BEDELFINANCIAL

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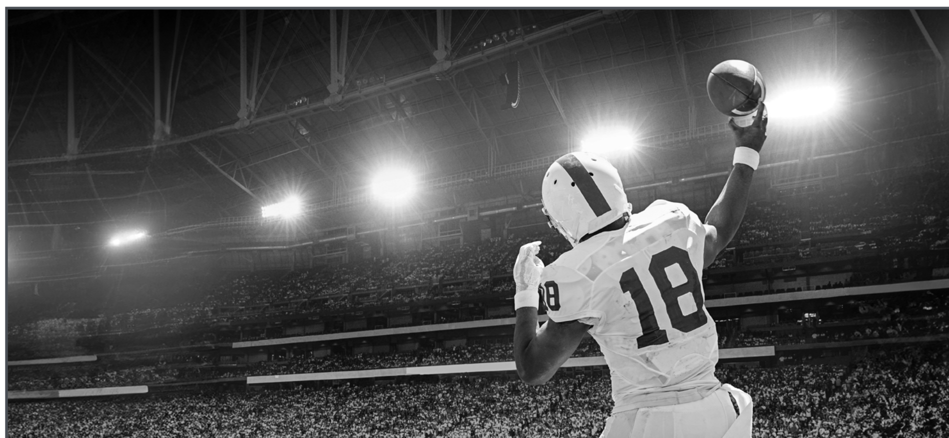
Fixed Income Portfolios: Go Long or Checkdown?

By: Anthony Harcourt, CIMA®
Portfolio Manager



With football season underway, you may find yourself rooting for your favorite team to "go long." With interest rates at their highest levels in 10+ years and the Fed signaling that more rate hikes are possible, you may also be tempted to "go long" in your fixed-income portfolio and lock in higher interest rates. But is now the right time to take a shot down the field?

While yields are up across the board in short and long-term bonds, investors can look under the hood of the Treasury yield curve to see that short-term bonds are currently paying more than longer-term bonds.

For example, as of August 31, 2023, the highest yield on the curve is the four-month Treasury at 5.61%, while the ten-year yields are 4.1%, the 20-year yields are 4.4%, and the 30-year yields are 4.2%. This is referred to as an inverted yield curve, which has only happened a handful of times in the last 50 years. A normal yield curve is one where yield and maturity increase together, meaning longer-term bonds yield more than shorter-term bonds.

How did we get here?

When inflation climbed to a 40-year high of 9.1% in June 2022, the Fed began aggressively hiking short-term interest rates to bring inflation down. As they began increasing rates, there was much discussion around whether the result would be a "hard landing" versus a "soft landing." A hard landing would mean higher rates would constrict the U.S. economy and fall into a recession.

As the Fed's rate hike campaign began, bond investors bet on a hard landing. This bet favored buying longer-term bonds to lock in higher yields in anticipation of a limited time window before yields fell. Investors anticipated the Fed would keep raising interest rates to curb inflation and cut rates once we entered a recession. Yields on shorter-term Treasury bills climbed well above yields on their longer-term counterparts, creating the inverted yield curve.

Fast forward to September 2023. Inflation has been easing over the past several months, with headline year-over-year inflation down to 3.2% as of the end of July. Meanwhile, the U.S. economy continues to show signs of solid footing despite the Fed raising the highest rates since the mid-2000s.

Now, some investors are positioning for a soft landing in which inflation returns to the Fed's 2% annual target while the economy continues to grow despite higher interest rates. If this trend continues, then rates could remain higher for longer. This is good news for bond investors but could have other volatile economic impacts, such as higher mortgage rates and business borrowing costs.

What does this mean for your fixed-income portfolio?

If you believe long-term yields are destined to fall once inflation reaches its target level in the near future, then you want to lock in your longer-term bond yields while you can.

If you believe rates will stabilize at a higher level for longer, you want to stay shorter on the yield curve for now. After all, 5-6% yields on short-term fixed income seemed impossible just a few years ago!

Keep in mind that with a shorter-term bond, you are subject to reinvestment risk at the prevailing rates when that bond matures.

So, as an investor, you can decide whether the current rates on longer-term bonds are worth locking in now. Or accept the reinvestment risk by taking the juicier short-term yield now, anticipating that longer-term yields will rise and provide better buying opportunities soon.

Over the last several months, the Bedel Financial team has taken small steps to lengthen the duration of our clients' fixed-income portfolios to lock in intermediate-term yields while remaining diversified on the shorter end of the curve.

We believe this positioning gives us a great opportunity to continue participating in higher short term yields while longer-term bonds can offer protection should the economy stall and rates move lower.

Contact Anthony if you have questions or want additional information regarding this topic.

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BLT Corner

Changing Seasons

Hopefully, your upcoming fall season is full of family, friends, football (Go Colts!), and fun festivities!

For the Bedel Family, it's wedding bells season! Three client-facing advisors will tie the knot with their significant other this September. The team celebrated with a nice champagne toast for the bride and grooms to be.

In August, we released our very first Bedel Financial commercial! If you haven't seen it yet, please find us on your favorite social media platform (Facebook, Twitter (X), LinkedIn, YouTube, and Instagram), or scan the QR code to the right. This is the first of many commercials to come, so stay tuned for more!

Back to business, BFC continues to grow by adding new key employees to our team. This quarter, we added Missy Dennany to our Operations Team. Missy has over 30 years of customer service experience and is a perfect fit for the Bedel team! She will replace Nick Rosebraugh, now part of our Financial Planning team. Missy gets to train from the best! Congrats to Nick, and welcome to Missy!

Every summer, our firm welcomes new college interns. Over the years, we have been very fortunate to have hardworking, intelligent students eager to learn and grow. The two interns this summer were some of the best we've ever hosted. It was an absolute privilege to have Corbin Atkins (Finance Major at Ball State) and Sidney Dickman (Marketing Major at IUPUI Kelley School of Business) at our office for the last three months. The team was sad to see them go.

Our loyal and dedicated team had a few anniversaries, which will not go unnoticed. Ryan Collier celebrated his 17th year, Meredith Carbrey celebrated her 16th year, and Evan Bedel celebrated his 14th year. Finally, Bill Wendling celebrated his 27th year with Bedel! We cannot thank these team members enough.

Thank you for trusting Bedel. We hope this fall is a healthy and happy time for all of you. Thank you again.

The Bedel Leadership Team

Why Do Indiana Families Trust Bedel?

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Generation NeXt

Student Loan Repayment: Back Like Never Before

By: Kate Arndt, CFP®
Wealth Advisor

Just like that, the joy ride is over. Federal student loan payments are due for the first time since March 13, 2020. Interest began accruing on September 1, with payments coming due in October. Since it's been a while, let's discuss the three items you should review as payments restart.

Times Have Changed, Should Your Repayment Plan Change Too?

It's not abnormal for borrowers to feel they are in a different spot financially since March of 2020. The pandemic brought about rising wages and allowed many Americans to stockpile cash. If your balance sheet or budget has evolved over the last three and a half years, it might be worth your while to re-consider your student loan repayment plan. There is no shortage of Federal repayment options, including the standard 10-year plan, the graduated plan, and several income-driven plans.

President Biden's SAVE Plan is new to the scene, replacing the REPAYE Plan. Payments are based on income and family size, resulting in the lowest monthly payment for most borrowers. Most importantly, as long as you make your monthly payment, unpaid interest will not be added to your balance. After 20 years of payments, the remaining balance is forgiven.

Student Loan Servicers

There have been several shakeups at the student loan servicing level. Mid-deferment, Navient, FedLoan, and Granite State left the student loan business, meaning all loans they serviced were transferred elsewhere. The Consumer Financial Protection Bureau stated that 4 out of every 10 borrowers will begin repayment with a new servicer. If you haven't yet, set up your new account before repayment begins.

To protect against late payments or default, it's best practice to enroll in auto-pay. There's even a financial incentive. Most servicers will provide a 0.25% discount on the interest rate of your loan if you enroll in auto-pay. Even if you had auto-pay set up before the pandemic, it's a smart move to verify everything is in working order.

Cash Flow

Many workers started new jobs at higher salaries during the pandemic, a moment dubbed the Great Resignation. Without student loan payments, budgets loosened for increased savings and lifestyle creep. If you're freaking out about where the money for the resumed student loan payment will come from, take a deep breath. As you comb through expenses, consider maintaining some level of investment. It's possible to work toward both debt payoff and retirement goals. Just talk to your financial planner!

Conclusion

With student loan repayment resuming, take the time to reassess your strategy. If you're unclear on the best path forward, contact your Bedel Team for guidance.

Contact Kate if you have questions or want additional informat regarding this topic.

Digital Resource

PROTECTING YOUR PERSONAL INFORMATION

As identity theft becomes more prevalent, we have provided a new resource to help you take steps to protect your information.

Go to: ***BedelFinancial.com/protect***

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Industry News

Inheriting an Inherited IRA

By: Olivia Maynes, CFP®, Financial Planning Coordinator

It feels like yesterday the SECURE Act passed, changing the distribution requirements for the beneficiaries of Inherited IRAs. But the time has come when we are starting to see the ripple effects of these changes, specifically when it comes to inheriting these Inherited IRAs.

As a refresher, two of the most notable changes of the SECURE Act were the elimination of the "stretch" provision for non-eligible beneficiaries and the creation of the 10-year rule.

Eligible beneficiaries that can still stretch their required distributions over their lifetime include:

- The spouse of the decedent.
- Minor children of the decedent.
- A person less than ten years younger than the decedent.
- Disabled or chronically ill individuals.

If you don't fall into one of the above categories, you're likely considered a non-eligible beneficiary and face more complex distribution requirements.

Suppose the original owner died before their Required Beginning Date (the age Required Minimum Distributions commence). In that case, the beneficiary is subject to the 10-year rule, which means the entire account must be depleted within ten years of inheriting it. If the original account owner died after their Required Beginning Date, the beneficiary will be subject to the 10-year rule and the stretch provision.

In summary, beneficiaries' distribution rules largely depend on their relationship with the original owner and when the original owner died.

What happens if the beneficiary dies and there are still funds in the account? Before the SECURE Act, the successor beneficiary could continue taking distributions based on the previous beneficiary's life expectancy. This is no longer the case.

Example #1: Successor Beneficiary of a Pre-SECURE Act Designated Beneficiary
If Grandma died before 1/1/2020 and her adult son was the beneficiary of her IRA, he could stretch distributions out over his lifetime. Suppose he passes away, and his wife is the beneficiary. In that case, the wife has ten years to distribute the account, even though the original owner died before the SECURE Act became effective.

Example #2: Successor Beneficiary of a Post-SECURE Act Eligible Designated Beneficiary
Suppose Grandma (age 80) died after 1/1/2020, and her brother (age 75) was the beneficiary of her IRA. In that case, he is considered an eligible beneficiary (less than ten years younger than the owner) and can stretch distributions out over his lifetime. When the brother passes away, and his daughter is the beneficiary, she has ten years to distribute the account.

Example #3: Successor Beneficiary of a Post-SECURE Act Non-Eligible Designated Beneficiary If Grandma died after 1/1/2020 and her adult son was the beneficiary of her IRA, he is considered an ineligible beneficiary and has ten years to distribute the account. However, if he passes away eight years into the 10-year window and his wife is the beneficiary, the wife only has two more years to deplete the account.

These are some of the most common scenarios when inheriting an Inherited IRA, but your situation might be unique. Your Bedel advisors are here to help decipher these rules and make sure you're meeting your distribution requirements in a tax-efficient way.

Contact Olivia if you have questions or want additional information regarding this topic.

Ask Bedel

Are there any changes to the SECURE ACT for 2024?

By: Mathew Ryan, MBA, CFP®, EA
Financial Planning Specialist

QUESTION: Are there any changes to the SECURE ACT for 2024?

ANSWER: SECURE 2.0 altered the landscape in the financial planning world. Everything from required minimum distributions (RMDs), 529 plans, charitable contributions, and employer-sponsored retirement plans were impacted. Before jumping ahead, since we still have a few months left in 2023, I'll quickly touch on some of the changes that occurred this past year.

2023

- RMD age increased to 73 (age 75 beginning in 2033).
- The penalty for failing to take your RMD decreased from 50% to 25%.
  - The penalty further declines to 10% if the RMD is taken timely and a corrected tax return is then submitted.
  - SIMPLE IRAs are now eligible to receive Roth contribution dollars.
- SEP IRAs can accept Roth contributions in whole or in part.
- Employer matching and non-elective contributions can be made to a Roth (this does NOT include profit-sharing contributions).
- Those making qualified charitable distributions (QCDs) may elect to make a one-time gift of up to $50,000 to a charitable trust (CRAT, CRUT) or charitable gift annuity.

Looking forward to 2024, additional changes will be forthcoming. Some of the main changes include:

2024

- RMDs are no longer required from employer Roth retirement plans.
- You now can withdraw up to $1,000 from retirement accounts, penalty-free, for an emergency.
- Employers can offer 401k matches to student loans instead of retirement accounts.
- The QCD limit of $100,000 will begin to be indexed to inflation.
- Another change that warrants its own discussion is that of 529 plans being able to be rolled over to Roth IRAs. This can occur if the following stipulations are met:
  - The plan has been open for the prior 15 years.
  - The rollover cannot exceed a lifetime limit of $35,000.
  - Roth contribution limits apply annually ($6,500 in 2023).
  - A beneficiary must be the owner of the Roth IRA.
  - Contributions being rolled over cannot have been made in the prior five years.

Please note that it was previously understood that those with incomes exceeding $145,000 would have to have any catch-up contributions (an allowance for increased savings for those over age 50) made into a Roth account. This requirement has been pushed back and won't go into effect until 2026.

There are more changes to come in this ever-changing industry. Please ensure you are speaking with your financial advisor at Bedel Financial to maximize these opportunities.

Contact the Mat if you have questions or want additional information regarding this topic.

ASK BEDEL

Have a Question For Us?

Submit your Ask Bedel question to:
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INDIANAPOLIS, IN
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Contact Us!

8940 River Crossing Blvd., Suite 120
Indianapolis, IN 46240
Phone: (317) 843-1358
Toll Free: (888) 843-1358
Fax: (317) 574-5999
Web: BedelFinancial.com
Twitter: Twitter.com/BedelFinancial
FB: Facebook.com/BedelFinancial
LinkedIn: Bedel Financial Consulting, Inc.

Corporate Calendar

Bedel Financial Consulting will be closed for business on the upcoming days:

Nov 23	**Thanksgiving**
Nov 24	**Day after Thanksgiving**
Dec 25	**Christmas**
Jan 1	**New Years Day**

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Our Staff

Andriel Adams
Administrative Coordinator
aadams@bedelfinancial.com

Kate Arndt, CFP®
Wealth Advisor
karndt@bedelfinancial.com

Elaine E. Bedel, CFP®
CEO
"Executive On Loan"
ebedel@bedelfinancial.com

Evan D. Bedel, CFP®
President
evbedel@bedelfinancial.com

Meredith Carbrey, CFP®
Sr. Wealth Advisor
mcarbrey@bedelfinancial.com

Marla Cline
Receptionist
mcline@bedelfinancial.com

Ryan Collier, CIMA®
Sr. Portfolio Manager and Director of Investment Management
rcollier@bedelfinancial.com

Dave Crossman, CFA
Sr. Portfolio Manager
dcrossman@bedelfinancial.com

Missy Dennany
Operations Specialist and Investment Assistant
mdennany@bedelfinancial.com

Cindy Garman
Administrative Coordinator
cgarman@bedelfinancial.com

Alex Golding
Operations Specialist and Investment Assistant
agolding@bedelfinancial.com

Anthony Harcourt, CIMA®
Portfolio Manager
aharcourt@bedelfinancial.com

Chelsie Hill
Operations Specialist and Investment Assistant
chill@bedelfinancial.com

Amy K. House
Technology Manager and Digital Marketing Specialist
ahouse@bedelfinancial.com

Kathryn J. Hower, CFP®
Senior Wealth Advisor and Director of Financial Planning
khower@bedelfinancial.com

Jonathan Koop, CFA
Portfolio Manager and Manager of Investment Management
jkoop@bedelfinancial.com

Sarah Mahaffa, CFP®
Sr. Wealth Advisor and Manager of Financial Planning
smahaffa@bedelfinancial.com

Olivia Maynes, CFP®
Financial Planning Coordinator
omaynes@bedelfinancial.com

Dominic Petrone
Data Analyst
dpetrone@bedelfinancial.com

Nick Rosebraugh
Operations Specialist and Investment Assistant
nrosebraugh@bedelfinancial.com

Mathew Ryan, CFP®, EA
Financial Planning Specialist
mryan@bedelfinancial.com

Austin Stagman, CIMA®
Portfolio Manager
astagman@bedelfinancial.com

Cassi Vanderpool
Chief Operations Officer
cvanderpool@bedelfinancial.com

Abby VanDerHeyden, CFP®
Wealth Advisor and Generation NeXt Team Leader
avanderheyden@bedelfinancial.com

Chris Wakefield
Creative Marketing Manager
cwakefield@bedelfinancial.com

William J. Wendling, CFA
Sr. Portfolio Manager, CIO
bwendling@bedelfinancial.com