BEDELFINANCIAL

Summer 2018
Bond Yield Curve: Indicating Recession?

By: Jonathan Koop, CFA Candidate
Portfolio Manager

The bond market's yield curve is sending us warning signals of an impending recession. What exactly is the yield curve? Is it really an indicator of the health of our economy? Here's what you should know.

Yield Curve Basics

The yield curve is a graph that plots the current yield of each government-issued bond for its respective maturity–from one-month Treasury bills to 30-year Treasury Bonds. The vertical axis represents the yield. The horizontal axis depicts each bond's maturity date, representing the yields of short-term versus long-term government-issued debt.

Typically the yield curve slopes upward and to the right, with interest rates on short-term debt lower than interest rates on longer-term debt. This makes sense. If you were to lend some money to your neighbors for a few days, you probably wouldn't ask for much in return. However, it becomes a different story if you were to lend them money for 30 years. You'd expect to be compensated with a higher interest rate since the risk of non-payment has increased. Right?

In This Issue

The Shape of a Healthy Yield Curve

So how can a yield curve predict the state of the economy? A steep upward-sloping yield curve signals that governments and businesses are willing to borrow money to break ground on long-term capital investments. The increased supply of long-term debt being issued for infrastructure improvements or building factories pushes bond prices down and yields up. That's what creates the steep curve that is indicative of a healthy economy.

One common method used to compare the health of the economy across time is to look at the difference between the yields of the 30- and two-year Treasury bonds–the larger the spread (i.e. the more long-term rates are higher than short-term rates), the more healthy the economic outlook. In the current bull market, this spread reached a high of over 400 basis points (bps) in February 2011.

The Curve Is Flattening…Should I Panic?

The yield curve "flattens" when investors believe economic growth is likely to slow, causing the spread between yields of long-term and short-term bonds to decrease. This happens when external factors cause investors' demand for longer-term bonds to increase relative to supply. Bond prices go up and interest rates come down. Conversely, rates on the short end of the curve are driven by the Federal Reserve's policy. If the Federal Reserve is steadily increasing interest rates, a flattened curve results.

An "inverted" curve (when long-term yields fall beneath short-term yields) is often an ominous sign. An inverted yield curve has preceded the last nine U.S. recessions since 1955, so it's an important indicator to monitor. However, while it has historically been a good predictor of a downturn, timing the impending recession is challenging. Some recessions have taken up to 24 months to materialize once the curve inverted!

As of July 23rd, the combination of the Fed's increase in short-term rates and a decrease in long-term yields, due to slower growth expectations, has driven the yield curve spread down from its 2011 high of 400 bps to just 46 bps. This is one of the smallest spreads since the recovery began in 2009.

So What Should You Do?

Financial experts have been pointing to warning signs of an inverted yield curve for years, and it still hasn't happened! Even if the curve does invert, it doesn't necessarily indicate an immediate recession. But don't get complacent with our long-running bull market! The best course of action is to regularly review your portfolio with your advisor. If your investments are properly allocated to meet your long-term financial goals, you can deal with this and other economic uncertainties that impact the market.

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

Save the Date!

BFC's Time with Santa will take place this year on Saturday, December 8th, from 10:00 a.m. - 12:00 p.m. at Meridian Hills Country Club. More details will follow in the coming months.

BLT Corner

What We've Accomplished and What's Ahead

BLT CORNER

We've had a lot to celebrate this past quarter. The Financial Times selected Bedel Financial as a top 300 RIA (Registered Investment Advisor) firm for 2018. We're grateful for the recognition, but mostly, we're thankful for our wonderful employees. They all work hard to provide excellent service and results for our clients every day. However, let's share credit where credit's due: None of this would be possible without our fantastic clients!

We've been located in our new home for a while now, and we're still loving it! Thank you to everyone who attended our Open House on June 19^{th}, even though the weather was less than perfect. If you weren't able to make it, let us know when you'd like to stop by to see our new location. We'll arrange an impromptu "personal tour" just for you!

Finally, we'd like to congratulate and thank Amy House, who is celebrating her 10-year anniversary with Bedel Financial. Congrats, Amy!

And now, here's what's coming this quarter! Bedel Financial is hosting a few events that will be coming up quickly. First will be our annual Shred Day, which is on September 22^{nd} this year. Please mark your calendars for this popular event. We enjoy seeing everyone as you bring us your documents to securely shred! The second event is our annual Bedel Financial Forum on November 7^{th}. It will feature Jeffrey Kleintop, Chief Global Investment Strategist for Charles Schwab. He's a fantastic speaker and will share his insights on global markets and strategies with us. Lastly, we will once again be hosting our BFC Time with Santa, on Saturday, December 8^{th} at Meridian Hills Country Club. We look forward to seeing each of you at one of these upcoming events. We'll send out more information on all these events soon or you can visit our website (click on the "Events" tab).

Enjoy the rest of the summer!

With warmest regards,

The Bedel Leadership Team

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Sr. Wealth Manager
Ryan Collier
Sr. Portfolio Manager, Director of Investment Management
Kathy Hower, CFP®
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Director of Administration, Chief Compliance Officer
Bill Wendling, CFA
Sr. Portfolio Manager, Chief Investment Officer

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Industry News

The Importance of Mentorship

By: Evan Bedel, CFP®
Director of Strategy & Finance

I've been fortunate to work with leadership coaches and mentors who have impacted and molded my personal growth throughout my professional life. Over the last couple of years, I've been passing along some of those lessons learned to Max Moroknek, a student and entrepreneur at Brebeuf Jesuit, my alma mater. Here are some things I hope he carries along with him throughout his life.

Learn. Earn. Return.
These three simple words are the foundation behind the purpose and importance of mentorship. By enhancing the learning curve and professional knowledge of young students, mentors give them the opportunity to grow faster and keep up the tradition of mentorship begun generations ago.

Step 1: Learn. The only way to seize an opportunity is to be prepared when it comes. Furthering your education is important, but you must also surround yourself with leaders who want to invest in your professional and personal growth by sharing their experiences. So, do your best in school, surround yourself with positive people who challenge your thoughts and find a couple mentors to build your knowledge base.

Step 2: Earn. Build something for yourself. The more you utilize your knowledge, resources and learned experiences to earn money and build wealth, the more you'll succeed. Leadership coach Jerry Nelson once told me, "Never apologize for opportunities you are given, it's your responsibility to seize them and grow." This step can make some people feel uncomfortable and apologetic, but earning money and building on the foundation of the generation before you is something to be proud of.

Step 3: Return. The most important step is to return and give back to the next generation. This step requires you to make a time and financial commitment. But without it, the cycle of mentorship and pieces of societal growth could be lost. Your return could be anything from developing a scholarship fund for underprivileged students to sharing your expertise with a student seeking a similar profession—anything that allows future generations to learn, earn and return for themselves.

Technically, Max and his business partner and fellow Brebeuf Brave, Will Murray, are still in Step 1. However, they created a disposable emergency device charger called Zuice, which will soon be branded and sold in NBA and NHL arenas around the country, including Indianapolis, home of our Indiana Pacers. You can even pick up a free Bedel Financial Zuice charger the next time you are in our office!

Contact Evan if you have questions or would like additional information regarding this topic.

Free Zuice Chargers Available at BFC

GenerationNeXt

Treat Yo' Self (On a Budget)

By: Kate Arndt, CFP® Candidate
Financial Planner

To most of you, October 13th is just another day of the year, but to hardcore Parks and Recreation fans it's "Treat Yo' Self Day." Think clothes, fragrances, massages, mimosas and fine leather goods. Didn't know self-indulgence had a formal name and date? I bet that hasn't stopped you from celebrating Treat Yo' Self Day in one way or another. On a budget? While splurging and budgeting would appear to be polar opposites, it's possible to achieve both.

Going Gaga for Gucci

Prior to February 2018 the only expensive retail item I owned was a pair of Ray-Ban sunglasses. Then the Gucci brand blew up among millennials around my age and I had to be in on the trend. I spent hours on the website familiarizing myself with the prices of Gucci bags so I wouldn't experience sticker shock at the store. How did I justify my purchase? I'd already reached my financial goal of making a full Roth IRA contribution and had ample cash reserves. Splurging on the coveted bag wouldn't jeopardize my financial security.

The first few days after my purchase were thrilling. But soon buyer's remorse settled in. I typically shop the sale rack at Ann Taylor and use JC Penney coupons. My new purse left me feeling out of character. There was an unexpected positive side to my splurge. I was so accustomed to frugality that my big purchase compelled me to relentlessly stick to my budget!

The Right Way to Splurge

Whether you wait until October 13th to partake in Treat Yo' Self Day or not, you need to put some thought into your expenditure. Splurging can become a problem if it's fueled by impulse alone. But once you've incorporated splurging into your budget, there's nothing wrong with treating yourself occasionally.

One way to fight impulse splurging is to plan the purchase around the achievement of a goal. Maybe you've reached your target weight, paid off your student loans or passed the bar exam. All are excellent examples of appropriate times to reward yourself with something special.

Celebrating an accomplishment doesn't necessarily mean you have to pull out the big bucks, either. Splurging comes in all different shapes and sizes. For some people, splurging can mean spending $30 on a pedicure. For others it can mean upgrading to the newest Apple Watch. If you do decide to go big, use this rule of thumb: Never spend more than five percent of your liquid net worth, e.g. savings and checking accounts.

Conclusion

Rewarding yourself for a job well-done is a form of positive reinforcement that's scientifically proven to influence behavior. But splurging is a decision that you should make long before you're at the register. Plan your purchase, factor it into your budget and make sure you have the cash on hand before you pull the trigger. Treat yo' wallet while you treat yo' self!

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

We would like to thank our interns for all their hard work over the summer! David, Evan & Kristen - we've enjoyed having you as part of the Bedel team!

Q&A

Health Insurance, HSAs, and Your Adult Children

By: Sarah Mahaffa, CFP®
Sr. Wealth Advisor

Many families are grateful to find out that their "adult" children can remain on their family health insurance plan until age 26. However, many of these "medical dependents" are also filing their own tax returns and are not eligible to be "tax dependents." What do you need to know if you find yourself in this increasingly common situation?

Q: What's the difference between a medical dependent and a tax dependent?

A: Healthcare legislation allows adult children to remain on the family health insurance plan until age 26. However, tax law only allows parents to claim children as tax dependents until age 19, or age 24 if the dependent is a full-time student. In addition, the parent must also provide more than half of the child's support and the child must live with the parent more than half the year. In circumstances of disability, the criteria are different.

Q: Can I use my Health Savings Account (HSA) to cover medical expenses for my child who is covered under my health insurance, but not a tax dependent?

A: You cannot make HSA distributions for anyone who isn't your tax dependent. So, if you aren't claiming your child on your taxes, you can't use your HSA account to pay for their medical expenses. Parents who are maintaining health coverage for their children between the ages of 19 and 26 need to be aware of these constraints.

Q: How is my HSA contribution impacted?

A: Your contribution limit is based on the type of health insurance you have. A family high-deductible health plan (HDHP) allows you to make a maximum contribution of $6,900. An individual health plan has a maximum contribution of $3,450. An additional $1,000 catch-up contribution is available to those over age 55. Remember, these limits include your employer's contribution as well.

Q: Can my child open and fund his or her own HSA?

A: Potentially. Your child would need to meet the following criteria:

- Covered under a qualifying HDHP
- No other health coverage
- Not enrolled in Medicare
- Can't be claimed as a dependent on someone else's tax return

The contribution limit for your child would be based on the type of HDHP coverage he or she has. If covered by a family plan, your child would be eligible to contribute $6,900 to an HSA. HSA contributions are reflected on the account-holders tax return, not the individual(s) (mom/dad) who may be funding the account.

Contact Sarah if you have questions or would like additional information regarding this topic.

- **We hope to see you at our annual BFC Shred Day on Saturday, September 22nd, from 9:00 a.m. - 12:00 p.m.!**
- **Save the Date! Our Bedel Financial Forum will be held on November 7th from 5:30 - 7:30 p.m. Invitations to follow soon.**

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Corporate Calendar

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

Sept. 3	**Labor Day**
Nov. 22	**Thanksgiving Day**
Nov. 23	**Day After Thanksgiving**
Dec. 25	**Christmas Day**
Jan. 1	**New Year's Day**

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