



# THE COMPASS

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Second Quarter 2022



## ONE PIECE OF ADVICE

**By Kat Schraeder, CFP®  
RAA Vice President**

I was recently catching up with a younger advisor on the RAA team and she asked, “If you could give only one piece

of advice, what would it be?”

My answer would be the same for any advisor, but in this case, it was exceptionally easy because she is a dedicated learner and humble enough to seek advice from others to come up with the best solution for her clients. I also knew she understood the importance of urgently taking care of client needs, including telling a client what they need to know, not just what they want to hear. My advice to her was to never stop caring - deeply caring - for those who place their trust in her and RAA.

Since RAA's first client started 40 years ago, we have had the privilege of walking with people through all phases of life. From retirements and the arrival of grandchildren, to incapacitation, and the loss of a spouse.

As I mentored this young advisor, I shared stories of two wonderful gentlemen and clients who we lost last quarter, and how they had touched my life over the last 15 years. I shared what an honor it is to partner with their grieving widows as all the financial and estate documents transition. In both cases, the estate is set up correctly, and we'd also had an in-depth review just last year.

This conversation led to another technical piece of advice that I passed on: always review beneficiary designations when you are doing your client reviews. I want to draw attention to the callout on page 4 on

beneficiary review and encourage you to stop and review each of your accounts to make sure the correct primary and contingent beneficiaries are in place.

In this edition of the *Compass*, you will also see a schedule of upcoming events. This spring has been busy for the RAA team with advisors back on the road meeting with clients, the relaunch of client seminars, and participation in great aviation events including Sun N' Fun, and Women in Aviation International. The summer schedule is also full, including our first ever participation at the Oshkosh Airshow. Please look at the events list and watch your emails, as we have some regional events with limited capacity that we do not always put on the website. Our company is built on relationships, and we love building those relationships with you in face-to-face settings.

As a client, you get to know most of the advisors and client service representatives who are here to help you over time, but we also have some amazing people behind the scenes that make sure every distribution is processed, and every trade goes through. I enjoyed reading the article celebrating 25 years for Lourdes (Lulu) Fuentes, who is one of our behind-the-scenes rock stars. I'm honored to call her a coworker and a friend.

Finally, the markets so far this year have been turbulent and there is a lot of economic data to process. Our Chief Investment Officer, Andy Stout, provides a market update and overall thoughts in this edition as we move into the summer months.

In all phases of your life, we are honored to partner with you on this journey and thank you for the trust you place in us. Please don't hesitate to let us know if we can assist you in any way.



# STAYING PROTECTED FROM CYBERSECURITY THREATS

By Adi Garg  
Chief Technology Officer

According to cybersecurity professionals, Russia's invasion of Ukraine has increased the possibility of cyberattacks against governments, private entities, and the electronic and banking infrastructure of the West. While periodic cyberattacks are not uncommon, the war in Ukraine is the first digital-era conflict of this magnitude, which experts have stated magnifies the likelihood of a more brazen and less secretive type of attack.

While we have no information of any specific threats at this time, as your financial advisor, we are professionally and legally bound and committed to providing you, your account information, and your savings, with the highest degree of security possible.

The following are some ways we help protect you, measures in place at our custodians, and tips you can consider for staying safe online.

## How we protect you and your assets

Your assets, information, and accounts are held by carefully selected, third-party, nationally-recognized and regulated custodians.

What mechanisms do we, and our chosen custodians, use to logistically protect your money?

While the list of defenses that we and our custodians utilize is vast, and some of it proprietary, just a few of the ways your assets are protected include:

- Sophisticated firewalls
- Constant surveillance warning systems
- Comprehensive staff training that is both proactive and defensive
- Intrusion detection systems and prevention systems
- Advanced malware detection and prevention programs

In short, strong physical and electronic protections are in

place to ensure your assets are inaccessible to criminals and insurance is available in the unlikely event of an attack. The list above is just a snapshot of measures in place (there are several more on top of these), but we hope it provides you some peace of mind.

## What can you do to help protect yourself?

From the United States government to individuals, hacks and cyberattacks can target almost anyone and anything. Always remember that you are your first line of defense against cybercrime.

What are a few of the best practices you can utilize to help protect yourself?

- No matter where it appears to have originated, even from a trusted family member, always check the source, address, and domain of any email you receive.
- Never click on any suspicious or unexpected links, and before you click on a link of any kind, hover your cursor over the URLs/links and carefully identify where that link is trying to send you.
- Never open any suspicious or unexpected emails or attachments inside an email unless you are 100% certain of the origin.
- If you receive an unexpected email with an attachment or embedded link, email (or otherwise contact) the person or entity and ask if they in fact sent the message.
- Make certain that the antivirus software on your computers and phones is up to date.

## Passwords and protecting your information.

Your password is the first, and in many ways the most important, line of defense against cyber criminals and hackers. Consider the following when setting and using passwords to access your accounts:

- Use unique passwords for each account.



- Change your passwords often, especially if you suspect any foul play.
- Use multi-factor identification. Whenever available, sign up to have a numeric passcode sent to your phone to gain access to your account(s).
- Make your passwords long and personal. Ex: "WhenIwas7welivedinthe3rdBLUEhousefromthecorner."
- Do not enter your passwords where they might be seen by others or store them in a place where they can be accessed by anyone but you.

Everyone at RAA is 100% committed to your financial health, and to the safety and security of your savings and investments. Our highly-trained internal technology division continuously monitors our infrastructure for threats, while also regularly updating our processes and defenses to stay well ahead of those entities seeking to disrupt or circumnavigate our internal and external security.

Please know that we greatly value your trust, and we take immense pride in helping you not only reach your financial and retirement goals, but in helping you to achieve and maintain greater peace of mind.

**Please contact us with any questions or concerns.**



## CELEBRATING 25 YEARS!

We are honored to recognize Lourdes (Lulu) Fuentes, who joined RAA in March of 1997 and has been with us for 25 years!

Lulu currently serves as a Client

Service Specialist. She began her career with RAA as an office clerk and later moved into the Trading Operations department. In her role, she is responsible for processing client disbursements, tax withholding payments, and the general maintenance of periodic disbursements.

Here are some of Lulu's reflections on working at RAA and some fun facts about her:

- What is your favorite part about your job and working at RAA?

Working with family and, by this, I don't just mean with my sisters (who both also work here at RAA), but the extended family of coworkers that have been along for

## 2022 UPCOMING EVENTS

As we head into spring, 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.

- **June 15: Dallas Client Seminar**
- **July 7: Seattle Client Seminar**
- **July 14: Park City Client Seminar**
- **July 25-31: Oshkosh Airshow**
- **August 10: Costa Mesa Client Seminar**
- **September 13: Tyson's Corner Client Seminar**
- **September 14-18: Reno Air Races**

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

the ride. There are a few others that have been around for 25 years plus. It's crazy to think that at one point we celebrated weddings and baby showers, and now most of those babies are in college or graduated and off having their own babies.

- What is the best career lesson you've learned so far?

To never assume - when in doubt, always ask questions.

- What do you like to do when you aren't working?

If I'm not spending time with the family, I am volunteering at church. I teach 2-3 nights out of the week. I prefer to work with teenagers since not many people are up to the challenge. I love seeing how they go from being forced to come to class, to them not wanting the year to be over.

- What's a fun fact about you that many people may not know?

I love all types of music. My playlist can go from Tejano to Classical or Country to Rap from one song to the next.

Some of Lulu's coworkers who have been working with her for the past several years really appreciate and

commend her for her excellent work ethic and dedication to RAA.

Paul Ochel, Managing Director, stated that Lulu is diligent and always in a good mood or laughing. He also mentioned that Lulu has always been a great resource for finding answers or solutions quickly.

Jennifer Maher, Vice President of Client Service, stated that, as an expert in Required Minimum Distributions, Lulu has a big responsibility to ensure all of your RMDs are processed correctly. She mentioned that Lulu is such a pleasure to work with and always has a great attitude.

Lastly, Rutledge Gordon, Managing Director, pointed out that Lulu is fiercely dedicated to her family, including her work family, she loves music, and she is truly a very good, warm-hearted person.

Thank you for your 25 years, Lulu! We are so fortunate to have you on the team.

## REVIEW YOUR BENEFICIARIES

Remember that it's important to periodically review your beneficiary designations so that your goals can be met, and your wishes accurately reflected. If you've recently experienced a major life event, such as marriage, divorce, birth, death, or adoption of a child, now may be a good time for a review and if necessary, update or adjust your beneficiaries to ensure that they conform with your estate planning goals. If you have any questions, please speak with your advisor.

# MARKET UPDATE

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

Inflation is everywhere: groceries, housing, gas, car prices, etc. With inflation at the highest level in 40 years, it's hard not to notice it. In fact, even my teenagers are talking about how expensive gas prices are.

So, with inflation as a backdrop, I'll analyze where we are today and where we could be in the future.

### **Inflation Today**

Consumer prices have climbed at the quickest pace since 1981, surging 8.5% higher over the past year. There are numerous reasons for the pervasive inflationary environment, but thinking of it in terms of stages helps us to understand its evolution:

1. First, there is COVID-induced inflation
2. Then there's Russia's unjustified war

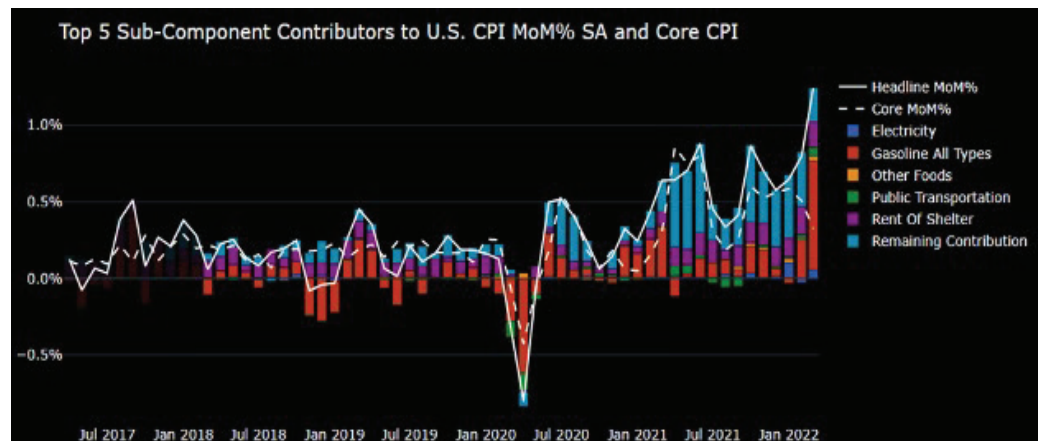
The inflationary implications of Russia's war on Ukraine are more straightforward. Russia is one of the largest exporters of energy, wheat, and other commodities. The economic sanctions have pushed commodity prices much higher. Additionally, there are some supply chain dislocations from factories in both Ukraine and Russia.

For year-over-year inflation to decline, the upcoming monthly percentages must be lower than those months that are dropping out of the calculation. For example, the 8.5% annual inflation rate will decrease if the monthly change from April 2022 is less than the change from April 2021.

To get an idea of where we could see some relief from inflation, we should start with the recent monthly inflation drivers. The following chart shows the contributions of March's 1.2% inflation increase compared to February. Most of that came from energy (0.8%) and shelter (0.2%). It's unlikely that we will see much of a drop in housing, but as long as energy prices don't skyrocket from current levels, the monthly change should drop.

While that's where we are today, the path ahead is cloudy, and many factors will determine the outcome. So next, I'll dive into what could go wrong, what could go right, and what we see as the more likely path.

Cause	Effect
Factories shut down and workers drop out of labor force	Supply Chain Dislocations
Massive government stimulus	Increased incomes and savings
The Fed cuts short-term rates to 0% and buys about \$5 trillion of bonds	Consumers are incentivized to spend
Pent-up demand	Robust consumer spending
Businesses can't keep up with consumer demand	Businesses offer higher wages



## Scenario 1: What Could Go Wrong

It's actually fairly straightforward to see what could go wrong. First, if oil surges to \$200, the cost to fill up your car would soar, as nationwide the price of gas could easily approach the nearly \$6 per gallon already being seen in parts of California. (The odds of this happening would increase should Europe place a complete embargo on Russian energy products.)

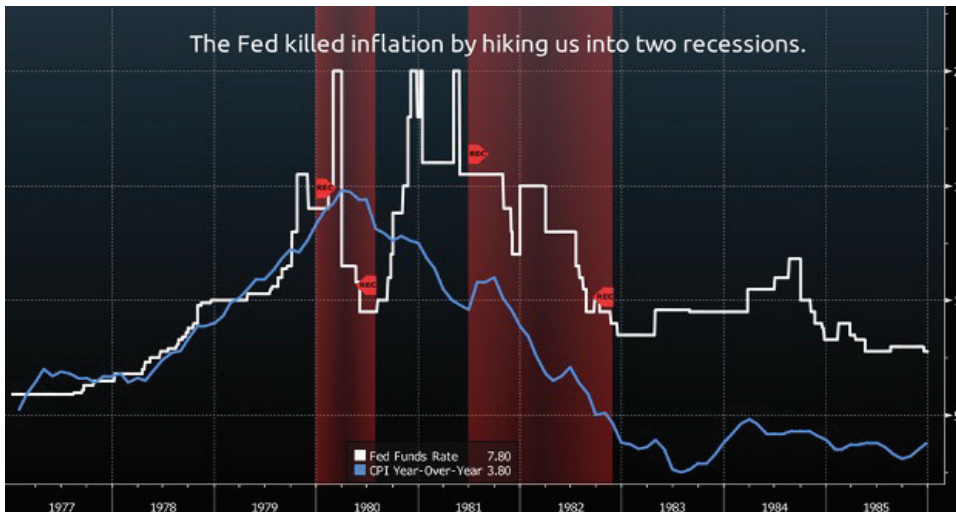
This risk is somewhat mitigated by the U.S. releasing additional oil from the Strategic Petroleum Reserve, coupled with an increase in output by other countries. However, it's unlikely this production can completely replace Russia's energy products.

A second factor that could push inflation higher is COVID. Unfortunately, this risk is playing out in real-time in Shanghai. Following its zero-tolerance policy, at the end of March, the Chinese government placed its most populous city under a complete lockdown. Supply chain dislocations will only get worse the longer this drags on. For example, Apple halted production at two of its factories in the region. The result is that supply drops and so prices rise.

Shutdowns are a double-edged sword, though. Demand for commodities drops when tens of millions of people are restricted from moving, driving down commodity prices (e.g., oil). So, in other words, supply chain problems can both push goods prices higher but commodity prices lower.

Countless other factors could increase inflation; however, the most critical item to watch is inflation expectations. If consumers and businesses believe inflation will keep rising, then inflation will likely keep rising. When this happens, inflation becomes unanchored. It's a self-fulfilling prophecy.





Here's why:

- When consumers think prices will only go up, they will buy stuff now, pulling forward demand.
- Businesses will raise prices once they believe costs will remain elevated.
- As prices rise from the above two factors, workers will demand higher wages, resulting in a feedback loop because businesses will increase prices to keep acceptable profit margins.

Unfortunately, at this point, the most-effective cure might be for our nation's central bank, the Federal Reserve (Fed), to raise short-term interest rates so much that the U.S. economy falls into a recession, collapsing demand and prices. (Which is exactly what Paul Volcker and the Fed did during the early 1980s.)

### Scenario 2: What Could Go Right

If oil prices drop to about \$80 per barrel, and supply chains heal in the near term, inflation expectations will remain anchored. This scenario allows the Fed to engineer a soft economic landing, avoiding a recession. Specifically, the Fed would be able to raise interest rates to the point that demand matches supply, and the economy continues to grow as inflation easily moderates.

### Scenario 3: What's More Likely

Based on today's data, we believe what's more likely to occur is something between these two extremes, where the year-over-year inflation readings start to trend lower in the next couple of months.

Here's why:

1. Inflation related to core goods declined in March by 0.4%. Core goods exclude food and energy products, and this decrease suggests a deceleration in this segment. Examples of core goods are new and used cars, clothing, sporting goods, and electronics.

2. The average mortgage rate jumped from 3.3% to 5.1% since the beginning of the year, making it more expensive to service debt. In addition, housing prices have risen about 19% over the past year.

It will be difficult, if not impossible, for housing prices to sustain this growth because interest payments are much more expensive now.

For example, your principal and interest payment on a 30-year fixed rate \$300,000 loan would be \$315 more per month compared to the beginning of the year.

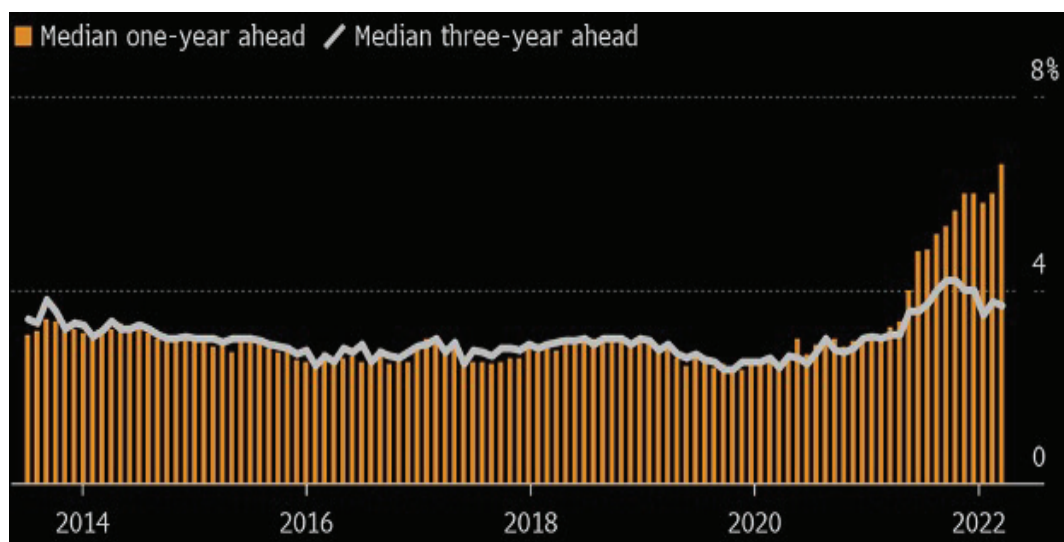
3. Through the first half of the month, the average price of oil has been about \$100 per barrel. Oil would need to have



an average price of about \$116 for the rest of the month to match March's average oil price. So, as long as oil is relatively stable, energy prices should be a negative contributor to April's inflation.

Barring the "what could go wrong" scenario, the three factors cited above should result in upcoming monthly inflation changes that are lower than last year: April 2021: +0.6%, May 2021: +0.7%, and June 2021: 0.9%.

Year-over-year inflation would still be high, no question, but it would also be lower. As a result of the still-high inflation, the Fed would probably hike short-term interest rates at every meeting this year, including a half-point hike on May 4. Additionally, the Fed would begin to shrink its \$9 trillion balance sheet by roughly \$95 billion per month to help ease inflationary pressures. Earlier in this column, I discussed the need for inflation expectations to remain anchored so that it doesn't spiral out of control. Fortunately, expectations are anchored.



We observe this in a few ways. One is to look at the difference in yields on TIPS (Treasury Inflation-Protected Securities) compared to normal Treasury bonds. This spread tells us the amount of inflation the bond market expects. Presently, the expected consumer inflation (CPI) over the next year is 5.7%, but that falls to 2.9% for the "Year 1" to "Year 2" period.

A second way to understand inflation expectations is to look at survey data. A recent survey from the Federal Reserve Bank of New York found that consumers expect inflation over the next year to come in at 6.6%; however, they expect it to drop to 3.7% in three years.

To be clear, we expect inflation will be elevated even in this more likely scenario. For example, by the end of the year, the year-over-year inflation may only have moderated to 6.5-7%. In other words, inflation will be stubbornly slow in returning to any semblance of normalcy.

As always, our investment team will continue to closely monitor and adapt to the economic and global forces that impact inflation, investments, and the markets.

Please contact your advisor if you have any questions.

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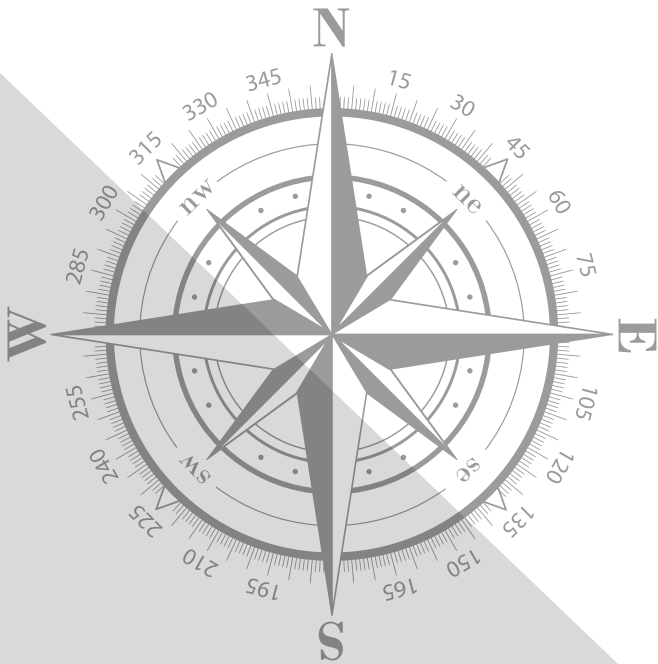


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