Condor Capital
WEALTH MANAGEMENT

Condor Capital Reviews 1st Quarter 2022

Condor Capital
1973 Washington Valley Rd
Martinsville, NJ 08836
(p) 732-356-7323
(f) 732-356-5875
info@condorcapital.com

The S&P 500 suffered its first quarterly loss in two years, finishing down 4.60%. The trend of growth outperforming value also saw a reversal in the period, with value posting a narrower loss than growth.

International equities also finished the quarter lower amid the Russian invasion of Ukraine and surging Covid case counts in China. Countries across the globe felt the effects of inflation as central banks worldwide began shifting policy.

The Fed began tightening its monetary policy in the first quarter, which saw the first rate hike since 2018. With the Fed looking to tighten more quickly than initially anticipated, fixed income ended the quarter down across the board.

April 2022

2022 started with a reversal of the broad trends witnessed in financial markets over the past three years. The S&P 500 lost 4.60%, its first quarterly loss since the pandemic's start in early 2020. While new Covid cases were hitting record daily highs to start the year, they greatly subsided around mid-February. This coincided with a pair of higher-than-expected inflation readings in January and February, both coming in north of 7.5% year over year, the highest levels since 1982. Adding to the pressure on equities was the Russian invasion of Ukraine, as well as uncertainty surrounding the Federal Reserve's tightening schedule. In the first quarter, energy and utilities were the only two sectors to post gains, with energy returning nearly 40% as oil prices surged on the back of the Russian invasion of Ukraine. Meanwhile, mega-cap tech names like Microsoft, Apple, Amazon, and Alphabet that had been leading equity markets higher over the past few years faded, contributing to the market decline. Higher-growth, lower-profit tech names, such as Tesla, fared even worse amid a notable rotation from growth to more value-oriented companies like Berkshire Hathaway in the quarter. This was evidenced by the 8.94% decline in the tech-heavy Nasdaq Composite Index, while the more value-concentrated Dow Jones Industrial Average saw a narrower decline of 4.10%. Companies with some of the highest valuations were the hardest hit. For example, the ARK Innovation Fund, which is comprised mainly of high-growth, low-earning companies, experienced a 29.92% decline. This was partially a result of the Fed beginning their rate hikes. As interest rates rise, future flows of money, which play heavily into the valuation of the low-profit, high-growth companies, come under pressure as cash flows are discounted at a higher rate. In our view, this correction to the most richly valued areas of the market is positive for the health of markets.

International equities fared worse than domestic equities over the quarter. The MSCI EAFE Index ended the quarter down 5.77% as a combination of the Russia-Ukraine war, global inflation, and rising Covid cases internationally, namely in China, led to a widespread sell-off. A hawkish European Central Bank combined with the largest land war on the continent since WWII led European investors to seek safety and sell equities. Covid began re-emerging in China in early March, and the government locked down several commercially important cities, including Shanghai and Xi'an. This put further pressure on already tight supply chains, threatening to worsen the inflation problem the world is facing, and contributed to the rout in Chinese stocks.

Fixed income had a poor quarter to kick off 2022 as well. A hawkish Fed began raising interest rates for the first time since 2018 and signaled that these rate hikes would continue at every Fed meeting through at least the end of the year. This caused bond yields to surge across the board and briefly led to the U.S. 2-Year Treasury and U.S. 10-Year Treasury yield curve inverting for the first time since 2019. Investors are now pricing in about six additional rate hikes from the Fed for the year, up from an expected three to four at the end of last year. Given the relationship between interest rates and bond prices, the expected tightening schedule pushed the 10-year yield up from 1.51% to 2.33% in the quarter. As far as the balance sheet goes, the Fed ended its bond buying program in March and will soon begin the process of balance sheet reduction, further reducing the demand for U.S. Treasuries.

Outlook

Before looking ahead, it is important to take note of where we are. The first quarter saw domestic equities post their first loss in two years. Even after falling 4.60%, the S&P 500 has returned over 80% over the prior two-year period. So, while the sell-off was discouraging, it pales in comparison to the impressive gains we have seen accumulate in recent times.

Looking forward to the remainder of 2022, we hold a relatively neutral view of domestic equities. We still expect corporate earnings to continue to rise modestly as Covid continues to fade from the public radar, but the uncertainty surrounding Russia-Ukraine and the Fed's tightening schedule will likely keep equities from making the same kind of substantial gains we have seen in prior years. We also expect to see some of the value names that have lagged their high-flying growth counterparts continue to make up some ground this year, which in our view represents a healthy broadening of the market.

On the fixed income front, the Fed will continue its tightening campaign by raising short-term rates and tapering the balance sheet. While the Russia-Ukraine and Covid situation in China create increased inflationary pressures, we are likely to see supply chains continue to normalize in the second half of the year. The move higher in yields will also slow the housing market to cool domestic inflation further. In addition, higher yields will increase interest income in bond portfolios and create a more attractive entry point into the bond market relative to recent history.

It is also important to note that Fed tapering results from a strong macroeconomic backdrop. While inflation is at multi-decade highs, the unemployment rate has settled back to pre-pandemic levels, when it was at multi-decade lows. Household savings have hit all-time highs, and consumer spending remains elevated. Peak inflation is usually accompanied by slowed growth, but GDP projections for 2022 remain strong. The current macroeconomic backdrop increases the likelihood that the Fed will be able to tighten without inducing a recession, which they showed was possible during the last tightening cycle. Furthermore, the central bank has no interest in crashing the economy or the market and is likely to be flexible should conditions deteriorate. It is also worth noting that equities have typically fared well during tightening cycles from a historical perspective.

All told, we are looking for the remainder of 2022 to be calmer than the first quarter was but still more volatile than in recent years. While uncertainty remains with Russia-Ukraine, Covid in China, and Fed tightening, the macroeconomic backdrop remains strong. We hope to see some of these uncertainties abate as international pressure wears on Russia, U.S. consumers go out and spend in a less Covid-restricted summer season, and Fed policy further materializes. These factors combine to make us cautiously optimistic about financial markets looking forward to the rest of the year. We have taken steps to best position ourselves and our clients for what the rest of the year may bring, such as shortening duration in our fixed income portfolio and adding to value over growth in our equity portfolio, and we remain on the lookout for opportunities wherever they may present themselves.

See disclaimer on final page

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The material for this article has been prepared by Broadridge Advisor Solutions.

Selling a Home

Even in a seller's market, selling a home can be a difficult task. As a result, you'll want to do your homework ahead of time to ensure that you will be able to sell your home quickly and at the best possible price.

Timing is everything

You can't always choose when to put your home on the market. You might need to buy another home to make room for a new baby that's on the way. Or, perhaps your employer is transferring you out of state. However, if you do have a say in the matter, you'll want to make sure that you're selling your house at the right time. Typically, you'll sell your home quicker and get a better price for it when the real estate market favors sellers (i.e., when homebuyers are plentiful and homes are scarce). The time of year you put your home on the market can also make a difference. Since many homebuyers prefer to move in the spring and summer, real estate markets usually heat up in late winter and early spring.

Preparing your home for the sale

Before you put your house on the market, take some time to get it in top condition. Start by giving your home a thorough cleaning--you may even want to hire a professional cleaning service to do it for you. Next, move on to smaller maintenance projects such as fixing that leaky faucet in the kitchen or replacing the loose tiles in the bathroom. Certain contractors specialize in this part of the home maintenance market. However, be sure not to get too carried away. You'll want to hold off on any major home improvements (e.g., renovating the kitchen) since you probably wouldn't be able to recoup the money you put into the project, and prospective buyers might not share your taste in design. Focus instead on minor, cosmetic improvements, such as a fresh coat of paint and some landscaping.

Setting the right price

When selling a home, it's important to set the right price. Your asking price shouldn't be so high that your house won't sell or so low that you'll miss out on some profit. If you use a real estate broker, he or she will do most of the work for you in determining the right price for your home. However, if you plan on selling your home without a broker or if you simply want to obtain some pricing information on your own, you should research the sale prices of comparable homes in your area. There are websites that offer this information for free. You may even want to hire a professional appraiser to help you determine your asking price.

Using a broker or doing it yourself

The majority of home sellers enlist the services of a real estate broker to help them sell their home. Real estate brokers are particularly helpful if you don't have the time or the expertise to correctly price your home, market it, and bring in potential buyers. More importantly, a broker will focus on bringing in buyers who have already prequalified for a mortgage, which can save you time and money in the long run. However, this expertise comes at a price--6 percent of a home's sale price, on average. If you're looking to hire a broker to help you sell your home, here are some tips to help you get started:

- Ask friends and relatives who have sold homes recently for recommendations
- Find out the names of the brokers and agents who work in your area by searching classified advertisements in your local newspaper, homebuyers magazines, and the Internet
- Ask other types of real estate professionals (e.g., lawyer, mortgage broker) for the names of brokers they work with

While doing it yourself (commonly referred to as a FSBO, or "for sale by owner") will allow you to save on broker's fees and commissions, it requires more legwork on your part. You'll need to advertise that your home is for sale (e.g., lawn signs and advertisements in local newspapers), show it to prospective buyers (e.g., hold an open house), and deal with the buyer during negotiations. You'll also need to supply the necessary forms and/or contracts (although you can hire a real estate attorney to draw up this paperwork for you).

Negotiating the sale

If you hire a broker, all offers and counteroffers are presented through your agent, so you'll probably be able to avoid any face-to-face negotiations with potential buyers. On the other hand, if you are selling your home on your own, you'll be in charge of the negotiating. Remember to be flexible during negotiations. However, don't jump to accept the first offer you get--especially if it is below your asking price.

The closing

As a seller, you'll probably have very little to do at the closing. Your main responsibility will be to make sure that any agreed-upon repairs have been made and that the buyer is getting clear title to the home. However, you'll want to make sure all of the paperwork is in order, and if you hire an attorney, have him or her attend the closing with you.

Other things to consider

- If you're buying another home and need to come up with a down payment on it before receiving the proceeds from the sale of your current home, ask your lender about a bridge loan, a short-term mortgage that is paid off once the sale of your home is complete.
- If necessary, include a closing-on-sale contingency clause in your contract to buy your new home, which allows you to delay the closing on your new home for a certain period of time while you find a buyer for your current home. If you can't find a buyer within the allotted time frame, the purchase contract is canceled and any deposits are returned to you (unless you and the seller agree to extend the agreement).
- Find out about the tax implications of selling your home. Most sellers can exclude from taxation some or all of the capital gains they realize (up to $250,000 for single filers and up to $500,000 for married couples filing jointly) if selling their primary residence. See IRS Publication 523, Selling Your Home, for details.

Umbrella Liability Insurance

By providing liability protection above and beyond the basic coverage that homeowners/ renters and auto insurance policies offer, ULI can protect you against the catastrophic losses that can occur if you are sued.

When your local weather forecaster tells you that it's going to rain, what do you do? That's easy--you reach for your umbrella. So why not purchase an umbrella that can protect you in stormy financial weather? Umbrella liability insurance (ULI) can do just that. By providing liability protection above and beyond the basic coverage that homeowners/renters and auto insurance policies offer, ULI can protect you against the catastrophic losses that can occur if you are sued.

Although ULI can be purchased as a separate policy, your insurer will require that you have basic liability coverage (i.e., homeowners/renters insurance, auto insurance, or both) before you can purchase an umbrella liability policy. ULI is often referred to as excess coverage. If you are found to be legally responsible for injuring someone or damaging someone's property, the umbrella policy will either pay for the part of the claim in excess of the limits of your basic liability policy, or pay for certain losses that are not covered.

Why now? It's not even raining

These days, it's not unusual to hear of $2 million, $10 million, and even $20 million court judgments against individuals. If someone is injured in your home, or if you cause a serious auto accident, you could have to pay such a judgment. If you don't have an umbrella liability policy at the time of the accident, anything above the limits of your homeowners/renters or auto insurance policy will have to come out of your pocket.

Here's an example of how ULI works to protect you. Say you have an auto insurance policy with a liability limit of $100,000 per accident. You also have a $1 million umbrella liability policy. You're later found responsible for a serious automobile accident, and the court finds you liable for $700,000 in damages. In this case, your auto insurance would pay the first $100,000 of the judgment, which would satisfy the deductible under your umbrella policy. Your umbrella policy would then cover the portion of the judgment not covered by your auto insurance ($600,000).

You should also be aware that certain types of liability claims (e.g., libel and slander) are not covered under basic homeowners, auto, or other types of insurance policies. An endorsement can be added to these policies to provide some protection against these types of personal injury claims. Or, you can purchase ULI, which does cover these claims.

What's covered?

A typical umbrella liability policy provides the following protection, up to the coverage limits specified in the policy:

- Protection for claims of bodily injuries or property damage caused by you, members of your household, or hazards on your property, for which you are found legally liable
- Personal liability coverage for incidents that occur on or off your property
- Additional protection above your basic auto policy for auto-related liabilities
- Protection against non-business-related personal injury claims, such as slander, libel, wrongful eviction, and false arrest
- Legal defense costs for a covered loss, including lawyers' fees and associated court costs

What's not covered?

Umbrella liability insurance typically provides extremely broad coverage. Furthermore, if something is not expressly excluded from coverage, it is covered. Exclusions vary from one insurer to another and from one policy to another, but the following are some items typically excluded from coverage:

- Intentional damage caused by you or a member of your family or household
- Damages arising out of business or professional pursuits
- Liability that you accept under the terms of a contract or agreement
- Liability related to the ownership, maintenance, and use of aircraft, nontraditional watercraft (e.g., jet skis, air boats), and most recreational vehicles
- Damage to property owned, used, or maintained by you (the insured)
- Damage covered under a workers' compensation policy
- Liability arising as a result of war or insurrection

How big of an umbrella are we talking about?

Determining how much liability coverage you need is not an exact science. You might think that you need only enough liability insurance to protect your assets, but a large judgment against you could easily wipe out your assets and put your future earnings in jeopardy. That's why you should also consider factors such as how often you have guests in your home, whether you operate a home-based business, how much you drive, whether you have teenage drivers in your home, and whether your lifestyle gives the impression that you have "deep pockets."

Coverage limits vary, but a typical policy will provide liability coverage worth $1 million to $10 million. Of course, as your coverage limit increases, the premium will also increase. You need to decide both how much insurance you need and how much insurance you can afford. You'll want to have enough protection, but not too much. Look at it this way: Have you ever seen a five -year-old child walking under a big golf umbrella or a 300 lb. football player using a pocket-sized umbrella? One has too much protection and the other not enough. Your insurance agent can help you determine how much coverage you need.

Where can I buy an umbrella liability policy?

Almost any insurer who writes auto and home insurance policies will also sell umbrella liability policies. In fact, you may be eligible for a multipolicy discount if you purchase an umbrella policy from your current insurer.

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Are You Retiring Within the Next 5 Years?

You can prepare for the transition years in advance. In doing so, you may be better equipped to manage anything unexpected that may come your way.

How much monthly income will you need? Unfortunately, there is no "magic" number for everyone to strive for. Instead, examine your monthly expenses, considering any trips, adventures, or pursuits you have in mind for the near term. As a test, you can even try living on your projected monthly income for 2-3 months prior to retiring.

Should you downsize or relocate? Your home is not only a significant asset, it also represents a significant part of your lifestyle. After all, our homes are often a reflection of who we are. It follows that the decision of how much home we want—or need—may vary with each situation; it is not strictly a financial decision. However, if you are considering downsizing or relocating, the financial component of the decision should be considered thoughtfully.

How should your portfolio be constructed? For many retirees, the top priority is generating consistent income. With that in mind, your financial professional can adjust your portfolio with respect to your time horizon, risk tolerance, and goals. For example, some retirees prefer to maintain an amount of risk-averse investments that can provide income during retirement. However, even the most risk-averse investments aren't immune to risk entirely.

How will you live? Whether you dream of endless Saturdays or dedicating your time to volunteering, remember that retirement is a beginning. Ask yourself what you would like to begin doing now. Think about how to structure your days to pursue that goal, and give it a shot! There's no better way to prepare for what may come, than to practice in the present.

How will you take care of yourself? If you retire before age 65, Medicare may not be an option. If you're considering early retirement, check if your group health plan extends certain benefits into retirement.

Even if you retire at 65 or later, Medicare may not be your ideal solution. Consider items Medicare doesn't traditionally cover, such as extended care or other specialized medical services.

Review your retirement strategy as the transition approaches. Give your financial professional a call today. An adjustment or two before retirement may be all you need for a successful next chapter.