Q1 2023
How Strong is the U.S. Consumer?

By: Austin Stagman, CIMA®, Portfolio Manager

The strength of the consumer is a vital part of economic growth in the United States. Over 70% of the U.S. economy, as measured by GDP, is based on personal consumption. Therefore, studying the consumer's habits—how much we spend, save, and borrow—can help provide a sense of the short-term direction of the economy. So how strong is the U.S. consumer right now?

Spending - Retail Sales Have Been Strong

Whether buying yourself a new pair of shoes, purchasing a car, or getting groceries, all those activities are factored into retail sales. Retail sales include selling durable and non-durable goods (mainly sold to businesses) and retail items sold to the public. The U.S. Census Bureau releases this metric monthly.

Analyzing this data can tell you the strength of the consumer; a higher-than-expected reading is typically seen as positive, while a reading below expectations is negative.

Recent data suggests the consumer is strong as spending remains healthy after last year's slowdown.

Data from January showed an unexpected increase in spending of +3.0% month-over-month, well above the expected +1.8%. This was the largest increase since March 2021. The biggest increases were seen in sales at department stores (17.5%) and food services and drinking places (7.2%).

At first, this is surprising, considering the headwinds consumers have faced from inflation and rising interest rates. However, the healthy readings are largely attributed to a strong labor market and consistent wage growth. Retail sales were up 6.4% from January 2022. This reading is above the 20-year average of about 4.5%.

Savings – Not Great, but Improving

Strong consumer spending is great for the economy as long as it doesn't come at the expense of individuals tapping into their savings. One metric to analyze this trend is the personal savings rate, which is calculated as the ratio of personal savings to disposable personal income (DPI). In January, the personal savings rate was 4.7%, the highest since January 2022. However, in June 2022, the rate was 2.7%, the lowest reading since September 2005.

This steady increase since the summer suggests consumers are starting to build back their savings, despite increased spending. Over the last 20 years, the average savings rate has been about 6.7%.

Borrowing – Mixed Signs

While strong consumer spending is great for the economy, it can also be detrimental if people increase their credit card debt to pay for their goods and services. According to the latest quarterly report from TransUnion, U.S. total credit card debt increased to a new record of $930 billion at the end of 2022. This is an increase of 18.5% from Q4 2021 ($785 billion). Although total credit card debt has reached a new record, comparing it to previous years may only capture part of the story because credit card debt could increase compared to the past due to inflation, wages, and possibly population growth. For example, comparing the Q4 2022 total credit card balance of $930 billion to the Q4 2019 balance of $846 billion shows an almost 10% increase.

However, the average debt per borrower is slightly lower in Q4 2022 ($5,805) compared to Q4 2019 ($5,818).

Delinquencies are also important as they indicate how manageable this debt is for borrowers. As of Q4 2022, delinquencies 90+ days past due is 2.3%, comparable to pre-pandemic levels. This suggests that the debt load seems manageable for now.

If you have a 20% credit card interest rate on a balance of $5,805 and pay $100 monthly, it will take you over 17 years to pay off the balance. In addition, you will be paying about $14,925 in interest on top of repaying the principal.

Let's use this same example, but assume the credit card interest rate was 15%, around the 2019 average. Paying $100 monthly will result in $4,605 in total interest and take over eight years to pay off. This is still significant, but much better than the situation faced today.

Summary

Given the circumstances, the U.S. consumer is still in relatively good shape. In the short term, people are still spending money, trending toward the longer-term average for savings and keeping a manageable level of credit card debt per borrower.

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

In This Issue

BLT Corner

March Madness

March Madness doesn't only apply to basketball – it's also the beginning of tax season, spring fever, and Evan Bedel's 40th birthday celebration (please don't tell him we told you).

Albert Einstein said, "The hardest thing in the world to understand is the income tax." Are you feeling baffled by your taxes? Remember that we are a tax planning resource for you. Every year, we review our clients' tax situation to determine how to be more tax efficient and employ tax strategies that benefit you. So if you have questions, share them with us.

The warmer weather is spreading around spring fever, and at Bedel Financial, we believe in spreading support to charitable organizations in our community. We continued our sponsorship of the Indianapolis Propylaeum and their Marilyn K. Glick Women's Enrichment Speakers Series.

The theme for this year is "Lifelong Learning," and the next speaker is Angela B. Freeman on April 20.

It's hard to believe that Evan Bedel recently turned 40, but that is not the only event to celebrate. Bedel was once again listed as one of the IBJ's Largest Financial Planning Firms!

This quarter, we celebrate the five-year anniversaries of Operation Specialist & Investment Assistant, Alex Golding, and Financial Planning Specialist, Mat Ryan, CFP®, MBA, EA. We are so fortunate to have them on our team and look forward to many more anniversaries to come.

We are also excited to welcome our new Operations Specialist, Chelsie Hill, as she is a great addition to our team.

Here's to a little March Madness because you and your team at Bedel Financial have a lot to celebrate.

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

Looking to Move? Down Payment Funding

By: Anthony Harcourt, CIMA®
Wealth Manager

Many young adults face the challenge of moving from their "starter" home to the next home. Buying, selling, and moving between homes is no small task. It can be even more complicated if you do not have enough cash savings tucked away to make a down payment on the next home before selling your current home.

First, let's focus on the decision between contingency offers and short-term financing.

Home Sale Contingency Offer

Contingencies are protective clauses commonly used in real estate transactions for inspections and appraisals. But you can also use a home sale contingency, meaning you make an offer to buy the new house contingent upon selling your current home. As a buyer, a contingency offer can be your cheapest route if everything works out.

You can use the net proceeds from your home sale to fund the down payment on the new home. This avoids the need for additional loans or short-term financing. You also avoid the risk of paying multiple mortgages and additional interest if your home doesn't sell quickly.

The downside is that your buy offer becomes less attractive from the seller's perspective. The home sale contingency adds risk for the seller since they have no control over whether your current home sells quickly, or at all. If the seller receives other offers without those strings attached, they will likely pass on yours. If your contingent offer is accepted, you'll likely need to act quickly when selling your current home if there is a time specified in the agreement. The seller can back out if your home doesn't sell within that period.

Short Term Financing

A bridge loan is paid as a lump sum using your existing home equity and is intended to be repaid upon selling your current home. The bridge loan helps you become more attractive as a buyer since you have cash ready for a down payment and won't need to add a home sale contingency.

However, this added attractiveness comes with a price. You can expect to pay closing costs on the bridge loan with higher interest rates than a typical 30-year fixed mortgage. Also, be prepared to make monthly payments on the home equity loan in addition to your current mortgage payment.

Another short-term financing option is a Home Equity Line of Credit (HELOC). A HELOC is a revolving credit line that allows you to draw cash from existing equity on your current home. HELOCs typically come with variable interest rates, but you can typically avoid closing costs when drawing from a HELOC.

There may be early repayment penalties, so be sure you know the terms. A HELOC can be a great low-cost option, but the downside is availability. Banks typically won't provide a new HELOC if they know your home is going to be sold in the near future. Therefore, the HELOC is likely only an option if you already have one.

If you are working through a home-buying situation, let us help determine your best option.

Contact Anthony 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

Where Are You Putting All That Cash?

By: Abby VanDerHeyden, CFP®, Wealth Advisor & GenerationNeXt Team Leader and Ryan Collier, CIMA®, Sr. Portfolio Manager & Director of Investment Management

For the past decade, it has been incredibly difficult for savers to earn much on cash savings. However, this is changing as the Federal Reserve raises interest rates to battle inflation. As a result, yields on various cash vehicles are now becoming more advantageous.

High-Yield Savings Accounts

High-yield savings accounts, popular with online banking institutions, typically offer higher interest rates than traditional banks while still providing FDIC insurance coverage. In addition, unlike checking accounts, these accounts generally do not have a minimum deposit or balance requirement. In today's environment, where interest rates at your typical bank are still near zero, it is possible to find high-yield savings accounts yielding over 3%.

High-yield savings accounts are a good option for those who don't want to close a checking account that has established auto payments and direct deposits. It's possible to keep an existing checking account and open a high-yield savings account at a different banking institution. Most accounts can be connected, and money can be transferred electronically back and forth between different banks easily.

Be sure to check whether the savings account limits the number of transfers per month. If you anticipate frequent transfers, make sure the account doesn't have a low monthly cap.

Brokerage Money Market Accounts

Investors with brokerage investment accounts at large custodians like Charles Schwab, Fidelity, Vanguard, etc., can invest cash within money market funds. Unlike bank accounts, these funds are generally not FDIC-insured.

However, established custodians have a long track record of running these funds over various market cycles. As a result, many of these money market funds are yielding above 4%. Similar to high-yield savings accounts, yields generally increase as interest rates increase.

Ultra-Short Duration Bond Funds

The final option is an ultra-short duration bond fund to earn additional yield. Bond funds do not offer FDIC insurance, and the value can fluctuate. While these funds may work for those seeking higher yields, it is important to talk to your investment advisor before purchasing one because these funds vary greatly in the amount of risk taken and yield earned.

Summary

With the Federal Reserve's rapid interest rate increases, more options exist for your cash to earn interest. However, your bank may not be keeping up. Contact us and we will be happy to discuss possible solutions.

Contact Abby or Ryan if you have questions or want additional information 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***

Ask Bedel

Roth IRA Contributions

By: Olivia Maynes, CFP®
Financial Planning Coordinator

QUESTION: I contributed the maximum to my Roth IRA in 2022, but was over the income threshold to contribute. What do I do?

ANSWER: You are not alone – this happens more often than you'd think! Fortunately, there are a few ways to undo this contribution. The most common strategies include "removing the excess" or "re-characterizing the contribution."

Before we look at these strategies, it is important to note that you must undo the contribution plus any earnings, otherwise known as the "net income attributable". For example, you contributed $6,000 in 2022, and the earnings are $1,000. You will have to remove or re-characterize a total of $7,000. There is a formula for calculating the earnings, but the custodian will typically offer to do this for you.

When going with the "removing the excess" route, your custodian will have you or your advisor fill out a form that will ask the following:

- The amount of excess that needs to be removed
- The date of the contribution
- Who will calculate the earnings – yourself or the custodian
- Which assets (cash, securities) you'd like to remove, in order of priority
- Where you'd like the excess to go – commonly a taxable investment account (the funds can transfer in-kind) or to a bank account (transfer as cash and you can allocate the funds wherever you wish)

A re-characterization form is very similar, except you don't have the choice of where the funds go. Re-characterizing says the original contribution should have gone into a Traditional IRA rather than a Roth IRA. If you don't already have a Traditional IRA open, you must open one before completing the form. When filing your taxes for 2022, you would input that you made a non-deductible Traditional IRA contribution. If you convert that amount back into your Roth IRA, the conversion should be reflected on your 2023 tax return.

If you realized you were over the threshold after the tax filing deadline in April, you have until October 15th to make the fix. In most cases, you must file an amended tax return. If you neglect to remove the excess by October 15th, you will face a 6% penalty for each year remaining in the account.

QUESTION: My 401(k) offers a Roth option. Should I contribute to it?

ANSWER: Deciding whether to contribute to a Roth 401(k) or Traditional 401(k) is always a tax question. First you must understand the difference: Traditional 401(k) money goes in tax-deferred and is taxed when withdrawn whereas Roth 401(k) money goes in after-tax and comes out tax-free in retirement. Consider going the traditional route if deferring your income drops you into a lower tax bracket or makes you eligible for certain tax benefits such as the Child Tax Credit. Otherwise, the Roth 401(k) is a great place to park your money. If you're phased out of making Roth IRA contributions, consider directing money to your Roth 401(k) since there is no phase-out. Another reason to contribute to your Roth 401(k) is that once you leave the job you can roll the Roth money into a Roth IRA. Doing so will avoid required minimum distributions levied on 401(k)s and Traditional IRAs.

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

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Corporate Calendar

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

May 29	**Memorial Day**
July 4	**Independence Day**
Sep 4	**Labor Day**
Nov 23	**Thanksgiving**
Nov 24	**Day after Thanksgiving**

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