BEDELFINANCIAL

Q3 2022
The Doves Have Left the Nest

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

After a tumultuous start to the year where the S&P 500 fell by more than 23% from its all-time high, the index rebounded quite strongly over the summer, posting a 17% gain from its low. In addition, economic data was also coming in better than expected, giving hope that the worst of the economic slowdown might already be in the rearview mirror.

However, statements by Fed Chairman Jerome Powell on August 26th poured cold water on the stock market rally. Powell has been using strong language to reiterate the Federal Reserve's position that tackling inflation remains the central bank's number one priority, and they intend to maintain this policy even if it causes "pain" to the markets or economy. This was reinforced by the recent rate hike in late September of .75%.

The Policy Dilemma

When developing monetary policy, central banks must seek a balance between stimulating economic growth and causing inflation. They seek so-called "Goldilocks" conditions, where the economy grows but not so quickly that it ignites inflation. Policies that expand economic growth and increase inflation are often referred to as "loose" or "dovish" policies. On the other hand, policies that seek to restrict growth or reduce inflation are called "tight" or "hawkish."

In recent years, the Fed has generally implemented dovish policies that have helped stimulate the economy and powered the stock market to all-time highs. However, recently, particularly after the global economic shutdowns in 2020, many have criticized central banks for implementing too loose policies for too long.

With inflation soaring, the Fed (and other central banks) faced a dilemma: allow the economic and stock market growth to continue with the potential for sustained high levels of inflation or increase interest rates to combat inflation and risk causing a recession. The Fed opted for the latter and embarked on its most aggressive interest rate raising campaign in a generation.

Bad News is Good News?

Because of how loose monetary policy had been for much of the past decade, even though the Fed had begun tightening earlier this year, many questioned its commitment to doing whatever it takes to fight inflation. They believed the recent hawkish policies would be reversed if economic data showed signs of weakness to avoid a recession. This became known as the "Fed Put," and it was not without its merits. After incrementally increasing the Federal Funds rate from zero to 2.5% over several years, the Fed abruptly reversed course when the S&P 500 fell by more than 15% in a matter of weeks in late 2018. As a result, it began cutting rates to protect the market.

A Different Path Forward

However, in Powell's August 26th comments, the Fed Chairman was clear that bringing down inflation was the primary goal, even if that had a negative (hopefully short-term) impact on economic output and the markets. Powell's commitment to fighting inflation was much more hawkish than investors had expected, exhibited by the sharp 1,000-point sell-off in the Dow that afternoon and the continued sell-off in the days following.

This newfound commitment to keeping rates higher for longer is in stark contrast to the past's loose-"Fed Put" monetary policy. It has been made possible because of the strong labor market, which provides more flexibility for the Fed to act before it detrimentally affects the economy. The probability for an additional 75 bps rate increase at the September meeting has increased from 25% to over 75%. Markets are also expecting an additional 50 bps increase in November and a 25 bps increase in December. The previous belief that the Fed would begin to cut rates in early 2023 has all but disappeared.

Conclusion

As higher rates begin to cool inflation and bring it down towards the Fed's 2% target, additional increases may prove unnecessary. This could provide a life raft to markets. Amidst all this uncertainty, one thing remains clear: predicting short-term market moves is a fool's errand. Stop us if you've heard this before, but maintaining a diversified investment strategy is the best way to reach your long-term investment goals.

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

In This Issue

BLT Corner

Octoberfest

That was fast! It seems like just yesterday we were welcoming summer with open arms. Next thing you know, we see Octoberfest displays and Halloween costumes for sale at Costco. Of course, by now, you're likely seeing Christmas tree displays and a good selection of Valentine's cards. Well, maybe not the latter, but as a society, we always seemed too eager to look ahead.

This is especially true in the investing world. After all, if we can anticipate the markets, we should be able to understand inflation and interest rate trajectorises and duration. Jonathan Koop's feature article discusses the Federal Reserve's stance going forward and comes to a familiar conclusion regarding the best way to reach your long-term financial goals. Hint: It doesn't involve crystal balls or guessing.

In our previous newsletter, we welcomed Olivia Maynes to our team. In this edition, she brings to our attention the FAFSA changes for the 2023-2024 School Year (and beyond). Parents of children that are college-bound will want to take note of the changes. A significant reduction in the number of questions on the form is certainly a blessing. In addition, many of our grandparent clients will want to read the section that details grandparent giving.

In our GenNe*X*T article, Kate Arndt explains the Student Loan Forgiveness program that was recently passed. Taxpayers in Indiana that qualify for the program will want to pay close attention to the taxation of the amount forgiven. If you qualify, be sure to understand the taxable nature of the forgiven debt, whether you live in Indiana or another state.

Our operations team does a great job of helping our clients to open and update accounts. In this newsletter, they offer answers to common questions regarding retirement accounts and fraud protection.

Thus far, 2022 has been a tough year in the markets. Don't hesitate to contact your team if you have questions about how your portfolio has been impacted. We would welcome the opportunity to discuss your long-term plan.

Wishing you a wonderful conclusion to the year!

The Bedel Leadership Team

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!

Generation NeXt

Biden's Student Loan Forgiveness

By: Kate Arndt, CFP®
Wealth Manager

On August 24, 2022, millions of Federal student loan borrowers let out a collective cheer after President Joe Biden announced his long-awaited student loan forgiveness plan. Here's a recap of the rules and limitations:

- Single borrowers with Adjusted Gross Incomes (AGI) below $125,000 in 2020 or 2021 are eligible for up to $10,000 forgiveness.
- Married filing jointly borrowers with AGIs below $250,000 in 2020 or 2021 are eligible for up to $10,000 of forgiveness each, meaning a married couple could receive up to $20,000 in forgiveness. The same income threshold applies to head-of-household borrowers.
- Any borrower who received a Pell Grant as part of their aid package is eligible for an additional $10,000 in forgiveness.

Details on Forgiveness

Now that the parameters have been laid out let's discuss the forgiveness process. Details suggest that borrowers who meet the AGI requirements and are already enrolled in income-driven repayment (IRD) plans will receive automatic forgiveness. Those not on an IDR plan can apply for forgiveness beginning in October.

Forgiveness can come in one of two forms. Borrowers that made payments during the pandemic forbearance period are eligible for a dollar-for-dollar refund, up to the $10,000 limit. If no payments were made during forbearance, the borrower could expect their outstanding balance to be reduced. In addition, certain borrowers may receive a combination of forgiveness and refunded payments.

The Department of Education has specified an order in which forgiveness will be applied across borrowers with various loan types (think: FFEL, Direct, Perkins, etc.). Notably, the order in which forgiveness will be applied across a series of loans within the same loan type (such as Direct) is as follows:

- Highest interest rate
- Unsubsidized, if interest rates are the same
- Most recent, if the interest rate and subsidy status are the same
- Lowest combined principal and interest balance, all else equal

Tax Consequences

While Biden's loan forgiveness will not be taxable at the federal level, several states, including Indiana, require all loan forgiveness to be subject to state income tax. In Indiana, lawmakers did not elect to tax this specific loan forgiveness; by statute, any loan forgiveness is taxable. Indiana levies a flat 3.23 percent income tax, which means Hoosiers who received loan forgiveness will owe $323 for every $10,000 forgiven. As with normal years, income tax is not due until you file your tax return.

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

ASK BEDEL

Have a Question For Us?

Submit your Ask Bedel question to:
Bedel@BedelFinancial.com

Industry News

FAFSA Changes for the 2023-2024 School Year (And Beyond)

By: Olivia Maynes, CFP®
Financial Planner

The FAFSA (Free Application for Federal Student Aid) application for the 2023-2024 school year opens on October 1st and as a result of the Consolidated Appropriations Act of 2021, changes are expected. However, most of these changes will likely be delayed until the 2024-2025 school year.

What's the delay? More than half of higher education schools haven't started preparing for the significant changes coming to the FAFSA. In addition, the CSS Profile, a form used by many higher education schools to determine institutional aid, has yet to reflect the new changes.

While we may have to wait a bit longer than expected to see the changes, some key topics remain.

FAFSA Simplification

The number of questions on the FAFSA is set to decrease from 108 to 36.

Expected Family Contribution (EFC) is now referred to as Student Aid Index (SAI)

The Expected Family Contribution determines how much you can expect to pay for a year of college. Now coined the "Student Aid Index," the SAI aims to help colleges better determine a student's financial needs.

Multiple Children in College

The new SAI formula no longer gives a family with multiple children in college a significant reduction in their expected contribution. Currently, the EFC is cut by almost half for each child that is in college at the same time.

Income Protection Allowance

The Income Protection Allowance is set to change, protecting a greater percentage of the students' and parents' earned income when determining how much can be put towards college.

Grandparent Giving

Previously, withdrawals from grandparent-owned 529 plans counted as income to the student on the FAFSA. Cash support and gifts received were also included. This will no longer be the case, and the student's total income will only come from the data pulled from their federal tax return. Since FAFSA uses a two-year lookback, grandparents can start taking advantage of the new rules this year.

The FAFSA deadline varies for each school, but the federal due date is June 30th. A few states have adopted a first-come, first-serve policy, so completing it as soon as possible is important. Similar to the FAFSA, each school's CSS Profile deadline varies, but many of them typically fall between January 1st and March 31st.

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

Ask Bedel

Moving Retirement Accounts - Fraud Protection - Charitable Giving

By: Bedel Financial Operations Team
Nick Rosebraugh, Tonya Kee, and Alex Golding

QUESTION: I have an old employer-sponsored retirement plan that I would like to move. How can I do that?

ANSWER: If you have an old employer-sponsored plan that you would like to transfer, there are a few factors to consider. First, you should check with your advisor and the sponsor of the old plan to confirm how much of the account has been vested. If the account has not fully vested, you may have to leave some of the balance with the employer when you roll it over.

The next thing to consider is pre- vs. post-tax money. Post-tax or Roth money can only be rolled over to a Roth account. You will want to confirm whether you have a Roth balance in your plan so that you can open a Roth IRA account for the funds. Your new employer plan may also offer a Roth component. Check with your new plan's sponsor to determine if the Roth option is available and can receive a rollover.

The last thing to consider is the destination of the funds. You may be able to roll your old plan balance into the plan offered through your new employer. If they do not allow you to do so or if you are not employed with a company offering such a plan, you can always roll the funds into an IRA.

If you are rolling the funds into a new plan, check with your new employer to see their requirements for accepting rollovers. If you are rolling the funds into an IRA, you will need to request a check from the plan sponsor made payable to the new custodian with your IRA account number in the memo.

Rollovers can be a little intimidating to take on. If you are concerned about doing it yourself, please know that Bedel Financial is always here to help facilitate the rollover process for our clients.

QUESTION: Fraud and cybercrime are serious threats, but together, we can take steps that will protect your identity and your assets.

ANSWER: One way is by working with Bedel to protect your information. Consider establishing a verbal password with us to confirm your identity. Always keep us updated on any changes to your personal information. Also, if you suspect any suspicious activities, please alert us immediately.

Charles Schwab offers many proactive ways to protect your identity and assets. For example, they offer two-factor authentication and Voice ID service if you have to call in directly. Schwab also has a Security Guarantee that covers any losses in any of your Schwab accounts due to unauthorized activity.

By working together, we can ensure your identity and assets remain secure.

QUESTION: I have a checkbook that is linked to my IRA account, can these checks be used for charitable gifting to count towards my requirement minimum distribution?

ANSWER: If you have the IRA check-writing feature enabled on your IRA account, you can use this checkbook to make charitable gifts directly to the charity. These gifts would count towards your required minimum distribution for that year. Another benefit of using this account feature is these distributions are processed from your IRA account with 0% Federal and 0% State tax withholding, and your current tax withholding election would remain intact.

The only caveat to issuing checks from your IRA checkbook would be to consider the date you are mailing your charitable gift to the charitable organization. You'll want to plan to use these checks far in advance of the December 31st deadline to ensure the charity has enough time to process your gift before the end of the year.

If your check isn't cashed before 12/31 and is cashed in January the following year, this charitable gift would be counted for your required minimum distribution for that calendar year.

Contact the Bedel Operations team if you have questions or want additional information regarding this topic.

BEDELFINANCIAL

Presorted
First Class
U.S. Postage Paid
INDIANAPOLIS, IN
Permit No. 9395

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 1	**Staff Retreat**
Nov 24	**Thanksgiving**
Nov 25	**Day after Thanksgiving**
Dec 26	**Christmas Day Observed**
Jan 2	**New Year's Day Observed**

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

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

Dave Crossman, CFA
Sr. Portfolio Manager
dcrossman@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

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

Tonya Kee
Operations Specialist and Investment Assistant
tkee@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

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

Hunter Sylvester
Investment Analyst
hsylvester@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
Marketing & PR Coordinator
cwakefield@bedelfinancial.com

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