THE BARTOK GROUP
of Oppenheimer & Co. Inc.

Oppenheimer & Co. Inc. | 205 Town Center Drive, Suite 260 | Virginia Beach, VA 23462

May Newsletter

Eric R. Bartok, CIMA® CPFA®
Managing Director – Investments
(757) 493-5374
eric.bartok@opco.com

Alexandra F. Babb, CFP® CRPC™
Financial Advisor
(757) 493-5373
alexandra.babb@opco.com

A May Letter to Clients:

The Fed Gears Up for Shock and Awe

Since the beginning of the year, the markets have been rattled by persistently high inflation and the question of how the Federal Reserve might respond.

In March, it began with a simple 25 bp (bp = basis points, 1 bp = 0.01%) rate hike in the fed funds rate to 0.25%-0.50%.

Unlike the rate-hike cycle of the 2000s and the very gradual increases in the 2010s, inflation is a big problem today.

We are receiving comments from key Fed officials that "it is of paramount (my emphasis) importance to get inflation down" (Wall Street Journal).

Or: Today's high inflation "is as harmful as not having a job…. If you don't have the confidence [the Fed will use its inflation-fighting tools], let me give it to you" (CNBC). So we can't expect the baby steps we've grown accustomed to.

This is your father's rate-hike cycle

Based on commentary from most Fed officials during April, shock and awe is the most likely approach. One closely followed measure from the CME Group suggests a 50 bp rate hike at the May 4 meeting, 75 bp in mid-June, and another 50 bp in July.

That is to say, we may see the most aggressive pace of tightening in almost 30 years.

An aggressive tightening cycle can generate volatility in two ways.

First, higher interest rates compete more effectively for an investor's dollar, siphoning cash away from stocks. Second, higher interest rates can slow economic growth, which may put the brakes on profit growth.

In addition to higher interest rates, the Fed is set to let the bonds it purchased in 2020 and 2021 runoff its balance sheet in a measured fashion. In other words, investors are not only grappling with higher interest rates, the runoff in bonds may create additional obstacles.

Performance bears this out. With four months behind us, the S&P 500 Index is off to its worst year-to-date start since 1939, according to Dow Jones Market Data *(WSJ)*.

Table 1: Key Index Returns

	MTD %	YTD %
Dow Jones Industrial Average	-4.9	-9.3
NASDAQ Composite	-13.2	-21.2
S&P 500 Index	-8.8	-13.3
Russell 2000 Index	-10.0	-17.0
MSCI World ex-USA*	-6.9	-12.0
MSCI Emerging Markets*	-5.8	-12.7
Bloomberg US Agg Bond TR USD	-3.8	-9.5

Source: *Wall Street Journal*, MSCI.com, MarketWatch, Morningstar
MTD returns: Mar 31, 2022-Apr 29, 2022
YTD returns: Dec 31, 2021-Apr 29, 2022
*In US dollars

And fears are rising that the Fed's new-found inflation-fighting backbone might choke off economic growth. Should we be concerned?

GDP unexpectedly contracted in Q1 at an annualized pace of 1.4%, according to the U.S. BEA. But the decline was related to one-off factors.

During Q4 2021, GDP surged 6.9%—also due to technical factors. We believe it's better to average the last two quarters. Besides, an acceleration in consumer and business spending during Q1 was encouraging.

Here are a few other encouraging stats.

An astonishing 1.7 million jobs were created in the first three months of the year, per the U.S. BLS.

First-time claims for unemployment insurance are hovering near the record low set in the late 1960s—records date back to 1967 (Department of Labor). Further, business openings are at a record high (U.S. BLS), in part because business activity has been strong.

We wouldn't be seeing these numbers if the economy were contracting.

Let's look at some of the anecdotal evidence. If the economy is weak, consumers shy away from discretionary purchases. When it comes to travel and entertainment, that's not happening.

Airlines are seeing strong demand (CNBC), and an April 23 story in the Wall Street Journal highlighted aggressive pricing for summer concerts as fans eagerly line up to buy tickets.

Here's an interesting remark from the CEO of McDonald's, who said the consumer is in "good shape" because customers are still ordering items for delivery, the most expensive way to buy due to the hefty convenience fees (CNBC).

Put another way, we complain about inflation, but we complain while in line to make a purchase.

Still, stimulus money stashed in savings accounts may be aiding overall spending, which may be artificially supporting growth. Per U.S. BEA data, incomes are not keeping up with inflation, which could eventually create resistance to higher prices just as the Fed is lifting rates and raising the cost of money.

What will it take to stabilize the market?

High inflation, worries about the Fed, slowing global growth, and the ongoing war in Ukraine are well known. The pullback in stocks reflects the high level of negative sentiment, and at least in part, stiff headwinds are already priced in.

Are we at or near a bottom? We don't try to call bottoms or tops, and that articulate analyst on the financial news network may be smart, but they don't have a crystal ball.

Let's share some thoughts about various possibilities.

If Russia were to suddenly end its hostilities in Ukraine, a significant short-term headwind would be eliminated. Sadly, this best-case scenario, which would end the needless suffering in Ukraine, is highly unlikely.

More realistically, investors want signs that inflation is not only peaking but on a downward path. Why? It would reduce the need for steep rate hikes.

Powell and the Fed are hoping to slow inflation without tipping the economy into a recession. But they will need skill and some luck.

For starters, the dollar is flexing its muscle on foreign exchanges. A strong dollar may reduce import price inflation. But the Fed will need more help from the supply chain, which has been slow in coming. Today, new Covid lockdowns in China are exacerbating problems.

We do not believe investors should be taking outsized risks. Successful investors are disciplined. They refuse to let excess optimism or pessimism guide their decisions.

It is time to employ a disciplined approach and maintain recommended asset allocations. Just as these 'guardrails' can keep you from lurching into riskier assets when stocks are quickly rising (and we feel invincible), the parameters are also in place to prevent emotion-based decisions that can sidetrack you from your long-term goals.

If markets continue to slip shorter-term, rebalancing helps add to your positions when stocks are down, i.e., buying low.

If you have questions or would like to talk, we are only an email or phone call away.

Women face financial dangers in retirement

Social security is a good supplement, but it is not nor was it ever designed to fully meet your financial needs in retirement.

Saving for retirement is a deliberate choice. Unfortunately, women face greater challenges than men when it comes to setting aside funds for retirement.

For example, according to the https://blog.dol.gov/2021/08/30/5-things-to-know-about-women-and-retirement Department of Labor,

1. Women are more likely to work part-time and are less likely to have employer-sponsored plans.
2. Women are more likely to be caretakers for others, which means less time in the labor force or fewer hours of paid employment each week.
3. More than half of all women are not saving for retirement.
4. On average, a 65-year-old woman can expect to live to age 86, which is nearly three years longer than men.
5. For all the reasons above, women are more likely to live in poverty. Here is a sobering statistic: about 43% of women are more likely than men to live on an income below the poverty level. About 65% of the elderly poor are women.

Here are two more statistics from the https://wiserwomen.org/fact-sheets/women-retirement-the-facts-and-statistics/women-and-retirement-income-7-important-facts/ Women's Institute for a Secure Retirement.

Women receive significantly lower retirement benefits than men. In 2017, the median income for women over 65 was $19,180, compared to men of the same age, whose median income was $32,654.

And, on average, women spend nine more years out of the paid workforce than men.

Meet the challenge head-on

Your goal is to level the playing field by mitigating financial obstacles.

If you are young and just getting started in the workforce, time is on your side. But recognize some of the structural disadvantages that you may face. Planning is a huge advantage that will help you level the playing field.

For example, if you are in your 20s, take advantage of employer-sponsored plans such as a 401(k). This is especially true if your employer offers a match. Utilize the match to its fullest! This is FREE money!

But what if you are working part-time? You may still be eligible for a plan thanks to the [https://www.napa-net.org/secure-act-long-term-part-time-employees-qas SECURE Act](https://www.napa-net.org/secure-act-long-term-part-time-employees-qas).

But, you may say, I can't afford to save right now—maybe next year finances will improve. Don't fall into that trap. You can't afford to procrastinate. Participate at the lowest percentage and gradually ramp up. Climb the mountain one step at a time.

If your employer offers a Roth 401(k), you won't receive immediate tax benefits, but you'll be able to withdraw qualified funds at retirement tax-free. Please consider this option.

Here's one additional possibility—the Saver's Credit. A Transamerica Retirement Survey found that 72% of women are unaware of the [https://wiserwomen.org/resources/retirement-planning-resources/savers-tax-credit-for-the-2019-tax-year/ saver's credit](https://wiserwomen.org/resources/retirement-planning-resources/savers-tax-credit-for-the-2019-tax-year/).

If you are eligible, the amount of tax credit ranges between 10% and 50% of your retirement plan or IRA contribution up to $2,000 ($4,000 if married filing jointly).

For tax year 2022, single filers can claim with income less than $34,000; married up to $68,000. Contributions to a traditional IRA, Roth IRA, and 401(k), SIMPLE IRA, SARSEP, 403(b), 501(c)(18) or government 457(b) plans are credit eligible if you meet the requirements.

As with any tax ideas, feel free to consult with your tax advisor.

What if you are in your late 50s or early 60s? Withdrawing and timing your Social Security becomes critical. You can begin taking Social Security at 62, but [https://www.kiplinger.com/retirement/social-security/603439/whats-my-social-security-full-retirement-age benefits may be reduced by up to 30%](https://www.kiplinger.com/retirement/social-security/603439/whats-my-social-security-full-retirement-age) compared with delaying until full retirement age, which is fast approaching 67.

If you can delay until 70 years of age, your benefits will increase by 24% over your benefit amount at age 67.

Social Security seems complicated, but it doesn't have to be that way. Do you have questions? We can help.

Are you already in retirement? Can you work part-time or simply rely on savings and a pension, which will supplement Social Security? Retirement planning doesn't end at retirement. We can review your current and future expected needs and offer a holistic financial plan.

Finally, let's avoid some common money mistakes

Ladies (and gentlemen), these mistakes are common to both genders. These are the basics, but they bear repeating as these money traps are best avoided.

- **Finances and ignorance.** You don't have to be an expert. But resources abound, and we can point you in the right direction.
- **Not saving your tax refund.** Don't blow it on luxuries you don't need.
- **Prioritizing college savings over retirement.** If you have kids, you don't want to be a burden on them in retirement. Saving for college is important, but we would recommend focusing on retirement first. College loans are far from optimal, but at least they are an option for your kids.
- **Getting into debt.** Don't live beyond your means. Debt will put you in financial bondage and keep you in financial bondage. It can lower your credit score, raise costs when you need a loan, and if you get behind, late fees and penalties can be expensive.
- **Avoiding family finances.** While many women are involved in the monthly bills, they may not be up to speed on the financial plan, which can include retirement, estate planning and insurance.

You will probably outlive your husband. Know and understand your finances in the event you are forced to take control.

I trust you've found this review to be educational and helpful. If you have any questions or would like to discuss any matters, please feel free to give me or any of my team members a call.

As always, thank you for the trust, confidence, and the opportunity to serve as your financial advisor.