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FINANCIAL OUTLOOK
SUMMER 2016

FEDERAL RESERVE POLICIES AND THEIR ECONOMIC IMPACT

The policies of the Federal Reserve directly impact our economy, though the extent of that impact varies. In order to understand the effects of the Federal Reserve’s policies, it’s important to discern between these policies and those of the legislative branch.

While Congress focuses on a wide range of issues, when it comes to money, their task is what’s referred to as fiscal policy: government spending, borrowing, and taxation. To keep the economy balanced and growing, the Federal Reserve steps in to enact what is called monetary policy, primarily focusing on our country’s money supply — specifically, currency and price stability. These policies most often involve adjusting interest rates or lending policies to help maintain or reestablish stability with a focus on unemployment and economic growth.

There are two main categories of monetary policy: expansionary, which focuses on increasing the economy’s money supply; and contractionary, which focuses on either slowing or decreasing the money supply. Contractionary policy might involve raising interest rates or reserve requirements to discourage lending in an attempt to slow expansion that may lead to inflation. On the other hand, expansionary policy is typically carried out during recessions or times of slow economic growth, when the Fed will often set lower interest rates or reserve requirements to encourage borrowing — particularly by businesses — in hopes of fostering economic growth and addressing unemployment. Monetary policy enacted by

INVESTING BEFORE AND DURING RETIREMENT

There are two phases in the life cycle of a retirement portfolio: the time when you’re contributing to it and the time when you’re using it to cover your living expenses. During each phase, the basic challenge is deciding how to invest your nest egg; and for that, there are three common approaches:

O GOING WITH YOUR COMFORT LEVEL. Most people have some idea as to what investments appeal to them, either because of the rate of return they associate with them or how much safety they seem to offer. Whichever it is, people tend to pile their retirement funds in one place — which can cause problems if there is a significant decrease in that investment.

O USING A ONE-SIZE-FITS-ALL FORMULA. There are at least several of these formulas floating around. On the theory that the closer you get to retiring the more conservative you should become, one says you should subtract your age from 100, treat the result as a percentage, and put that portion of your portfolio in stocks and the rest in bonds. Another follows the same method, but suggests you subtract your age from 120. The appeal of this approach is that it’s simple and unambiguous. The downside is that the results don’t take into account the details of your circumstances.

O USING A FINANCIAL PLAN. A plan includes all the details that the other two methods leave out. It’s by far your best bet for achieving your retirement goals, since it takes your circumstances and the state of the economy into account.

BEFORE YOU RETIRE

The key factor is to determine

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FR2016-0115-0028
the Fed in the past decade has been largely of a more expansionary nature, although this policy has most recently begun to take a different turn.

The Fed’s most notable changes in recent years have been setting unusually low interest rates. Beginning in 2008, they initiated what would become a seven-year period of record-low interest rates with the goal of revitalizing the economy and encouraging spending. Lowering interest to speed up the economy is nothing new — the idea stems from the theory that lowering these rates will encourage spending and borrowing via lower-interest credit cards, loans, and mortgages. The hope is that as more money becomes available to spend, consumer demand will increase and businesses will expand to meet that demand. As prices slowly increase, confidence in the dollar and, therefore, investing will follow. As predicted, this seven-year period of low interest rates did just that, though many financial commentators argue this growth has been mediocre at best.

This is because economic growth is nearly always measured by a country’s gross domestic product (GDP), which is essentially its output of goods and services. Critics of the government’s recent fiscal and monetary policies note the diminished average annual gross domestic product (GDP) growth percentage of 1% from 2008–2014, as opposed to nearly 3% between 1988 and 2007. This lower GDP rate, coupled with a national debt that has more than tripled since 2008, has left many people and economic experts jaded about both monetary and fiscal policy.

Still, forecasters with a more optimistic outlook point to a mostly gradual increase in the GDP growth rate each year (with the exception of 2013), asserting that the 2014 GDP growth percentage of 2.4% marked the highest annual rate in four years, more closely resembling pre-2007 rates. Furthermore, The S&P Case-Shiller Home Price Index has noted a stronger housing market since 2012, with an average housing price increase of over 6% per year in spite of month-to-month sales fluctuations. This is up from a reported 33% price fall between the 2006 housing peak and 2012.

In light of labor market indicators, which the Fed believes point to both decreasing unemployment and sustained job gains, monetary policy has most recently begun to take a different shape. In December, the Fed announced plans to gradually increase interest rates in increments of .25% and .50% over the next three years. In addition to increased confidence in economic growth, they expressed concern that prolonged record-low interest rates could be dangerous in the event of another economic lapse, since they’d either be unable to slash interest rates or face lowering these rates into the negative zone.

Interest rates changes aren’t the only monetary policy tool implemented by the Fed. As our Central Bank, the Federal Reserve also controls reserve requirements and lends money to U.S. banks. In December, the Fed tightened these lending policies, announcing a .25% interest rate hike on emergency loans to banks. They also declared they would no longer lend any emergency funds to banks facing bankruptcy. Part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the new policy will essentially shelter taxpayers from inheriting the potentially costly burden of banks’ financial mistakes.

Critics of these new policies, particularly the Fed’s decision to raise interest rates, argue that historically, interest rates have only been raised during times of increasing inflation; they assert that with inflation still low by historic standards, the rate hike decision could discourage buying and investing, further stalling the economy from stronger growth.

Please call if you would like to discuss the impact of recent economic trends on your finances.
what rate of growth you need to achieve in your portfolio to retire with a nest egg capable of supporting you for the rest of your life. It’s a balancing act between how much you can afford to put aside every year, how much growth will maximize your nest egg, and how much risk you feel comfortable taking.

By analyzing these factors, a good financial plan produces a recommended asset allocation strategy that specifies how much of your portfolio should be invested in stocks, bonds, cash, commodities, and real estate. The mix in which you invest aims at a target rate of return and risk level that both meet your goals.

In general, the younger you are, the more risk you can afford to take since you will have many market and economic cycles to smooth out your returns. It’s generally true that the closer you are to retiring, the more conservative your portfolio should be. But this doesn’t suggest the precise proportions to place into each asset class.

After You Retire

Before you retire, your asset allocation strategy is driven largely by the goal of creating the largest possible retirement portfolio within the limits of your tolerance for risk. After you retire, the goal shifts to keeping your retirement portfolio large enough to continue generating the supplemental income you’ll need.

While this shift means your strategy aims for less growth and risk than in the accumulation stage, it’s usually a mistake to revert to the most conservative strategy possible. That’s because your portfolio gets eroded over time by:

- Inflation, which means the real value of your portfolio gets smaller every year.
- Taxes on income and capital gains in taxable accounts and withdrawals from non-Roth IRAs.

When looking at employment rates in the U.S. is the underemployment rate, which you can think of as a measure of how well American workers’ skill sets are being utilized. The underemployed are people working in positions that fall below their actual skill or salary capacity, such as an accountant working as a waiter, along with the number of workers employed part-time but seeking full-time positions. The underemployment rate reported by the Bureau of Labor Statistics includes unemployed people as well. In 2015, the U.S. underemployment rate was at nearly 15%.

Beyond lower wages, both underemployment and underemployment can negatively impact the economy in several ways. Reduced wages means reduced disposable income, translating to less overall spending and slower growth for businesses. Additionally, more people collecting unemployment benefits — typically funded from federal and state imposed employer taxes — can hamper economical growth. Employers pick up much of the tab for these benefits in the form of increased tax rates, a financial burden that can ultimately affect their expansion and ability to hire more workers. Furthermore, some economists assert that prolonged unemployment can lead to decreased incentive to find new employment.

Please call if you’d like to discuss your situation.
**FINANCIAL DATA**

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**NEWS AND ANNOUNCEMENTS**

**Does the Gender Wage Gap Still Exist?**

Each fall, after compiling information gathered from its national monthly surveys of approximately 60,000 households from the previous year, the U.S. Bureau of Labor Statistics (BLS) publishes the *Highlights of Women’s Earnings*, which notes the average weekly wage and salary earnings of both men and women employed full-time and the female-to-male earnings ratio. In 2014, that ratio was 82.5%, pointing to the lowest-ever gender pay gap of the 73.9% of all men and 61.1% of all women employed full-time.

For 2014, the BLS reported that 12% of women worked 35–39 hours per week (compared to just 5% of men), while 26% of men worked 41 or more hours per week (compared to 15% of women) — which could account for some of the reported wage discrepancy. Approximately 52% of female employees and 57% of male employees reported a 40-hour work week, closing some of the gap with an 89% female-to-male earnings ratio.

The good news is women’s real weekly earnings have been on the upswing for the past three decades. In fact, men at all educational levels have trailed women in wage increases for the past 35 years. For example, female employees with a bachelor’s degree or higher saw an overall 31% increase in wages, compared to a 15% increase among men. This gender wage gap trend increases as educational levels decrease. For example, while men with a high school diploma encountered a 20% decrease in wages since 1979, women at the same educational level saw a 3% increase.

When examining the gender wage gap by occupation, though the number of women workers lead men in four out of seven occupational categories, their weekly median earnings matched those of men in just one field (health practitioner support technologists and technicians). The highest gender discrepancy was in legal occupations, with women earning just 56.7% of men.

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