "simplification" is expected to set off financial and administrative difficulties for many students. Many families eligible for needs-based federal aid under the current criteria will no longer be eligible under FAFSA Simplification.

Since 1986, Mr. Chany has authored and annually updated a book on college funding and financial aid. He says the new FAFSA formula will no longer boost aid for families with more than one child in college. This single adjustment may slash the amount of aid families receive by thousands per student.

Another important change is that the FAFSA form will no longer consider pre-tax contributions to 401(k), 403(b) and other qualified retirement account assets. However, the FAFSA formula will continue to count contributions to traditional IRA, KEOGH, SIMPLE IRA, and SEP accounts in your adjusted gross income as untaxed income.

The changes in the FAFSA formula were supposed to go into effect beginning with the 2023-2024 academic year. However, because of technology and other issues, the U.S. Department of Education has asked Congress to delay implementation of the law until the 2024-25 academic year.

"The 2024-25 school year may seem far off, but aid eligibility that academic year will be based in part on your 2022 income, due to a two-year look-back for income," says Mr. Chany of Campus Consultants in New York City.

Aid calculations are based on individual student and family circumstances, and the new FAFSA formula that is scheduled to go into effect in 2024-25 could yet be delayed. However, it is prudent for parents and students to know about the major changes in the FAFSA formula coming in the months ahead and to begin planning now, even if you are not sure you will qualify for aid. ●

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destroy demand for goods and services before inflation is tamed. Prepare for jobs to be harder to find, new-home building to continue to slow, slower earnings growth on the blue-chip companies in the S&P 500, and continued volatility in the stock market in 2023.

2. waves of selling by investors no longer able to resist dumping stocks, as losses mount, possibly beyond -25%, -30%, or -35% from the all time high of January 3, 2022. That is about in range what occurred in recent bear market downturns.

Keep in mind studies have shown timing when to sell and buy stocks is too hard to do consistently with reliability. For example, consider a 2022 study by BofA Global Securities, that showed missing just the 10 best days of every decade since the 1930s would have resulted in a +22,120% total return for an investor who did not sell through the end of 2001. In comparison, missing the 10 best days of every decade in the same period resulted in a relatively paltry +60% total return, which demonstrates the futility of trying to get in and out of stocks at just the right moment.

Mark J. Higgins is a regular contributor to this newsletter. His book, "Becoming an Enlightened Investor," a full financial history of the United States, is expected to be available on Amazon in Fall 2023.●

Past performance is no guarantee of future results. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index

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