RAA®

THE COMPASS

beginning 2022 | event update | your financial team | market update

FIRST QUARTER, 2022

BEGINNING 2022

By Kat Schraeder, CFP®
RAA Vice President

With the new year comes resolutions, reminiscing on the past, and preparing for the future. 2021 was another unforgettable year as the world navigated the pandemic, airlines started hiring instead of furloughing, and while markets were volatile, they continued to achieve record highs.

Unfortunately, inflation became a very real issue. As we have started 2022, the volatility has increased significantly. Please read thoughts from our Chief Investment Officer, Andy Stout, on what our investment team is watching and how we are navigating these turbulent times.

When it comes to reminiscing about the past, 2021 will be a year I remember with gratitude for the adaptability of our RAA team and all of you, our clients, that place their trust in us. We have continued to benefit from joining with Allworth Financial and because of your amazing referrals, we are now serving over 3,400 families with complete financial planning so we can help them prepare for and live out a rich and meaningful retirement.

In 2021, while we were able to participate in some events like the Reno Air Races, the team also dealt with the disappointment of having to postpone client seminars for another year and limiting in-home meetings.

We appreciate you logging into Zoom to help us connect with you and to make sure your individual financial plan is on track. However, we are excited to say we have a 2022 “penciled-in” event calendar in this *Compass.*

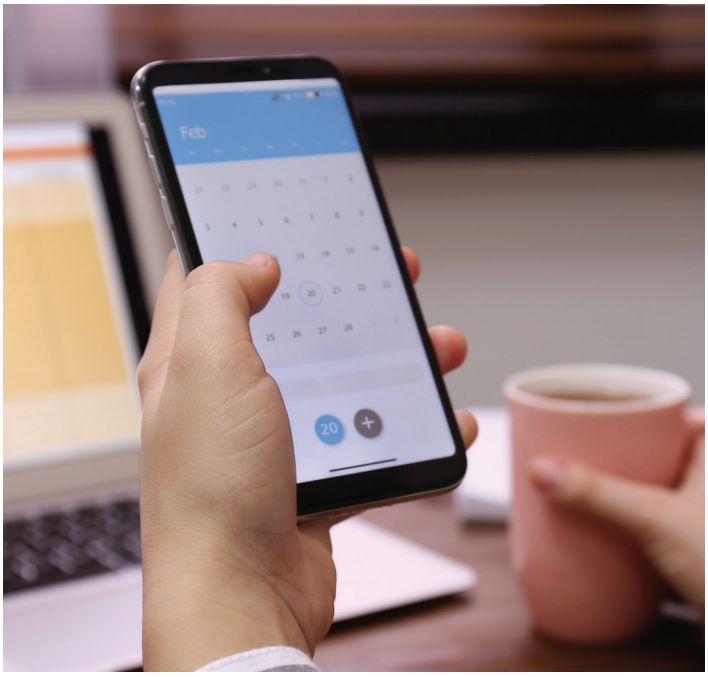
Please take a look and then watch your emails for details as items move from being penciled in to inked in with all the details. Bottom line - we can’t wait to connect with you!

Also in this edition is an article on 2022 Required Minimum Distribution rules highlighting the new RMD tables that are very favorable. The IRS realized that people are living longer, so all of the actuary tables have been updated. This means you are not required to take out as much from your account as a percentage as you would have been required to using last year’s schedule.

Speaking of RMDs, there are tools available for you to have your RMD automatically distributed to you on a monthly or annual basis so you do not have to worry about last-minute planning at the end of the year. Please ask your advisor if establishing a periodic distribution plan for your RMD makes sense for you.

Another article in this issue highlights the importance of a team approach to your financial planning. We invite you to talk with your advisor to review if we can assist you with any of your broader financial planning needs including your estate plan, taxes and tax planning, and overall risk assessment and needs analysis that may show a need for insurance coverage.

As we continue moving through 2022, we can’t wait to connect with you and are honored to be part of your team helping make your dreams a reality. If there is anything we can do for you, please reach out!



NEW RMD TABLES FOR ALL IRA ACCOUNTS IN 2022

Planning for your 2022 Required Minimum Distributions (RMDs) from IRAs, 401(k)s, and other qualified retirement plans may look different. A few of the rules have been changed and will affect both the original owners of the accounts, as well as any beneficiaries who may have inherited them.

Starting this year, the IRS has introduced modified life expectancy tables, which are used to determine your RMDs. While using the updated tables should be straightforward for most account owners, there are some features to watch out for.

1. The SECURE Act changed the age requirement from 70 ½ to 72, meaning anyone whose 70th birthday falls on or after July 1, 2019 has until age 72 to take his/her first RMD. If you delay your first RMD until the following year prior to April 1, you will need to take two RMDs in that year.

2. The amount you must withdraw each year is generally determined by dividing the previous year-end balance of each qualifying account by a "life expectancy factor" as defined by the IRS. The agency's new tables assume you'll live longer, which may have the effect of reducing the amount you need to withdraw. To view the new uniform tables for 2022, visit **raa.com/RMD2022**.

3. If you inherited an IRA and the original owner passed away before 2019, then you will need to adjust your factor based on the new tables. This adjustment will result in a lower distribution amount. If you inherited after 2019, then you must withdraw all funds within 10 years of the original owner's death.

Your advisor is aware of these changes and can help walk you through what your RMDs and tax withholdings may look like for 2022. Please contact us with any questions.

2022 UPCOMING EVENTS

As the new year begins, we wanted to make sure you were aware of some upcoming events on the calendar for 2022. We are looking forward to spending time with you, serving the airline community, and having lots of fun.

Please note that the schedule may be subject to change, and specific details including dates and exact locations will be communicated as we get closer to each event. With the changing environment, this list is not all-inclusive.

- **February 17: Ski Day at Park City Mountain**
- **March 17-19: Women in Aviation Conference**
- **April 5-10: Sun 'n Fun Airshow**
- **July 25-31: Oshkosh Airshow**
- **September 14-18: Reno Air Races**

We are also planning a return of some client seminars. We plan on presenting a seminar in Florida in March, the Atlanta area in April, Dallas in June, Park City and Seattle in July, and Southern California in August. We will also host a couple of virtual seminars for those not ready to meet in person or for those not close to one of our seminar locations.

Keep an eye out for more details via email. We hope you will join us and bring your friends, family, or colleagues!

4 DIFFERENT PEOPLE YOU NEED TO HAVE AT YOUR FINANCIAL PLANNING TABLE (AND WHY!)

When it comes to developing a financial plan, it's important that you have the right expertise on your side. While it may seem easier for some to handle things on their own, having the right people sitting at your "financial planning table" can ensure that all angles of your economic picture are covered. The financial planning process can, and likely should, involve a number of professionals. While everyone's table may look different based on your unique situation, here are 4 different people that we suggest you have sitting with you:

Your Advisor

Your advisor will help you create a financial plan that will allow you to evaluate all areas of your financial life. They can help you invest strategically based on your individual goals and priorities.

Keep in mind that financial planning professionals make recommendations, not decisions. You retain control over your finances. Recommendations will be based on your needs, values, goals, and timeframes. You decide which recommendations to follow, then work with us to implement them.

By collecting detailed information about your financial health, your advisor can provide you with ongoing advice and help develop financial strategies on investing, retirement planning, succession planning, risk management, and taxes. In addition, it's important to have someone at your table who is well-versed in the benefits provided to you by your company, including health benefits and disability benefits, to name a few.

If you have not had a meeting with your advisor in the past 12 months, we highly encourage you to set one up.

Accountant (CPA/Tax Attorney)

Taxes play a key role in your financial outlook. Having either an accountant or tax attorney at your financial table can help you to navigate tax laws, guide you through federal and state tax issues, plan for future events such as higher salaries, help you with the sale of a home or property, prepare accurate and precise returns, and create an overall strategic tax plan.

We always encourage an open line of communication between your financial advisor and your tax professional. While it may seem like these two individuals can work separately to support your needs, there are several scenarios in which a collaborative approach can be more advantageous to you. If you choose to take advantage of our Tax Solutions team for return preparation and planning, your advisor and CPA can connect easily on your behalf.

Estate Planning Specialist

There is a very common misconception that only the very wealthy or those in their later years actually need an estate plan, but this is not the case.

Estate planning specialists can help you plan for your estate and give advice on transferring and managing your

assets during and after your lifetime. They can also ensure you have the documentation in place, such as a Health Power of Attorney, to protect you at any age.

RAA is happy to help if you have questions about a guardianship agreement or about your overall estate plan. Our team has the expertise to work with you and your attorneys to ensure you have a plan in place to protect your family, and your legacy, should something happen to you.

Insurance Professional

Having an insurance specialist at your financial planning table can help you navigate the insurance world and find the best value. Insurance professionals will assess your situation and needs, and then recommend appropriate products and strategies that will help you reach your goals.

Insurance is a rapidly changing industry that frequently has new products and services available. Your insurance professional can help you assess your individual risk and provide information about life insurance, long-term care insurance, etc.

It's important for your advisor to work closely with you and your insurance professional so they can coordinate together to make sure you get the coverage you need in a price range that works for you.

Remember, financial success is not always something you can achieve on your own. It takes a well-planned, qualified team to help you get there. Fortunately, RAA has expertise in all of these areas within our team. If you have any questions about how these team members fit into your financial plan, please contact your advisor and he or she can make recommendations for which would benefit you.

By Andy Stout, CFA, CFP® - Chief Investment Officer

The turning of the calendar empowers people to look forward to putting the negative behind them and focusing on the positive. For me, that means living a healthier lifestyle (or at least attempting to).

Unfortunately, the economy doesn't have the luxury of using the calendar for a fresh start. So, with that in mind, here are a few things you should be aware of that we continue to watch.

Inflation

Inflation was a problem at the end of last year, and that hasn't changed. Last month, consumer prices (CPI) hit their highest level in nearly 40 years, climbing 7% on a year-over-year basis. Specifically, car prices and supply-chain bottlenecks were significant factors in December's inflation print. We expect inflation to continue to get worse for a few more months before easing later this year.

We currently expect inflation to moderate this year because demand from the economic reopening should continue to wane and supply-chain bottlenecks should improve. That doesn't mean inflation will return to 2% levels, but it does mean we shouldn't be seeing 7% inflation by the end of the year. The bond market is pricing in CPI at 3.5% for 2022.

However, rising home prices and wages could cause hotter-than-expected inflation this year. But, as of right now, wage inflation (+4.7%) lags CPI (+7%), so workers haven't been able to demand salary increases that match inflation. If that were to change, that's when inflation can become stickier because companies could pass on those higher costs to consumers.

The Fed and Rising Interest Rates

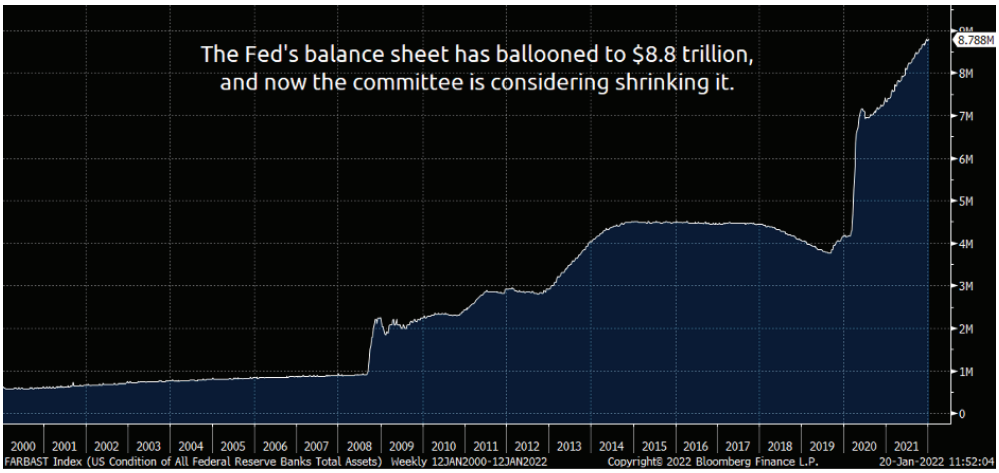
Our nation's central bank, the Federal Reserve (Fed), is responsible for stable inflation and full employment. We could be close to (or even at) full employment, as the unemployment rate sits at 3.9%. However, inflation is not stable.

Over the past couple of months, as the economy moved toward full employment, the Fed shifted its focus to fight inflation. Near the end of 2021, the committee suggested it might hike rates three times in 2022, up from one indicated hike just a few months ago.

Since the onset of the pandemic, the Fed has bought trillions in bonds to help keep interest rates low and encourage economic growth. The Fed was on track to stop these purchases in June but then reversed field and decided to speed them up, instead. As a result, these purchases will now stop in March.

Last month, I stated that the Fed might need to do more to curb inflation, and the committee has done just that. Specifically, many members from the Fed are now publicly talking about a March hike, resulting in the bond market now pricing in four quarter-point interest rate hikes this year.

Additionally, the Fed stated it's looking to reduce the size of its $8.8 trillion balance sheet. The last time the Fed went down this path, it took the committee three years to start shrinking its balance sheet after stopping bond purchases. So, the market was surprised when the Fed stated it was looking to shrink its balance sheet shortly after the initial rate hike. Many economists expect this, known as quantitative tightening, to occur by June.



With that being said, as there is every year, there will be economic curveballs. So, should inflation pressures ease, it wouldn't be surprising to see the Fed become less aggressive in the second half of the year.

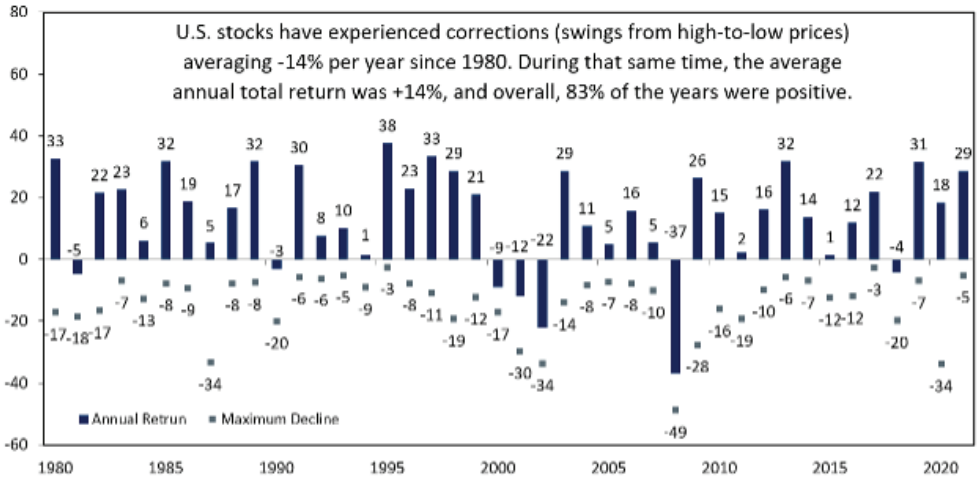
The Fed's current shift has resulted in both short-term and long-term interest rates rising. In fact, over the past four months, short-term interest rates, which are more sensitive to rate hikes, have increased more than long-term rates. This movement is known as a "bear flattener," and it has resulted in the yield curve narrowing to 0.83%. This yield curve measurement is the interest rate difference between the 10-year and 2-year

Treasury bonds. Today's yield curve is upward sloping and not near an inversion. The yield curve inverts when the 2-year Treasury interest rate is greater than the 10-year Treasury interest rate.

However, we will continue monitoring this curve because an inverted yield curve is one of the more accurate leading economic indicators. In other words, a recession often follows a yield curve inversion. It could take six months or two years, but it's important to note that it has been relatively reliable over the past 50 years.

Volatility

Inflationary pressures and higher interest rates are two primary reasons for this year's market turbulence. But remember, long-term investors should expect volatility. It's common for stocks to experience 5-15% declines in any given year. Since 1980, the average drop in a calendar year has been 14%. However, the average annual total return for large-cap stocks was +14% during that time, with positive results in 83% of those years.



Of course, that doesn't mean we won't experience more turbulence, but history shows that, more of than not, remaining patient during selloffs has been a profitable decision. While the markets are unpredictable in the short run and trend higher over the long run, some factors tend to help determine the market's path over the intermediate term:

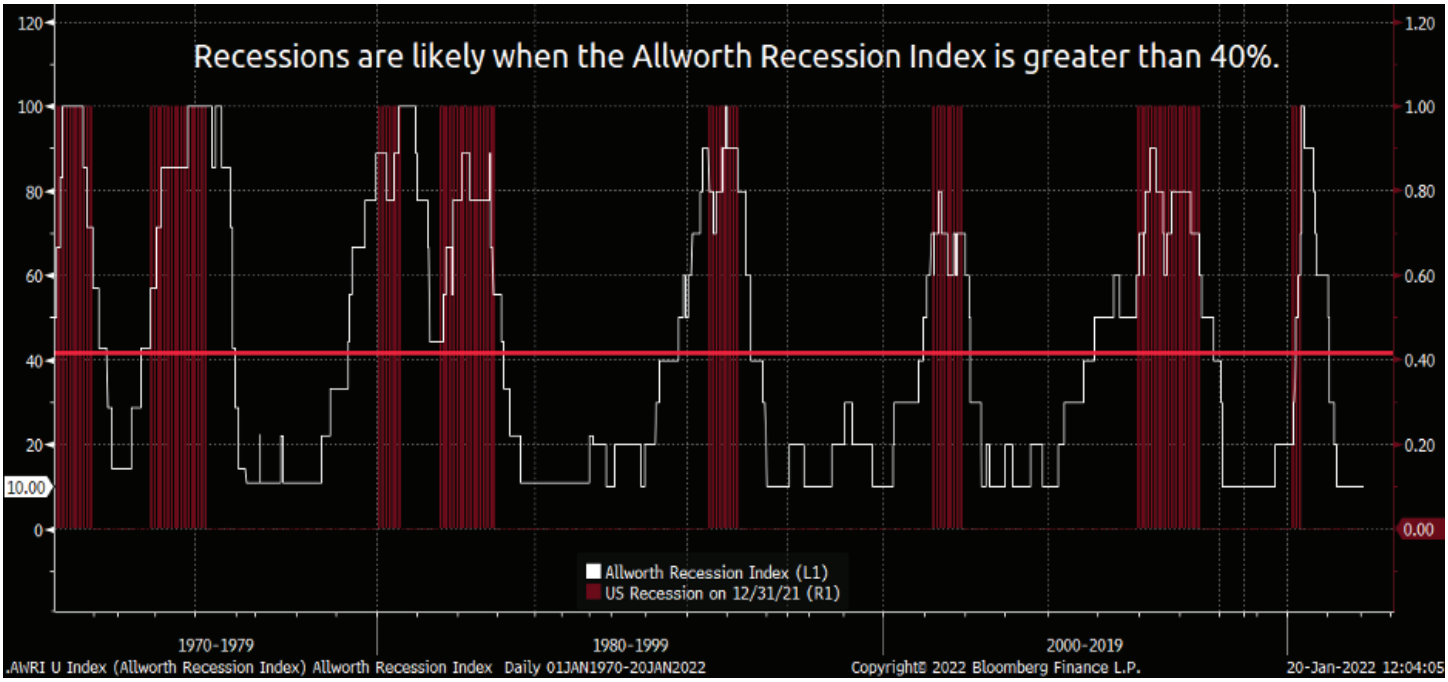
Earnings

Theoretically, the value of an asset is based on its future cash flows. So, if a company generates increasing future earnings, that should benefit its future stock price. Looking at large-cap companies, as a whole, shows that profits have fully recovered from COVID. Therefore, the factor to watch now is forward earnings growth and, more importantly, if earnings grow quicker than expected. Wall Street analysts currently expect earnings to increase 8.7% in 2022 (compared to 2021), which is close to average. Since 1990, S&P 500 profits have risen about 8.1% each year. Profit growth will likely eclipse 8.7%, as about 75-80% of companies usually report better-than-expected earnings.

Economic Growth

As there always is, there is uncertainty surrounding earnings. For example, we'll be watching to see how inflation potentially squeezes profits, and, of course, COVID could also be an issue. Another important factor is economic growth. Part of the reason for this is that when the economy grows, earnings grow. But when the economy shrinks, profits also fall.

We continue to closely monitor our proprietary Allworth Recession Index, which suggests low recession risk. Typically, leading economic indicators give an advanced warning of a slowdown by about six-to-nine months.



However, this recovery is far different from others, so a nuanced approach is required. Accordingly, we have shortened this look-forward to approximately three months.

Everything Else

The above are some of the more significant things we monitor. But we also stay on top of countless other items, such as tax and spending policy, geopolitics (e.g., Russia/ Ukraine), COVID-19 economic effects, worldwide economic growth, other central banks' monetary policy, valuations, and cryptocurrencies, to name just a few.

It's critical to understand how these factors affect the economy and the markets, because that knowledge greatly contributes to how we allocate investments. And the appropriate allocation of your investments goes a long way toward helping to make certain that you can fully enjoy your financial life.

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