Interactive Financial Advisors

Fall 2023 NEWSLETTER

As we wrap up the last bit of 2023 now is a good time to start thinking about setting up your appointments for your annual account review. Its always a good idea to just touch base with us to discuss any changes, review the current market and your current investments. Plus, we always enjoy the company of our clients!

Appointments can be made by calling our office at 703-368-7960 or online at www.bba-financial.com/schedule-an-appointment.

Investment Advisory Services offered through Interactive Financial Advisors, Inc., a registered investment advisor.

3 Key Factors to Consider When Planning for Retirement

Ah, retirement. That moment we all dream about when we get to clock out for the last time and ride off into the metaphorical sunset. But to live your best retired life takes some thought and planning.

The sooner you start saving for retirement, the better. But if you're later to the game, that's okay, too. The important thing is to think about your biggest needs and wants in retirement and how much effort you want to put in to get there. Many people are surprised to find that their retired life is just as expensive as their pre-retirement life.

"Retirement expenses tend to fill in that gap of what people thought they would save on in areas like paying off their mortgage," said Eric Maldonado, a certified financial planner and owner of Aquila Wealth Advisors in San Luis Obispo, California. "When every day is a Saturday, we tend to spend more."

Here are some of the most important things to consider when planning for retirement.

When you want to retire

This might seem obvious, but when you retire is one of the most important retirement decisions you will make. For example, if you're fascinated by the Financial Independence, Retire Early (FIRE) movement, where people quit working full-time well before traditional retirement age, you'll have to live much more frugally, and invest more aggressively, than you would if you retired in your 60s.

On the other hand, if you like working (or just can't afford to retire young), you might work well into your 70s. The older you are when

Continued on Next Page

you retire, the more money you'll make and the more Social Security benefits you'll rack up.

Delaying the age that you start taking your Social Security — which is often tied to when you retire — matters, too. You can claim Social Security benefits as early as age 62, but you won't get your full benefits until you reach full retirement age (between ages 65 and 67, depending on when you were born). Waiting until age 70 nets the highest possible benefits. That doesn't mean you have to retire at age 70; you just have to wait to claim your benefits until then.

“Most people claim Social Security early, and that's often the wrong choice," said Justin Pritchard, a certified financial planner with Approach Financial, Inc. in Montrose, Colorado. "If you think you'll live into your 80s or beyond, it's probably smart to delay claiming.”

How you want to live

What does retirement look like for you — more feet-up-on-the-recliner or dashing off to exotic locales? Realistically, it will probably be somewhere in between. How you want to spend your time in retirement partly determines how much money you need. Maybe you're okay living frugally and don't expect your expenses to change much. Or maybe you want to spoil your grandkids or buy that summer house you've always dreamed about.

Where you want to live is also a consideration. If you're planning to pull up stakes and move after retirement, plan your expenses around the cost of living in that city, too, not just where you live now. Also consider whether you will need to, or want to, keep doing paid work after you retire.

“Having work you love to do as an option in retirement not only keeps your mind and body active, but it helps you bring in supplemental income while in retirement,” Maldonado said.

Your health

How long you live after you retire is a major factor in how much money you need to save. It's also a factor that is largely unknowable and out of your control. But you can make some educated guesses.

If your family tree is chock full of relatives who lived into their 80s and 90s, you should bank on the fact that you could live that long as well. On the other hand, if you have a history of medical issues or your family does, you need to carefully plan for those expenses later in life.

“It's critical to understand how long you might live,” Pritchard said. “With longer lifespans comes the risk of substantial health expenses and long-term care costs. A long-term care event can easily wipe out hundreds of thousands of dollars.”

Healthcare is one of the biggest expenses for most retirees, costing the average retired household $6,833 per year. Depending on how long you think you'll live, and whether you have family to lean on, you might want to consider long-term care insurance on top of Medicare. Expect to spend at least 15% of your annual expenses on healthcare costs and to need about $300,000 saved for healthcare in retirement (based on today's dollars).

Continued on Next Page

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So how much total money do you need to have saved or have in investments to retire? That's a very personalized answer, but an easy method is to figure out how much money you would need to fund your lifestyle if you were to retire today, Maldonado said. Then multiply that number by 20. If your number is
$100,000 a year, you would need $2 million in today's retirement dollars. Of course, inflation also plays a role.

"If you plan to retire in 10 years, at an estimated 3% inflation, you would need about $2.68 million upon retiring," he said. "That's a very rough-draft idea to get you started."

Holiday shoppers are bracing for more financial strain this year. Here are 3 ways to prepare

The end of the year doesn't just bring autumn leaves and jack-o'-lanterns, then mistletoe and the chance of snow — it can also bring on financial distress.

Nearly half of all consumers say their financial standing fluctuates seasonally, and December is the most cited month for experiencing financial distress, followed by November and January, according to a report by LendingClub Corporation and PYMNTS Intelligence.

Meanwhile, 54% of holiday shoppers expect to feel financially burdened this year, anticipating overall high costs, according to a recent Bankrate survey.

These statistics notwithstanding, holiday shoppers who start saving early for year-end purchases set themselves up for financial success, experts say.

"You still have a few months and still have the opportunity to stock away some savings so that you're not going into credit card debt," said Ted Rossman, a Bankrate senior industry analyst.

'Deals start early' for holiday shoppers

Nearly all Americans, 92%, are cutting back on their overall spending in some way, according to a CNBC and Morning Consult survey.

To that point, many are already getting ahead of holiday expenses. Half of holiday shoppers plan to begin, or have already begun, making purchases before Halloween, according to Bankrate.

While some people may gripe about seeing Christmas trees in stores while it's still 90 degrees out in some areas, "the fact that these sales have started early is an advantage," said Rossman.

Some retailers are even debuting holiday discounts early. Target

released members-only price cuts Oct. 1 and Best Buy did the same Oct. 2, while Amazon

and Walmart

are expected to do so Oct. 9-12, he added.

"The fact that deals start early allows you to research the best options and spread out your cashflow," said Rossman.

Continued on Next Page

Holiday shoppers are bracing for more financial strain this year. Here are 3 ways to prepare

It's best to pay now, fly later

Booking holiday airfare is cheaper in October, as well. Domestic round-trip fares over Thanksgiving are averaging $268 per ticket, down 14% compared to last year. For Christmas, prices are about $400 round trip, down 12% from last year, per Hopper data.

Shoppers looking into traveling for the holidays should book their flights by Oct. 14, Hopper lead economist Hayley Berg previously told CNBC.

Buy gifts for friends and loved ones throughout the year to spread out the cost, said certified financial planner Carolyn McClanahan, founder of Life Planning Partners in Jacksonville, Florida. Additionally, if you have a particular gift in mind, keep an eye out for good year-end sales.

Overall, think through what your gift-giving budget should be ahead of time, so it doesn't create a financial strain.

"Starting early is better because that last-minute shopping ends up being very reactionary," said McClanahan,who's also a member of CNBC's Financial Advisor Council. "You end up spending more and buying less thoughtful gifts than if you actually put in the work on that front."

3 ways to get ahead of holiday spending

Here are a few ways holiday shoppers can start preparing:

1. Start setting money aside. Save a portion of every paycheck between now and the end of the year. Banks' "Christmas Clubs" are separate, short-term savings accounts where consumers accumulate savings for holiday shopping and expenses, said McClanahan. If not opening a Christmas Club account, consider "parking your money" in short-term savings options that have high liquidity and benefit from high interest rates, such as money market funds.
2. Be careful with credit cards. You can reap credit card rewards and benefits so long as you pay each card off by the end of the month. Otherwise, you risk stacking on additional debt for discretionary spending, especially as the average credit card rate is more than 20%, a record high. "We definitely want to avoid that," added Rossman.
3. Take stock of unused gift cards. About half, 47%, of Americans have at least one unused gift card, and the average value is almost $200 per person, Bankrate found. Shoppers should "take stock of unused gift cards," as they could give a head start in holiday shopping, said Rossman.

Continued on Next Page

FUN FACTS

Samhainophobia is the fear of Halloween. This name comes from Samhain, the Celtic pagan festival that celebrated the end of the harvest.

Pumpkin spice drinks like lattes contain no actual pumpkin, just all the spices you find in pumpkin pie.

The traditional Halloween colors of orange and black come from two different sources. First, orange is the color of autumn leaves and pumpkins, which have come to symbolize Halloween. Black is the color of darkness and mystery, which matches the theme of ghosts and other spooky creatures seen throughout this holiday.

Fall Newsletter Jokes

What position does the ghost play in soccer?

Ghoul-keeper.

Why do vampires not want to become investment bankers?

They hate stakeholders.

Know why skeletons are so calm?

Because nothing gets under their skin.

Why don't zombies like pirates?

They're too salty.

Quarterly data

Domestic Economic Health

Stocks lost a portion of their first-half gains in the third quarter as a continued tight monetary bias from the Federal Reserve sent bond yields higher, unsettling stock investors throughout August and September.

For the three months ending September 30, the Dow Jones Industrial Average declined 2.62 percent, while the Standard & Poor's 500 Index lost 3.65 percent. The Nasdaq Composite fell 4.12 percent.1

A July Rally Faded

The strong price momentum during the first half of the year continued into the start of the third quarter as stocks rose in July. Cooling inflation, a better-than-anticipated kick-off to second-quarter earnings reports, and a growing belief that the U.S. economy may avoid falling into a recession helped fuel the gains.

However, in August, sentiment turned. Multiple headwinds—including rising bond yields, credit rating downgrades (both U.S. government debt and corporate debt), and continued economic weakness in China—dampened enthusiasm. A late-month rally trimmed losses, although it wasn't enough to keep August from ending in the red.

Headwinds in August

August's stock slide continued into September. An early-month rally faded, beginning with the start of a labor strike at the major automakers and a drop in consumer confidence. Rising oil prices further darkened investor mood as it fueled fears that the Fed might need to raise rates again to combat inflation caused by higher energy prices.

Earnings Outlook Brightens

The second-quarter earnings season, which largely ended in August, helped support stocks with better-than-expected results. As of August 25th, with 485 of the companies in the S&P 500 reporting, 79 percent posted earnings above market estimates.

Perhaps more importantly, Wall Street's outlook for third-quarter earnings improved during the quarter. Consensus analysts' forecasts are estimating a 0.2 percent growth in earnings for the S&P 500 companies. Although this forecast appears slightly underwhelming, it would mark the first quarter of year-over-year earnings growth since the third quarter of 2022.

Q3 Sector Scorecard

Most industry sectors experienced declines in the third quarter, including Consumer Discretionary (-5.20 percent), Consumer Staples (-7.23 percent), Health Care (-3.01 percent), Industrials (-5.53 percent), Materials (-5.21 percent), Real Estate (-9.60 percent),

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Quarterly Data - Domestic Economic Health

Technology (-5.71 percent), Financials (-1.60 percent), and Utilities (-9.95 percent). Both Communications Services (+0.75 percent) and Energy (+11.36 percent) rose over the last three months.

What Investors May Be Talking About in October

The Fed elected to keep interest rates unchanged following the September meeting of the Federal Open Market Committee (FOMC), despite some hotter-than-expected inflation data. The Fed has not signaled what it may do with regards to rates at its upcoming two-day meeting, ending on November 1st, indicating that its decision will be data dependent.5

With the government shutdown averted in late September, the Fed will have current data when the FOMC meets.

Expect investors to be especially sensitive to September inflation data, which is scheduled to be released in mid-October. Should consumer prices and producer prices be higher than anticipated, the prospect of a rate hike may potentially jump.

However, if the report data comes in lower than expected it may take some pressure off the Fed.

Global Economic Health

For Q3 2023, the MSCI-EAFE Index fell 4.71 percent.6

European markets were mixed, with quarterly losses in France (-3.84 percent), Germany (-4.71 percent), and Spain (-1.72 percent). The U.K. tacked on 1.02 percent and Italy was flat (+0.04%).7

Pacific Rim markets were down for the quarter, with China's Hang Seng falling 5.85 percent and Japan's Nikkei dropping 4.01 percent.8

Indicators

Gross Domestic Product (GDP)

The final revision of second-quarter GDP reflected a 2.1 percent annualized growth rate, which was down from the first-quarter GDP growth of 2.2 percent.9

Employment

Nonfarm payrolls grew by 187,000 in August, while the payroll estimates of June and July were revised downward by 110,000. Over the last three months, job gains have averaged 150,000, which is down substantially from its 238,000 monthly average gain for March through May.10

Retail Sales

Retail sales rose 0.6 percent in August, although much of the gain was due to higher gasoline prices. When excluding auto and gas sales, retail sales rose just 0.2 percent, which was above the 0.1 percent consensus forecast.11

Global Economic Health

Industrial Production

Industrial output at the nation's factories, mines, and utilities rose 0.4 percent in August, exceeding expectations of a 0.2 percent gain.12

Housing

Housing starts skidded 11.3 percent, touching levels not seen since the pandemic. The steep decline was the result of a large drop in new construction of multifamily homes.13

Existing home sales fell 0.7 percent as higher mortgage rates and low inventory continued to weigh on the markets. Sales were down by 15.3 percent from last August.14

New home sales slid 8.7 percent in August, although they were higher by 5.8 percent from a year ago.15

Consumer Price Index (CPI)

A jump in gasoline prices pushed August inflation higher, with consumer prices increasing 0.6 percent month-over-month. For the last 12 months, prices have risen 3.7 percent versus the 3.2 percent annual increase in July. But core inflation, which excludes food and energy, eased from its 4.7 percent increase in July to a 4.3 percent rise in August.16

Durable Goods Orders

Orders of goods designed to last three years or longer rose 0.2 percent in August, beating economists' expectations of a decline of 0.5 percent. Durable goods orders have risen during five of the last six months.17

The Fed

After raising interest rates by a quarter of a percentage point in July, the FOMC elected to keep interest rates unchanged following their September 19–20 meeting. They did, however, signal that another rate hike was likely before the end of the year.

In his post-announcement press conference, Fed Chair Jerome Powell emphasized that the inflation battle was not finished and future rate hike decisions would be based on the economic data.18

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Disclosures