Interactive Financial Advisors

Fall 2022 NEWSLETTER

Can you believe we're in the last quarter of 2022 already?! Be on the lookout in your mailboxes for a letter from us regarding setting up your Trusted Contacts (if you haven'talready done so). Information on how to set that up will be coming to you soon. Also, 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 by clicking *here*.

BEACH, BLAKE & ASSOCIATES

Financial Services, LLC

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

Have You Had "The Talk" With Your Adult Children Yet?

If you're a parent of adult children, you may be reluctant to discuss your financial situation with your offspring. They, in turn, may not broach the subject for fear of overstepping their bounds, but chances are they're anxious to discuss it. In many cases, they're both curious and concerned about your overall financial situation and want to know if there's a financial plan in place. Who could blame them? They may feel responsible for protecting your financial wellbeing as you age. They want to gain some sense of what lies ahead and be well prepared for their potential involvement.

Perhaps the main reason you haven't brought up the subject is believing you'll have to reveal exactly how much money you have. Rest assured, communicating the actual amount isn't necessary. Instead, prepare a list of your accounts and the corresponding companies or institutions where they're located. The list serves as a blueprint to follow whether they play an informal role in protecting your financial wellbeing or a more formal one as Power of Attorney or Executor.

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Another reason you may hesitate to discuss your finances with the kids is to avoid answering questions about the terms of your will or the division of your estate. If you have multiple children or stepchildren, you're well aware that this discussion can prompt discord. But even if you anticipate animosity, you may be better off having the conversation sooner rather than later. Experience has taught me that it's usually better to deal with the matter ahead of time by putting everything on the table now, fielding questions, and explaining the reasons for the decisions.

It can also be a smart idea to introduce adult children to your financial advisor before they take a more active role in your financial life or the settlement of your estate. Consider bringing your kids into the conversation during your annual review session. This will allow them to meet the advisor in person or via videoconference while they gain some familiarity with your financial plan. Building a trusted relationship between the parties now can enable them to do better work tomorrow and benefit you in the long run.

Consider naming your adult child as the trusted contact at the advisory firm. This won't give them access to your personal information, but it can provide an added layer of protection if you begin to experience cognitive decline. Let me give you an example. A long-time client who was normally cautious about spending money directed me to transfer $1 million out of a qualified account without considering—or caring about— the tax consequences. The situation raised a red flag and precipitated a call to the trusted contact to suggest they check on their father. Thankfully, I had already met the adult child and he had faith in me. This is just one instance among many where intergenerational communication and trust have been important for the protection and preservation of a lifetime of savings.

If you haven't already broached the subject of your financial affairs, then maybe it's time to have that conversation with your children. Remember, it's you who decides how much they should know and when they should know it. Decide just how much you're comfortable revealing and control the narrative. It's your money and you're in the driver's seat.

Should You Prepare to Retire on 80% of Your Income?

Examining a long-held retirement assumption

A classic retirement preparation rule states that you should retire on 80% of the income you earned in your last year of work. Is this old axiom still true, or does it need reconsidering?

Some new research suggests that retirees may not need that much annual income to keep up their standard of living.

The 80% rule is really just a guideline. It refers to 80% of a retiree's final yearly gross income, rather than his or her net pay. The difference between gross income and wages after withholdings and taxes is significant to say the least.1

The major financial challenge for the new retiree is how to replace his or her paycheck, not his or her gross income.

So concluded Texas Tech University professor Michael Finke, who analyzed the 80% rule and published his conclusions in Research, a magazine for financial services industry professionals. Finke noted four factors that the 80% rule does not recognize. One, retirees no longer need to direct part of their incomes into retirement accounts. Two, they no longer involuntarily contribute to Social Security and Medicare, as they did while working. Three, most retirees do not have a daily commute, nor the daily expenses that accompany it. Four, people often retire into a lower income tax bracket.1

Given all these factors, Finke concluded that the typical retiree could probably sustain their lifestyle with no more than 77% of an end salary, or 60% of his or her average annual lifetime income.1

Retirees need to determine the expenses that will diminish in retirement. That determination, rather than a simple rule of thumb, will help them realize the level of income they need.

Imagine two 60-year-old workers, both earning identical salaries at the same firm. One currently directs 25% of her pay into a workplace retirement strategy. The other directs just 5% of her pay into that strategy. The worker deferring 25% of her salary into retirement savings needs to replace a lower percentage of their pay in retirement than the worker deferring only 5% of hers. Relatively speaking, the more avid retirement saver is already used to living on less.

This is a hypothetical example used for illustrative purposes only. It is not representative of any specific investment or combination of investments.

New retirees may not necessarily find themselves living on less. The retirement experience differs for everyone, and so does retiree personal spending. A recent Employee Benefit Research Institute survey found that over a third of retirees report spending more than they had originally expected. Only 9% reported that they were spending less than they had expected.2

A timeline of typical retiree spending resembles a "smile." A 2013 study from investment research firm Morningstar noted that a retiree household's inflation-adjusted spending usually dips at the start of retirement, bottoms out in the middle of the retirement experience, and then increases toward the very end.3

A retirement budget is a very good idea. There will be some out-of-budget costs, of course, ranging from the pleasant to the unpleasant. Those financial exceptions aside, abiding by a monthly budget (with or without the use of free online tools) may help you to rein in any questionable spending.

Any retirement income strategy should be personalized. Your own strategy should be based on an accurate, detailed assessment of your income needs and your available income resources. That information will help you discern just how much income you will need when retired.

FUN FACTS

The green code in The Matrix was actually created from symbols in the code designer's wife's sushi cookbook

The dog ate John Steinbeck's homework —literally. The author's pup chewed up an early version of Of Mice and Men. "I was pretty mad, but the poor fellow may have been acting critically," he wrote.

The hardest working muscle in your body is your heart: It pumps more than 2,000 gallons of blood a day and beats more than 2.5 billion times in a 70-year life span

What do Miss Piggy and Yoda have in common? They were both voiced by the same person, puppeteer Frank Oz

Fall Newsletter Jokes

What do farmers wear under their shirt when they're cold?

A Har-Vest!

Why did the pumpkin lose the boxing match?

He let his gourd down!

Quarterly data

Domestic Economic Health

U.S. Markets
Stocks took investors on a roller coaster ride in the third quarter, with an early summer rally coming to an abrupt end after the Fed pledged to continue fighting inflation.
The Dow Jones Industrial Average dropped 6.65 percent during the quarter. The Standard & Poor's (S&P) 500 Index fell 5.28 percent, while the Nasdaq Composite lost 4.11 percent.1

A July Rally
After a painful slide from the start of the new year, stocks staged a powerful rally off their mid-June lows.
The summer rally peaked in July as both the S&P 500 Index and the Nasdaq Composite posted strong gains.
The fears of economic weakening that plagued the stock market all year seemed to lessen, even though much of the economic data suggested little had changed.
For example, June inflation came in at 9.1 percent, and many investors anticipated a 100 basis point hike in the federal funds rate after July's Federal Open Market Committee (FOMC) meeting.2

Powell's August Speech
The upward momentum continued into the first half of August but ended abruptly as rate hike concerns reasserted themselves.
However, Fed Chair Jerome Powell's hawkish speech at the Jackson Hole Economic Symposium sent stocks lower, returning the market to this year's general malaise.

Economic Focus in September
Stocks saw a brief September upturn but lost momentum ahead of the September 20–21 FOMC meeting, in which the Fed announced its third consecutive 75-basis point hike of the year.3
Even though markets anticipated the change in interest rates, the Fed's dim outlook surprised many investors, forcing them to confront the potentially unavoidable scenario of an economic hard landing.

Quarterly Sector Scorecard
Many sectors were lower in the third quarter, but Energy (+0.71 percent) bucked the trend. Elsewhere, Communications Services lost 11.76 percent, Consumer Discretionary fell 3.62 percent, and Consumer Staples dropped 7.55 percent.
Meanwhile, Financials dipped 3.47 percent, Health Care slipped 5.56 percent, Industrials declined 5.15 percent, Materials fell 7.60 percent, Real Estate lost 11.87 percent, Technology slipped 6.73 percent, and Utilities dropped 6.59 percent.4

What Investors May Be Talking About in October
In mid-October, China's Communist Party will hold its five-year planning meeting, during which President Xi will most likely be elected to a third term and possibly "president for life." This meeting will also craft China's five-year economic framework and foreign policy.5
The most immediate concern is whether China will maintain its zero-COVID policy, a decision that has slowed economic growth, affected global supply chains, and disaffected its citizens.
Observers will be watching China for any policy statements concerning Taiwan. Even the hint of military action may add further geopolitical risk to the financial markets.
China is an essential cog in the global supply chain and an important market for Western goods. The degree to which it pursues cooperation or confrontation will hold implications for global economies in the years ahead.

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Indicators
Gross Domestic Product: The third estimate of second quarter GDP growth was -0.6 percent on an annualized basis. The personal consumption expenditures (PCE) price index was revised higher by 0.2 percentage points to 7.3 percent, indicating continued inflationary pressures.10

Employment: Employers added 315,000 jobs in August. The unemployment rate rose to 3.7 percent, up from last month's 3.5 percent level, though the jump was largely attributed to an increase in the labor participation rate, from 62.1 percent to 62.4 percent. Wages continued to grow, rising 0.3 percent in August and 5.2 percent from a year ago.11

Retail Sales: Retail sales rose 0.3 percent in August, powered by automotive sales. Excluding vehicle-related and gasoline sales, retail sales fell 0.3 percent.12

Industrial Production: Production in the nation's factories, mines, and utilities slipped 0.2 percent, though manufacturing output saw a slight increase of 0.1 percent.13

Housing: Housing starts rose 12.2 percent in August, propelled by a 28.6 percent increase in multi-family housing starts.14

Existing home sales fell 0.4 percent from July to August and 19.9 percent from a year ago. The median sales price dropped for the second straight month.15

New home sales climbed 28.8 percent, representing the second biggest increase on record. The median price of new home sales fell from a record high of $458,200 to $436,800.16

Consumer Price Index: Consumer prices moderated in August as year-over-year inflation rose 8.3 percent, a slight decrease from its 8.5 percent pace in July and down from its recent peak of 9.1 percent in June. However, core prices (excluding food and energy) rose 6.3 percent in August, up from June and July.17

Durable Goods Orders: For the second-consecutive month, orders of long lasting goods fell, declining 0.2 percent in August. Excluding defense, orders were 0.9 percent lower.18

The Fed
The FOMC announced its third consecutive 0.75-percent hike in the federal funds rate following its September 20-21 meeting.19

The FOMC also issued new projections suggesting that interest rates may be increased by another 1.25 percentage points by December. It also said unemployment may rise to 4.4 percent by the end of 2023 (up from August's 3.7-percent level), and that interest rates may reach as high as 4.6 percent in 2023, with a rate cut unlikely until 2024.19

Global Economic Health

World Markets
Headwinds to global economic growth continued to build in the third quarter. The International Monetary Fund (IMF) now projects that global economic growth will decelerate to 3.2 percent in 2022 from its earlier estimate of 3.6 percent.6

China's zero-COVID policy has continued to slow its economy and strain global supply chains, causing the IMF to lower its estimate of China's 2022 economic growth to 3.3 percent, the lowest rate in four decades, excluding the COVID pandemic period of 2020.7

Economic conditions in Europe are also a concern as Eurozone economies remain depressed by accelerating inflation, strained supply chains, the war in Ukraine, and economic slowdowns in China and the U.S.— it's largest trading partners.8

Japan's economy is facing challenges as well, though less acute than in Western economies. The Bank of Japan revised its economic growth projections to be lower due to weakened global economies and continued supply chain constraints.9

Citations

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Examining a long-held retirement assumption

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Quarterly Data Provided by Marketing Pro

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