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Are We Headed For a Recession? Were We In a Recession?

By: Jonathan Koop, CFA
Sr. Portfolio Manager & Manager of Investment Management

Over the next few months, we are going to hear a lot about a recession, and in most cases accompanied by a qualifier such as: "unlikely recession", "certain recession", or my favorite that comes out in a couple of years, "the recession that everyone knew was going to happen."

After the Federal Reserve began raising its Federal Funds discount rate, the headlines predictably shifted to guess whether these actions would cause an economic slowdown and a recession.

Terms such as soft landings, hard landings, and implied interest rates may be thrown around to make people sound smarter. While it can be interesting to hypothesize about a recession, we should look at history. Determining whether or not the current economic data officially places us in a recession is not always helpful information for investors and the decisions they make regarding their portfolios.

A recession is a period of declining real growth for at least two quarters (six months). The "real' is important because it discounts the growth rate by the current inflation rate. In the first quarter of 2022, nominal GDP gained about 6.5%, but because inflation grew at 8%, the real growth rate was a decline of -1.5%. The economy slowed down. Economic headwinds have persisted throughout the first two months of the second quarter, leading some to fear the economy may be entering into a recession if certain trends continue.

In This Issue

Or, perhaps we were already in a recession. "So you're telling me that we might already be in a recession?" Actually, by the time you read this article, we might have already been through a recession. Even though the Fed only provides GDP data quarterly, other metrics measure the economy's strength on a more frequent basis. According to IHS Markit, part of S&P Global, the previous six months of GDP data from November through April was -0.6%, 0.0%, -0.1%, +0.1%, -0.3%, and +0.5%, respectively. This combines with a -0.4% contraction. Even though it does not align with the calendar quarter on which the Fed reports, according to this data, it is possible that we were already experiencing six months of declining real growth that began sometime in October.

While still too early to tell, forecasts call for a positive growth rate in the second quarter. If this is the case, the recession of 2021-22 would already be over almost before it even began.

This doesn't mean another recession isn't headed our way. The point is that recessions are often only known after the fact using hindsight. GDP numbers are a lagging indicator. They tell us what happened. Not what will happen. We will likely only know about the next recession after data confirms it took place, usually several months later. It does not provide very useful information for investors to draw for their investment decisions.

What information is more timely? Market behavior and price action tell us more about what will happen in the economy. When we are told that the economy is officially in a recession, it is too late to sell and the markets have likely already started to recover.

According to Ned Davis Research, on average, the S&P 500 will reach its bottom before a recession becomes official. Additionally, by the time the recession has ended, the S&P 500 is higher than when the recession began.

How often have you heard someone predict the market had peaked, only to continue to see the market post solid gains over the next few months, quarters, and years? Trying to time the market and predict big swings is a fool's errand and will typically lead to less than desirable outcomes. Making it even tougher, headlines and other lagging economic data points will often be dire, even as the market is already beginning to move higher.

We may be headed for a recession or we may have just come through one. Rather than trying to time the market, sticking with a long-term investment strategy that focuses on your goals and needs continues to be our recommended approach to successful long-term investing.

As the summer plays out, you will hear a lot of talk about a recession. Remember how markets have historically behaved and keep your long-term plan in mind.

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

BLT Corner

It's Summer in Indiana!

The Bedel Team is back at it, just like Tom Cruise. For many of us, we are still working on getting over the rush of excitement for Top Gun: Maverick, the long-anticipated sequel to the 1986 original blockbuster. However, the recent financial topics of inflation, cryptocurrencies, a possible recession, and gas prices, which might have you feeling like you are in a "flat spin," do well to bring us back to reality.

While we aren't flying F-14 Tomcats over the Indian Ocean, we are sporting our favorite aviators and working just as hard to keep you up-to-date with what is going on in our recent financial markets. We certainly don't want to keep you waiting as long as Pete Mitchel made us wait, so we'll jump right in!

To tackle the question regarding a possible recession and what might be the right move, check out our feature article by Jonathon Koop, CFA. In our Generation NeXt article, Austin Stagman, CIMA®, helps to explain how the recent activity around stablecoin has shed new light on the cryptocurrency and what it could mean for the future of this investment.

Kate Arndt, CFP®, discusses another type of investment in Industry News, I Bonds. With the rise in demand for I Bonds, many have been unhappy with the yearly purchase limit of $10,000, but Kate shares some creative ways to extend your holdings of the I Bonds.

Matt Ryan, CFP®, explains in Ask Bedel that while we work to ensure our clients are positioned well to reach their own financial goals, the ability to preserve family wealth through generations is a very different process. Unfortunately, a recent survey shows nearly 70% of accumulated wealth never makes it past the 2nd Generation. Keep reading to learn what you can do to protect your wealth and set your family up for success.

We are thrilled to announce that we have grown a little within the Bedel team. We welcomed two new staff over the past quarter. Olivia Maynes, CFP®, and Hunter Sylvester. Olivia joined the financial planning team in late May as a Financial Planning Specialist. Hunter Sylvester is the newest member of our investment management team who came on board in early June and is our Investment Analyst.

In addition to new staff members, we are also hosting three summer interns this year, a record for us! A special welcome to Wyatt Blades (Ball State University), Rhea Acharya (Harvard University), and Alyssa Martin (Purdue University). We are eager to show them the exciting world of personal financial planning and hope they will find their time as part of the Bedel team valuable over the coming months.

As we are gearing up for another hot and humid Indiana Summer, please know that we love being here to answer your questions and help with any planning needs you may have. You could say that we love being your "wingman!" So don't hesitate to call us if you need anything.

Enjoy the Summer!

The Bedel Leadership Team

Generation NeXt

Stablecoins Explained

By: Austin Stagman, CIMA®
Portfolio Manager

Bitcoin and other cryptocurrencies have gained significant popularity over the past couple of years with billions of dollars flowing into this asset class. We have all learned how volatile cryptocurrencies can be compared to traditional financial instruments like stocks and bonds. However, a subset of cryptocurrencies, whose goal is stability and capital preservation, are called "stablecoins."

Historically, stablecoins have been hyped as a relatively safe and conservative investment. Many investors in stablecoins use their investment to generate a high yield. In a world where it is hard to find yield, something marketed as safe and high yielding grabs attention. But unfortunately, we have learned the hard way that these may carry more risks than intended. For example, the recent collapse of a stablecoin called TerraUSD has sent shockwaves through the cryptocurrency universe and has cost investors billions.

What are Stablecoins?

IStablecoins are a cryptocurrency minted on a blockchain that you can buy, sell, and trade on an exchange, just like other coins.

The difference is that instead of being "mined," like Bitcoin, a stablecoin derives its price from the value of another asset. In other words, a reserve asset backs its price to avoid price fluctuation. There are four types of stablecoins, each with its reserve asset.

- Fiat: Backed by a fiat currency, such as the U.S. dollar.
- Commodity: Backed by a commodity, such as gold.
- Cryptocurrency: Backed by another more established cryptocurrency.
- Algorithmic: Uses an algorithm to keep the value stable by controlling supply.

TerraUSD

A stablecoin called TerraUSD (UST) recently experienced a massive drop in value, causing panic throughout the crypto world. UST is an algorithmic stablecoin that operates in the Terra ecosystem. UST is backed by an algorithm tied to the cryptocurrency LUNA. The algorithm works to keep the price of UST in equilibrium.

However, due to external reasons (under debate), there was a selloff in UST and LUNA simultaneously to the point the algorithm could not keep up. The results were catastrophic.

To put this into dollar terms, on May 6, 2022, the price of one UST was right around $1.00—where it's designed to be. On the same day, the price of one LUNA was about $80.

Fast forward one week to May 13, 2022, and the price of one UST traded as low as $0.14. That same day, the price of one LUNA was about $0.000037. That is not a typo. Nearly $43 billion of market cap was wiped out in less than one week between these two cryptocurrencies. It is still unknown if either will recover.
This selloff sparked panic, which bled over into other cryptocurrencies. For example, the stablecoin "Tether" dropped below its $1 price point to about $0.95 before rebounding. Bitcoin and Ethereum also dropped to or near their 52-week lows.

If you are thinking of investing in one of these coins, it's probably safest to stay with one backed by a fiat currency or commodity. Unfortunately, the lack of regulation in this space means there is no way to know if a stablecoin is actually backed by anything. If fraud is occurring, it usually only comes to light after a period of stress.

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

Industry News

Savings Bonds Beyond $10,000

By: Kate Arndt, CFP®
Financial Planner

In the last few months, many clients have asked about purchasing I Bonds. As Bill Wendling explained in a previous article (search for "Bonds" on BedelFinancial.com), individuals are capped at $10,000 of I Bond purchases per year. However, there are a few creative ways to increase your exposure to the nearly risk-free asset.

One easy way to purchase additional I Bonds is through a revocable living trust. Many Bedel clients have either individual trusts or joint trusts. Each trust can purchase an additional $10,000 in bonds, so couples with individual trusts can buy up to $40,000 of I bonds per year, whereas the maximum amount couples with a joint trust can purchase is $30,000.

Each trust must open its Entity Account on the Treasury Direct website. It's a good idea to have your trust document in hand before you create the account because you'll need the trust date and registration. Most revocable trusts use the grantor's Social Security number as the tax ID.

In the case of a joint trust, it's common to use the grantor's Social Security number, whose name appears first. The bank account used to fund the account does not have to be associated with the trust, an individual or joint account is suitable.

Another way to extend household I Bond ownership is to purchase bonds for your minor children. If you pursue this strategy, keep in mind that it is considered a gift. If you make additional gifts, such as 529 contributions, during the calendar year that total over $16,000, you must file a gift tax return. The gift tax return does not necessarily trigger additional taxes. It's a way to keep track of your lifetime gift tax exclusion (currently $12.06 million per person).

To purchase I Bonds for a child, you'll have to set up a Minor Linked Account on the Treasury Direct website. The bank account used to fund the account will also receive the proceeds at redemption. Therefore, the parent is responsible for moving the proceeds into an account for the child's benefit or spending the funds to benefit the child.

Finally, it's important to note that when a child reaches the age of majority (18 in most states), they have discretion over the I Bonds. That means they can redeem the bonds and spend the proceeds on whatever their heart desires.

There are only a few ways around the $10,000 annual purchase limits, but with current rates above 9%, it could be worth the extra time and effort.

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

NEW 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***

Ask Bedel

How Do We Preserve Wealth Through Generations?

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

QUESTION: Over the years, my wife and I have worked hard and have seen our net worth grow exponentially. Now, our focus has shifted to the legacy we want to leave and to ensure our family (both children and grandchildren) are in a position to adequately manage and preserve the wealth. Do you have any thoughts or recommendations?

ANSWER: Your concerns are warranted. Through research conducted by The Williams Group, a US wealth consultancy firm, 70% of families have depleted accumulated wealth by the 2nd generation. This figure jumps to 90% in the 3rd generation.

These statistics, by all accounts, are staggering. However, digging deeper into the root cause of these failure rates, they determined that 60% were due to trust and communication breakdowns, while another 25% were tied to heirs that were simply ill prepared for the accountability and responsibility that came along with asset management or business continuity.

Developing an estate plan that addresses your transfer wishes is critical. It is equally important for those parties who will be inheriting your wealth to fully understand your intentions and desires and their role in future decisions.

Consider having regular family meetings with your financial advisors (or an objective third-party consultant) that include all impacted parties. This will enable the family to:

- Come together and devise a system for problem-solving,
- Open up lines of communication, which cultivates trust amongst family members, and
- Provide education to ensure each family member has an appreciation for their new situation and understands the role each may play in future oversight.

Having family meetings can also remove any ambiguity after you and your wife have passed. Whatever your intentions with a family business or any charitable inclinations, open dialogue and proper governance can help ensure your family is included in the 30% that sees their wealth continue to grow for generations.

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

TIME TO GO DIGITAL?

If you would like to receive our quarterly newsletter digitally, instead of a paper version, please scan the QR code below and sign up.

Thank You!

Have a Question For Us?

Submit your Ask Bedel question to:

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Corporate Calendar

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

July 4	**Independence Day**
Sep 5	**Labor Day**
Nov 24	**Thanksgiving**
Nov 25	**Day after Thanksgiving**

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