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JULY 2019

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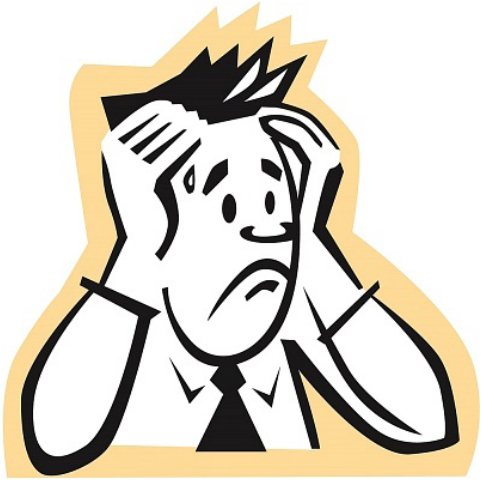
I Want To Retire, But Too Many People Are Counting On Me
(Second in a Two Part Series)

Last month, I laid a little groundwork for the need to address financial dependency with your kids as well as sharing a glimpse into my own experience with my parents.

To summarize, there are at least two HUGE reasons to have your kids financially independent. The first is your future self is counting on your current self. By using tomorrow's dollars today, you are putting your future self in financial jeopardy. The second is more generational in nature. If you show your kids how to be financially responsible and independent, there is a greater chance that will rub off on your grandkids. Who knows? Maybe one of your grandkids will get elected to Congress and will share what she learned with her colleagues. A girl can dream…



There is a little bit of Parenting 101 in this kind of stuff. If you already knew all this and I am revealing my ignorance in all things parenting, please accept my apologies in advance.

Like learning a foreign language, the younger you start, the better it will be. As many of you know, I have five kids, ages 11 through 21. Like many of you, I would walk through stores with them while fending off the usual tsunami of "I want this" and "I want that." A huge mistake I made was to let the price of the item determine my enthusiasm for purchasing it. Everyone wants to be Santa Claus and dads are no exception, so if it only cost five or ten dollars I didn't let that get in the way of a new toy to bring home. What I should have done (and this is where you can learn from my mistake) is said something like, "That does look cool. I'll pay half. After we're done here we'll go back home. You can get your five bucks and we'll come back to the store with my five bucks and we'll buy it. Deal?" This does two things: one, it delays/eliminates the impulse-buy component of this, and two, it forces the kid to have skin in the game. Five bucks to you is nothing; five bucks to them stings. By the time you get home, the kid will likely forget what they wanted in the first place. This will help you get out of many transactions like these and this can also work when it comes to iPhones, auto insurance, spring breaks, and—if you eat your Wheaties—weddings and college. You will also find that when the kid pays for something themselves, they take better care of it. Bonus tip: take the money

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Market Commentary: Inverted Yield Curve, Tariffs, Recession

Written June 18, 2019

A lot has happened in the last month. The broad market fell on news that President Trump was raising tariffs to even greater heights after talks with China disintegrated. Then it rebounded on growing views that the Federal Reserve may cut rates and the S&P 500 is now close to prior highs on the news that President Trump and President Xi will meet at the G20 summit later this month. Hopes are running high that a deal can be reached and tariffs lifted, but even if that doesn't come to pass, the market's fallback seems to be the Fed.

Another significant development in the last few weeks is the definitive inversion of the yield curve. In layman's terms, an inverted yield curve means that investors demand to be paid more for short-term bonds than for long-term bonds.

But this doesn't make sense. Longer-term bonds are riskier than short-term bonds, so you would expect them to have a higher interest rate. The only reason for short-term bonds to have higher interest rates than longer-term ones is if investors expect risks to increase substantially very soon—like if they expect a recession. In fact, an inversion is one of the most consistent indicators of a pending recession. But it's important to look at this through the lens of Fed policy.

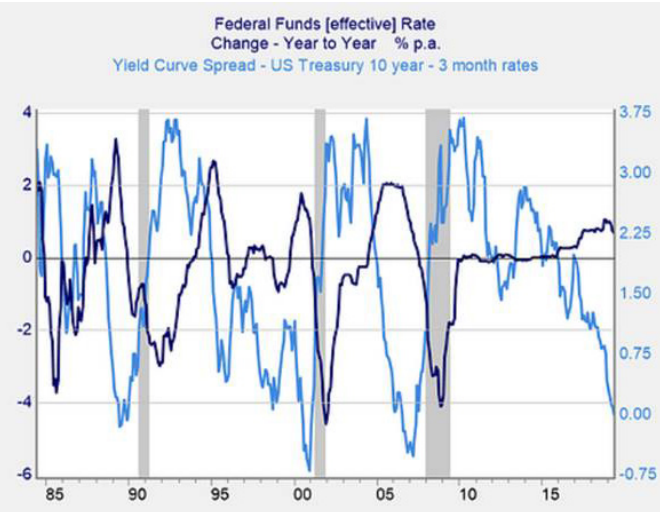
The light blue line in the chart to the right shows the yield curve spread: the difference between the interest rates on the 10-year and 3-month U.S. Treasury debt. As you can see, when it drops below zero (i.e., when the yield curve inverts), we typically have a recession within the next couple of years.

The dark blue line is the change over the prior year in the Fed funds rate. Here, we can see that usually when the Fed hikes rates—when the dark blue line rises—we see the light blue line declining. As we experienced in 1989, 1999, and 2006–2007, raising rates can invert the curve and eventually, a recession follows. Here we are again today in the same situation.

The Fed has been hiking for a while now, although slowly. But despite the hikes being slow and small, the curve has now inverted. If the Fed keeps raising rates, the curve will invert even further.

There are two conclusions to come from this: 1) the Fed probably won't hike rates again because an inverted yield curve is not a good thing, and 2) the Fed might even cut rates in an effort to normalize the yield curve. The idea is that a cut would act as a stimulus and help give us a softer, gentler recession or perhaps even avoid one altogether. So now you see what's really driving the market's expectation of a rate cut.

But wait. It isn't that simple. Look at the graph. We've seen this movie before. In all prior rate inversions, the Fed cut rates, sometimes by a lot. But that didn't stop the prior two recessions. The problem is that we have a lot less ammo than we did in the 80s and 90s when interest rates were substantially higher. When rates are already low, cutting them doesn't have as big of a benefit. So, the Fed faces a dilemma. Cut rates now to try and make a recession softer or wait until the recession takes hold so that rate cuts have a more significant simulative benefit. Rock, meet hard place.



Source: Federal Reserve Board

You've probably gathered by now that we believe a recession looks increasingly likely over the next 12-24 months. Looking at the graph, recessions took hold 6-18 months after the Fed began to cut rates and the yield curve begins to normalize.

The economy and the Fed are in a tough spot, and the escalating trade wars aren't making it any easier. As always, we're keeping a close eye on how things develop. But the best advice we can give is to stay calm. Don't make emotional decisions. And keep the big picture in mind.**

- Victoria Bogner, CFP®, CFA, AIF®

Want To Retire

(continued from page 1)

you would have spent on the impulse buy and put it in a jar. Over time you'll be shocked how much money you still have in your accounts. Show that to your kids.

OK…you're like me. You missed the "I'll-pay-for-half" concept/strategy and now your kids are in their late teens to early twenties. Whatever pattern you've established has now been etched in stone. It's going to be hard to change the rules in the middle of the game, but since you control the purse strings, you have final say in how the money is spent…and also, life is unfair. Tell the kids in their early teens what you expect from them after certain ages. After you turn sixteen, we expect X. After you graduate, we expect Y. This will give them time to adjust and hopefully direct their focus. Then, remind them of that from time to time. And stick to it. The financial success you have in their 20s is a function of the patterns you establish in their teens. But, if you're late to the game, don't give up. It's never too late to correct course and start new patterns.

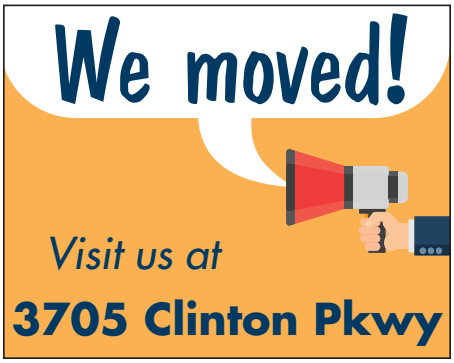
If your kids make it into their 30s and you're still having these issues, then you've got to be more drastic, but you can do it in such a way that everybody wins. Let's say your son is 30 and is still dependent on your income. Let's say you've supported Junior to the tune of $1,000 per month for the last couple years. Let's say he's still living in your basement. Cancel cable and wi-fi, stop paying his mobile phone bill, don't give him your credit card…and give him a time frame for how long the gravy train continues. Tell him you'll continue to support him for six months, and then that's it. Maybe $1,000 for three months, then $500 for three months? The goal is to get him off the payroll and the easiest way is to provide some kind of glide path out. Like any addiction, stopping cold turkey is tough. We all need a little time to adjust to our "new normal."

Some of you may even be providing for your kids into their 40s and 50s. This is also complicated, but if your kids are in their 50s that means you are likely in your 80s. Depending on how much money you have left, this could be a disaster. The main takeaway from this paragraph is your kids need to know how much longer they can be supported. We've seen several cases where mom and dad just keep paying for things and then one day, mom and dad are out of money. When mom and dad are out of money, that means Junior is out of money. The kids may be indifferent to this fact (and you may be resigned to this fact), but the fact of the matter is at some point, the kids will be independent. The only question is whether they do it on their schedules or someone else's.

If you've ever tried to lose weight, you know how hard it can be. Financial independence is kind of like that. While you're helping out Junior for good reasons, the money you're spending on him still counts against your future. You might not remember the cookies and the carbs you snuck in the other day, but your body does.

Bottom line to all this: start with a goal (kid financial independence); communicate clear expectations early on; put a time (and money) limit on it; expect a little pushback at the beginning, but stick to your plan. Your future self is counting on you.

- Peter D Knutson, CFP®, CLTC, AIF®



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Happy Independence Day!

We will be closed July 4th

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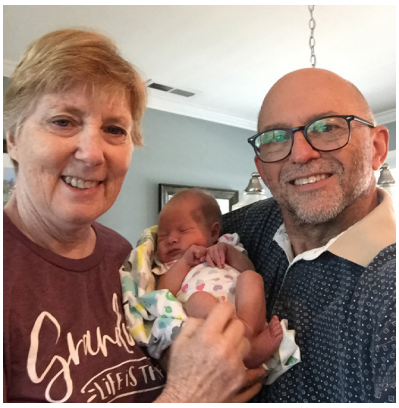
It's a Girl! Congratulations!



Look who's here!!! Baby Jelsa (pronounced Yelsa) Noel Beck was born June 5, 2019.

She came in at 19 inches and 5-1/2 lbs.

Mom, baby, and grandparents are all doing great!

We couldn't be happier for our favorite now-grandparents. Wayne and Jude even passed their first babysitting assignment with flying colors.

Looks like Jelsa got her grandpa's hair...

Tenth Annual Audio Reader Golf Scramble The Biggest Ever

Last week, Audio Reader hosted their 10th Annual Golf Scramble at Eagle Bend Golf Course. They had the biggest turnout yet, with over 100 golfers. As always, the weather, the food, the golfers, the beer, and the volunteers were excellent. If only the actual golf could have been as good, but that's another story.

This year's event raised almost $30,000. MK has been the presenting sponsor of this great event since its inception and we're thrilled and proud to be part of it. All in, this event has raised over $250,000 for Audio Reader. As soon as we set a date for the 2020 event we'll be sure to let you know.

AUDIO-READER
Sharing the Gift of Sight Through Sound