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Harpeth Wealth

— PARTNERS —

Market and Economic Commentary:

I get updates in my inbox multiple times a day from analysts dropping insights (and trying to predict our future) but few are as busy as one that came in today… I want to share this update that came from Martin Baccardax. He stated, “Markets now face a crucial run of key data points, including Wednesday's Fed rate decision, a Thursday policy meeting at the Bank of England, Friday's October jobs report, and next Tuesday's mid-term elections, that will test the resilience of the market's recent rally.” He goes on to mention the numerous third-quarter reports that have already come in as well as all the companies reporting this week. Bottom line, I am composing this update and sending it out amidst a very busy time for all of us.

While there are so many things happening that will undoubtedly move the market day to day, I think it is important for everyone to understand there is no single piece of data that will appear over the next week or even month that will likely substantiate an “all is clear” alarm for the market or the economy. However, our confidence in a market footing, of sorts, will be established when our Federal Reserve alludes to the end of its current “tightening cycle”. If you are watching the news, you see countless analysts telling you why their prediction of the next Fed move is THE correct prediction. I am not here to predict the next move but believe two things. First, evidence is supporting that the Fed’s actions is curbing inflation and we are later in the tightening cycle that is having a positive effect on the overall objective (bringing inflation in check). Secondly, our investment philosophy and “sleeved” styled portfolio will allow us to maneuver the current market cycle, economic cycle, and any future pivot in Fed Policy. Our sleeves are well-researched and diversified in a way that supports a methodical approach to maximize individual risk tolerance balanced against our current environment while considering various individual time horizons.

If you have not had a meeting to review our investment philosophy and our outlook regarding your individual portfolio, I highly encourage you to reach out and schedule an appointment. Understanding is critical to confidence and in times of volatility and anxiety, knowing the plan can be welcoming… In the words of G.I. Joe, “Knowing is half the battle!”

While we face so many headwinds, my focus is largely taken by the activity in and around the Federal Reserve. Let us take a deeper dive in the following section!

Understanding the Fed, Rate Hikes, and the Effect on Yields:

Some may not understand why the Federal Reserve is so center of attention and how that relates to the markets, economy, or even your personal investment accounts… so I will try to briefly explain how we got here and where we are. Let's travel back in time to the summer of 2020. COVID really did a number on the entire World. Maintaining any kind of lifestyle wasn't just boring… it was scary. For some time, many were afraid of how they were going to work to make ends meet. Our government, our Federal Reserve, and many of the same agencies around the World, all started pouring out stimulus money. **Over $2 Trillion dollars** was poured into the US economy alone. As we adjusted to that life of less travel, less eating out, more time at home, etc.… our spending habits changed, our savings habits changed, and our demands changed on every level. This put a large imbalance in the supply-demand ecosystem. An ecosystem that is at its best when it is balanced and can be vicious when it isn't. As the imbalance remained and outside geo-political events started to flare up globally, too much demand for too little supply started to drive prices higher… we call that, inflation!

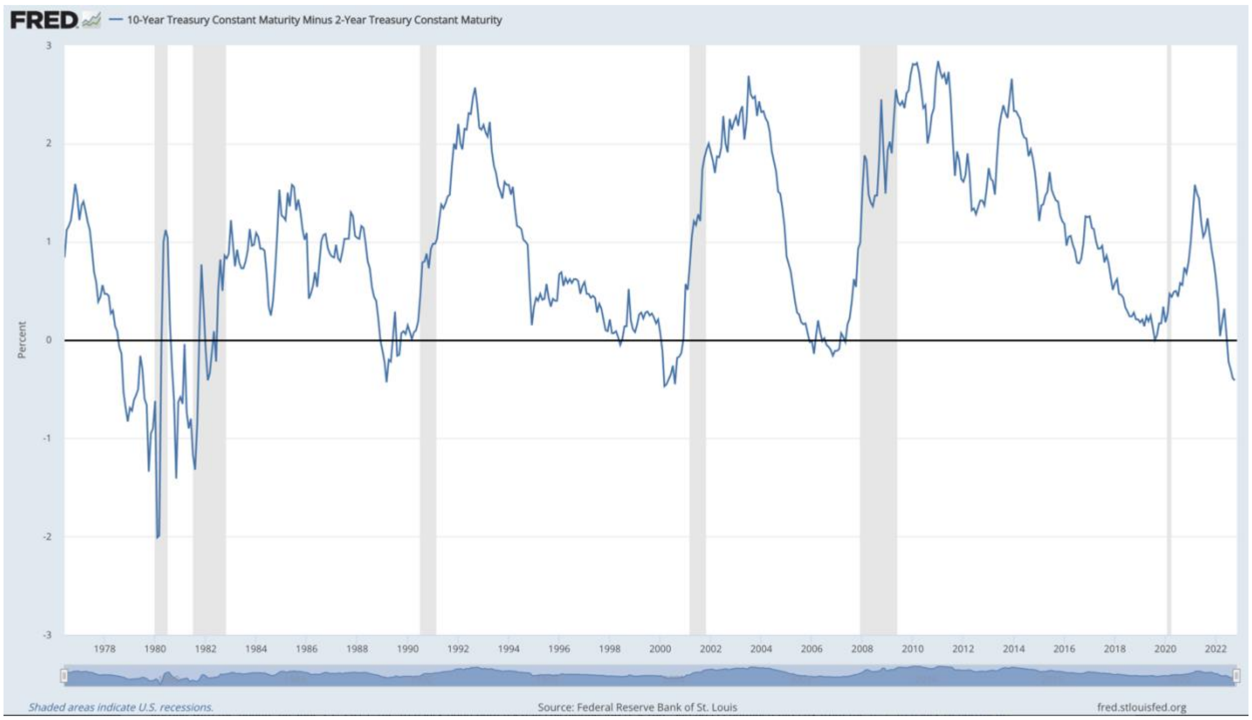
A major role of our Federal Reserve is to keep inflation in check. The Federal Reserve was extremely complacent, arguably criminal, in not tightening policy sooner. Now they are playing catch up and that is not comfortable. Ever ran late to catch a flight? That panic and anxiety ambush is exactly what the Fed is feeling! What we should expect though, when inflation starts to increase, the Fed steps in. One of the ways the Fed fixes this imbalance is to attack business and consumer demand… they want you, me, businesses, and governments to think twice about how we spend our money through their attempts to slow demand… specifically, they make money expensive to borrow. Remember when borrowing money for a house cost 2.5 percent (or thereabouts)? How much more consideration is happening when lending cost 7 percent? Thus, demand slows to realign itself with supply.

Why is my investment account down? Well, quite simply, if you are invested in large companies that now must pay more to borrow money, that added cost will eat away profitability or their growth is questionable because they chose not to borrow, so investors get defensive.

So, where are we now? The Fed's recent interest rate move took rates into a restrictive range… Rate Ranges… Rates generally are considered to be restrictive at levels difficult for GDP to grow, neutral when the rates neither help nor hurt GDP (and an ideal place for Fed rates), or accommodating when our economy needs a little help! I cannot know if they will go higher. My guess is that they will. I am confident to say that from where rates are today, there is a great chance Fed Interest rates will be lower someday when the Fed mitigates inflation and decides to accommodate growth (by rate cuts). They do not even have to go back to accommodating ranges but merely a change to 'neutral' would be substantial for equities… We don't know when, but we do have confidence that the US and the Fed will want to encourage GDP growth in the future. This substantiates strong conviction for U.S. equity markets as well as U.S. bond markets.

Recession Talk:

Currently, you are likely seeing headlines about a yield curve inversion. This gets complicated and I encourage everyone to be on our monthly Education Calls and Town Hall Meetings (Zoom). Let's dig in though!



(Click the picture to visit the FRED page for a full-size image)

There is a strong correlation between a yield curve inversion (leading indicator) and a recession. Pictured above, the blue line is tracking the "spread" of the yield curve. Specifically, it is the 10-year treasury rate minus the 2-year treasury rate. The black line across the middle of the chart is zero so every dip below that line indicates a "yield curve inversion". The gray areas on the chart represent time periods of U.S. recessions. You can see the evidence to support that a recession typically follows a yield curve inversion. Why?

To help you understand this, assume you are lending someone money. If consideration is given to the concept of 'Time Value of Money', theoretically the longer you lend someone money, the more interest you would charge them. When a yield curve inversion happens, you can get paid more money for shorter durations of lending. In this case, currently, the 3-month treasury is paying a higher yield than the 10-year treasury… a close monitored comparison as a predictor of U.S. recessions, amongst several other rate term comparisons (I.e., the 1-year and 10-year). According to a report[1] by the Federal Reserve Bank of San Francisco (March 2018), "…predicts a recession within two years [and] when the term spread is negative has correctly signaled all

[1] https://www.frbsf.org/economic-research/publications/economic-letter/2018/march/economic-forecasts-with-yield-curve/

nine recessions since 1955 and had only one false positive, in the mid-1960s, when an inversion was followed by an economic slowdown but not an official recession." Generally speaking, this 'leading indicator' is typically followed by a recession within the following 6 months to 2 years.

Fallacy? One should consider that the confidence in this is the statistical significance of this measure as a prediction tool has several arguments to defend. One, in particular, is the time frame of 6 months to 2 years. Since 1948 the US has endured 11 recessions averaging 11 months in duration. The 2007 Financial Crisis lasted 18 months and the 2020 Covid Recession lasted just 2 months.[2] So, the argument of a 2-year window leads to a defense that must be considered. The idea that such a long timeframe allowance leads to some to suggest that this metric might suggest, "Of course that is true".

However, the argument to support this relationship is easily explained in one Forbes article[3] (October 2022).

> "Inverted yield curves can change the behavior of banks and other lenders. With an upward-sloping yield curve, banks can receive more interest lending for long-term projects, such as a new factory or other forms of economic expansion. With an inverted yield curve, that picture changes. It actually may be better for banks to engage in shorter-term lending, potentially making less capital available for the sort of longer-term projects that can fuel economic growth."

The notion that lenders are eager to appeal to shorter-term lending, and shorter-term projects for companies and individuals, means more 'patchwork' projects for maintaining versus longer-term funding that can fuel real growth, innovation, and major industry-leading change. Consider right now, notable companies working on innovation at the expense of burning cash, they are being punished heavily in public markets as opposed to those focused on cost-cutting and positive cash flows. This is a wild inverse from our prior economic cycle of innovation, acquisition, and growth trajectories (even absent profits).

As stated above, I am not interested in calling a bottom, predicting the future, or nailing down a date, quarter, or even year for our next recession. According to LPL Financial[4] (August 2022), "If the U.S. economy does go into recession, we would not expect it to start for another six to 12 months, giving stocks some time to advance as inflation pressures presumably cool. We won't predict a soft landing, but there is a plausible scenario where a mild recession comes in 2023, the S&P 500 does not retest its June 2022 lows, and stocks are nicely higher in a year."

I remain neutral on a couple of likely scenarios. First, I see strong evidence that the market remains 'content' being range-bound at current levels. We have seen some bounces off recent lows that get retested shortly thereafter. Perhaps we just stay range bound as the economy works through the next few quarters, elections, inflations, and geopolitical issues. Another

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[2] https://www.thebalancemoney.com/the-history-of-recessions-in-the-united-states-3306011#:~:text=How%20often%20do%20recessions%20occur,as%20long%20as%20a%20decade.

[3] https://www.forbes.com/sites/simonmoore/2022/10/19/recession-alarm-just-sounded-by-yield-curve-indicator-with-stellar-track-record/?sh=5d5d2ea29fee

[4] https://www.lpl.com/newsroom/read/weekly-market-commentary-case-for-recession-weakens.html

plausible scenario suggests a more significant rally prior to another market drop closer to our next recessionary period. As stated above by LPL, a rally followed by another drop in U.S. equities may not see June of 2022 lows retested… but we could possibly see indexes close to those lows. This isn't my favorite scenario and here is why. Though this would be yet another 'temporary' market cycle, and not much different in the long term from the aforementioned scenario, the psychology of returning to market norms could make the next down trend seem more emotionally tolling. Still another scenario, we could find this endeavor to thread the proverbial needle possible, though unlikely because of the nature of embedded global inflation. To combat inflation, the Fed's tools are limited to controlling demand, thus by the nature of the tools available, slowing the economy will subdue inflation but likely at the expense of growing GDP. The bottom line is this, every argument right now is simply an opinion with evidence for the 'sayers' and 'naysayers'.

Recession Start	Recession End	Length of Recession	S&P 500 Index Return
March-45	October-45	8	16.4%
December-48	October-49	11	8.7%
August-53	May-54	10	17.9%
September-57	April-58	8	-3.9%
May-60	February-61	10	16.7%
January-70	November-70	11	-5.3%
December-73	March-75	16	-13.1%
February-80	July-80	6	5.7%
August-81	November-82	16	5.8%
August-90	March-91	8	5.4%
April-01	November-01	8	-1.8%
January-08	June-09	18	-37.4%
March-20	April-20	2	-1.4%
Average		10	1.1%
Median		10	5.4%

Source: LPL Research, NBER, 08/04/22

All indexes are unmanaged and cannot be invested into directly.
Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957.
Performance before then incorporates the performance of its predecessor index, the S&P 90.

Economic Talk Conclusion:

The most critical takeaway, deduction, or conclusion is this. Ensure a few things. First, ensure you have a healthy emergency savings account to navigate future uncertainty. Oftentimes, recessions are accompanied, even caused by, increases in U.S. unemployment. This safety net can afford some comfort amidst navigating a risky environment. Second, understand your cash flow situation. Understanding what is discretionary versus not discretionary in your spending can help you to quickly maneuver within a timeframe of decreased income. Third, when it comes to your investments, be sensible but not reactive. The fundamentals of diversification, being risk-appropriate, and considering your investment time horizon remain critical in both good times and bad times. Additionally, inside of portfolios, don't assume what lead the markets before has to lead in the next cycle or that just because a price was a certain number, it has to immediately go back. Diversification is critical. Check out our podcast by clicking the image above or navigate to a preferred listening platform (Links below in the announcement section).

With the above-mentioned priorities to help navigate uncertain times, it can also help to understand our investment philosophy and how it meshes with your portfolio. Since every client has different comforts with risk, time horizons, and other meaningful considerations, we'd ask that you set up a one-to-one meeting to discuss our management philosophy, investment philosophy, decided actions we have taken, as well as actions we are prepared to take for the many different possibilities, whether life, economic, or market related, we face. Understanding how everything comes together and seeing the bigger picture could offer comfort in the face of uncertainty. History shows us, with careful planning, mitigating risk where possible or necessary, and keeping our feet on the ground, economic and market cycles are temporary and do not have to derail a long-term plan. In fact, your financial plan is built on assumptions that include past market volatility, recessions, and depressions.

In conclusion, the markets are moving fast but I am optimistic that we now have a fuller story for investors that include a bond market that presents attractive yields and a promising future for likely positive returns. It's not easy or fun to navigate the environment we are in and facing but the work is getting done. I am also bullish on the fact that we are nearly a year into a skeptical market with many of those looming moments close to being in the rearview mirror. While the end of 2022 has fewer questions than the middle part, I am confident we will have more of the answers we have been searching for reveal their truth in 2023.

Fun Fact Story:

"Success is about taking advantage of opportunity." -Mike Dikta, Hall of Fame Football Player and Coach-

The ability to anticipate and adapt to significant advances in technology can place companies on a path to exponential growth or obsolescence. As the rate of modernization and development continues to accelerate, investors and businesses are compelled to make strategic decisions on whether to invest their time and resources into fledgling, often untested, technologies. While these decision-making moments have become commonplace over the last quarter century, pivotal opportunities to embrace or reject disruptive technologies have been documented throughout history.

In 1826, British chemist John Walker began selling “friction lights.” These lights were the culmination of his search for a method to apply easily ignitable chemical mixtures to slow-burning materials like wood. His work was significantly accelerated when he accidentally struck his chemical-covered, wooden stir stick against a rough surface. Its immediate ignition inspired him to recreate the process on a smaller scale, creating the first “matches.” Although Walker would successfully commercialize his product, he refused to pursue a patent on the technology, allowing for its growth into the product that we know today.

More recently, in 1953, a little-known company named Rocket Chemical Company struggled through thirty-nine failed attempts to create a water displacement and degreasing formula for use on the Atlas Rocket’s skin. The fortieth try proved to be so successful that some of the employees even utilized the formula to degrease and lubricate various household items. In 1960, the company eventually entered the commercial market, selling 45 cases a day from the trunks of its seven employees’ cars. By 1993, the company’s fortieth attempt at a water displacement formula would be found in 4 out of 5 American households, with sales of more than a million cans each week. Even today, the iconic blue and yellow bottle, better known as “WD-40,” can be found in supply closets and under sinks across the country.

In 2005, a new video social media platform was launched as a way for single people to post videos of themselves to meet potential partners. However, the platform’s use as a dating site would be short-lived as people utilized it to post random videos of their vacations, dogs, and other interests. Rather than fighting to maintain the site’s original purpose, the company’s founders embraced its broader popularity as a site for sharing content from an ever-expanding list of topics. Seventeen years later, the flexibility in adjusting to the market has left the company, YouTube, with a valuation greater than $180 billion. If you’re looking for an example of the varied content on the site, you could look up videos where parents wake their children up the morning after Halloween and tell them that they’ve eaten all the kids’ Halloween candy.

Although I've highlighted three individuals and companies that successfully embraced changing technological or market conditions, that's not always the case. Numerous companies and investors have missed opportunities for success due to the inability to embrace changing trends and technology. Blockbuster missed an early opportunity to purchase Netflix for $50 million due to its concerns about the business model (which was mailing DVDs to its customers). Netflix now has a market cap greater than $130 billion dollars, while Blockbuster has a single store still in operation (just south of Portland, Oregon). Kodak, whose own internal analysis in 1981 suggested that digital photography would eclipse film within a decade, failed to make meaningful changes to its business model and would face a decades-long struggle to remain relevant before shifting away from its long-established model.

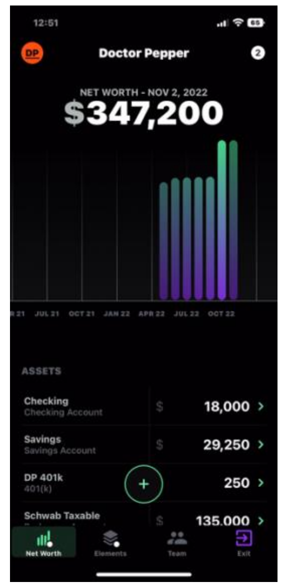
Other Interesting Tidbits:

1. **MAYBE, MAYBE NOT** - 37 states do not tax Social Security benefits, while the other 13 states may or may not tax Social Security benefits dependent on other facts, e.g., an individual's total income (source: USA Today).
2. **AIM FOR THE STARS** - In 2022, 11% of Americans aged 55–59, 32% of those aged 60–64, 70% of those aged 65–69, and 83% of those aged 70–74 are retired (source: Gallup).
3. **SAVER'S TAX CREDIT** - Married participants with adjusted gross income (AGI) under $68,000 and single participants with AGI less than $34,000 may be able to claim up to a 50% tax credit, or up to $1,000 for saving in a DC plan or IRA in 2022 – but only 41% of workers with household income under $50,000 were aware of the tax credit last year (source: Transamerica Center for Retirement Studies).
4. **NOT NOW** - Less than 1 in 5 Americans (19%) surveyed in April 2022 believe it's a "good time" to buy a home in today's market (source: Fannie Mae).

Year End Check List:

Cash flow audit:

1. November, December, and January are great months for you to track your spending. Generally, people spend more around the holidays so by using this 90-day average you are getting a great "average" monthly spend to set yourself up for successful planning next year.
2. Review every deposit you made into savings, investment, IRA, 401k, or similar account for the current year so you can gauge how much of your income you are saving.
3. Look at your debt payments and add those up to understand how much of your income is servicing your debt.



Update your net worth statement:

1. Update values in your investment accounts and other assets. For your home, no need to pay for an appraisal… tools like Zillow's "Zestimate" can provide a fair benchmark.
2. Update your debt balances owed.

Review your goals:

1. For goals you had this year, have you completed any? Are you close to completing any in the next three months? If time is short, prioritize them and focus on the most important thing for this year.
2. For longer-term goals, what progress have you made? What did you do this year to move the needle? Track this because seeing progress is a powerful and motivating tool to help keep you going!
3. Create new goals if needed that align with your purpose. Specifically, justify goals to what matters most to you. Often, we create goals that aren't really getting us close to fulfilling what we ultimately want in life… those can be great distractions and a waste of resources.

WE HAVE AN APP FOR THAT

UNDERSTAND WHERE YOU ARE AND THE PROGRESS YOU MAKE AT THE TAP OF A SCREEN!

Finish contributions for qualified accounts before the deadlines:

1. Many qualified accounts such as IRAs have deadlines that are tied to tax filing dates, but not all of them. For example, a payroll-tied qualified account such as a 401k makes it nearly impossible as an employee to put money into it after the year-end.
2. Many people use year-in bonuses to fund retirement accounts. If that's you, just make sure to call your financial professional so they can be available. Oftentimes, the end of the year is full of travel, so you don't want to lose an opportunity because of poorly planned coordination.
3. Consider a ROTH conversion. If you happened to have lost income this year, you might find this to be an opportunistic time for conversion. Please ensure you consult a tax and financial professional to ensure this is right for you.

Rebalance your portfolio:

1. Depending on your portfolio design, investment philosophy, comfort with risk, and goals, annually rebalancing your portfolio or even vetting your investments can keep you on azimuth. Even a portfolio of ETFs can start to lose its center over the years if left unchecked.
2. If your portfolio contains taxable assets, like in a brokerage or trading account, you can consider tax loss harvesting. I'd highly encourage working through this with a financial professional or tax professional because if you don't understand the rules, you could trigger wash sale rule violations and that isn't helpful to anyone.

Family:

1. Okay, so let's start with the obvious… ENJOY YOUR FAMILY AROUND THE HOLIDAYS! If you don't have family, enjoy your friends, or just let someone take you in for a big dinner! My table is always open to anyone that wants a seat!
2. So, you know those times when cooking is happening in the kitchen, and a few are gathered around the TV watching the football game… things are happening but mostly it's just great conversation… that is a great time to be an advocate for your family and start asking the right questions. For example, "Hey, Mom/Dad, when is the last time you verified your beneficiary set up on your financial accounts?", "Hey, if something were to happen to you guys, where would I go for a will, who do I call, what is our family plan?" or "Have you guys talked to Grandma/Grampa about this, your other kids, your brother, and sisters?" While it's not exactly the most fun conversation, when timed right, it can be wildly productive and make the whole family feel safer. I also usually add, "mom, I don't need to see the will and your plans can be private… but to make sure your plans get executed, we can talk anytime, or you can just let me know where everything you want is written down and I will make sure that happens just as you desire!"

Also, in working with a tax professional or financial professional, it is a great time to tie in our "Down Market Playbook" in conjunction with year-end planning and action. Go back and listen to that podcast if you need to refresh those considerations for action.

Announcements and Upcoming Events:

⇒ Check out our **IMPROVED WEBSITE** HERE

- We have a lot of new features and functions that will be integrated in over the coming months. We have educational pages for our planning software as well as our structured investments.
- The site address directly is https://harpethwealthpartners.com (save that to your favorites!

⇒ Make sure you check out our **Podcast** and share it with friends, family, and on your socials. We strive for relevance and education. Please let us know if you would like any particular topic discussed. Find our content at:

- **Apple podcast**
- **Spotify**
- **Google**
- **YouTube**

⇒ November is **Insurance and Estate Planning Month**. Our education series will focus on educating you on these critical components of your financial health. We will explore ways to communicate these topics with those close to you. Understandably, talking about end-of-life plans with a parent, child, sibling, or friend can be challenging. Being aware of insurance policies and coverages, beneficiary status, estate document locations, will locations, or the completeness of all these things is important for a family to discuss as part of healthy legacy planning and protecting your family and loved ones.

HAPPY THANKSGIVING TO ALL OF YOU!!!