FLD Connection

NOVEMBER 2021

FALL ISSUE

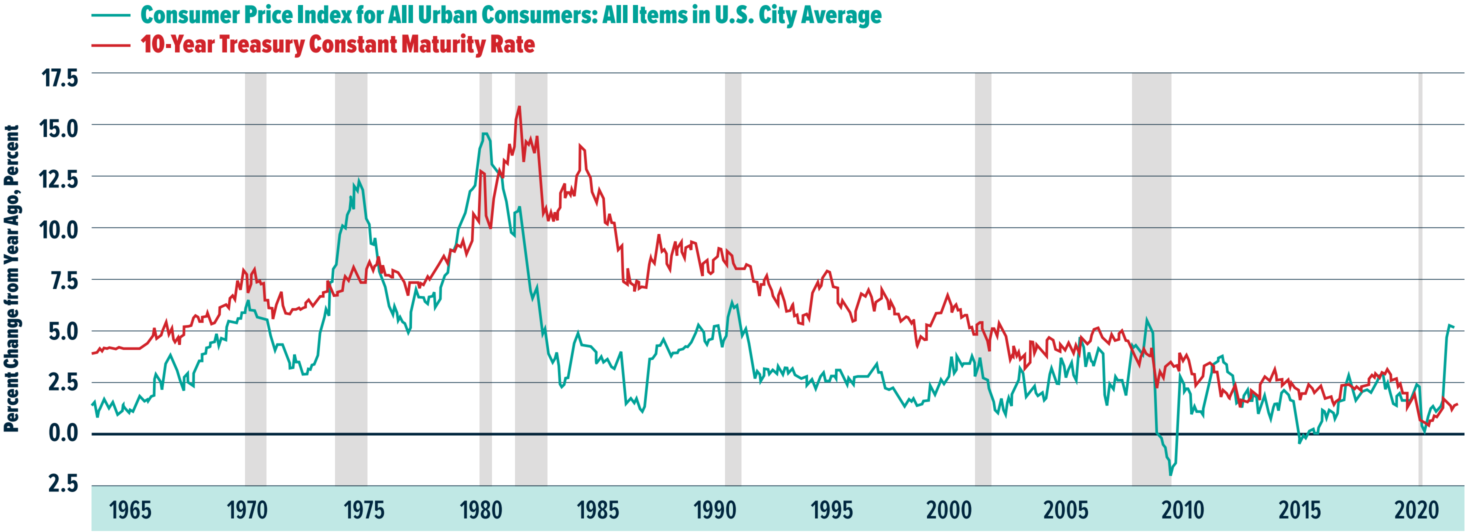
Happy Fall, Everyone! We hope you are all healthy and doing well.

After living in San Diego for 20 years, we never imagined that we would love the changing of the seasons as much as we do. We still miss the average 266 sunny days that San Diegans enjoy, but it's a beautiful thing to see the magic that comes with the changing of the leaves here in the Pacific Northwest. Autumn has become one of our favorite times of year. As the holidays approach, we wish you all a wonderful holiday season full of meaningful time with family and friends.

Kindest wishes to you all and happy Thanksgiving!

ECONOMIC COMMENTARY
SHINING THE LIGHT

by James Pafundi



Recently, I was watching YouTube and a video showed up in my feed that caught my attention: "Survival Heuristics: My Favorite Techniques for Avoiding Intelligence Traps." The speaker was a former division lead analyst for the CIA, retired after 32 years of service. She served in The Middle East and Asia over many administrations. I highly recommend you check it out if you are interested in such things. One of the concepts she discussed was recognizing that the information you are consuming likely has a narrow range of focus. She tells a funny joke to illustrate her point: Late one evening, a patron leaving a local drinking establishment approaches their car only to realize they've misplaced their keys. They begin looking for them on the ground. As it happens, a police officer passing by sees this person on all fours under a street light. The officer approaches the individual, who is obviously searching for something and asks, "What are you looking for?" The intoxicated patron responds that he is looking for his keys. "Did you lose them right here?" the officer asks.

Briefly stopping his search, he looks up at the officer and responds, "I don't know. But I can't see anywhere else."

Let's try to broaden our focus here a bit and take a look at a few things:

- ***Supply Chains***
- ***Inflation***
- ***Interest Rates***
- ***Market Valuations***

SUPPLY CHAINS

There has been a lot of talk recently about supply chains. To be honest, before a year ago, I really hadn't thought too much about them. I understood that things were going to take a bit of time to return to normal after the economy was shut down last year (except essential services). What I failed to understand was how sensitive and fragile that system really was. Restarting supply chains is not as easy as it sounds. Interestingly, supply chain physics is a lot like rush hour traffic physics. When there are a lot of cars on the road tightly spaced and someone slows down quickly, the chain reaction set in motion can lead to cars many miles behind coming to a complete stop even though the first cars that started the reaction only slowed down abruptly. Essentially, this is what has happened to our supply chains. Many years of "just in time" inventory with tighter and tighter delivery tolerances created an exceptionally efficient yet not very resilient supply chain. The abrupt slowdown globally due to Covid has exposed the weaknesses of this exceptionally efficient process. And because what we are experiencing was years in the making, we should not expect a quick fix. How long might that take? My guess is at least 6-12 months, maybe longer.

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INFLATION

In our last newsletter we discussed the idea that inflation "was one of the most debated topics amongst economists." Was it something that would be quickly rectified as the economy got back on its feet or is this something more permanent? In other words, is it transitory? Well, it now appears that due to continued supply chain disruption, inflation is going to be with us for a while. How long? Maybe 6-12 months… perhaps longer. But this may be coming more from supply constraints as opposed to demand push, especially as prices rise.

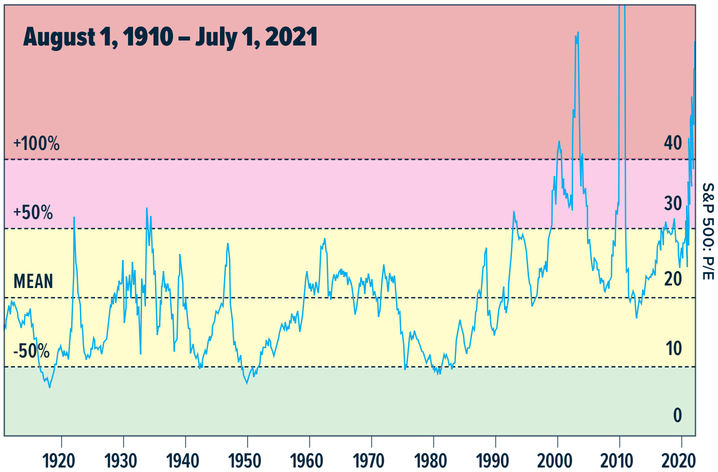
Notice on the chart below that 1973 and 1979 were two periods where the inflation rate was higher than the 10-year yield which created selling pressure on treasury bonds, pushing yields up.

The single biggest competition to stocks is bonds. In order to evaluate the stock market, we need to be paying attention to the treasury bond market. When treasury bonds fall, it suggests that capital is flowing away from safety and into riskier assets like stocks. Strong stock markets can be linked to falling bond prices which corresponds to higher yields. Therefore, understanding where treasury yields are heading can give valuable insights to the general direction of stocks. For the first time since the 1970's, we are seeing the annual change in CPI (inflation rate, blue line above) higher than the 10-year yield. Treasury bond holders currently hold negative yielding assets (when adjusted for inflation).

VALUATIONS

One foundational element of an asset bubble is elevated valuations. By definition, asset bubbles are not grounded by underlying fundamental reasoning. This can lead investors to have a flawed understanding of how market dynamics are functioning (i.e. trying to rationalize an irrational market).

The price to earnings ratio is a popular measure of market valuations. Throughout the last century, we've seen S&P 500 prices stay between 10 – 20 times earnings (10 being cheap and 20 being expensive). The current PE ratio looks to be above 40. This is exceptionally high relative to historical measures.

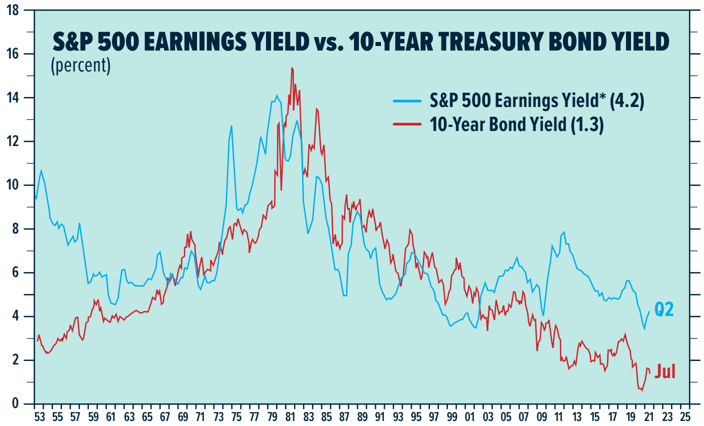


Game of Trades Q4 Expectations and Targets 11/4/2021

VALUATIONS Cont'd

Taken alone, this measure may seem to imply that the stock market is very overvalued. But what if this is the byproduct of the low bond yield environment and the expansive monetary base we have had over the past 20 years?

Our main concern is not that PE ratios are elevated, as they can theoretically stay elevated for an extended period of time as long as low interest rates are sustained. The real problem is that this environment could potentially lead to speculative market behavior. PE's need to be balanced with yields. With the current low bond yields, elevated PE ratios should be expected.

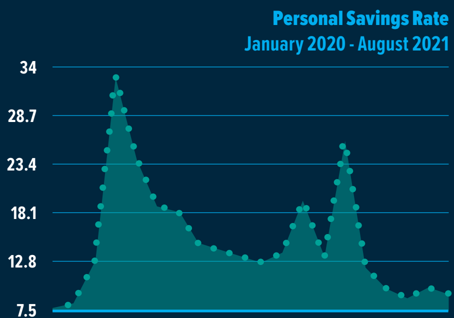


*Using quarterly average of daily data for S&P 500 price index, and 4-quarter trailing reported earnings through Q3-1988, then operating earnings. ***Source:*** *Standard & Poor's and Federal Reserve Board.*

Conclusion:

All things considered, there are a few major things to keep in mind. As mentioned above, lower yields are a major positive development for the stock market as money flows out of bonds and into more speculative assets. Of course, eventually, the equity markets will run into a valuation problem. As described in the valuation section, the primary determinant of valuation is the 10-year yield. Higher interest rates without corresponding increase in company earnings can negatively affect the risk: reward relationship of the stock market. That said, we are not currently in that situation.

Americans Tapping Savings Consumer Behavior



As store and restaurant closures prompted consumers nationwide to stay home last year during the height of the pandemic, consumers spent less, and saved more. In addition, massive stimulus efforts by the government placed funds in millions of consumer savings accounts last year, helping to shore up the savings rate as well.

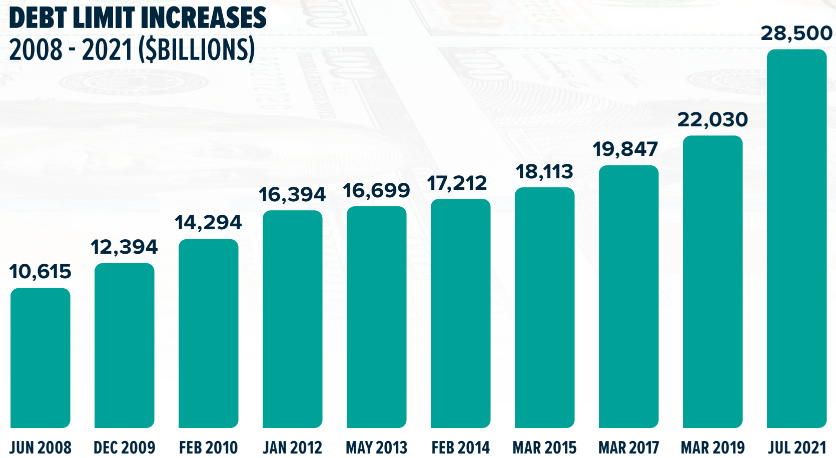
The most recent savings rate data made available reveals that consumers are now saving less, perhaps tapping their savings accounts as prices have increased and stimulus payments have vanished. The personal savings rate as of October 1, 2021 stood at 9.4%, down from 33.8% in April 2020.

Dwindling consumer confidence along with uncertainty surrounding the job market, shifted many from a spending mode to a saving mode in 2020. The average savings rate for the past 60 years has been 8.9%. The savings rate jumped from 8.4% in February 2020 to 33.8% in April 2020 as the pandemic took hold of the U.S. economy.

Economists view the decrease in savings part of a sustained economic expansion. Since nearly 70% of Gross Domestic Production (GDP) is represented by consumer expenditures, higher savings tend to take away from spending throughout the economy. Consumer confidence is also a factor as a lack of confidence tends to increase savings while minimizing spending.

Source: *https://fred.stlouisfed.org/series/A072RC1Q156SBEA*

How The Debt Ceiling Came About Fiscal Policy



Formally known as the statutory debt limit, the United States debt ceiling or debt limit is a legislative restriction on the amount of national debt that can be issued by the Treasury. The debt limit has been raised 79 times since its creation in 1917, with 17 of these increases occurring over the past 20 years.

The United States has maintained legislative restriction on debt since 1917. In order to control the amount of total debt outstanding, Congress has placed restrictions on Federal debt issuance since the passing of the Second Liberty Bond Act of 1917, which eventually evolved into a general debt limit in 1939. The Second Liberty Bond Act of 1917 helped finance the United States' entry into World War I, which allowed the Treasury to issue long-term Liberty Bonds.

Periodically, a political dispute arises over legislation to raise the debt ceiling. Until the debt ceiling is raised, the Treasury undertakes what is termed as "extraordinary measures", which essentially buys more time for the ceiling to be raised.

The United States has never reached the point of default, where the Treasury is unable to pay its obligations. In 2011 the United States reached a point of near default, which in turn triggered the first downgrade of U.S. debt by credit rating agencies. Congress raised the debt limit with the Budget Control Act of 2011, which led to the fiscal cliff and set a new debt ceiling that was reached on December 31, 2012. The current debt ceiling debate in Congress is expected to lead to a debt ceiling increase sometime in the first quarter of the government's fiscal year, which begins October 1 of each year.

Source: *Congressional Research Service, U.S. Treasury*

Don’t Bust Your Personal Budget During the Holidays

The holiday season should be a happy time, but many people find the holidays less enjoyable and more stressful. Much of that stress is financial.

Last year, a survey by LendingTree found 61% of Americans dread the holiday season because of how much it costs. Three out of four parents stress about spending on gifts for their children. One in four people will go into debt, and one in five are still paying bills for the previous year’s present.

It doesn’t have to be this way. What it takes to survive the holidays with your budget intact is some budget planning and some emotional maturity. We all want to make the holidays special for our loved ones, but spending ourselves into debt can spoil the season for everyone.

Here are some tips to help you keep your holiday spending in check this year:

Set a gift-giving budget. Before you even think about who’s getting what, determine how much you can really afford to spend on gifts. You shouldn’t have to raid your savings account or run up credit card debt to pay for presents. All of your gift buying should come from your disposable income. If that breaks your budget, consider spending less this year.

Make a list—and stick to it. After you set a budget for gift giving, draft a shopping list that stays within that amount. Note on your list how much you want to spend on each gift, so you can keep track of your spending. Also, don’t stray from your list—extra spending is a quick way to dig yourself into a financial hole.

Use cash as much as possible. It’s too easy to get carried away when you shop with credit cards. One trick to keeping your spending in check is to put all the money you plan to spend on presents in an envelope. As you make purchases, you can keep close tabs on your spending by seeing how much money is left in the envelope.

Don’t last-minute shop. One way to spend yourself into trouble is to do all your gift buying in a hurry at the last minute. That’s when you’re more likely to go on a spending spree. Planning your purchases ahead of time can help you avoid the rush and keep your spending within your pre-determined limit.

Give with a purpose. Gift-giving shouldn’t be about overwhelming the special people in your life. Also, you shouldn’t try to impress your friends and family by showing off how much you spend. Instead, pick presents thoughtfully with a unique purpose in mind. Ultimately, gift-giving is about showing appreciation to the special people in your life. If they’re special to you, it shouldn’t matter how much you spend.

This holiday season presents a new set of challenges due to the global pandemic.

Shopping online during the holidays has always been a popular method of buying gifts, but the projections for this year’s holiday shopping are staggering. Per Adobe Analytics, it’s predicted that over $189 billion will be spent in online shopping this year. With web traffic skyrocketing, cybercriminals have created different types of phishing campaigns to target customer directly and commit financial fraud.

Tips for staying safe while shopping online during the holidays:

1. Only visit trusted websites.
2. Duplicate websites are created to mirror well-known brands.
3. Contact the company directly.
4. Don’t click on any unknown links or attachments.
5. Be wary of urgent offers.
6. If you hover your cursor over a link in an email, the website that you’ll be taken to will appear at the bottom left corner of your screen.
7. Carefully review the sales offers to ensure legitimacy.
8. Phishing attacks will look real and imitate reputable companies.
9. If a deal appears too good to be true, it probably is.
10. Make purchases with credit cards.
11. Avoid using bank accounts or debit cards as a payment method.
12. Use third-party payment methods like Apple Pay and PayPal.
13. Add purchase alerts to your credit cards to monitor transactions.
14. Don’t make payments on public Wi-Fi.Payments can be hijacked and financial fraud can occur,
15. If you believe you’ve been the victim of a holiday scam, please contact our office immediately.

Book Corner

by James Pafundi

A Hunter Gatherers Guide to the 21st Century

by Heather Heying and Brent Weinstein

One of the more interesting topics I have studied over the past few years is the concept of fasting. Previously, I had thought of fasting mainly in a religious or spiritual context. No, this book is not about fasting. But please bear with me.

I knew that according to the Bible, Jesus fasted, and I've read about Native Americans fasting during their vision quests and Muslims fasting during Ramadan. Fasting was not an activity I took part in for sure. You've seen my wife's cooking, right?

But more recently, I have been studying fasting from a biological and scientific context. One of the first interviews I ever heard on this topic was by Dr. Sashin Panda from Scripps Research in San Diego. He was discussing the research they had been doing for the past 5 years. I was shocked to learn of the numerous health benefits. Then it struck me… how did the ancients know this scientific data? Obviously, they didn't. How could they? They just understood the benefits of fasting from a different context: a spiritual context.

This is what this book is about… understanding ourselves from a different context: an evolutionary context. Can we live our lives in such a way as to take advantage of our inherent evolutionary tendencies? Might we find some answers as to why we are living in one of the most prosperous ages of all human history and yet societal measures of suicide, loneliness and chronic illness are growing exponentially? I think it's worth exploring.

Gifts & Taxes: What to Know Before You Give

You can be generous with your loved ones during the gift-giving season without running afoul of the rules.

One way many individuals try to avoid estate and inheritance taxes is to give money away during their lifetime, effectively reducing the wealth that will be subject to federal taxes when it's passed on to heirs. This is a viable strategy, but it's important to know the gift tax rules so your generosity doesn't get you into trouble with the IRS.

What's considered a "gift"? Basically, any asset you give to another person without receiving something of equal value in return is considered a gift according to IRS rules. Most individuals give money without expecting anything in return, which would obviously qualify as gifts, but so would an interest-free loan that is forgiven at a later date. You can give prop-erty and shares of stocks, but the IRS's definition of "fair market value" will apply for the gift tax exemption.

Be aware that some transactions that you wouldn't think of as gifts may meet the IRS definition and could trigger a tax bill if the value is above the annual gift tax exemption. For example, paying $30,000 to cover the cost of a child's wedding reception or honeymoon would be a gift in the eyes of the IRS. So too would a $50,000 contribution to a child's 529 plan to cover the future costs of college tuition.

Know the limits. You're exempt from paying taxes on gifts if you keep them under the $15,000 per-person per-year limit. That's the exemption amount for 2020 and 2021. But even if you give above that limit, you can still avoid gift taxes by applying the amount above $15,000 to your lifetime gift tax exclusion. That exemption is $11.5 million in 2020. It's also indexed to inflation, so it will likely go up every year unless tax laws change.

The only catch with the lifetime gift tax exclusion is you have to report it to the IRS on Form 709. When you use your lifetime gift tax exclusion, you're effectively applying these gifts to your federal estate tax exemption while you're still alive. The filing requirement is how the IRS keeps track of how much of your remaining wealth may be subject to estate taxes after you pass away.

How to get around the gift tax. The laws around federal gift taxes provide plenty of leeway to help you give wealth to your beneficiaries without incurring tax penalties. For one, the $15,000 annual gift limit applies to each spouse in a married couple, so two people can give a total of $30,000 to another person in a calendar year. Also, the limit applies per person, not per couple or household. If your child is married, you can give up to $15,000 per year to that child and another $15,000 to his or her spouse.

Plus, there are no annual limits on gifts for college tuition, as long as you make the gift directly to the institution, not the student or the student's parents. There are also no limits on monetary gifts to cover someone else's medical expenses, as long as the money is paid directly to the health care provider.

What's Cooking?

by Gina Pafundi

This recipe is perfect for Fall! Does anyone ever need recipe inspiration?!! I do! Recently, on the way home from the office, I stopped by my friend's shop in Kalama and stumbled upon a cookbook by Tieghan Gerard, "Half Baked Harvest Cookbook" (Recipes from my barn in the mountains) and found this FABULOUS recipe. I had no idea how it was going to turn out when I started, but let's just say it exceeded expectations on every level. It is perfect alongside steak, pork or even by itself. I plan to make it again for my family for Thanksgiving! Enjoy.

Oh, I would like raffle off two cookbooks to anyone that is interested! If you would like to be entered into a drawing to win this cookbook, please email me at: gina.pafundi@lpl.com, with the subject "RAFFLE ENTRY". Raffle will be on December 10th! Winners will be notified by the email that I received to enter drawing.

P.S. If you live in the PNW or happen to be going through the town of Kalama, you have to visit Ella Gray Home and Gifts – my favorite local spot to shop gifts, cards, cookbooks, furniture and so much more!

Facebook: **Ella Gray Home + Gifts**

Pumpkin and Cauliflower Gratin with Fried Sage

Ingredients

- 2 tablespoons salted butter
- 1 sweet onion, thinly sliced
- 3 tablespoons all-purpose flour
- 1 cup heavy cream or whole milk (I used heavy whipping cream)
- 1 cup pure pumpkin puree
- ¼ to ½ teaspoon cayenne
- 2 ½ cups shredded Gruyere Cheese
- Kosher salt and freshly ground pepper
- 1 large head cauliflower, cut into florets (about 3 cups)
- 1 tablespoon extra-virgin olive oil
- 12 fresh sage leaves

Instructions

1. Preheat the oven to 425º F
2. In a large oven-safe skillet, melt the butter over medium heat. Add the onion and cook, stirring occasionally, until soft and caramelized, about 10 minutes. Stir in the flour and cook for 30 seconds more. Slowly add the cream and pumpkin puree. Stir to combine. Increase the heat to high and bring the mixture to a boil. Cook, whisking continuously, for about 1 minute, or until thickened. Remove the pan from the heat and stir the cayenne and 1 ¼ cups of the Gruyere. Season with salt and pepper.
3. Add the cauliflower to the skillet and toss to combine, being sure the cauliflower is coated in cheese sauce. Top with the remaining 1 ¼ cups Gruyere. Cover the skillet, transfer to the oven, and bake for 30 minutes. Uncover and bake for 10 to 15 minutes, or until the cauliflower is tender and lightly golden on top.
4. Meanwhile, in a small skillet, heat the olive oil over medium. When it shimmers, add the sage leaves. Cook for 30 seconds more, or until the sage has darkened in color but is not burned. Season with salt.
5. Serve the cauliflower gratin topped with the fried sage.

FINANCIAL LIFE DIMENSIONS

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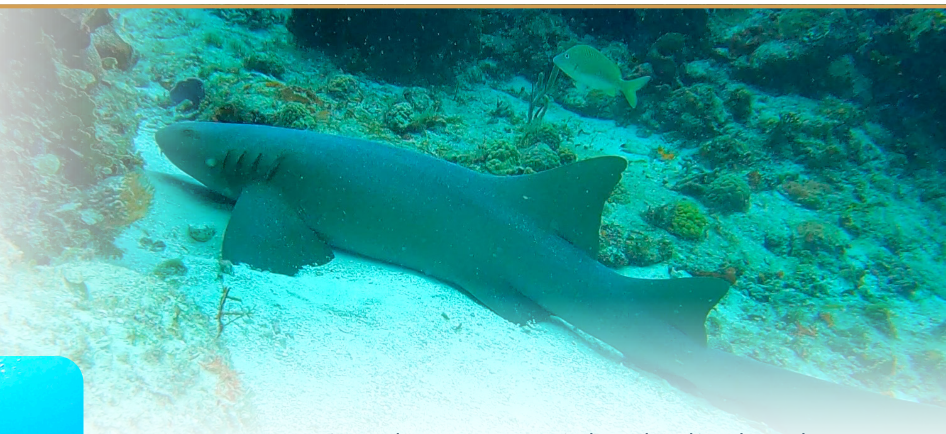

Travel & Adventure

by Gina Pafundi

As the Branch Operations Manager of Financial Life Dimensions, and during the entirety of my career, my mantra has always been: "Plan your dive and dive your plan." Anyone with whom I have ever worked knows that I live whole-heartedly by these words when it comes to my business management, client service and overall operations. I am grateful for a team that supports me in this mission.

So, what does "Plan your dive, dive your plan" really mean? In a nutshell, it means putting some thought into your dive before you hop in the water. When you go into a wild environment, it is a generally accepted truth that you don't know what to expect and you certainly can't control it. But the plan is still important. Because there are so many parallels for financial planning and asset management, James and I have implemented this mantra in our business and how we serve our clients. As business partners, life partners and dive buddies, we always strive to lead with a plan.

One of my lifelong dreams has been to experience the sea in its absolute fullest. Since I was a little girl, I always had great curiosity for underwater life, and from a young age, it was my goal to scuba dive. In 1997, I made that a reality for James and myself. Our scuba adventures of the last 24 years have brought us many incredible experiences and we have met the most beautiful and incredible sea creatures (and humans!) along the way.

We recently celebrated our anniversary with a dive in Cozumel. Diving is really the only time Mr. James is disconnected from his phone! Down under at -80 feet, time stops, and I am reminded of who I am, and all that this life is meant to be. I still remember that first dive… I was terrified! With every passing year, I feel that I have become stronger and more trusting of the sea. This trip was a milestone… I decided to do my first night dive! I had been terror-stricken of the prospect for years, but something changed. I overcame my fear and it illustrates that we can accomplish anything when we put our minds to it. If you are interested in diving, Cozumel is indeed one of the best places in the world to start… Check out our dive operation of choice in Cozumel: "Scuba Tony," (www.scubatony.com) and of course, feel free to email me any time with questions and remember: Plan your Dive and Dive your Plan!