Summer Greetings! Just a reminder: Our “Women & Finance” seminar will be held on Wednesday, September 20th, at 6pm in Warrenton (exact location TBD). You can click here to register.

Also, if you haven’t already checked our facebook page hop on over to, “Beach, Blake & Associates Financial Services, LLC”, and follow us for upcoming events and other exciting things happening.

As always, we're only a phone call or email away if you ever need to contact us.

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Interactive Financial Advisors

Summer 2023 NEWSLETTER

Do’s and Don’ts of Lending to Friends and Family

Lending money to family and friends can be a gesture of goodwill when someone you know is in a tight spot financially, but it can be problematic if your efforts to help lead to disagreements or you experience financial issues as a result.

According to a 2022 survey by Creditcards.com, 42% of respondents surveyed said they had lost money through loans made to friends or family members.1 If you’re approached by a friend or family member for a loan, keep these do’s and don’ts in mind.

Friend and Family Loans: When Do They Make Sense?

There are certain situations in which a friend or family member might approach you to borrow money. For example, you might be asked for a loan if they:

- Need money quickly to cover an emergency expense
- Lack sufficient credit history to qualify for a personal loan or line of credit
- Don’t meet the income requirements for a traditional loan due to illness or job loss

While you may feel pressured or obligated to offer a loan, it’s important to consider whether it makes sense for you and your financial situation. For instance, if lending money to someone would put a strain on your own finances and make it difficult to keep up with your bill payments, it’s probably not the best move. On the other hand, if you have a sizable emergency fund, little or no debt, and you’re getting a steady paycheck, making a loan might not be as difficult to manage.

Aside from the financial implications, it’s also important to think about how likely you are to get the money back. If the friend or family member who’s asking for a loan is responsible about paying their bills and experiencing a one-time financial crisis, being paid back might not be an issue.

If, on the other hand, you’re approached by someone with a history of being financially irresponsible, you could be taking a bigger risk by lending them money.

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The Do's for Lending to Friends and Family

Lend Money Only to People You Trust

If you're lending money with the expectation that you'll get it back, then it's important to be selective about to whom you offer a loan. Limiting loans to friends or family members you trust to pay back what they owe can help you avoid financial and emotional headaches later. In the Lending Tree survey, for example, more than a third of borrowers and lenders reported negative consequences, including resentment and hurt feelings.2

If you don't feel comfortable lending money to someone, then it's OK to say so. You may get some pushback, but it's important that you're only lending money when you're confident that it won't cause the relationship to go south.

Limit Loans to What You Can Afford

Making a large loan to help someone out is a bad idea if it puts the squeeze on your own finances. When deciding how much to lend to someone, a good way to frame it is to think of the money as a gift. In other words, how much money could you lose without it hurting you financially?

This doesn't mean you should assume you won't be repaid. Instead, it helps you set some realistic boundaries for lending money to friends and family, that way you don't end up in the position of needing a loan yourself later.

Get It in Writing

When making a loan to friends or family, having a paper trail can help you avoid misunderstandings. Drawing up a loan contract that you and the borrower agree to and sign makes it clear what your responsibilities are, and it gives you grounds for legal recourse if you end up needing to sue them later to get your money back.

At a minimum, your loan contract should include:

- Your name and the borrower's name
- The date the loan was granted
- The amount of money being lent
- Minimum monthly payment
- Payment due date
- Interest rate, if you're charging interest
- Consequences for defaulting on the loan

For larger loan amounts, it may be wise to have an attorney draw up a contract for you. You may also want to talk to a tax professional if you plan to charge interest on the loan.

If you plan to charge interest, it must be at a minimum rate in accordance with Applicable Federal Rates (AFR) rulings.3 For loans over $10,000, interest is considered taxable income. Even if you don't charge interest, you may still have to report the money as a gift if it isn't repaid.4

The Don'ts for Lending to Friends and Family

Don't Lend More Than You Can Afford

This should be obvious, but it's worth repeating. Lending more money than you can realistically afford can only lead to problems if the person to whom you lent the money doesn't repay it punctually or you have a harder time keeping up with your expenses as a result.

Don't Let Guilt to Drive Your Decision-Making Process

It's also important that you don't allow guilt or other pressures to force you to lend money to someone you know. If you feel obliged to lend money to someone when it doesn't make sense for you financially, it's

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worth taking a step back to consider other ways in which you might be able to help them. For example, you may be able to point them in the direction of other resources that could offer financial relief, apart from a loan.

Don't Lend Someone Your Credit

You could offer to co-sign a personal loan for a friend or family member in place of lending them money yourself—or you might let them use your credit card in a pinch. This way you're not handing over any money out of pocket.

Co-signing a loan, however, can affect your credit score, as the inquiry, payment history, and loan balance will show up on your credit report. And if someone else is using your credit card to make purchases, you're directly responsible for any balances they rack up. These are options you may only want to consider as a last resort alternative to making a loan directly.

Can I Legally Lend Money to a Friend and Charge Interest?

You can lend money at interest, provided that the interest rate falls within the appropriate legal guidelines. Most states have usury laws that limit the maximum amount of interest that a lender can charge. In addition, you should also consider the Applicable Funds Rate prescribed by the Internal Revenue Service (IRS).3 Interest rates lower than this amount may be considered a gift and can incur a taxable event.

Is Lending Money to Family Taxable?

Intrafamily loans can be taxable, for both the borrower and the lender. If the value of the loan is greater than $10,000, any interest payments may be considered taxable income.4 In addition, if the lender forgives part of the loan balance or accepts a below-market interest rate, this may be considered a gift to the borrower, incurring a gift tax.

Why Should You Never Lend Money to Friends or Family?

Lending money can damage relationships with your friend and family, especially if they might have trouble paying it back. This emotional damage can often feel worse than losing the money. It's wise to avoid mixing money with family–but if you still feel compelled to lend them money, be prepared for the possibility that you won't get it back.

The Bottom Line

It's a fine line between helping out a love one who may be struggling and jeopardizing your relationship. On one hand, you might have funds on hand to help a family member or friend that needs money. On the other hand, lending money to anyone—especially someone who is financially struggling—puts your own finances at risk. When contemplating the best course of action, consider the reasons above to decide whether or not to loan money to people in your network.

What does it take to be wealthy? Well-being is a more important measure than money or assets, survey finds

Many Americans feel wealthy — but don't necessarily measure it in dollars and cents. Well-being, not money, has become the leading measure of wealth for most adults today, according to the new Charles Schwab Modern Wealth Survey.

It takes an average net worth of $2.2 million to be considered "wealthy," the survey found — but that's the estimate respondents gave for other people.

What about you? Are you rich? How much money does it take for you to consider yourself wealthy?

Of the 1,000 adults surveyed, about 48% say they already feel wealthy. Yet their average net worth is $560,000 — about a quarter of what they think others need to be rich.

Millennials are overwhelmingly more likely to say they feel wealthy — with 57% of those ages 26 to 41 saying they feel this way, compared with only about 40% of Gen Z, Gen X and baby boomers. For millennials who say they feel wealthy, their average net worth is about $530,000.

Wealth is a 'very personal' definition

"The definition of wealth is very personal, and it should be unique to one's experience," said certified financial planner Preston D. Cherry, founder and president of Concurrent Financial Planning in Green Bay, Wisconsin. He stresses the importance of having a financial plan based on your own wants and needs.

"If you do nothing, then nothing will happen," said Cherry, who is a member of CNBC's Financial Advisor Council.

Americans' views about what it takes to be wealthy have changed since pre-pandemic times.

When Schwab did its Modern Wealth Survey before the Covid pandemic in 2020, people said the average net worth it takes to be considered wealthy was $2.6 million. In 2021, that figure dropped to $1.9 million, then went up to $2.2 million in 2022 — where it's stayed this year.

How wealth and well-being intersect

When asked to characterize what being wealthy means to them, respondents overall mentioned their well-being (40%) more often than money (32%) and assets (26%). In 2017, the top response to what wealth means was money (27%).

"Whether they know it or not, well-being is much more important," said CFP and financial psychologist Brad Klontz, a managing principal of Your Mental Wealth Advisors in Boulder, Colorado.

"One of the risks we run is thinking a certain amount of money is going to bring us happiness, bring us peace, improve our lives, improve our relationships," said Klontz, who is also a member of CNBC's Financial Advisor Council.

"Unfortunately some people will sacrifice what matters most to them ultimately, in their goal to achieve an arbitrary wealth number."

Yet, nearly two-thirds, 62%, of adults in the Schwab survey say enjoying healthy relationships with their loved ones better describes what wealth means than having a lot of money (38%). And, 7 in 10 adults say wealth is about not having to stress over money, not having more of it.

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FUN FACTS

Tug-of-war used to be an Olympic Event

In the summer heat, the iron in France's Eiffel Tower expands, making the tower grow more than 6 inches

The "dog days of summer" refer to the weeks between July 3 and August 11 and are named after the Dog Star (Sirius) in the Canis Major constellation. The ancient Greeks blamed Sirius for the hot temperatures, drought, discomfort, and sickness that occurred during the summer.

The largest ice cream scoop weighed 3010lbs

Summer Newsletter Jokes

Why do cows wear bells?

Because their horns don't work.

What do you call a pile of cats?

A meow-ntain.

Where do polar bears keep their money?

In a snowbank.

Quarterly data

Domestic Economic Health

U.S. Markets

Stocks extended their rally in the second quarter, boosted by cooling inflation, the prospect of a shift in monetary policy, and enthusiasm over artificial intelligence.

For the three months ending June 30, the Dow Jones Industrial Average added 3.41 percent while the Standard & Poor's 500 Index picked up 8.30 percent. The Nasdaq Composite, which led in the first quarter, led again, gaining 12.81 percent.1

Inflation Breaks

The stock market's climb over the course of the second quarter did not come without occasional bumps along the way, including a drawn-out political battle over raising the debt ceiling.

One important driver that helped overcome these headwinds was the continued progress in the fight against inflation. Year-over-year inflation broke decisively lower in the April and May reports. The June report will be released on July 12, and moderating inflation may allow the Fed to ease up on further rate hikes.2

Support from Corporate Reports

Another driver was corporate reports. With 99 percent of the companies comprising the S&P 500 reporting, 78 percent reported a positive earnings surprise, while 75 percent reported a revenue surprise. The earnings beat percentage was the best performance relative to Wall Street estimates since the fourth quarter of 2021.3

Spotlight on Artificial Intelligence

These past corporate earnings season also saw a dramatic development—a heightened focus on artificial intelligence (AI), with 110 companies mentioning AI on conference calls. This was a 41 percent increase from the prior quarter.4

The excitement over AI centers on its potential economic opportunities. One investment bank says AI may increase economic productivity by 1.5 percent annually for the next ten years.5

More Names Join Rally

As welcome as this AI enthusiasm may have been, it exacerbated concerns that stock market returns have been concentrated in a handful of very large cap stocks and just a couple of industry sectors.

Encouragingly, market breadth steadily improved during the quarter. Despite the undeniable leadership of just seven mega-cap stocks, an increasing number of stocks are seeing better price momentum. For example, as of June 14, 61.8 percent of S&P 500 stocks were trading above their 50-day moving average.6

Sector Scorecard for Q2

The strong quarter performance lifted nearly all sectors with gains in Communications Services (+13.89 percent), Consumer Discretionary (+15.36 percent), Financials (+5.19 percent), Health Care (+2.65 percent), Industrials (+6.58 percent), Materials (+3.98 percent), Real Estate (+2.91 percent), and Technology (+16.23 percent). Losses were sustained in Consumer Staples (-1.06 percent), Utilities (-3.87 percent), and Energy (-1.54 percent).7

What Investors May Be Talking About in July

In July, companies will start to report their Q2 results, which will provide fresh insights into the economy's health. Corporate results may go a long way in signaling to investors whether the first-half rally in stock prices was warranted or premature and deserving of some valuation adjustment.

Additionally, the two-day Fed meeting ends on July 26. Investors will learn whether the Fed plans to increase rates or hold steady. Much may depend on the update on consumer prices, set for release on July 12.8,9

At the June meeting, the Fed elected to pause on rate hikes, deciding to assess the economic impact of the cumulative interest rate increases that started last year. The Fed will also give its outlook for inflation in the second half.

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Global Economic Health

World Markets

The MSCI-EAFE Index gained 1.87 percent in the second quarter as overseas markets were hobbled by persistently elevated inflation in multiple major markets and economic softness, exemplified by Germany entering a recession and a faltering China reopening.10

European markets were mixed in Q2, with gains in France (+1.06 percent), Italy (+4.12 percent), Spain (+3.90 percent), and Germany (+3.32 percent). The UK lagged, falling 1.31 percent.11

Pacific Rim markets were also mixed, with Hong Kong down 7.27 percent while Japan rose 18.36 percent.12

Indicators

Gross Domestic Product (GDP)

The economy's total output in the first quarter was revised higher, from a 1.3-percent expansion to a 2.0-percent growth rate, casting doubt that the economy was headed to recession.13

Employment

Employers added 339,000 new jobs in May, which exceeded the 190,000 consensus forecast. The unemployment rate jumped to 3.7 percent despite no change in the labor force participation rate. Year-over-year wage growth cooled to 4.3 percent.14

Retail Sales

Retail sales increased 0.3 percent in May after rising 0.4 percent the month before. Consumer spending was higher across the board.15

Industrial Production

Following two consecutive months of increases, industrial production shrank 0.2 percent in May, a consequence of falling output in the mining and utilities sectors. Manufacturing was up a modest 0.1 percent for the month.16

Housing

Housing starts rose 21.7 percent in May as low inventory boosted buyers' interest and home builders' confidence. It was the largest percentage gain since October 2016.17

Sales of existing homes fell 0.2 percent, while year-over-year sales dropped 20.4 percent.18

New home sales gained 12.2 percent in May, rising for the third consecutive month.19

Consumer Price Index (CPI)

Consumer prices rose 0.1 percent in May and 4.0 percent from one year ago. This was the lowest annual rate in more than two years. Nevertheless, core inflation (excludes volatile food and energy prices) picked up 0.4 percent in May, while year-over-year core prices increased 5.3 percent, reflecting continued inflationary pressures.20

Durable Goods Orders

Orders for goods designed to last three or more years increased 1.7 percent in May, powered by increased sales of passenger planes and automobiles. It was the third straight month that durable goods orders have climbed.21

The Fed

After raising interest rates unanimously by 0.25 percent following the March and May meetings of the Federal Open Market Committee (FOMC), the Fed elected to keep rates unchanged in June, pausing to assess the economic impact of the cumulative rate hikes to date.

Language in the rate announcement and comments by Fed Chair Powell indicate that, despite the pause, two more rate hikes are likely before the end of the year.

Citations

Do's and Don'ts of Lending to Friends and Family

Written By: Rebecca Lake
Published: 06/13/2023
https://www.investopedia.com/do-s-and-don-ts-of-lending-to-friends-and-family-5088469?utm_campaign=rss_articles&utm_source=rss&utm_medium=referral

What does it take to be wealthy? Well-being is a more important measure than money or assets, survey finds

Written By: Sharon Epperson
Published 06/13/2023
https://www.cnbc.com/2023/06/13/well-being-not-money-has-become-the-leading-measure-of-wealth.html

Quarterly Data Provided by FMG

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Disclosures