RAA®

THE COMPASS

introduction spotlight inflation market update Third Quarter 2022

A TEAM DEDICATED TO YOUR NEEDS

By Kat Schraeder, CFP®
Vice President

"I've learned that people will forget what you said, people will forget what you did, but people will never forget how you made them feel." This quote from Maya Angelou has always resonated with me and is one of the first things I thought of when I contemplated what I wanted to say about one of our advisors, Carl Youngdale, as he celebrated his retirement.

Carl has a unique way of connecting with people, and with a twinkle in his eye and a wry sense of humor, he leaves any place better than when he arrived. Enjoy reading the spotlight on Carl in this *Compass*. He will be dearly missed, but we are so happy that he is going to enjoy his retirement (and grandchildren—the reason he is retiring) after many years of helping our clients prepare for and live out their own journeys.

As I reflected on Carl's retirement, I immediately thought of when I first met him, and his partners, Jeffrey Baumert and Gary Krasnov. These three men were all Delta pilots and the owners of Advisor Financial Services (AFS) when they partnered with RAA in 2016.

In 2020, when RAA partnered with Allworth Financial, Jeff was named Executive Vice President of Financial Services for all of Allworth, a role he continues to serve in today. In this role, he has helped shape the platform for all service and delivery of complete, specialized, and personalized financial planning and investment management for Allworth clients and future clients.

As Allworth and RAA have continued to expand the number of families that have placed their trust in us, a need was identified to establish a team that is fully focused on delivering on the promises we have made to you, our clients. I am honored and excited to serve this team as I step into the newly created role of Sr. Vice President of Client Relations and Delivery.

Gary Krasnov has held many roles with RAA since joining with Carl, Jeff, and the AFS team in 2016, including Financial Advisor, Chief Compliance Officer, Managing Director of the Delta Team, and Vice President of Airline Strategy. It is my extreme pleasure to announce he will now be leading the full RAA team.

Gary has a passion for serving you and your community, leading by example, and always advocating for both the clients and the team he serves. If you don't already know Gary, I look forward to you getting to know him as he will start writing this introductory article in future editions. Until then, here are a few things to know about him.

Gary accepted the early retirement package as a Delta Captain in 2020. Prior to Delta, Gary flew in the U.S. Navy and retired as a commander from the Navy Reserves. He is the very proud father of two grown sons, Max and Jake, and a devoted husband to his amazing wife, Karen. The RAA clients and team are very fortunate to have him serving them.

As we continue to navigate these turbulent markets, we wanted to share information that will continue to guide and inform you. To this end, as you read on, you will see the article on behavioral finance. One of the biggest responsibilities our advisors have is to help our clients avoid making mistakes from which they cannot recover.

The research around behavioral finance continues to grow and is an area that all our advisors study. In addition, Ryan Gromatzky, our Director of Research, has provided our most recent outlook on the markets and economy.

Our team continues to be on the road where we can connect with all of you. We still have a client seminar in Tyson's Corner on September 13th. We will also be at the Reno Air Races on September 14th - 18th. If you are in the area, we would love to see you.

As I conclude, I want to thank you for the trust and confidence you have placed in RAA and the Allworth team. It is an honor and privilege to serve you.

TIPS FOR WEATHERING HIGH INFLATION

In our May *eCom*, you might remember we began a series of articles on the topic of behavioral finance, discussing how certain biases can influence your financial decisions. One of the biases mentioned is loss aversion bias, which is the tendency for humans to perceive a loss as being more severe than the benefits experienced by an equivalent gain. Financially, this means that investors sometimes make harmful decisions out of fear to avoid the potential pain of losing something (in this case money).

As we continue to experience high inflation, it's normal to feel afraid as you wonder what effects inflation will have on your financial security. Will you need to tap into your savings? Should you buy gold to hedge against inflation?

All of these worries are valid, but with the pain and stress that the current financial climate is causing for so many of us, it's important to understand which actions are helpful to avoid inflation-induced loss, and which will do more harm than good.

Do: Review Your Budget

We know … budgeting isn't the most enthralling topic. But there are a lot of people who have no idea where their money is really going day in and day out.

It's critical to stay aware of these details even during 'normal' inflationary periods, which means it's even more critical during times like this.

Take a look at your monthly bills. Reassess. Is there anywhere you can cut back? As the saying goes, "Money not going out is the same as money coming in."

Hopefully, for those of you who are conscientious of your budget and have a sound plan in place, you're not feeling these kinds of budgetary pressures just yet. However, there's no downside to getting out ahead of it. Depending on how long this persists, we all may have to make some, even if just a few, lifestyle adjustments.

Do: Avoid Credit Card Debt

With some debt, as with a fixed mortgage, inflation is actually not as painful, because your payment stays the same but you're paying your lender back with money that's worth less. That's not the case with credit card debt.

As you might have heard us say before, credit card debt is one of the most expensive and destructive forms of debt. That's because credit cards are typically tied to variable interest rates, so they are only going to get more expensive as the Federal Reserve continues to tame inflation by raising short-term borrowing rates.

Translation? Your money is worth less, but you'll keep owing more.

So, if you have any amount of credit card debt, we encourage you to put a plan in place to get it paid off as soon as possible. While it might seem counterintuitive to siphon money from a budget that's already stretched and put it toward paying off a credit card, the financial benefits of doing so will more than likely be worth it in the long run. And if you don't currently have any credit card debt, you should seriously consider the impact of interest rates before taking any on.

Don't: Panic with Your Investments

Sometimes, the best thing you can do in a period of stress or fear is absolutely nothing. If you have a sound financial plan that was built to incorporate your specific goals, needs, and tolerance for risk, you shouldn't stray from that plan.

And as difficult as it may be, fight the urge to stockpile financial products or investments that are touted as "safe havens," such as gold or other commodities. All too often, these are sold using fear-based tactics, which, given the kind of investing and financial environment we're in, may sound persuasive.

However, making emotional decisions right now, no matter how good it might sound, will probably not serve you well in the long term.

Your advisor has taken periods of economic flux into account within your plan, and if you would like to discuss the potential impact of inflation or the market, he or she would be happy to do that with you. Your advisor can also discuss your options for tax-loss harvesting, which can be a helpful strategy for lowering your tax liability, especially in a state of market decline. This can potentially lower the loss you face when tax season rolls around and you owe money to the IRS.

Fortunately, while many of us feel like this inflation has "smacked us in the face," it won't last forever. While it sticks around, the best things you can do to protect yourself from unnecessary loss are to adjust and stick to your budget, address credit card debt if you can, and stay the course with the financial plan you've built with your advisor.

Please don't hesitate to reach out if you have any questions or would like to review your plan.

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QUARTERLY UPDATE VIDEO

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It goes without saying that our current economy has seen better days. But, I would be remiss if I didn't say it, because we all know how you, our clients and friends, are feeling – and we are here to help.

I am honored to have been trusted with a larger role at RAA, and most importantly, the continued ability to help you and your family live meaningful lives. You are the reason I do what I do, and you deserve to be informed.

With that said, I'd like to share with you the most recent Quarterly Update video we just recorded with our partners at Allworth. In this video, Scott Hanson, Andy Stout, and Kat Schraeder discuss our commitment to you, our latest outlook on the economy, and ways to help weather this time and remain successful within your financial plan.

Please type in the following link in your browser to watch the Quarterly Update:

raa.com/quarterlyupdatevideo

As these videos and additional information become available, we will continue sharing with you. We hope it provides increased peace of mind that your team at RAA and Allworth is monitoring these factors on your behalf in all market conditions.

If you have any questions, please feel free to contact your advisor. And please let me know if there is ever anything I can do to help.

Gary Krasnov

Vice President - RAA

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FAIR WINDS AND FOLLOWING SEAS

In this issue of the *Compass*, we would like to celebrate and congratulate our dear friend and co-worker, Carl Youngdale, on his retirement.

Carl joined RAA in 2016 and served as the *Managing Director* for the Delta Team until March of 2020, when he returned to his first passion - advising clients. Prior to RAA, Carl was the Managing Partner of Advisor Financial Services, a company he founded in 1998 to serve the unique needs of his fellow employees in the airline industry. Advisor Financial Services became part of RAA in 2016.

Carl was born in France and he was the youngest child of three. Carl's father was a career Marine Officer, so Carl spent some of his early years living in Vietnam, up and down the East Coast, and Hawaii, while his father was based there. Another fun fact about Carl is that he had the honor of knowing some legendary WWII Marines, like Chesty Puller.

After graduating from the University of Virginia in 1981 with a bachelor's degree in aerospace engineering, Carl followed in his father's footsteps and was commissioned into the Marine Corps in 1981. While in the Marine Corps, he flew A-4s on active duty and transitioned to the F-18 in the reserves. In 1988, Carl was hired by Delta Air Lines and during his time there, he flew B-727s, L-1011s, B-757s, B-767s, and B-777s. He retired from Delta in 2020 as a B777 International Captain.

Carl spent 17 years in the Marines, 32 years with Delta Air Lines, and 24 years with RAA, so he has worked for 73 years! He's had an impressive career, made a significant contribution to the industry, and truly changed his workplace for the better every step of the way. We think Carl deserves some rest and has earned his retirement. It has been an honor for all of us at RAA to have worked with Carl and he will be missed!

Here is what some of Carl's co-workers would like to share about him:

"I am in this business in large part because of Carl. In a world of change, he has been one of the constants for me and I will miss his calming influence. Carl always had a single guiding principle, which still guides us today: Always, always do what is in the best interest of our clients. If we follow that single principle, much of the rest will take care of itself. Carl, from me and from all of us that have had the honor of working with you, know you will be missed."

- Gary Krasnov, Vice President

"It has been a pleasure to know and work with Carl Youngdale over the years. One of my favorite traits of Carl's and one I'll miss most is that no matter what may have been happening at the time, he had a gift for making those around him smile and laugh. Carl, your clients, friends, and family here at RAA wish you the best on your next adventure in a well-earned retirement!"

- Aubrey Macklin, Director of Experience

Happy retirement, Carl!

2022 UPCOMING EVENTS

We wanted to make sure you are aware of some of the events we have coming up on the calendar. We are looking forward to spending time with you, serving the airline community, and having lots of fun.

- **September 13: Tyson's Corner Client Seminar**
- **September 14-18: Reno Air Races**

RAA will be attending the **Reno Air Races** again this year! Keep an eye out for details on how to connect with us at any of these events!

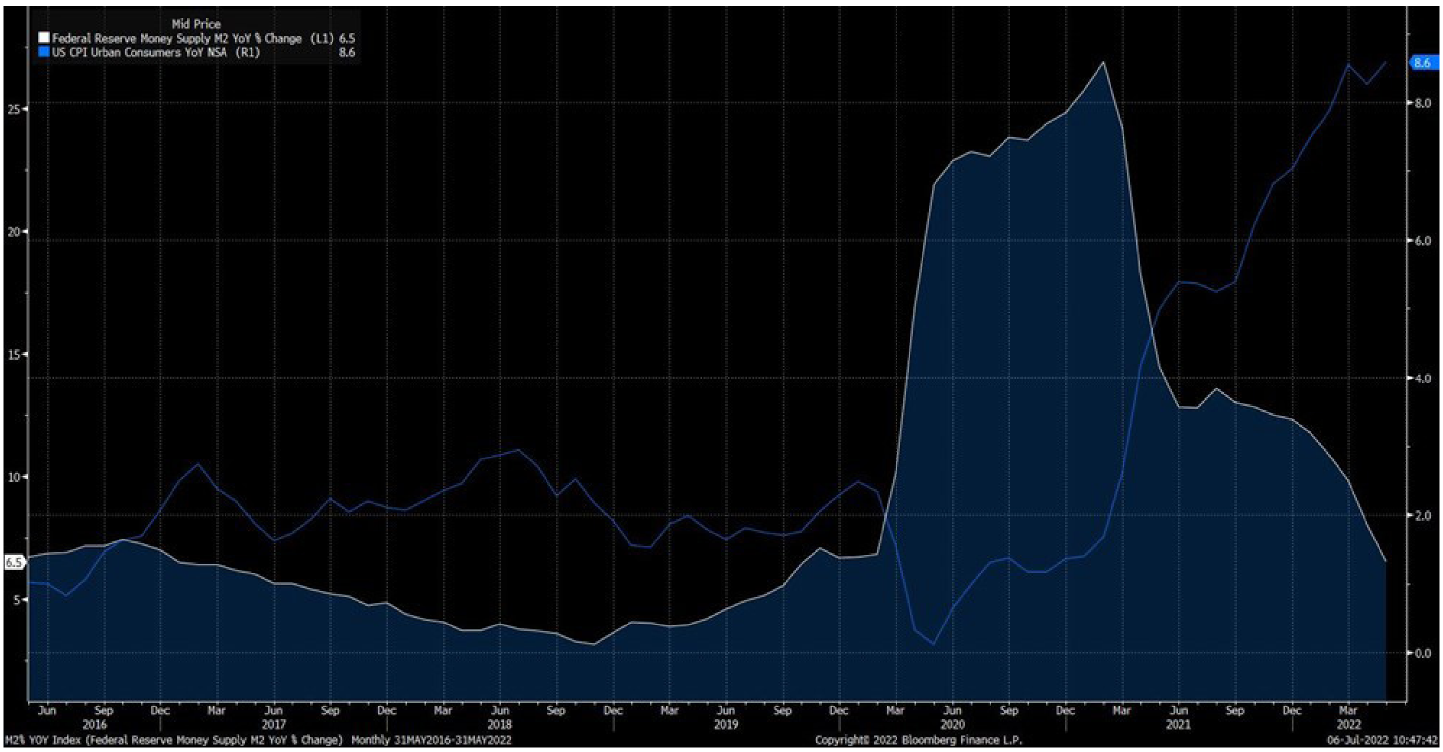
By Ryan Gromatzky - Director of Investment Research

Nobel Prize winning economist Milton Friedman once famously stated, “Inflation is always and everywhere a monetary phenomenon…”

This means that inflation is a by-product of increasing the money supply at a rate at which demand outpaces supply.

It’s also a perfect illustration of the inflationary pressures we are experiencing right now.

As a reaction to the COVID-19 pandemic, the Federal Reserve lowered interest rates to a range of 0% - 0.25% and resumed quantitative easing (QE) via unlimited purchases of treasuries and mortgage-backed securities. Additionally,



the federal government enacted unprecedented fiscal stimulus measures that amounted to approximately $5.2 trillion.

Simply, they pumped an incredible amount of cash into the system.

Combined, the above policies resulted in the money supply (M2) increasing 26.9% year-over-year at its peak in early 2021. In combination with supply-chain disruptions, the increase of M2 coalesced to create a supply/demand mismatch which fueled inflationary pressures. This dynamic can be seen in the chart above.

Fed to the rescue?

The Federal Reserve is tasked with a dual responsibility of maintaining price stability and maximizing employment. To that end, the Federal Reserve is now aggressively hiking the fed funds rate to help curtail inflation. With inflation at 40-year highs, the Federal Open Market Committee (FOMC) has been very transparent about its intention to further raise rates. However, in response to inflation reaccelerating in June to 9.1%, the FOMC surprised markets with a 75 basis points increase in the fed funds rate instead of the anticipated 50 basis point increase.

Markets quickly reacted to the surprise and uniformly sold-off.

In the FOMC's announcement, Chairman Powell stated, "The committee seeks to achieve maximum employment with an inflation rate of 2 percent over the longer run…and anticipates that ongoing increases in the target range will be appropriate."

The above referenced statement perfectly illustrates the tightrope that the Fed must navigate. In essence, the Fed must raise rates quickly enough to reverse inflationary pressures while not throwing the economy into recession.

From a historical perspective, the Federal Reserve has a poor track record in this regard.

Slowing Growth…

Consensus estimates for real GDP in Q2 remain at approximately 3% (quarter over quarter). However, based on recent weak economic data, we view this consensus estimate as optimistic. In fact, JP Morgan released their revised estimate for Q2 real GDP last week at 1%. In addition, the Federal Reserve Bank of Atlanta's GDP tracking model has turned negative for Q2 – so risks of a recession are rising. These risks were evident within credit markets in June as credit spreads widened substantially during the month – especially within high-yield.

That being said, recent survey data from the Institute of Supply Management (ISM) remains in expansion territory, although slowing. (The ISM report is generally considered a good barometer of the overall economy.) The survey of purchasing managers includes five components: new orders, production, employment, supplier deliveries, and inventories. <u>A level above 50 indicates expansion, while a level below 50 indicates contraction</u>.

As you can see in the illustration above, the recessionary periods coincide with the ISM index falling below the neutral reading of 50.

For the month of June, the ISM slid to 53 – its lowest level in two years. While still nominally in expansion territory, the reading was consistent with a slower pace of growth.

The good news is that the survey included multiple signs that supply constraints were easing. However, weakness on the demand side pulled the overall index lower.

The bottom line…

The Federal Reserve must reduce aggregate demand for inflation to normalize at lower levels. It's important to remember that monetary policy that is enacted by the Federal Reserve works with a lag, so we are beginning to see the effects of past interest rate hikes in current economic data.

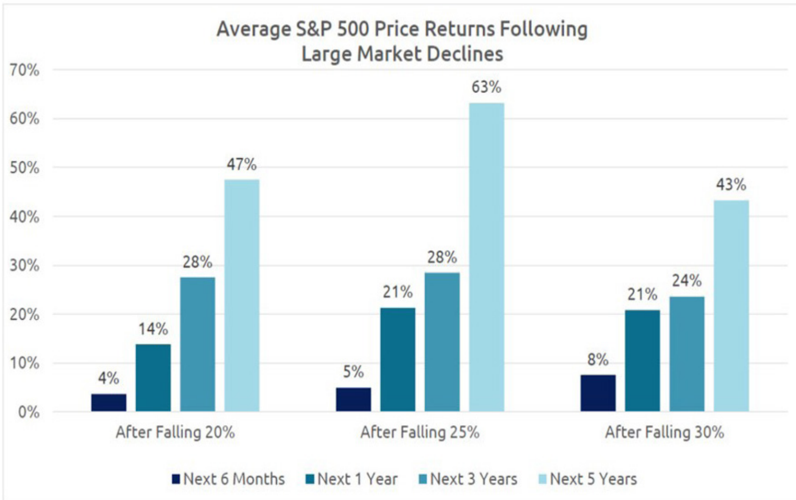
At the same time, some slowing of economic activity can be attributed to lower consumer sentiment. In June, consumer sentiment hit a record low as inflationary pressures continued to weigh on consumers' purchasing power. On a positive

Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.

note, prior lows in consumer sentiment have been followed by strong forward returns in the S&P. In fact, as evidenced in the chart to the left, the last 8 troughs in consumer sentiment were followed by an average S&P return of 24.9%.

Currently, market expectations are only projecting approximately a 30% chance of a recession in the short-term. If a recession does come to fruition, the average recession since WWII has lasted approximately 11 months, and, as seen below, returns coming out of large market declines have historically been robust.

In conclusion, current economic data remains mixed, but is weakening. There continues to be areas of strength, such as employment, in which a near record 11.25 million job openings remain. This strength should continue to support consumer spending which accounts for approximately 70% of the U.S. economy. However, some economic data, like the ISM, is well off its highs and trending downward.



The economic landscape will remain complex as the Federal Reserve continues to fight inflation which puts additional pressures on business profit margins. While we don't expect inflation to fall rapidly, anything resembling a change in its trajectory could result in a relief rally within equity and credit markets. Equity market valuations have already fallen off their highs and forward P/Es currently sit at 15.9x, which is below their 25-yr average of 16.85x.

Please don't hesitate to contact us if you have any questions about how this affects your financial plan.

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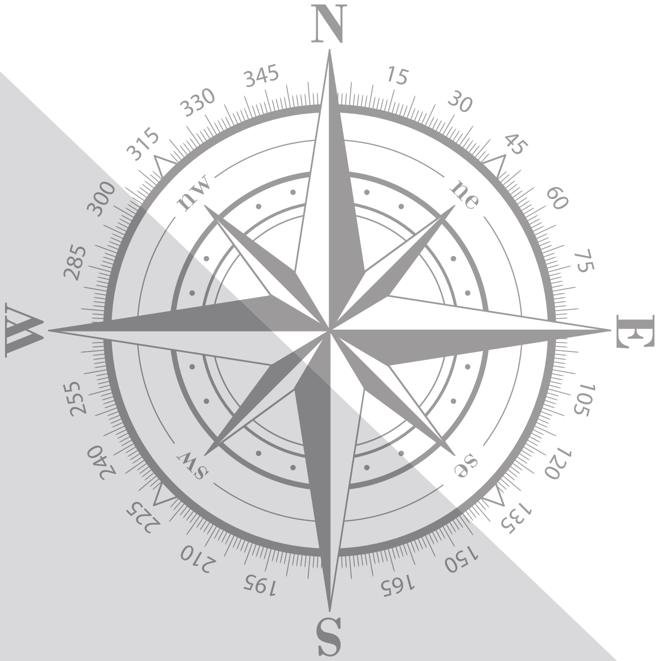

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