Condor Capital
WEALTH MANAGEMENT

# Condor Capital Reviews 3rd Quarter 2022


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


The third quarter started out strong with a broad-based rally, though optimism faded as the quarter progressed and the Fed continued on their tightening path. Ultimately, domestic equities ended down for the third consecutive quarter, with growth outperforming value.

International equities trailed domestic equities in the third quarter as the U.S. dollar surged against foreign currencies, making dollar denominated goods more expensive abroad. Central banks continue to tighten monetary conditions to try and fight off inflation that is being felt worldwide.

Fixed income fell in tandem with equities as the Fed continued to hike interest rates at an aggressive pace. U.S. Treasuries are now seeing their highest yields dating back to 2008, as the battle against domestic inflation continues for the Fed.

**October 2022**



The third quarter of 2022 started strong but ultimately was another poor quarter for investments across the board. After recovering as much as 13.94% through mid-August, the S&P 500 ended the quarter down 4.89%. Inflation continued to run high but did ease from the over 9% level seen in June. The optimism that the slowing inflation readings spurred quickly faded in the wake of Jerome Powell's speech at Jackson Hole at the end of August, where he bluntly stated that the Fed would not be slowing the pace of their rate hikes until inflation receded further. The Fed hiked rates by 0.75% in each of their meetings during the quarter. Consumer discretionary and energy were the only sectors higher, while technology was the biggest laggard. Growth outpaced value, as the early quarter rebound in equities was more pronounced in growth sectors. Multinational companies struggled as the U.S. dollar surged against foreign currencies, hurting companies with international operations due to exchange rates taking a bite out of profits earned abroad.

International equities trailed domestic equities in the quarter. The MSCI EAFE Index ended the quarter down 9.26% as central banks around the world raced to catch up to the Fed's rate increases. Currencies globally depreciated against the dollar, causing inflation worldwide to rise as dollar-denominated goods became more expensive relative to local currencies. Further, Russia intensified its efforts in Ukraine amid losing territories it had captured early in the war, instituting a draft to ramp up manpower. Emerging markets also saw another quarter of double-digit losses on the back of a strengthening U.S. dollar.

Fixed income essentially matched U.S. equities with the Bloomberg U.S. Aggregate Bond Index ending down 4.75%. The Fed kept at their aggressive rate hiking schedule to try and combat inflation. The result was a continued climb in bond yields, especially in shorter maturity issues, with the U.S. 2 Year Treasury yield topping 4% for the first time since 2007. The Fed's balance sheet continued to contract, dropping to its lowest level since December 2021. The Fed has made it clear that they will not slow down their tightening process until inflation is within an acceptable range, even if it means the economy suffers near-term pain.

<u>Outlook</u>

With domestic equities near their lows of the year, opportunity remains for investors looking for long-term upside. Even with an expected slowdown in earnings, consensus expectations are for growth of about 2.4% for the third quarter. On top of this, interest coverage ratios are hovering around pre-pandemic levels, meaning companies are still positioned well financially. While the sharp interest rate increases will impact earnings in the coming months, many of the higher-quality areas of the market look oversold. Looking long-term, we believe more opportunity exists for profit-making companies rather than the unprofitable growth names that thrived under the easy monetary conditions of the last few years.

On the fixed income front, we are looking for the Fed to continue its rate hikes through at least the end of the year. While fixed income has had an exceptionally rough year, yields are now at their highest level since 2007, creating an entry point for investors to pick up attractive yields. Further, inflation is seeing some signs of easing, as the readings for July, August, and September came in at decelerating levels. This is an especially encouraging sign, given the unemployment rate remains at its pre-pandemic lows.

The U.S. economy continues to show signs of the Federal Reserve tightening doing its job. For the first time since 2018, home prices saw a decline month-over-month in July. Job openings fell to their lowest level since June last year. Retailers have seen supply gluts rather than shortages, prompting widespread sales. Gas prices fell almost every day in the third quarter. Inflation has stuck around for longer than the Federal Reserve had anticipated but has begun rolling over and should continue to ease moving forward as the lagging effects of the Fed's rate hikes start to impact the economy. Consumers generally agree that inflation will continue to slow as forward inflation expectations, a driver of inflation, have fallen to their lowest level of 2022.

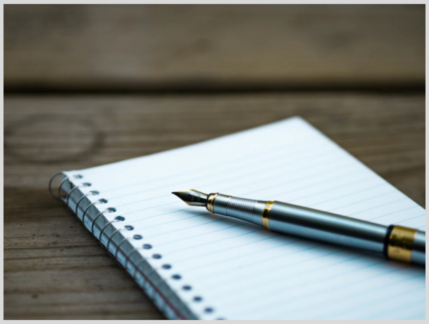
Despite the slowing of several indicators that provide insight into what inflation and the economy may look like going forward, the labor market remains resilient. Job openings, while falling, remain well above pre-pandemic levels, and unemployment is sitting around pre-pandemic lows, a generally good sign for the economy. The decline in job openings is a positive for the Fed as they look to cool the job market a bit to help its fight against inflation, while the low level of unemployment gives hope that a recession may be avoidable. It is important to note that if the economy ends up in a recession, it is likely to be shallow. Relatively low debt levels, strong interest coverage ratios, and higher levels of savings than pre-pandemic combine to leave consumers and corporations alike well-positioned financially.

Despite ongoing uncertainty surrounding Federal Reserve tightening, inflation, and geopolitical tensions, we remain cautiously optimistic. Valuations on equities are attractive, and in the fixed income space, meaningful yields can be found for the first time in a long time. With the sell-off this year being so unpleasant, keeping a long-term perspective is more important than ever. Markets have recovered from every sell-off they have endured before, and each drop creates a new opportunity that rewards investors who maintain a long-term outlook consistent with their investing goals. We continue to search for bargains throughout the market volatility and, in the meantime, are taking steps such as tax-loss harvesting to keep our clients best positioned for whatever the future may hold.



See disclaimer on final page

# Wills: The Cornerstone of Your Estate Plan



**Even if you're young or your estate is modest, you should always have a legally valid and up-to-date will. This is especially important if you have minor children because, in many states, your will is the only legal way you can name a guardian for them.**

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

If you care about what happens to your money, home, and other property after you die, you need to do some estate planning. There are many tools you can use to achieve your estate planning goals, but a will is probably the most vital. Even if you're young or your estate is modest, you should always have a legally valid and up-to-date will. This is especially important if you have minor children because, in many states, your will is the only legal way you can name a guardian for them. Although a will doesn't have to be drafted by an attorney to be valid, seeking an attorney's help can ensure that your will accomplishes what you intend.

**Wills avoid intestacy**

Probably the greatest advantage of a will is that it allows you to avoid intestacy. That is, with a will you get to choose who will get your property, rather than leave it up to state law. State intestate succession laws, in effect, provide a will for you if you die without one. This "intestate's will" distributes your property, in general terms, to your closest blood relatives in proportions dictated by law. However, the state's distribution may not be what you would have wanted. Intestacy also has other disadvantages, which include the possibility that your estate will owe more taxes than it would if you had created a valid will.

**Wills distribute property according to your wishes**

Wills allow you to leave bequests (gifts) to anyone you want. You can leave your property to a surviving spouse, a child, other relatives, friends, a trust, a charity, or anyone you choose. There are some limits, however, on how you can distribute property using a will. For instance, your spouse may have certain rights with respect to your property, regardless of the provisions of your will.

Gifts through your will take the form of specific bequests (e.g., an heirloom, jewelry, furniture, or cash), general bequests (e.g., a percentage of your property), or a residuary bequest of what's left after your other gifts.

**Wills allow you to nominate a guardian for your minor children**

In many states, a will is your only means of stating who you want to act as legal guardian for your minor children if you die. You can name a personal guardian, who takes personal custody of the children, and a property guardian, who manages the children's assets. This can be the same person or different people. The probate court has final approval, but courts will usually approve your choice of guardian unless there are compelling reasons not to.

**Wills allow you to nominate an executor**

A will allows you to designate a person as your executor to act as your legal representative after your death. An executor carries out many estate settlement tasks, including locating your will, collecting your assets, paying legitimate creditor claims, paying any taxes owed by your estate, and distributing any remaining assets to your beneficiaries. Like naming a guardian, the probate court has final approval but will usually approve whomever you nominate.

**Wills specify how to pay estate taxes and other expenses**

The way in which estate taxes and other expenses are divided among your heirs is generally determined by state law unless you direct otherwise in your will. To ensure that the specific bequests you make to your beneficiaries are not reduced by taxes and other expenses, you can provide in your will that these costs be paid from your residuary estate. Or, you can specify which assets should be used or sold to pay these costs.

**Wills can create a testamentary trust**

You can create a trust in your will, known as a testamentary trust, that comes into being when your will is probated. Your will sets out the terms of the trust, such as who the trustee is, who the beneficiaries are, how the trust is funded, how the distributions should be made, and when the trust terminates. This can be especially important if you have a spouse or minor children who are unable to manage assets or property themselves.

**Wills can fund a living trust**

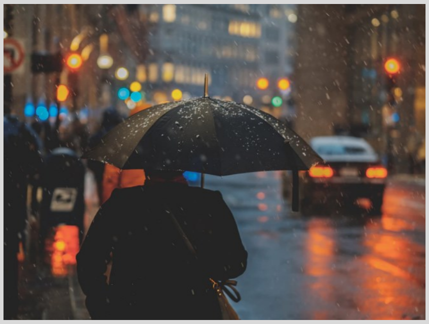
A living trust is a trust that you create during your lifetime. If you have a living trust, your will can transfer any assets that were not transferred to the trust while you were alive. This is known as a pourover will because the will "pours over" your estate to your living trust.

**Wills can help minimize taxes**

Your will gives you the chance to minimize taxes and other costs. For instance, if you draft a will that leaves your entire estate to your U.S. citizen spouse, none of your property will be taxable when you die (if your spouse survives you) because it is fully deductible under the unlimited marital deduction. However, if your estate is distributed according to intestacy rules, a portion of the property may be subject to estate taxes if it is distributed to heirs other than your U.S. citizen spouse.

**Assets disposed of through a will are subject to probate**

Probate is the court-supervised process of administering and proving a will. Probate can be expensive and time consuming, and probate records are available to the public. Several factors can affect the length of probate, including the size and complexity of the estate, challenges to the will or its provisions, creditor claims against the estate, state probate laws, the state court system, and tax issues.



Here are some tips to help keep your family safe in an emergency and allow you to leave quickly with the items you need most.

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Owning property in more than one state can result in multiple probate proceedings. This is known as ancillary probate. Generally, real estate is probated in the state in which it is located, and personal property is probated in the state in which you are domiciled (i.e., reside) at the time of your death.

**Will provisions can be challenged in court**

Although it doesn't happen often, the validity of your will can be challenged, usually by an unhappy beneficiary or a disinherited heir. Some common claims include:

- You lacked testamentary capacity when you signed the will
- You were unduly influenced by another individual when you drew up the will
- The will was forged or was otherwise improperly executed
- The will was revoked

## Prepare Now for Future Emergencies

Most communities could be impacted by some type of natural disaster, whether it's a wildfire, hurricane, tornado, earthquake, or flood.

Here are some tips to help keep your family safe in an emergency and allow you to leave quickly with the items you need most.

Gather important documents that may be difficult or impossible to replace. These are some examples, but you may want other documents as well.

- Insurance policies, banking and financial account information, and account numbers
- Identification such as driver's licenses, passports, birth and marriage certificates, and Social Security and Medicare cards
- Contracts, wills, deeds, and recent tax returns
- An inventory of your household possessions

In case you are not home when a disaster strikes, consider storing electronic copies of critical documents on a thumb drive or encrypted in the cloud. You might also want to keep the thumb drive and/or original documents in a fireproof safe or a safe-deposit box.

Assemble a disaster kit with basic necessities for your home. Include nonperishable food, bottled water, first-aid supplies, flashlights, an emergency radio, extra batteries, a wrench or pliers to turn off utilities, and a whistle to signal for help. With ongoing concerns regarding COVID-19, make sure to add face coverings, soap, hand sanitizer, and disinfecting wipes to your emergency kit.

Have a list of items to take with you. Start with your home disaster kit and critical documents. Remember to take prescription medications; clothing and bedding for each household member; computer hard drives, laptops, tablets, mobile phones, and chargers; eyeglasses; photos; and special food or other items for children, disabled or elderly family members, and pets.

Plan where you will go if you must evacuate. Will you stay with friends or family in another town, or head to a hotel or a community shelter? Map out a route to your destination as well as an alternate route if roads are blocked or impassable. Identify a safe place to meet if family members become separated. Choose a family member who lives elsewhere to serve as an alternate point of contact. Check the settings on your mobile phones to make sure emergency alerts and warnings are enabled. Practice packing up and leaving your home in 10 minutes or less.

Be sure you have appropriate insurance. The coverage you need depends on the kinds of disasters most likely to affect your home and community. Damage from some natural disasters, such as wildfires, hurricanes, and tornadoes, is generally covered under your homeowners policy, up to policy limits. However, damage from floods and earthquakes typically requires separate policies. Contact your insurance agent to discuss appropriate coverage.

For more information from FEMA, see ready.gov/be-informed and ready.gov/plan.

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



## Should You Prepare to Retire on 80% of Your Income?

A classic retirement preparation rule states that you should retire on 80% of the income you earned in your last year of work. Is this old axiom still true, or does it need reconsidering?

Some new research suggests that retirees may not need that much annual income to keep up their standard of living.

**The 80% rule is really just a guideline.** It refers to 80% of a retiree's final yearly gross income, rather than his or her net pay. The difference between gross income and wages after withholdings and taxes is significant to say the least.[1]

The major financial challenge for the new retiree is how to replace his or her paycheck, not his or her gross income.

So concluded Texas Tech University professor Michael Finke, who analyzed the 80% rule and published his conclusions in *Research,* a magazine for financial services industry professionals. Finke noted four factors that the 80% rule does not recognize. One, retirees no longer need to direct part of their incomes into retirement accounts. Two, they no longer involuntarily contribute to Social Security and Medicare, as they did while working. Three, most retirees do not have a daily commute, nor the daily expenses that accompany it. Four, people often retire into a lower income tax bracket.[1]

Given all these factors, Finke concluded that the typical retiree could probably sustain their lifestyle with no more than 77% of an end salary, or 60% of his or her average annual lifetime income.[1]

**Retirees need to determine the expenses that will diminish in retirement.** That determination, rather than a simple rule of thumb, will help them realize the level of income they need.

Imagine two 60-year-old workers, both earning identical salaries at the same firm. One currently directs 25% of her pay into a workplace retirement strategy. The other directs just 5% of her pay into that strategy. The worker deferring 25% of her salary into retirement savings needs to replace a lower percentage of their pay in retirement than the worker deferring only 5% of hers. Relatively speaking, the more avid retirement saver is already used to living on less.

This is a hypothetical example used for illustrative purposes only. It is not representative of any specific investment or combination of investments.

**New retirees may not necessarily find themselves living on less.** The retirement experience differs for everyone, and so does retiree personal spending. A recent Employee Benefit Research Institute survey found that over a third of retirees report spending *more* than they had originally expected. Only 9% reported that they were spending less than they had expected.[2]

**A timeline of typical retiree spending resembles a "smile."** A 2013 study from investment research firm Morningstar noted that a retiree household's inflation-adjusted spending usually dips at the start of retirement, bottoms out in the middle of the retirement experience, and then increases toward the very end.[3]

**A retirement budget is a very good idea.** There will be some out-of-budget costs, of course, ranging from the pleasant to the unpleasant. Those financial exceptions aside, abiding by a monthly budget (with or without the use of free online tools) may help you to rein in any questionable spending.

**Any retirement income strategy should be personalized.** Your own strategy should be based on an accurate, detailed assessment of your income needs and your available income resources. That information will help you discern just how much income you will need when retired.

**Citations**

1 - http://www.michaelfinke.com/research.html [2022]

2 - https://www.ebri.org/retirement/retirement-confidence-survey [2022]

3 - https://www.thestreet.com/retirement/want-to-be-rich-in-retirement-plan-better-save-more [2/23/22]