wealthologist WISDOM

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CONQUERING THE CLIMB

On August 19, I started on the climb of a lifetime. I participated in a challenge called "29029 Everesting," which required me to climb over 30 miles with 29,029 feet of elevation gain, the height of Mt. Everest.

The kicker? I had to complete it in 36 hours.

The journey to the mountain started 20 weeks earlier. The training was intense and time-consuming; I often worked out in the mornings for 60 minutes and ran another hour or two at night. My longest training day was 8 hours of 30-minute runs and 15-minute breaks. I ran 26 miles that day, the equivalent of a marathon.

On race day, 254 climbers showed up to trek Snowbasin in Utah, home of the 2002 Winter Olympic alpine skiing. Over the day-and-a-half event, we would climb 2.3 miles and 2,300 feet of elevation 13 times. 170 of the participants completed the challenge—me included.

People drop out because they often don't anticipate the obstacles and mental challenges. It's more than just climbing a mountain; you have to contend with things like weather. I got stuck in a hailstorm for about a mile, and I was stuck in a lightning storm at midnight. Both were miserable.

We also lost more than two hours of hiking time when the gondola got struck by lightning and had to shut down. I was stuck in a cold lodge at the top of the mountain, freezing and wet. I found plastic bags to fill with towels to make pillows for myself and other climbers, and we turned on the heat lamps used for buffets so we could warm up. Desperate times, desperate measures!

But the bigger obstacle is mental. Your brain tries to get you to stop. At the top of each climb, my mind said "It's time to call it quits." But every time, I hopped on the 15-minute gondola ride down the mountain, got off the gondola and started the tedious climb back up. I knew my body could do it, but my mind needed some convincing.

I originally signed up because I needed a kick in the pants to get in shape. But somewhere along the way, I realized what I really needed was the opportunity to show myself and those around me that life can be tough—but we can be tougher.

Completing the challenge showed me we can always push ourselves a bit further. Now, I keep a handwritten note on my desk that says, "I do hard things" as a reminder. I also learned I'm okay with silence. During the hike, I chose to be contemplative and silent instead of listening to music or podcasts. I would climb with others, but I found the greatest solace in the steady sound of my hiking shoes on the dirt.

We commonly avoid challenges because we know they will hurt – mentally and physically. But what if, somewhere in the pain, we find out more about ourselves and who we are truly meant to be?

Here's my challenge to you: **Seek out a new challenge.** Something that shakes you out of your rut. Something that reveals your inner strength and encourages you to grow. I promise it will be worth it. And if you do, let me know about it. I'd love to see how you're conquering the climb in your life, no matter what it looks like for you!

With Gratitude,

Chris Hobart

JACOB WOODRUM, CFP®

LEAD INVESTMENT STRATEGIST

INVESTMENT POLICY COMMITTEE MEMBER

BEAR MARKETS

WHERE IS THE BULL?

The current bear market has certainly tried investors' patience and has been news media outlets' central topic of discussion. It seems everyone has an opinion about what happens next – and weeding through the noise is essential.

Given that we're currently still in the trenches, it seems relevant to take some time to examine the ins and outs of a bear market, exploring the different types and what to expect moving forward. We need to talk about what everyone is asking: When will this thing end, and how long before we usher in the next bull market?

Investopedia says a bear market is "a market that experiences a prolonged price decline. It typically describes a condition in which securities [stocks] fall 20% or more from recent highs amid widespread pessimism and negative investor sentiment." 1 I think we can all agree this is exactly what we've been experiencing for the better part of this year. Our clients' strength and fortitude in the chaos are truly admirable. The trust you place in us as we steward your wealth is not taken lightly.

3 Types of Bear Markets

Let's take a look at the three typical types of bear markets as well as three things that need to be in place for us to acknowledge the end of a bear market and the probable beginnings of a new bull market:

Type 1: Structural

A structural bear market is the worst kind of bear market and is typically marked by a drawdown of 40-60%, as measured from peak to trough. These are usually caused by asset price bubbles, such as the 2001 dot-com bubble bust or the 2008 Great Financial Crisis.

Type 2: Cyclical

In a cyclical bear market, the drawdown is around 30% from peak to trough. This bear market is usually caused by maturing economic cycles driven by inflation and interest rates.

Type 3: Event-Driven

Event-driven bear markets usually occur very quickly, lasting 6-12 months on average. Like the cyclical type, an event-driven bear market also sees a 30% drawdown. Its cause is usually some external shock, like a war or a pandemic.

The Current Bear Market

Most analysts agree we are currently in a cyclical bear market. Still, the argument could also be made for an event-driven bear market, given the ongoing Russian hostility in Ukraine. Regular readers of our newsletter have heard us say many times that the main driver causing the most pain in the markets currently revolves around inflation and interest rates. The Federal Reserve is intent on squelching inflation by destroying economic demand through ongoing interest rate hikes.

Three important fundamental factors typically signal a bear market's end: interest rates, inflation and investor sentiment. Usually, a bear market doesn't end until we see interest rates and inflation peak and start to decline, along with extreme negative sentiment. We pay close attention to these primary economic indicators when determining how to position our strategies and portfolios.

A resounding end to a bear market normally occurs when all three factors occur simultaneously. Until all three indicators align, we will likely continue to see phases of rallies and additional volatility. It doesn't appear to be quite time for us to grab the bull by the horns. Still, we will continue to deal with the future directly and confidently using the macro framework discussed while applying proper portfolio positioning. The importance of steering asset allocation according to the cycle we find ourselves in remains a top priority.

[1] *James Chen. Investopedia. June 13, 2022. "Bear Market Guide: Definition, Phases, Examples & How to Invest During One." https://www.investopedia.com/terms/b/bearmarket.asp. Accessed Sep. 30, 2022.*

hey! HOBART

We love answering your questions about all things money, from retirement savings to how to save on taxes. Do you have a question for us? Send an email to **heyhobart@hobartwealth.com** with the subject line "Hey Hobart!" And feel free to answer "Hey Hobart!" any time you see Chris around town.

Q: The Federal Reserve has raised interest rates five times this year. Do you think they'll have another hike in 2022 or 2023?

A: It looks that way.

The Fed raised rates by 25 basis points (.25%) at its March meeting, followed by a raise of 50 basis points (.50%) in May. Then they hiked rates by 75 basis points (.75%) at each of their meetings in June, July and September. That's a 3% increase in interest rates – all since the beginning of 2022.

In comments made in late August, Chair Jerome Powell said the Fed's "overarching focus right now is to bring inflation back down to our 2% goal." [1] With inflation still hovering around 8.2% in September, we have a long way to go before we hit the Fed's stated inflation goal of 2%.[2]

The rate raises have impacted market performance in recent months. In the third quarter, markets got their hopes up that the Fed would pause rate hikes as we headed toward the end of the year. But those hopes were quickly dashed, and markets dropped following additional comments from Chairman Powell. He said: "Over coming months, we will be looking for compelling evidence that inflation is moving down, consistent with inflation returning to 2%. We anticipate that ongoing increases in the target range for the federal funds rate will be appropriate; the pace of those increases will continue to depend on the incoming data and the evolving outlook for the economy." [3]

As a result, we will likely see additional increases at the Fed's meetings in November anad December. Current projections are that the fed funds rate – which sets the tone for interest rates on loans, mortgages and credit cards – will likely rise to 4.4% by the end of the year and 4.6% in 2023.[4]

OUR NEWSLETTER IS NOW WEALTHOLOGIST WISDOM!
The suffix -ologist means "an expert in a particular area of study." We can think of no better way than "Wealthologist" to describe our mission of sharing our financial knowledge, experience and expertise.

[1] Chair Jerome H. Powell. Federal Reserve. Aug. 26, 2022. "Monetary Policy and Price Stability." https://www.federalreserve.gov/newsevents/speech/powell20220826a.htm. Accessed Sep. 30, 2022. [2] Bureau of Labor Statistics. Sep. 13, 2022. "Consumer Price Index – August 2022." https://www.bls.gov/news.release/pdf/cpi.pdf. Accessed Sep. 30, 2022. [3] Federal Reserve. Sep. 21, 2022. "Transcript of Chair Powell's Press Conference, September 21, 2022." https://www.federalreserve.gov/mediacenter/files/FOMCpresconf20220921.pdf. Accessed Sep. 30, 2022. [4] Trading Economics. "United States Fed Funds Rate." https://tradingeconomics.com/united-states/interest-rate#:~:text=In%20the%20long%2Dterm%2C%20the,according%20to%20our%20econometric%20models. Accessed Sep. 30, 2022.

MONEY MANAGEMENT

THE DETAILS OF THE INFLATION REDUCTION ACT

ANDREW GREER, CFP®
SENIOR WEALTH ADVISOR

President Joe Biden signed the Inflation Reduction Act (IRA) into law on August 16. At its core, the IRA is an iteration of the Build Back Better bill, a legislative proposal that began in 2021. While there is a lot of overlap between the two, the IRA comes with a much lower price tag at $740 billion in new spending, compared to $3.5 trillion with Build Back Better.

However, all that does is leave the door wide open for additional spending down the road to meet other obligations not included in the current bill. Over the next 10 years, the IRA is expected to contribute close to $300 billion in deficit reduction, which proponents of the bill are leaning on heavily.

So what is the IRA meant to accomplish, and what does it mean for all of us? **The focus of the bill is on three major components:**

Clean Energy: It should come as no surprise that clean energy initiatives have been a focal point for the current administration and are certainly addressed in the IRA. The new bill creates a set of tax credits for renewable and clean energy, ranging from the auto industry to nuclear power production. The goal is to reduce greenhouse emissions by 40% by 2030, taking them to their lowest levels since 2005.

Health care: Medicare recipients will feel some of the larger impacts of the IRA. Over the next decade, Medicare recipients will benefit from price negotiation ability on select prescriptions. They will also see lower out-of-pocket expenses on higher-priced drugs. This will be a gradual rollout beginning in 2023.

The IRA also extends the Affordable Care Act (ACA) subsidy program set to expire at the end of this year. If you are on the ACA health insurance plan, your premiums are based on roughly 8.5% of your income in the current year. This model started in 2021 and is an improvement for most Americans compared to the prior version, where there was a "cliff" for subsidy qualification. Under the previous model, if you generated more income than the threshold, you paid full price for health insurance. The new model will be extended through the end of 2025.

Taxes: The IRA impacts both corporate and individual taxes. First, the bill has implemented a 15% minimum corporate income tax for large corporations with income of over $1 billion per year. This suggests that larger corporations can show significant "book" income, but through accounting show relatively little taxable income. The 15% minimum will apply to book income rather than depreciated taxable income.

Second, the bill establishes a 1% excise tax on stock buybacks, which proponents of the bill suggest helps corporations and executives avoid taxation on highly appreciated corporate stock. The new provision is intended to curb this practice.

Finally, the IRA appropriates $80 billion for IRS tax enforcement, which is expected to raise $124 billion in new tax revenue. The effects are expected to impact a vast majority of Americans; the Joint Committee on Taxation estimates that up to 90% of new IRS enforcement revenue will come from taxpayers making less than $400,000. Talk about job security for CPAs!

What Does It Mean For You?
This bill demonstrates that Congress's approach to reducing the deficit is currently focused on raising taxes. We have been discussing proactive tax planning for years, with a lot of our client events geared toward the concept of using the present as an opportunity to protect our hard-earned assets from potentially higher taxes over the next 10, 20 and even 30 years. Since higher taxes and unstable tax policy are likely in the near- and mid-terms, Americans can benefit from diversifying the tax status of their retirement assets to include tax-free assets that are less likely to be impacted by future tax changes. We will continue considering appropriate tax-optimization strategies for all our clients and adjust as new legislation arises. We encourage you to contact your advisor if you have specific questions or concerns about your current or future tax burden.

LIFE INSURANCE

A COLLEGE FUNDING ALTERNATIVE

JONATHAN PADGETT

DIRECTOR OF INSURANCE PLANNING

Did you know you can use the cash value within a life insurance policy to offset higher education costs? Although most people I talk to understand the death benefit component of permanent life insurance, many are unaware of how they can use the cash value to send their kids, grandkids or even themselves to college or trade school.

While several education-funding tools exist, perhaps the most well-known is the 529 plan. One drawback of a 529 is that funds in the plan must be used for qualified education expenses, like books, tuition, etc. But what happens if the 529's designated recipient decides not to continue their education? The money can still be withdrawn; however, the earnings portion of the withdrawals is included in the beneficiary's taxable income and is subject to an additional 10% tax.[1]

Alternatively, cash value from your permanent life insurance policy can be accessed tax-free, regardless of how the funds are used. This gives you and your family the flexibility to use the cash value for other needs, and you aren't penalized if the designated recipient decides to follow a different path.

With a permanent life insurance policy, you also have total control over how the cash value is used. Plus, a policy is self-completing, meaning the death benefit would pay out and could be used to fund college if the insured passes away early.

One consideration for many families is that the total cash value in the policy does not count as an available asset when calculating financial aid, potentially allowing the family to qualify for more assistance. And unlike a 529 plan, which has gift-tax limits, there are no tax consequences when the insured parent or grandparent owns and uses the cash value of a life insurance policy to help with college funding.

If you're interested in exploring how to use permanent life insurance as an option for funding college, reach out to me at jonathan@hobartwealth.com. We can talk about your individual considerations and see if this tool fits well within your financial plan.

[1] *Martha Kortiak Mert. Savingforcollege.com. Aug. 26, 2022. "529 Qualified Expenses: What Can You Use 529 Money For?" https://www.savingforcollege.com/article/what-you-can-pay-for-with-a-529-plan. Accessed Sep. 30, 2022.*

GIVING & TAXES

GIVE MORE, SAVE MORE

Are you looking for ways to maximize your charitable giving and minimize your taxes this year? Charitable contributions are tax-deductible for individuals who itemize deductions.

Here are six ways you can give more while potentially reducing your tax bill:

1. Donate appreciated non-cash assets instead of cash.
When you sell an asset and then donate the cash, you could end up paying capital gains tax. Donate appreciated non-cash assets held longer than one year directly to a charitable organization and eliminate the capital gains tax.

2. Bunch two years of contributions in one year.
If your itemized deductions fall below the standard deduction amount, it could be beneficial to combine two years' worth of charitable contributions into one year. This increases your itemized deductions in the year the contribution is made. Then you can take the standard deduction the following year.

3. Use a donor-advised fund.
Any cash and non-cash assets contributed to a donor-advised fund are tax-deductible in the year the contribution is made. But the money in the fund doesn't have to be distributed in the same year, giving you time to select organizations to support.

4. Donate cash from the sale of depreciated securities.
This strategy has two benefits: First, capital losses can offset capital gains (up to $3,000 of ordinary income) in the tax year the securities are sold. Then you can donate the cash from the sale of the depreciated security for further tax reduction.

5. Donate your RMDs.
If you're 72 or older, you must take Required Minimum Distributions (RMDs) from your qualified accounts (like IRAs). RMDs are taxable as ordinary income. Using a Qualified Charitable Distribution (QCD), you can direct up to $100,000 in RMDs directly to a charitable organization of your choosing. The entire amount of the QCD is tax-deductible for the year in which it is made.

6. Offset taxes on withdrawals from a retirement account or Roth IRA conversion.
Distributions from a retirement account – such as a 401(k) or traditional IRA – are taxable, as are Roth conversions. Making a charitable donation can offset some of the taxes incurred from these events.

THE HOBART WEALTH DO GOOD CREW GIVING BACK

DOING GOOD IN OUR SCHOOLS

This summer, we asked our clients to help us donate to our Classroom Central school supply drive. And boy, did you deliver! You donated $1,305 and we threw in another $1,000 to give Classroom Central a total of $2,305 to be used on supplies for kids in the Charlotte area. Our Do Good Crew also put together 50 kits for kids to use as they headed back to school. Thank you for your support!

DOING GOOD WITH FUTURE GENERATIONS

Even the youngest Hobarts are part of our Do Good Crew! Chris and Renee's youngest daughter, Blythe, and four of her friends raised $140 for a pet shelter by hosting a dog treat and lemonade stand.

DOING GOOD FOR MENTAL HEALTH

Chris's journey up the mountain helped benefit the Jones Project, a charitable organization focused on changing how we talk about mental health. The climbing group raised over $180,000 to help kids with mental illness and suicidal thoughts. Visit the **jonesproject.org** to learn more.

Join the Do Good Crew!
Want to help us help others? On November 11, we're helping out Beds for Kids (bedsforkids.org). We'll be delivering beds and other furniture to children and families in the Charlotte community. Call us at 704.553.0123 and let us know if you want to be part of the crew!

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