Market Insights & Planning Highlights

Q3-2023

ECONOMIC OUTLOOK

Why Hasn't The Economy Cratered (Yet)?

by Robert Koscik

If you were tuned to a business channel late last year, you probably heard the warning: a recession, maybe even a deep one, loomed for first-half 2023. Yet here we are in the second half and we've barely seen a slowdown (and I don't think we will this year). Why is that? In a word: spending. Let's put the numbers in context…

- In 2019, the total U.S. government outlay was $4.4 trillion.
- In 2020, the government issued $5 trillion in Covid stimulus.
- In 2021, they outspent the 2019 budget by $2.8 trillion.
- In 2022, they outspent the 2019 budget by $1.8 trillion.

Source: Statista.com

Whether all this spending was necessary is something I'll leave to the reader, but my personal analysis is that more than 50% of individuals and businesses who received stimulus checks or PPP (Paycheck Protection Program) loans were not financially impacted by Covid. They simply didn't need the money.

And it was A LOT of money…

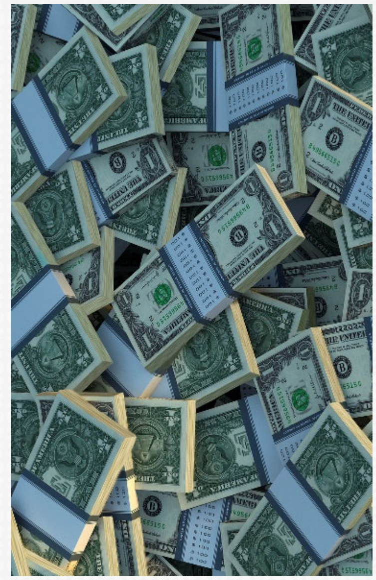
- $1.8 trillion in stimulus went to individuals.
- $1.5 trillion in the form of stimulus checks and expanded unemployment benefits.
- $1.7 trillion went to businesses, with $835 billion in the form of PPP loans.

Source: New York Times

Inside This Issue

ECONOMIC OUTLOOK

Why Hasn't the Economy Cratered (Yet)? (continued)



Two things were accomplished by this spending: inflation that's higher than we have seen in decades and massive liquidity for individuals and corporations that could last for years. Consider this: household net worth in Q1 2020 was $104 trillion. In Q1 2023, it stood at $140 trillion (down marginally from $144 trillion in Q1 2022).
Source: FRED Economic Data

With all this money still sloshing around, my conclusion is that even if we see a recession in 2024, it probably won't be too steep (but that's a long time from now to make such a call). All the spending will be for the good if debt doesn't matter. If it does, well that's a story for another day.

Eye on Valuations

Government deficits aren't the only thing on my mind. Valuations are a concern too. Here's why: at the end of 2022, the S&P 500 was at 3,839 and earnings for the underlying companies was $215 a share. That makes for a P/E (price-to-earnings) ratio of 17.86—expensive but not far outside the historic norm.

As of June 21st, the S&P was trading at 4,366, and consensus earnings for 2023 is $220 a share. That would be a P/E ratio of 19.84, which is top 10% expensive on historic scale (but lower than late 1990s, and 2017 thru 2021). In the face of a >5% federal funds rate, it is likely this will provide better buying opportunities in the future.

The AI Revolution

What about the Bullish side? You've no doubt heard about Artificial Intelligence (AI). What AI means for the stock market is a real chance of significantly increasing efficiencies. It is not just a technology story, as it will touch and impact every industry and business. Greater efficiencies mean larger margins and higher earnings. Ultimately deciding the biggest winners will be the fun aspect to AI.

Why Hasn't the Economy Cratered (Yet)? (continued)

Postscript: The Fitch Downgrade

The two pages that precede this one were written in late June. The below represents my thoughts on August 2nd – the day after Fitch downgraded U.S. debt. You probably saw the headlines.

It's obvious, by reading my articles over the years, that I do not believe in running deficits—unless it is absolutely necessary. That's the key term. It's subjective, and debatable, and that's what gets us into trouble. During World War II, we ran massive deficits. Most can justify this. This story could now go on and on, but I will make it much more simple for all and bring it to a conclusion. Many have heard me say it before: Deficits don't matter! Until they do. Ask General Motors. (If you're not sure what I'm talking about, call me.)

The downgrade, said Fitch in its release, reflected the "expected fiscal deterioration" of the country over the next three years. The rating agency cited the "high and growing" government debt, which currently stands at more than $32 trillion (just under $100,000 for every single person in America).

Spend Less or Strap In

We're going to have to start spending at a more reasonable level or we will see our borrowing costs increase at a time we just couldn't afford them to. In the relatively near future, the U.S. will be under great pressure (by the public or lenders) to lower its deficits. The very likely result of that is a recession, perhaps even a deep recession. But I do think there would be a real chance for a very strong bounce thereafter.

MARKET UPDATE

Halftime & The Elite 8 - A Mid-2023 Stock Market Review

by Jason Phipps

The first half of 2023 has been a welcome relief following the market losses of 2022. Through June 30th, the S&P 500 was up 16.9%. However, the returns have been driven by a handful of mega-cap tech companies. In fact, the median stock in the S&P 500 returned 5% in that same time-period. The S&P 500 is a cap-weighted index, meaning the higher the market capitalization of a company, the more of the index they comprise. If you had invested in an equal weight S&P 500 index—meaning each stock is 1/500th of the index or .2% of the index—your first half return would have been 6.93%.

Other stock indexes tell a similar story. The Dow rose by 3.9% while the small-cap Russell 2000 rose 7.6%. In the second quarter of 2023, the 10 largest companies in the S&P 500 contributed to nearly 80% of the return for that quarter.

The Elite Eight

With apologies to March Madness, the Elite Eight I'm referring to are Meta, Amazon, Netflix, Microsoft, Apple, Alphabet, NVIDIA and Tesla. These Mega-Cap innovators are the stocks responsible for this year's positive S&P 500 performance. Many of the names are associated with Artificial Intelligence and the resulting optimism that fueled a somewhat baffling stock market rally. Generally, higher interest rates are a barrier to valuations of stocks moving higher. The Elite Eight have defied that logic for now.

The market value of the Elite Eight comprised 28.4% of the S&P 500 as of June 30th 2023—a staggering statistic. In other words, 1.6% of the companies in the S&P 500 accounted for 28.4% of the index. These companies have been dominant innovators whose long-term growth have forever changed the economy. The caveat is that the Elite Eight make up just 17.2% of S&P 500 earnings. That is the largest gap between percentage of market cap and earnings on record.

Halftime & The Elite 8 - A Mid-2023 Review (continued)

Valuations, Momentum and Past Returns

Long term, earnings are what make the market move. We often talk about valuations and momentum, as opposed to FOMO (Fear of Missing Out) or trendy catchphrases. Look no further than the past few years for ones like metaverse, blockchain, de-fi, 5G and Web 3. Recency Bias is the tendency to overemphasize the importance of recent experiences or the latest information we possess when estimating future events. FOMO, or the Fear of Missing Out, is driven by recency bias. Some examples…

The Dot-Com Bubble: From 1995 to 1999 the NASDAQ 100 gained 817%, more than 55% per year. I was working at Fidelity Investments in May 2000 fielding calls from unrealistic clients asking for a low-risk investment that could return 20% per year. Newsflash: there is no such thing. Over the next 5 years, the NASDAQ 100 fell more than 56%, around -15% per year.

The Housing Bubble: From 2002 to 2006, home prices in Miami, Florida rose 126%, more than 17% per year. From 2007 to 2011 home prices fell 50% in Miami.

Peak Oil: From July 2003 to June 2008, oil prices rose by 335% to $140 a barrel. It quickly fell 70% and is still well below $140 a barrel today.

Gold Mania: Between September 2006 and August 2011, gold rose 192%, nearly 24% per year. Prices fell 28% over the next 5 years and didn't reach a new high until 2020.

The Growth Stock Bubble: At the end of January 2021, the ARK innovation ETF was up more than 779% in the prior 5 years with an annualized return of 54%. The ARK ETF was down 77% at the end of 2022.

We often talk about using history as a guide when making investment decisions. That said, just look at the eerily similarities between the Dot-Com bubble and the Growth Stock Bubble. Going forward, we do believe that AI will drive economic efficiency, but we will consider valuation and momentum as we make decisions for our clients.

Sources: Ned Davis Research, Ycharts, Factset, Morningstar

DLAK
Where clients come first.

Just How Much Should You Be Spending?

by Matt Ringle & Anthony Scassellati

A frequent question we get from our clients is "how much should I allocate to things like housing expenses, vacations, dining out, etc.?" They know how much they ARE spending, but never really how much they SHOULD be spending. In this article, we'll provide a framework for comparing your spending habits to those of your peer group.

It goes without saying that not everyone spends their money the same way. Some buy more extravagant homes, while choosing not to travel. Others couldn't care less about the car they drive, but maybe they want to see the world. That's your choice, so we don't aim to be the "spending police" here. We're simply sharing our combined staff insights from three decades of budgetary analysis with clients.

The More You Make…

As many have experienced throughout their lifetimes, spending habits and allocating your money changes based upon the income one receives. The more you make, the more you need to save—even on a percentage basis. Why? The more you spend, the less Social Security will comprise of your total income in retirement.

To make the analysis that follows as relevant as possible to you, we have divided the budget averages into three different categories: young professionals ($0 - $130K annual income), future high-income earners ($130K - $250K) and high-income earners. All information is for those still in the workforce. If you fall into the 4th category of those that are retired, congratulations, your savings rate is 0%!

DLAK
Where clients come first.

HOUSEHOLD BUDGETING

Just How Much Should You Be Spending? (continued)

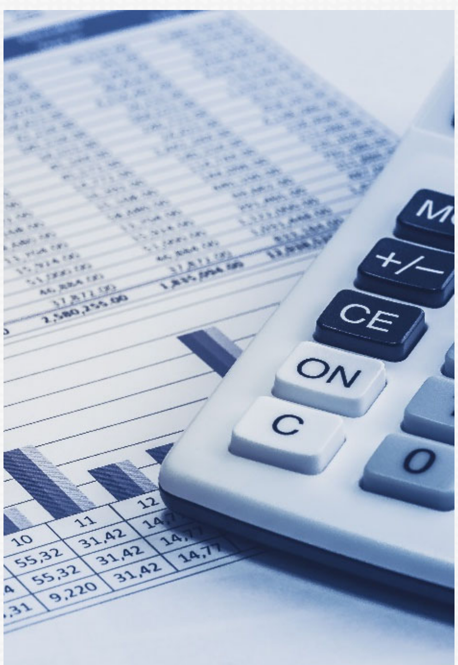
Young Professionals			
DLAK Proposed	**Budget Catergory**	**% of total Budget**	**Catergory Description**
Needs - 50%	Taxes	15%	
	Housing	22%	Mortgage, Taxes, Insurance, Housekeeping, Furnishings, Appliances
	Autos	4%	Car Maintenance, Repairs
	Utilities	6%	Gas, Electric, Water, Phone, Cable & Internet
	Protection	5%	Auto, Health, Life
	Credit Cards (Needs)	8%	Gas for Car, Groceries
Wants - 30%	Credit Cards (Wants)	13%	Dining Out, Entertainment, Clothes, etc.
	Unforseens	4%	Car Issues
	Vacations	3%	
	Others	3%	Education, School Loans, Memberships, Children's Activities
	Debit/Cash	2%	
Savings - 20%	Savings	15%	

Future High-Income Earners			
DLAK Proposed	**Budget Catergory**	**% of Total Budget**	**Catergory Description**
Needs - 50%	Taxes	23%	
	Housing	18%	Mortgage, Taxes, Insurance, Housekeeping, Furnishings, Appliances
	Autos	3%	Purchasing 2 - $35,000 Cars
	Utilities	4%	Gas, Electric, Water, Phone, Cable & Internet
	Protection	5%	Auto, Health, Life
	Credit Cards (Needs)	7%	Gas for Car, Groceries
Wants - 30%	Credit Cards (Wants)	16%	Dining Out, Entertainment, Clothes, etc.
	Unforseens	4%	Replace Roof, AC, Renovation
	Vacations	3%	
	Others	2%	Tithing, Education, School Loans, Memberships, Childrens activities
	Debit/Cash	0%	
Savings - 20%	Savings	15%	

HOUSEHOLD BUDGETING

Just How Much Should You Be Spending? (continued)

High-Income Earners			
DLAK Proposed	**Budget Catergory**	**% of Total Budget**	**Catergory Description**
Needs - 50%	Taxes	31%	
	Housing	16%	Mortgage, Taxes, Insurance, Housekeeping, Furnishings, Appliances
	Autos	3%	Purchasing 2 - $45,000 Cars
	Utilities	1.5%	Gas, Electric, Water, Phone, Cable & Internet
	Protection	2.5%	Auto, Health, Life, LTC, Umbrella
	Credit Cards (Needs)	3%	Gas for Car, Groceries
Wants - 30%	Credit Cards (Wants)	16%	Dining Out, Entertainment, Clothes, etc.
	Unforseens	2.5%	Replace Roof, AC, Renovation
	Vacations	3.5%	
	Others	1%	Tithing, Education, School Loans, Memberships, Childrens activities
	Debit/Cash	0%	
Savings - 20%	Savings	20%	



Here to Help

Whether you're a young professional or a high earner, living within your means will always be the consistent way to build wealth for your future. At DLAK, we are not blind to the fact that your situation is unique. We always stand ready to continue to provide you personalized financial services that fit your needs.

We look forward to connecting and possibly discussing this topic with you at our next meeting.

DLAK
Where clients come first.

DIGITAL MATTERS

What Happens to Your Data After Death? – by Jason Phipps

Cell phones have come a long way in our lifetimes. In fact, the average American now spends 3 hours and 30 minutes per day on mobile devices and 3 hours and 34 minutes on computers. Few understand this better than parents—many of whom are doing everything they can to limit screen time for their kids.

With all that you can do with your phone or tablet, important items are stored on the device or in the cloud. Between the photos, documents, text messages, contacts and apps that may include bank accounts or crypto currencies, it's important to consider what happens to that data when we pass on.

Simple Steps
Apple and Google won't let anyone access your data unless you take steps to protect it for your heirs. Below you will find the instructions to assign a **legacy contact** for iPhone or Android.

For iPhones
Go to Settings
· Select your name above Apple ID, iCloud+, Media & Purchases
· Select Passwords & Security
· Select Legacy Contact
· Select Add Legacy Contact
· Follow the guided process

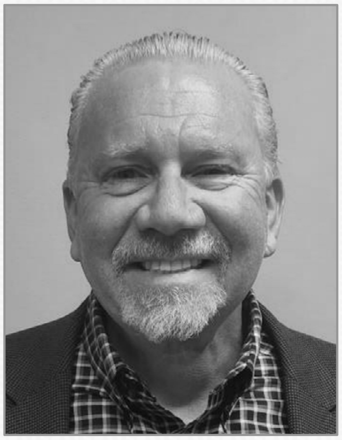
For Androids
You'll need to set up your Inactive Account Manager. Follow the guided process to complete the set up via the below link:

https://myaccount.google.com/inactive?pli=1

DLAK
Where clients come first.

INSURANCE INFO

Assess Your Health Insurance Before Travelling Abroad



by Brett Roth & Kelli Helvey

A common mistake made by international travelers is jetting off without checking to see if their health insurance will cover all of their overseas needs.

If you're currently planning a trip abroad, there are some important steps to take before you cross the border. Below is a helpful primer to do just that…

1. Call your current healthcare provider and ask them what's covered and what isn't and if they have other options to cover you abroad.
2. Go to this international travel website:
   - https://travel.state.gov/content/travel/en/international-travel/before-you-go/your-health-abroad/insurance-providers-overseas.html
     - Here you'll find…
     - Guidelines for specific countries
     - What types of insurance you may need
3. Within the above link, click the sublink labeled "Your Health Abroad":
   - https://travel.state.gov/content/travel/en/international-travel/before-you-go/your-health-abroad.html
   - Here you'll find…
   - How to get help with a medical emergency
   - How Medicare works (or doesn't) abroad
   - How to find a doctor abroad

INSURANCE INFO

Assess Your Insurance Before Travelling Abroad (cont.)

Also starting next year, Americans will need one more document in order to enter countries in the European Union.

- To visit, you'll have to apply for approval under the European Travel Information and Authorization System (ETIAS). You will apply online, and the authorization (which will be linked to your passport) will account for short-term stays, including up to 90 days in a 180-day period.

- In addition to adding some hassle, this requirement will make a family vacation slightly more expensive. Applications will cost 7 euros, which right now is close to $8.

- The ETIAS website says that "most" applications are processed in minutes, but it could extend to within four days of an application. Additionally, some requestors may be asked for more information or to do an interview, which would extend the process by up to 14 days, for more documentation, or 30 days, for an interview. That said, be sure to apply well before your scheduled trip.

The good news is that once you're approved, the authorization lasts for three years. But if your passport expires within those three years, you'll need to apply again.

Bon voyage!

ESTATE PLANNING

Understanding Conduit Trusts – by Brett Roth

If you're considering a trust fund for a single beneficiary, you may have come across the term "conduit trust." What exactly is it? And is it right for you? Well, if you want to limit taxes and provide immediate income to your beneficiary, it may well be. Read on for more specifics on this useful estate planning vehicle.

Immediate Distribution

Conduit trusts are typically structured so that any income earned by the trust, such as interest, dividends, or capital gains, is immediately distributed to the beneficiary as soon as it is received. By doing so, the trust does not retain the income and, therefore, avoids being taxed on that income at the trust level. Instead, the beneficiary are responsible for reporting and paying taxes on the distributed income on their individual tax returns, which in most cases is lower than taxation at the trust level.

There are a few reasons to consider conduit language in your trust agreement:

1. **Tax Efficiency**: Conduit language can be used to optimize the tax treatment of trust income. By passing income to the beneficiary, the trust itself may avoid higher trust tax rates, which are typically higher than individual tax rates.

2. **Minimize Double Taxation**: Without conduit language, if the trust were taxed on its income, and then the beneficiary were also taxed on the distributions they receive, it would result in double taxation of the same income. Conduit language helps prevent this double taxation.

3. **Flexibility**: Depending on your intentions, you may choose to have some trusts accumulate income, while others distribute it to the beneficiary. Conduit language allows you to have specific trusts designated as conduit trusts and others as accumulation trusts, depending on your estate planning goals.

ESTATE PLANNING

Understanding Conduit Trusts (continued)

4. **Administrative Simplicity**: For conduit trusts, income doesn't stay within the trust but is immediately distributed to the beneficiary. This simple distribution structure can make the administration of the trust more straightforward.

Conduit language is primarily used for the distribution of IRA's (and when distributions are made, they are always fully taxable as ordinary income). Without a Conduit Trust, the distributions will be taxed at the Trusts tax rate. For 2023:

- **$0 – $2,900: 10%**
- **$2,901 – $10,550: 24%**
- **$10,551 – $14,450: 35%**
- **$14,451+: 37%**

What this is saying is everything above $10,550 will be taxed at 35-37%. Ouch!! Conduit language provides distributions to the beneficiary at their current income tax rate, which is lower than the trust tax rate. For example:

- If you have a $500k Bene IRA trust without conduit language and take the entire amount out over 10 years, you as beneficiary will be taxed mostly at the trust rate (35-37%), meaning you will pay > 170K in federal taxes.
- If you have that same $500k IRA trust with conduit language, taking the entire amount out over 10 years and assuming a personal tax bracket at 24%, you will pay $120k in federal taxes, thus saving close to $50k in taxes, and that goes directly into your pocket!
- 24% tax bracket goes up to over 350k income for couple.

It's essential to work with a qualified estate planning attorney or tax advisor when creating a trust to ensure that the conduit language and other provisions align with your overall estate planning goals and comply with the relevant tax laws and regulations. Trusts can be complex legal instruments, and professional guidance can help you tailor them to your specific needs and circumstances.

DLAK
Where clients come first.

NEWS TO USE

Five Ways That Car Buying Has Changed

Factory shutdowns, parts shortages, and demand fluctuations have revolutionized the car-buying experience over the past three years. Here are five key takeaways:

1. Slimmer Inventory: Car dealerships traditionally maintained large lots filled with various models. However, pandemic-related supply-chain disruptions led to bare lots, with available vehicles dropping significantly. Automakers like Ford and GM now plan to continue constrained availability to ensure profitability.

2. Higher Prices: Before the pandemic, Americans were already leaning toward pricier trucks and SUVs, raising average selling prices. The shortage of vehicles further inflated prices, with many cars selling above the suggested sticker price. Bargains are scarce, and experts don't foresee a significant decline in prices soon.

3. Lower Sales: The disruptions caused a dip in car sales, and though they have improved, rising interest rates and high prices continue to deter buyers. Analysts predict it may take years, even a decade, to reach pre-pandemic sales figures.

4. Fewer Lease Deals: Lease deals, once popular for affordable monthly payments, became less prevalent as automakers cut back due to inventory constraints. Leasing's popularity dropped, and while some lease deals are returning, analysts anticipate a slow recovery for the auto-leasing market.

5. Expensive Used Cars: The used-car market saw soaring prices during the pandemic, surpassing new-car price increases. A reduced number of trade-ins and slow new-car sales contributed to the tight supply of used cars and high prices.

These changes suggest that the car-buying landscape has permanently transformed, with constrained inventory, higher prices, and a shift away from traditional leasing and used-car deals.

NEWS TO USE

Did You Know?

Foreboding Signs in Philly

The Philadelphia Fed's regional business outlook was negative for the ninth straight month in May. Since 1968, there have been five other periods where the index was down nine months in a row. In three of those periods, the economy was already in a recession. In one of the other two periods, a recession started one month later, and the other started six months later.

Gmail Will Delete Backup Accounts

The policy officially took effect on May 16th, but the first accounts won't be deleted until December 2023. Between those times, Google will send a series of warnings to the accounts themselves and their associated recovery email address.

The Right Pen Can Prevent Check Fraud

Fraud specialists recommend opting for blue or black gel-ink pens and spelling everything out—from the name or title of the recipient to the dollar amount. Thanks to its chemical composition, gel ink is thicker, permanent and harder to remove.

The TSA Loves Loose Change

Nickels and dimes add up fast. In 2015, the TSA reported collecting $765,759.15 in loose change at airport security checkpoints across the country. It appears the TSA is just one big couch!

NEWS TO USE

Did You Know? (continued)

Avoid Giving Financial Info – Even to Your Own Bank

Banks and credit cards will often seek your income information so they can determine if you still qualify for a credit limit, or if you are a future lending risk. It's best to not to share information until you actually are looking for a loan or seeking a credit limit increase.

Supply Chains Ease Further

The GSCPI Measures the state of the global supply chain issues. In April, the index fell 1032 standard deviations below its historical average to the lowest reading since November 2008, showing that the disrupted state of global supply chains has been mostly resolved.

Tuition Relief Shot Down

The Biden administration continues to work different angles to propose a new plan, but payments on loans will officially restart as of 10/1/2023. For those who are in this situation or have children that are, there are several payment options available. You should contact the lending entity to find the best repayment schedule possible.

Teen Internet Usage Soaring

According to Pew Research, 97% of teens aged 13 to 17 use the internet every day, up from 92% in 2015. The more head-shaking number is that nearly half (46%) said they use the internet "almost constantly," which was up from a reading of just 4% in 2015.

COLA is Losing its Fizz

The highest inflation in decades caused Social Security's annual Cost of Living Adjustment (COLA) to spike to 5.9% in 2021 and 8.7% in 2022. Both increases were higher than any other year since 1982. As inflation has cooled, 2023's increase is now expected to fall to 3%. While down sharply from the last two years, it would still be higher than any other year between 2012 and 2020.

This material contains the current opinions of the ROBERT KOSCIK but not necessarily those of Guardian or its subsidiaries and such opinions are subject to change without notice. Charts are for illustrative purposes and are not intended to suggest a particular course of action or represent the performance of any particular financial product or security. Past performance is not a guarantee of future results.

Data and rates used were indicative of market conditions as of the date shown. Opinions, estimates, forecasts, and statements of financial market trends are based on current market conditions are subject to change without notice. References to specific securities, asset classes and financial markets are for illustrative purposes only and do not constitute a solicitation, offer, or recommendation to purchase or sell a security. S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market. Indices are unmanaged and one cannot invest directly in an index. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. Barclays U.S. Aggregate Bond Index represents the US investment-grade fixed-rate bond market. NASDAQ Composite Index is a market value-weighted index that measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ stock market. Each company's security affects the index in proportion to its market value. Past performance is not a guarantee of future results.

Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation. Links to external sites are provided for your convenience in locating related information and services. Guardian, its subsidiaries, agents, and employees expressly disclaim any responsibility for and do not maintain, control, recommend, or endorse third-party sites, organizations, products, or services, and make no representation as to the completeness, suitability, or quality thereof.

Registered Representative and Financial Advisor of Park Avenue Securities LLC (PAS). OSJ: 419 Plum St., Cincinnati, OH 45202, (513)579-1114. Securities products and advisory services are offered through PAS, member FINRA, SIPC. Financial Representative, The Guardian Life Insurance Company of America (Guardian), New York, NY. PAS is a wholly owned subsidiary of Guardian. Lifetime Financial Growth Company of Ohio, LLC, Orange Financial, and LS Benefits Group are not affiliates or subsidiaries of PAS or Guardian. 2023-159722 Exp 08/2025

DLAK
Where clients come first.