Condor Capital

WEALTH MANAGEMENT

Condor Capital Reviews 4th Quarter 2021

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With the S&P 500 Index finishing 2021 up 28.68%, domestic equities posted strong double-digit gains for the third year in a row. The index hit 70 new all-time highs over the course of the year.

The divergence between domestic and international markets remained, with China once again faring particularly poorly and dragging down emerging markets more broadly.

High-yield bonds were once again among the top of the pack in the fixed income market. Investors prepare for the Federal Reserve to start paring back easy monetary policies in 2022.

January 2022

2021 was yet another stellar year for financial markets, with the S&P 500 Index gaining over 28%. The index, a commonly used basket of the 500 largest stocks in the U.S. market, ended the day at all-time highs 70 different times in 2021 and has now posted three straight years of strong double-digit returns. As has been the case in recent times, mega-cap blue-chip names, such as Apple and Microsoft, and high-flying tech superstars with cult followings, such as Tesla, were responsible for an outsized share of the market's gains. As a result, large-cap domestic equities outperformed their mid- and small-cap peers significantly, while growth stocks beat out their value counterparts for both the quarter and year.

International equities fared notably worse than the domestic market in the fourth quarter, with the MSCI EAFE Index finishing in the green only thanks to a late-quarter rally. A relatively cautious approach to Covid, fiscal austerity measures, and a persistent valuation discount were all factors that weighed on European equities relative to the U.S., and many developed markets contended with the same supply chain limitations and subsequent inflation fears being experienced in the states as well. Emerging markets, on the other hand, were not able to stop the skid and finished the quarter slightly negative. As was the case in the third quarter, China was a main culprit here. Following a handful of crises in recent months, including red flags in its previously booming real estate market and out-of-the-blue crackdowns on everything from cryptocurrencies to video games, foreign investors have lost a good deal of confidence in Chinese markets over the latter half of 2021.

Fixed income holdings had a relatively flat quarter, with high-yield issuances generally posting small gains and short-term bonds posting slight losses in both the corporate and municipal bond markets. The Federal Reserve is firmly in the spotlight here, as their decisions surrounding the unwinding of easy monetary policies will have significant consequences. At the short end of the yield curve, investors expect about three or four rate hikes from the Fed in 2022, perhaps starting as early as March. Given the inverse relationship between price and yield, investors are wary of these rate increases, contributing to recent selling pressure. On the balance sheet side, the Fed will begin unwinding some of its bond buying program, further reducing the current demand for Treasury and mortgage-backed assets.

<u>Outlook</u>

Before looking ahead to 2022, it is important to note where we are. The S&P 500 Index has posted gains of 28.68%, 18.39%, and 31.48% over the past three years, respectively, despite a global pandemic, supply shortages, inflation fears, a divisive presidential election, and a government shutdown, among other negative headlines over those years. We at Condor are certainly not anticipating a sustained market crash, and stocks do not drop simply because prior years were good or an arbitrary amount of time has passed between corrections, but it needs to be noted that the past three years of returns are outside of the statistical norm. While we remain optimistic, it should be said that, in our estimation, the odds of another 20%+ up year are much lower than they were in years past.

With this in mind, our expectations for 2022 are for corporate earnings to continue to grow in the high single digits, less economic disruption from Covid as we work through the Omicron variant, and, in the best-case scenario, for supply chain issues and inflation fears to subside by the second half of the year. In this environment, we would hope to see a broadening of the market with some less-loved sectors and value names contributing to returns alongside the high-flying FAANG names.

On the fixed income side, there are headwinds at this time. The Fed is clearly signaling that they expect to begin raising rates in 2022. Meanwhile, the central bank's tapering of its balance sheet will reduce demand for Treasuries and mortgage-backed securities as it elects not to reinvest proceeds as existing holdings mature. The result is a situation in which bond investors must work around a more hawkish Fed.

That said, unwinding some of its more dovish policies is a nod to the Fed's confidence in underlying U.S. macroeconomic strength, and higher rates would mark a more proactive response to the inflation headlines swirling in recent quarters. While it is true that a rising rate environment is not ideal for bond prices, it also proportionally increases the yield that bonds throw off, which only makes for more attractive entry points down the road. Finally, government bonds issued by the Bank of Japan, the U.K., and other developed nations still have yields firmly in the negatives, meaning that the relative demand for U.S. Treasuries should remain high regardless of the Fed's tapering.

We cannot expect the Fed to keep interest rates at zero and maintain an $8.5 trillion balance sheet forever, and thus far their plans have been signaled to market participants relatively clearly. Additionally, the current central bank regime has generally proven more cautious than reckless, so if rising rates do shake markets more than anticipated or there is an unexpected shock to the economy, we would expect them to back away into a more accommodative stance relatively quickly.

All told, we are heading into 2022 hopeful for another strong year but also aware of the headwinds we face. We have already made some moves, such as taking steps to safely add yield and shorten duration a bit in our fixed income portfolio, to best position ourselves and our clients for the coming year, and as always, we will remain vigilant for attractive opportunities and entry points as events unfold. We thank you for your business and continued trust and wish you all a happy, healthy, and safe 2022!

See disclaimer on final page

Sticker Shock: Creative Ways to Lower the Cost of College

When planning for college, you and your child should consider different options for lowering college costs.

Even with all of your savvy college shopping and research about financial aid, college costs may still be prohibitive. At these prices, you expect you'll need to make substantial financial sacrifices to send your child to college. Or maybe your child won't be able to attend the college of his or her choice at all. Before you throw in the towel, though, you and your child should consider steps that can actually lower college costs. Although some of these ideas deviate from the typical four-year college experience, they just might be your child's ticket to college — and your ticket to financial sanity.

Ask about tuition discounts and flexible repayment programs

Before you rule out a college completely, ask whether it offers any tuition discounts or flexible repayment programs. For example, the school may offer a discount if you pay the entire semester's bill up front, or if you allow the money to be directly debited from your bank account. The college may also allow you to spread your payments over 12 months or extend them for a period after your child graduates. And if it's your alma mater, don't forget to inquire about any discounts for the children of alumni. Finally, ask if some charges are optional (e.g., full meal plan versus limited meal plan).

Graduate in three years instead of four

Some colleges offer accelerated programs that allow your child to graduate in three years instead of four. This can save you a whole year's worth of tuition and related expenses. Some colleges offer a similar program that combines an undergraduate/graduate degree in five years. The main drawback is that your child will have to take a heavier course load each semester and may have to forgo summer breaks to meet his or her academic obligations. Also, some educators believe that students need four years of college to develop to their fullest potential — intellectually, emotionally, and occupationally.

Earn college credit in high school

By taking advanced placement courses or special academic exams, your child may be able to earn college credits while still in high school. This means that your child may be able to take fewer classes in college, saving you money.

Think about cooperative education

Cooperative (co-op) education is a type of education where semesters of course work alternate with semesters of paid work at internships that your child helps select. Although a co-op degree usually takes five years to obtain, your child will be earning money during these years that can be used for tuition costs. In addition, your child gains valuable job experience.

Enroll in a community college, then transfer to a four-year college

One surefire way to cut college costs is to have your child enroll in a local community college for a couple of years, where costs are often substantially less than four-year institutions. Then, after two years, your child can transfer to a four-year institution. Your child's diploma will be from the four-year institution, but your expenses won't. Before choosing this route, though, make sure that any credits your child earns at the community college will be transferable to another institution.

Defer enrollment for a year

Your child might be aching to get to college, but taking a year off, commonly referred to as a "gap year," can give you both some financial breathing room and allow your child to work and save money for a full year before starting college. Your child will apply under the college's normal application deadline with the rest of his or her classmates and, once accepted, can ask for a one-year deferment. But make sure the college offers deferred enrollment before your child goes through the time and expense of applying.

Live at home

It's not every child's dream, but attending a nearby college and living at home, even for a year or two, can substantially reduce costs by eliminating room-and-board expenses (though your child will incur commuting costs). This arrangement may work out best at a college that has a student commuter population, because the college is likely to try to meet these students' needs. If your child does live at home, you'll both need to sit down beforehand and discuss mutual expectations. For example, now that your child's in college, it's not realistic to expect him or her to adhere to a rigid weekend curfew.

Research online learning options

Taking courses online is a trend that's here to stay, and many colleges are in the process of creating or expanding their opportunities for online learning. Your child might be able to take a year's worth of classes from home and then attend the same school in person for the remaining years.

Work part-time throughout the college years

Part-time work during college can help your child defray some costs, though working during school can be both a physical and emotional strain. To make sure that your child's academic work doesn't suffer, one option might be for your child to focus on school the first year and then obtain a part-time job in the remaining years. In addition, encouraging your child to become an RA (resident assistant) at college could earn them free room and board.

Join the military

There are several options here. Under the Reserve Officers' Training Corps (ROTC) scholarship program, your child can receive a free college education in exchange for a required period of active duty following graduation. Your child can apply for an ROTC scholarship at a military recruiting office during his or her junior or senior year of high school. Or, your child can serve in the military and then attend college under the GI Bill. Your child can also attend a service academy, like the U.S. Military Academy at West Point, for free. Be aware, though, that these schools are among the most competitive in the country, and your child must serve a minimum number of years of active duty upon graduation. For more information, visit your local military recruiting office, or speak to your child's high school guidance counselor.

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

Go to school abroad

Foreign schools generally offer an excellent education at a price comparable to that of an average four-year public college in the United States. And in the global economy, many employers tend to look favorably on studying abroad. Your child will even be eligible for need-based federal student loans (but not grants), as well as the two federal education tax credits — the American Opportunity credit and the Lifetime Learning credit.

Look for employer educational assistance

Does your employer offer any educational benefits for the children of its employees, like partial tuition reimbursement or company scholarships? Check with your human resources manager.

Have grandparents pay tuition directly to the college

Payments that grandparents (or others) make directly to a college aren't considered gifts for purposes of the federal gift tax rules. So, grandparents can be as generous as they want without having to worry about the tax implications for themselves. Keep in mind, though, that any payments must go directly to the college. They can't be delivered to your child with instructions to apply them to the college bills.

Ways to Fund Special Needs Trusts

If you have a child with special needs, a trust may be a financial priority. There are many crucial goods and services that Medicaid and Supplemental Security Income might not pay for, and a special needs trust may be used to address those financial challenges. Most importantly, a special needs trust may help provide for your disabled child in case you're no longer able to care for them.

Remember, using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional who is familiar with the rules and regulations.

In preparing for a special needs trust, one of the most pressing questions is: when it comes to funding the trust, what are the choices?

There are four basic ways to build up a third-party special needs trust. One method is simply to pour in personal assets, perhaps from immediate or extended family members. Another possibility is to fund the trust with life insurance. Proceeds from a settlement or lawsuit can also serve as the core of the trust assets. Lastly, an inheritance can provide the financial footing to start and fund this kind of trust.

Families choosing the personal asset route may put a few thousand dollars of cash or other assets into the trust to start, with the intention that the initial investment will be augmented by later contributions from grandparents, siblings, or other relatives. Those subsequent contributions can be willed to the trust, or the trust may be named as a beneficiary of a retirement or investment account.[1,2,3]

When life insurance is used, the trustor makes the trust the beneficiary of the policy. When the trustor dies, the policy's death benefit is left to the trust.[1,2,4]

Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

A lump-sum settlement or inheritance can be invested while within the trust. With a worthy trustee in place, there is less likelihood of mismanagement, and funds may come out of the trust to support the beneficiary in a measured way that does not risk threatening government benefits.

Care must be taken not only in the setup of a special needs trust, but in the management of it as well. This should be a team effort. The family members involved should seek out legal and financial professionals who are well versed in this field, and the resulting trust should be a product of close collaboration.

Citations

1. WSJ.com, June 3, 2021

2. SpecialNeedsAnswers.com, April 12, 2021

3. SpecialNeedsAnswers.com, July 3, 2019

4. SpecialNeedsAnswers.com, October 2, 2019

* Please see the side of page 3 for full disclosure.

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Organizing Your Finances When Your Spouse Has Died

Losing a spouse is a stressful transition. And the added pressure of having to settle the estate and organize finances can be overwhelming. Fortunately, there are steps you can take to make dealing with these matters less difficult.

Notify others

When your spouse dies, your first step should be to contact anyone who is close to you and your spouse, and anyone who may help you with funeral preparations. Next, you should contact your attorney and other financial professionals. You'll also want to contact life insurance companies, government agencies, and your spouse's employer for information on how you can file for benefits.

Get advice

Getting expert advice when you need it is essential. An attorney can help you go over your spouse's will and start estate settlement procedures. Your funeral director can also be an excellent source of information and may help you obtain copies of the death certificate and applications for Social Security and veterans benefits. Your life insurance agent can assist you with the claims process, or you can contact the company's policyholder service department directly. You may also wish to consult with a financial professional, accountant, or tax advisor to help you organize your finances.

Locate important documents and financial records

Before you can begin to settle your spouse's estate or apply for insurance proceeds or government benefits, you'll need to locate important documents and financial records (e.g., birth certificates, marriage certificates, life insurance policies). Keep in mind that you may need to obtain certified copies of certain documents. For example, you'll need a certified copy of your spouse's death certificate to apply for life insurance proceeds. And to apply for Social Security benefits, you'll need to provide birth, marriage, and death certificates.

Set up a filing system

If you've ever felt frustrated because you couldn't find an important document, you already know the importance of setting up a filing system. Start by reviewing all important documents and organizing them by topic area. Next, set up a file for each topic area. For example, you may want to set up separate files for estate records, insurance, government benefits, tax information, and so on. Finally, be sure to store your files in a safe but readily accessible place. That way, you'll be able to locate the information when you need it.

Set up a phone and mail system

During this stressful time, you probably have a lot on your mind. To help you keep track of certain tasks and details, set up a phone and mail system to record incoming and outgoing calls and mail. For phone calls, keep a sheet of paper or notebook by the phone and write down the date of the call, the caller's name, and a description of what you talked about. For mail, write down whom the mail came from, the date you received it, and, if you sent a response, the date it was sent.

Also, if you don't already have one, make a list of the names and phone numbers of organizations and people you might need to contact, and post it near your phone. For example, the list may include the phone numbers of your attorney, insurance agent, financial professionals, and friends--all of whom you can contact for advice.

Evaluate short-term income and expenses

When your spouse dies, you may have some immediate expenses to take care of, such as funeral costs and any outstanding debts that your spouse may have incurred (e.g., credit cards, car loan). Even if you are expecting money from an insurance or estate settlement, you may lack the funds to pay for those expenses right away. If that is the case, don't panic--you have several options. If your spouse had a life insurance policy that named you as the beneficiary, you may be able to get the life insurance proceeds within a few days after you file. And you can always ask the insurance company if they'll give you an advance. In the meantime, you can use credit cards for certain expenses. Or, if you need the cash, you can take out a cash advance against a credit card. Also, you can try to negotiate with creditors to allow you to postpone payment of certain debts for 30 days or more, if necessary.

Avoid hasty decisions

- Don't think about moving from your current home until you can make a decision based on reason rather than emotion.
- Don't spend money impulsively. When you're grieving, you may be especially vulnerable to pressure from salespeople.
- Don't cave in to pressure to sell or give away your spouse's possessions. Wait until you can make clear-headed decisions.
- Don't give or loan money to others without reviewing your finances first, taking into account your present and future needs and obligations.