Condor Capital
WEALTH MANAGEMENT

Condor Capital Reviews 2nd Quarter 2022

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The second quarter saw an acceleration of the broad-based sell-off in financial markets witnessed in the first quarter. Value was once again the outperformer, though still posted a double digit loss.

International equities beat out domestic equities on the quarter. Central banks globally began their fight against inflation, trailing behind the faster moving Federal Reserve.

Fixed income finished the quarter down in the mid single-digits. The Fed accelerated the rate of their interest rate hikes, causing the U.S. 10-Year Treasury Yield to top the 3% mark for the first time since 2018.

July 2022

The second quarter of 2022 saw a continuation and acceleration of the trends witnessed in financial markets in the first quarter of the year. The S&P 500 lost 16.11%, pulling it into bear market territory for the first time since the height of the pandemic-fueled selloff in March 2020. Inflation was the story of the quarter, with all three monthly Consumer Price Index readings coming in over 8%. This was the first time inflation has reached these levels since 1981, prompting the Federal Reserve to move faster than anticipated on their rate hiking schedule. The Fed's 0.75% rate increase in June was the largest single increase in over 25 years. Amid this tightening monetary backdrop, all sectors ended lower in the quarter. Retailers were some of the biggest underperformers after reporting disappointing earnings, guiding lower, and announcing that they were overstocked due to tangled supply chains throwing off shipping schedules. Much like the first quarter, value outpaced growth, though it still saw double-digit declines. This was evidenced by the 20.92% decline in the Russell 1000 Growth Index, while the Russell 1000 Value Index saw a narrower decline of 12.22%. Companies with some of the highest valuations were once again the hardest hit. For example, the ARK Innovation Fund, which is comprised of high-growth, low-earning companies, experienced a 39.84% decline.

International equities managed to beat out domestic equities in the quarter. The MSCI EAFE Index ended the period down 14.32% as central banks broadly began to take action to fight off inflation, albeit less aggressively than the Federal Reserve. The war in Ukraine dragged on, leading to continued worries over food and energy supplies. China enforced strict lockdowns as a result of its "Zero Covid" policy but did begin to open back up as the quarter went on, easing the pain in global supply chains. Emerging markets more broadly also saw double-digit declines. Finally, the U.S. dollar appreciated significantly due to the Fed's hawkish policy moves and the dollar's safe-haven status amid geopolitical uncertainties, weighing further on unhedged international positions.

Fixed income also had a poor quarter but outperformed equities, with the Bloomberg U.S. Aggregate Bond Index ending the period down 4.69%. The Fed ramped up the pace of their rate hikes and signaled that future hikes would come at a more accelerated pace. This caused bond yields to continue their climb higher across the board and led to the U.S. 10-Year Treasury yield topping 3% for the first time since 2018. The Fed is fully committed to taming inflation, which means that the rate hikes will continue until there is a convincing sign that inflation is easing. As far as the balance sheet goes, the Fed has begun its balance sheet reduction, allowing maturing Treasuries to accumulate in cash rather than reinvesting the proceeds. Overall, municipal bonds generally fared better than corporates and investment-grade debt outpaced high-yield.

<u>Outlook</u>

While the selloff in financial markets over the last six months has been painful, it is important to remember to look beyond near-term volatility and adhere to a long-term plan. Corrections are a normal part of the market cycle, and markets have never failed to recover from selloffs in the past. To put it into perspective, the S&P 500, while down 16.11% this quarter, is still up 35.23% over the trailing three-year period, a time frame that also includes the initial Covid selloff. On an annualized basis, that represents an average 10.55% gain over the past three years.

In fact, with domestic equities having sold off significantly over the last two quarters, stocks today look much cheaper than they have been in some time. Quality stocks have fallen alongside some of the higher-flying growth names, leaving behind opportunities for investors to find some bargains. The Fed's continuing tightening is keeping pressure on equities, but they have generally done a good job issuing forward guidance, taking some of the uncertainty out of the market.

The fixed income market is now seeing its highest yields dating back to 2018. We look for the Fed to continue raising near-term rates at an accelerated pace as they have signaled. While inflationary pressures, such as the war in Ukraine, still exist, there are now some hopeful signs, such as China beginning the reopening process. Increased levels of interest income on bond portfolios resulting from the higher yields have created an attractive entry point relative to the trailing three years.

The Fed tightening is beginning to show its impact on the economy. Housing has seen a slew of data come in over the past couple of months indicating that the market is finally beginning to cool off. Commodities have come off their highs. Beyond the Fed actions, China is focused on factory output, and retailers are well stocked, indicating supply chains are beginning to normalize. All these things in combination bode well for the fight against inflation. Despite the effects of the Fed's actions, the labor market remains strong, with unemployment near all-time lows, job openings near all-time highs, and wages continuing to rise. On top of this, consumer balance sheets remain in a better position than they were pre-pandemic. This gives us hope that the Fed may yet be able to engineer a soft landing.

There are still areas of uncertainty in the market and economy. The war in Ukraine is still ongoing, Covid is still a risk, and the Fed is still tightening. It is also entirely possible that the U.S. economy could soon enter a technical recession with a negative Q2 GDP reading in late July. However, not all recessions are created equal, and we expect any dip in the economy to be brief. A technical recession at this point, when the labor market is extremely strong, consumers still largely have money on hand, markets are already trading cheaper, and the Fed has room to pivot monetary policy to a more accommodative stance may sound scary but would have little in common with the deep recessionary period of 2008-09. Just as importantly, with markets being forward-looking, it is highly likely that much of this fear is already priced in.

Throughout the recent volatility, though, we have taken steps to best service our clients including tax-loss harvesting, maintaining our disciplined focus on profitable companies, and tactically underweighting some of the areas of the market that have most underperformed. Moving forward, we will remain vigilant in search of opportunities as they present themselves in the near term, while maintaining our broader focus on your long-term needs and financial plans.

See disclaimer on final page

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

Understanding Long-Term Care Insurance

It's a fact: People today are living longer. Although that's good news, the odds of requiring some sort of long-term care increase as you get older. And as the costs of home care, nursing homes, and assisted living escalate, you probably wonder how you're ever going to be able to afford long-term care. One solution that is gaining in popularity is long-term care insurance (LTCI).

What is long-term care?

Most people associate long-term care with the elderly. But it applies to the ongoing care of individuals of all ages who can no longer independently perform basic activities of daily living (ADLs)--such as bathing, dressing, or eating--due to an illness, injury, or cognitive disorder. This care can be provided in a number of settings, including private homes, assisted-living facilities, adult day-care centers, hospices, and nursing homes.

Why you may need long-term care insurance (LTCI)

Even though you may never need long-term care, you'll want to be prepared in case you ever do, because long-term care is often very expensive. Although Medicaid does cover some of the costs of long-term care, it has strict financial eligibility requirements--you would have to exhaust a large portion of your life savings to become eligible for it. And since HMOs, Medicare, and Medigap don't pay for most long-term care expenses, you're going to need to find alternative ways to pay for long-term care. One option you have is to purchase an LTCI policy.

However, LTCI is not for everyone. Whether or not you should buy it depends on a number of factors, such as your age and financial circumstances. Consider purchasing an LTCI policy if some or all of the following apply:

- You are between the ages of 40 and 84
- You have significant assets that you would like to protect
- You can afford to pay the premiums now and in the future
- You are in good health and are insurable

How does LTCI work?

Typically, an LTCI policy works like this: You pay a premium, and when benefits are triggered, the policy pays a selected dollar amount per day (for a set period of time) for the type of long-term care outlined in the policy.

Most policies provide that certain physical and/or mental impairments trigger benefits. The most common method for determining when benefits are payable is based on your inability to perform certain activities of daily living (ADLs), such as eating, bathing, dressing, continence, toileting (moving on and off the toilet), and transferring (moving in and out of bed). Typically, benefits are payable when you're unable to perform a certain number of ADLs (e.g., two or three).

Some policies, however, will begin paying benefits only if your doctor certifies that the care is medically necessary. Others will also offer benefits for cognitive or mental incapacity, demonstrated by your inability to pass certain tests.

Comparing LTCI policies

Before you buy LTCI, it's important to shop around and compare several policies. Read the Outline of Coverage portion of each policy carefully, and make sure you understand all of the benefits, exclusions, and provisions. Once you find a policy you like, be sure to check insurance company ratings from services such as A. M. Best, Moody's, and Standard & Poor's to make sure that the company is financially stable.

When comparing policies, you'll want to pay close attention to these common features and provisions:

- Elimination period: The period of time before the insurance policy will begin paying benefits (typical options range from 20 to 100 days). Also known as the waiting period.
- Duration of benefits: The limitations placed on the benefits you can receive (e.g., a dollar amount such as $150,000 or a time limit such as two years).
- Daily benefit: The amount of coverage you select as your daily benefit (typical options range from $50 to $350).
- Optional inflation rider: Protection against inflation.
- Range of care: Coverage for different levels of care (skilled, intermediate, and/or custodial) in care settings specified in policy (e.g., nursing home, assisted living facility, at home).
- Pre-existing conditions: The waiting period (e.g., six months) imposed before coverage will go into effect regarding treatment for pre-existing conditions.
- Other exclusions: Whether or not certain conditions are covered (e.g., Alzheimer's or Parkinson's disease).
- Premium increases: Whether or not your premiums will increase during the policy period.
- Guaranteed renewability: The opportunity for you to renew the policy and maintain your coverage despite any changes in your health.
- Grace period for late payment: The period during which the policy will remain in effect if you are late paying the premium.
- Return of premium: Return of premium or nonforfeiture benefits if you cancel your policy after paying premiums for a number of years.
- Prior hospitalization: Whether or not a hospital stay is required before you can qualify for LTCI benefits.

When comparing LTCI policies, you may wish to seek assistance from a specialist. Consult a financial professional, attorney, or accountant for more information.

What's it going to cost?

There's no doubt about it: LTCI is often expensive. Still, the cost of LTCI depends on many factors, including the type of policy that you purchase (e.g., size of benefit, length of benefit period, care options, optional riders). Premium cost is also based in large part on your age at the time you purchase the policy. The younger you are when you purchase a policy, the lower your premiums will be.

Your child should allow plenty of time to work on the applications, and you'll want to make sure that you're available for help.

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The College Application Process

Some things can be counted on to bring comfort every fall. Unfortunately, the college application process isn't one of them. In fact, for your child, it probably ranks right up there with going to a new school or wearing that first pair of eyeglasses. It's easy for your child to feel overwhelmed while trying to manage numerous applications, each with varying deadlines and requirements. Just imagine if you had to fill out multiple tax returns this year — and your future job depended on it!

But filling out college applications properly is crucial. After all, you and your child put a lot of time and effort into choosing schools — now it's time to complete that process. Your child should allow plenty of time to work on the applications, and you'll want to make sure that you're available for help. Here are some things to keep in mind before your child gets started.

What's required in the application?

A typical college application has standard requirements, including:

- Biographical and family information
- List of extracurricular activities, hobbies, and interests
- Reference letters (usually from teachers but occasionally from someone in the community)
- High school grade transcript
- SAT/ACT scores
- Personal essay
- Application fee

The key is for your child to present all of this information in the best possible light. Though your child won't have any flexibility in the presentation of his or her personal information, grades, or SAT/ACT scores, he or she will have an opportunity to stand out from the pack with reference letters and the personal essay. Not surprisingly, then, these two items are very important.

Your child should spend some time thinking about the teachers whom he or she wants to write the recommendation letters. Also, your child should allow plenty of time for the teacher to write the reference, and tell the teacher what to do when finished (i.e., send the letter directly to the college — in which case a prestamped, preaddressed envelope should be provided — or give it back for inclusion with the rest of the application).

The personal essay is often the heart and soul of the application. It helps the admissions team distinguish your child from many other applicants and, in some cases, may be the deciding factor. To write a thoughtful, coherent essay, your child should choose a topic that is especially meaningful to him or her. As a parent, you'll want to refrain from actually writing the essay (it's also unethical for your child to hire a professional ghostwriter). However, you can certainly brainstorm for ideas with your child, offer editing suggestions, and proofread the final product for spelling and grammatical mistakes.

If your child needs help getting started, most college guidebooks devote a chapter to writing a good college essay. Ideally, your child should browse through this material in the summer before senior year to get familiar with the process, before he or she faces the terror of writer's block the weekend before the application is due.

The total package: what colleges look for in prospective applicants

Beyond grades and test scores, it's no secret that colleges will be looking at your child's extracurricular activities to see what interests and abilities he or she can bring to the campus. And as colleges have become more competitive, the quest of parents to find the "right" mix of activities has intensified. Many parents have spent countless hours (and dollars) driving their children to every extracurricular activity imaginable in an effort to ensure their child's entry into a prestigious university. Yet this isn't necessarily the magic elixir.

Instead, admissions officers generally say that they favor applicants who have demonstrated a real passion in one or a few areas, as opposed to those who participate in a long list of activities just for the sake of putting it on their application. So, instead of forcing your child to dabble in everything (e.g., music, art, theater, sports, community work, religious work, business internships), it's better to let your child focus on those pursuits that he or she truly enjoys. And if your child doesn't get accepted at a particular college, don't take it personally — your child's path to success doesn't depend on just one college.

Timeline for applying

Generally, college applications are submitted in the fall or winter of your child's senior year of high school, with acceptance or rejection letters arriving in the spring. However, if your child applies for early admission (via either early decision or early action), the acceptance or rejection should arrive by December of senior year. It's important to note that the college application timeline isn't the same as the financial aid timeline; the latter is usually later.

Each college has its own application deadline, as well as its own application requirements. Most colleges use the Common Application, and require students to fill out short, individualized supplements to this application. Other colleges require their own individual application. To stay organized, write each deadline on a central calendar, and then create an individual folder for each college to keep track of applications, correspondence, reference letters, essay requirements, and other items. Most of the application paperwork can also be tracked online.

Early admission vs. regular admission

Some students favor early admission because it lets them relax and enjoy their senior year. There are actually two ways to apply for early admission:

- Early action: Your child applies by the early deadline but has until the college's normal deadline to decide whether to attend. Your child can apply to several schools under the early action process.
- Early decision: Your child applies by the early deadline but then must commit to attending immediately. Your child can only apply to one college under the early decision process.

If your child's heart is set on one particular college and the match is a good one, it might be worthwhile for your child to apply early decision. However, a note of caution — it's easy for your child to wind up with less financial aid than a regular applicant. This is because colleges know that your child is already committed to attending the college; thus, they figure they can offer a less attractive financial aid package. And although your child can rescind an early decision acceptance if the college doesn't offer adequate financial aid, he or she may be rushed in applying to other colleges.

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Bypassing Probate

You may have heard about the horrors of probate, but in truth, probate has gotten an undeservedly bad reputation, especially in recent years. If you bypass probate, your estate will go to your beneficiaries without any court proceeding, and you may save a certain amount of time and expenses. However, there is usually little reason for most people to avoid probate today. States continue to revise their probate laws, making them more consumer friendly, particularly for small estates. For most modestly sized estates, the probate process now costs little. In fact, there are some good reasons to distribute your property by will. Decisions are binding and have legal finality once your will is probated. Creditors who fail to file claims against your estate within a specific amount of time — usually six months after receiving notice — are out of luck.

However, some major drawbacks to probate do exist, including the time it can take. The process averages six to nine months to complete but may take up to two years or more for some complex estates, tying up the assets that your family may need immediately. Also, for a larger estate, the cost may be as high as 5 percent of the estate's value.

If you feel that the size and complexity of your estate warrant exploring alternatives to probate, you may want to consider one or more of the following:

Transfer your assets to a revocable living trust

A trust is like a basket that holds your assets. A revocable living trust (also known as an inter vivos trust) is flexible enough to include almost any asset that you own. While you are living, you can act as the trustee and can add or remove property as you see fit. You can also terminate or amend the trust at any time. When you die, your successor trustee distributes the trust assets to the trust beneficiaries, according to the trust agreement. Trusts require a significant amount of paperwork, are costly to create and maintain, and usually require a lawyer to draw up the trust documents. Also, a revocable living trust does not shield your estate from your creditors, creditors of your estate, or estate taxes.

Own property as joint tenancy with rights of survivorship

Assets owned as joint tenancy with rights of survivorship pass automatically to the surviving joint owner(s) at your death. To establish joint ownership, you may need to record new real estate deeds, titles for your car or boat, stock and bond certificates, statements of account for mutual funds, registration cards for your bank accounts, and other assets. This costs little and usually does not require a lawyer. Some drawbacks are that the joint owner has immediate access to your property, and your joint owner's creditors may reach the jointly held property.

Designate beneficiaries

Assets pass outside of probate if you establish payable-on-death provisions for your savings accounts and CDs. Ask your agent to set up transfer-on-death provisions for brokerage accounts containing stocks, bonds, or mutual funds. Your retirement accounts, such as profit-sharing plans, 401(k)s, and IRAs can also pass along to designated beneficiaries. Finally, life insurance death proceeds will avoid probate, provided you name a beneficiary other than your estate.

Make lifetime gifts

Another way to avoid probate is to simply give away your property to your beneficiaries while you are living. Carefully planned gifting can also free those assets from gift and estate taxes. The following are usually nontaxable gifts:

- Gifts to your spouse
- Gifts to qualified charities
- Gifts totaling $16,000 (in 2022, $15,000 in 2021) or less per person, per year ($32,000 in 2022, $15,000 in 2021 if you and your spouse can split the gifts)
- Tuition payments on behalf of an individual directly to an educational institution
- Medical care expenses paid directly to the provider on behalf of an individual

Other ways to bypass or minimize probate

If your estate is small enough to meet state guidelines, your beneficiaries can simply claim your assets by presenting a notarized affidavit. About half of the states set a limit of $10,000 to $20,000 of the qualified estate value; most of the other states allow as much as $100,000. You can generally deduct estate expenses from your qualified estate value, such as taxes, debts, loans, or family allowance payments, plus the value of any other assets that pass outside probate (e.g., a home jointly owned with a spouse). Real estate is usually disqualified from claims by affidavit. Therefore, your estate may qualify even if it is fairly large. Expect the process to take 30 to 45 days. Another method is for your executor to file for summary, or simplified probate. This streamlined process is generally a paper filing only, requiring no attorney. States vary widely regarding the allowable size of an estate for simplified probate.