BROKERAGESELECT NEWSLETTER

Taxes

With interest rates up, high-tax bracket investors should take a look at tax-exempt municipal bonds. If you buy munis issued by your resident state, they may be free from state income tax as well.

I-Bonds

US issued I-Bond Savings Bonds pay interest based on the inflation rate. The rate for the next 6-months was set at 9.62%. This rate will fluctuate. Go to treasurydirect.gov for more information. There are restrictions and other rules specific to I-Bonds.

Home Care

If you are a caregiver for a home-bound family member, many states have passed benefits from tax-breaks to direct monetary assistance to home modification assistance. The member's insurance company may also provide assistance and benefits. There is a realization that home care has better outcomes and cost vs. a nursing home.

Perspectives

Stock and bond prices have continued to stay in their bear markets. Rising rates, inflation, concerns that the Fed will push the economy into recession and the war in Ukraine continue to drag on prices and sentiment. The Federal Reserve last week raised the short-term funds rate 50 bps. Initially, the Dow Jones Industrials rallied almost 1,000 points, thinking that the Fed will not to throw the economy into recession. The following day, however, stocks sank more than they popped as the concern returned to the Fed's move not being tough enough on inflation. That's a bear market. No news is good news. Rallies don't last. Volatility is higher than normal. It seems it will take a while for all the investors' concerns to be priced into the market. There does not seem to be a resolution to the Ukraine situation anywhere on the horizon. COVID has shut down China so supply chains continue to be stressed. Consumers seem to have money and want to spend it. There seems to be no way out but for the Fed to dramatically slow the economy and perhaps cause a recession. We can't even begin to think the "coast is clear" until the market can trade above its 200-day moving average, a widely regarded technical measure for a market with positive momentum. The S&P500 currently sits at 4,123. The 200-day moving average comes in around 4,447. We can't even talk about a bull market until we make a new high which would be approx. 4,800. Having said this, when there seems to be no way out and sentiment is so negative, we may be well along to finding a bottom. On the earnings front, there is still good news. According to FactSet, with almost 90% of the S&P500 reporting, about 80% of companies reported profits that exceeded expectations. Profits are an important factor in stock prices and can perhaps lessen the negative aforementioned issues. Stock prices have fallen steadily and now the forward price/earnings ratio for the S&P500 is 17.6. This is the first time this valuation indicator is below 18 since April 2020. Again this indicates markets are steadily discounting bad news and trying to find a bottom.

"TELL ME MY NET WORTH IN 10 YEARS IF I'M FULLY INVESTED IN GROWTH FUNDS...CORPORATE BONDS... HIGH YIELD BONDS..."

Something Else

I like to follow Jancis Robinson, the wine writer for the Financial Times. Jancis recently wrote about the upcoming 2021 Bordeaux vintage. Her article was especially informative in that she described the trials it takes to make a good wine in a tough year. There was too much rain, too cool temperatures, untimely harvests, and mildew. The winemakers were challenged. It's relatively easy to make a good wine in a good year. It takes a lot of effort to create a good wine in a bad year. The reds were very dependent on the winemaker but generally were salvaged into a good vintage. The whites oddly benefited from the cooler weather and should be a very good vintage.

Out Of The Box

Bear markets are uncomfortable to outright painful. However, they do serve a purpose - to ring out excesses and to force investors to more prudently allocate their capital. We have not been in relatively "normal" times, economically speaking since the 2008 Financial Crisis, where Western, capitalist governments were deadlocked and in my opinion too austerity focused. They left recovery policies up to the Central Banks. This gave the global economy weird outcomes like extremely low and even negative interest rates. Low rates and easy money led to speculative behavior in all sorts of asset classes. More recently, we saw this in SPACs, "e-commerce and disruptor stocks", and housing. The response to COVID was a bit different. Governments actually used fiscal policy to get money into the economy. Now there were both monetary and fiscal stimulus. Add that to the supply shocks of COVID shutdowns and a war in Ukraine and we now have inflation. The Federal Reserve is now reversing it's easy money posture with a reduction in its balance sheet and lifting short-term rates. Interest rates are the cost for money. With a higher cost, investors may be less likely to engage in rampant speculation and businesses should be more responsible in the projects they undertake, improving their capital allocations. Some of the weirdness is already disappearing. According to a Bloomberg Index, there are about 100 bonds globally that still carry a negative interest rate. This is down from approximately 4,500 a year ago. "The COVID stocks" boom is a more recent example. Investors extrapolated that the rapid revenue growth companies saw due to the pandemic in e-commerce, home exercise, etc. would last forever. It was unrealistic and many of these stocks are now down 50% to 90%. Transitions to "normalcy" historically happen as part of the business cycle, long boom times followed by a bust. Each time it is a bit different with different players and different excesses that ultimately get rung out. When the markets are in bear mode, investors and advisors need to act like the winemakers in Bordeaux that I mention in the column to the left. Just as it's easy to make good wine when conditions are perfect, it's easy to make money in a bull market. In times like these, investors and advisors need to rely on their skills and patience to find bargains and to protect their portfolios.

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BrokerageSelect
364 West 117th Street Suite 5A
New York, NY 10026
877-301-1550 (v)

www.BrokerageSelect.com