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Is there a Recession Coming?

or is it already here and we just don’t know it yet?

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THE PERILS OF TOO MUCH CREDIT CARD DEBT

As the level of inflation increases, and the cost of nearly everything rises, recently there have been numerous stories in the press citing the increasing level of credit card debt by American consumers. Using credit cards to cover the cost of usual and normal daily expenses (gas, groceries, etc.) isn't terrible if you pay off the balance each month. However, if you find the balances on the cards are increasing each month, this could lead to financial trouble.

If you have high balances on your credit cards, you might start wondering how much credit card debt is too much. As a general rule, it's best not to accumulate any credit card debt, but sometimes you need to do it. Credit card debt can be hard to pay off, so it's important to know when you have too much and when it's still manageable. By figuring this out, you can decide if you need to make some serious changes, or if you'll be fine simply paying your bills as usual.

Many consumers don't routinely pay off the entire balance on their credit cards each month, but instead pay some portion of the balance with each payment. If you fall into that category, you should always try to pay more than the required minimum payment in order to reduce the balance faster and limit the amount of interest you're paying the card company over time.

The clearest sign that you have too much credit card debt is when you can't afford the minimum payments. At that point, card issuers will start charging you late fees in addition to the regular (usually pretty high) interest charges. Once your payment is 30 days past due, it can go on your credit report and hurt your credit score.

If you can't pay a credit card bill, or you've already fallen behind on payments, then you need to make some changes. Here are a few ideas that might help you change your financial situation:

1. Cut back on unnecessary expenses

2. Work with a credit counseling agency

3. (As a last resort) Get a personal loan to refinance your debt

If you take the step of getting a loan to refinance the debt on the credit cards, don't continue to use the cards and increase the balance on them again.

Even if you're able to make your payments on time, your credit card debt might still be an issue. If you are reaching the credit limit on your credit cards, that's a sign that you might be reaching the danger zone with your credit card debt.

Maxing out a credit card is when you've spent your entire credit limit, which is the maximum amount you can spend on the card. Card issuers must decline any transactions that would cause you to go over your credit limit, unless you've agreed to over-the-limit transactions (which can have extra fees).

If you’ve maxed out a credit card, it can have negative consequences. You won’t be able to use the card until you’ve paid down the balance. A high credit card balance also raises your credit utilization ratio, which can lower your credit score.

One of the difficult things about credit card debt is how it can sneak up on you. It often creeps up over time. If you aren’t paying more than the minimum payment, but still charging new purchases, the balance gradually increases every month. Eventually, what was previously a small, manageable amount has grown by thousands of dollars.

When your credit card balances are growing, that’s a red flag to watch for. Whenever possible, it’s good to be proactive about paying down those balances before they become a much bigger problem.

It might also be an issue if you’re only making the minimum monthly payment. It can take years to pay off credit card debt when only paying the minimum due each month. If you’re in this position, see if you can free up any more money by cutting out unnecessary expenses so your monthly payment makes more of a dent in what you owe.

How do you properly manage your credit? A good starting point is to set up a budget and figure out how much you can pay per month. From there, you can build a debt payment plan and look at options that will help you pay off your debt cheaper and more quickly.

Is there a Recession Coming?

or is it already here and we just don't know it yet?

There has been a lot of chatter recently about whether we're headed for a recession or not.

Recently we've heard some of the Big Whigs – like Jamie Dimon of JPMorgan Chase (JPM) and Goldman Sachs (GS) President John Waldron – issue warnings about the economy. Former Federal Reserve Chairman, Janet Yellen also warned about the danger of rising inflation.

At a financial conference in New York on June 1st, Dimon said, "You know, I said there's storm clouds but I'm going to change it … it's a hurricane. While conditions seem "fine" at the moment, nobody knows if the hurricane is "a minor one or Superstorm Sandy," he added.

The next day, President of Goldman Sachs, John Waldron told a banking conference, "This is among, if not the most complex, dynamic environment I've ever seen in my career. We've obviously been through lots of cycles, but the confluence of the number of shocks to the system, to me is unprecedented."

In an interview with CNN, Janet Yellen was shown previous remarks she'd made last year where she indicated there would only be a "small risk" of inflation, and that it would be "manageable."

In response, Yellen said, "Well, look, I think I was wrong then about the path that inflation would take."

Yellen's admission was stunning. You rarely – dare I say, never – hear anyone in a position of such power admit they were wrong.

According to the latest data, inflation has climbed 8.6 percent year-over-year — near a 40-year high. The Federal Reserve has already raised its key interest rate twice this year, and has signaled it intends to do so again at its meetings this month and in July, and may be required to raise the rate again at its August and September meetings.

The Fed's current "target federal Funds rate" is 0.75% to 1.0%, already a sharp increase from the zero percent target rate it held for several years. If they raise the target rate by just 25 basis points in each of the next four meetings, rates will be a full one percent higher (1.75% to 2.0%) by September.

That is very important not only for the equity markets – since higher rates provide a non-equity alternative investment option for very conservative individual and institutional investors, but the valuation level of the broad market – especially the stocks of companies needing to raise capital to sustain operations, will be negatively impacted.

The technical definition of a recession is two consecutive quarters of negative GDP growth. We already know the 1st quarter of 2022 saw a decline of 1.5% in the GDP rate. With early warnings of slower sales and lower profits from economic staples like Target and Wal-Mart, many analysts are predicting the second quarter GDP could also come in negative – confirming the economy is already in a recession.

There are a few early signs in the equity market that confirm that possibility. Historically certain market sectors have been an "early warning" of a slowdown coming to the broad economy. The financial sector as well as the small cap stocks both tend to be sensitive to changes in the underlying economy and can be early warning indicators of impending slowdowns. The charts of both sectors peaked several months prior to the broad markets and continue to be in down trends. The end of this month we'll get the 3rd revision to the 1st quarter GDP and then we'll see if the number is still negative – which I expect will be the case. But we won't know officially for a while if the economy is actually in recession since the "advance estimate" (read – not very accurate) 2nd quarter GDP report comes out at the end of July and the "preliminary" (read – a little more accurate but still open to wide revisions) doesn't come out until the end of August.

The responsibility of declaring when an "official" recession begins and ends falls to The National Bureau of Economic Research (NBER). More specifically, it is the Business Cycle Dating Committee within the NBER that decides. They are historically very slow in making that determination. At times, it's been 18 months, or more, after the recession is over before they proclaim the "official" start and end dates. Obviously, not very helpful in real time.

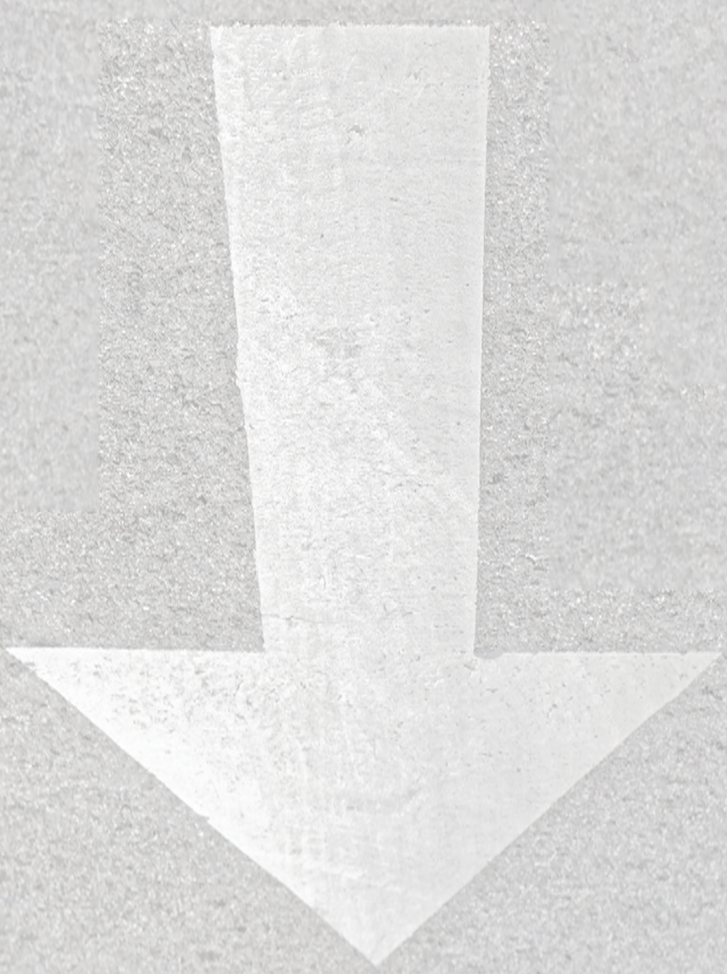
Since World War II there have been 13 recessions—defined as two consecutive quarters of GDP decline–and there have been 3 in the 21st century (2001, 2008 and 2020), according to the NBER. So, how do stocks perform when the economy is faced with a recession? The S&P 500 surprisingly rose an average of 1% during all recession periods since 1945. What? How's that possible? It's because investment markets usually top out before the start of recessions and bottom out before their conclusion. Typically the equity market sees its worst decline prior to the official start of the recession and finds a bottom while the recession is still on-going.

In other words, the worst is over for stocks before it's over for the rest of the economy. In almost every case, the S&P 500 has bottomed out roughly four months before the end of a recession. The index typically hits a high seven months before the start of a recession. The average decline during a bear market that coincided with a recession since 1945 is 34%. As of June 14th, the S&P 500 is down 22% from its high at the start of the year, but the tech heavy Nasdaq has already declined 34% from its previous high.

So, if we are in (or about to enter) a recession, what should you do? If your portfolio is too heavy with equities, you might want to use countertrend rallies to look for opportunities to reduce that allocation. Determining whether its "too heavy" in equities is subjective and should take into account factors like, time horizon, risk tolerance, emotional makeup, etc. and is probably best examined with the assistance of a financial planner. If you don't have a plan, now is a good time to get one.

If you feel your portfolio allocation is suited to those personal variables, you know you own high quality assets for the long term, and understand that the current economic and investment market environment won't last forever, it's probably best to hunker down and weather the storm. If you have the fortitude, you might even consider using the market volatility as an opportunity and look for attractive values in high quality companies for long term growth.

As famed value investor, Shelby Cullom Davis once quipped, **"You make most of your money in a bear market, you just don't realize it at the time."**



REBALANCING YOUR PORTFOLIO

It's a good idea to periodically check the allocation of your investment portfolio to ensure it accurately reflects your objectives and risk tolerance levels. This is especially true during periods of time when the market is experiencing high volatility levels. As market performance alters the values of your asset classes, you may find that your asset allocation no longer provides the balance of growth and income to potentially achieve the level of return that you want. In that case, you may want to consider adjusting your holdings and rebalancing your portfolio.

Assets grow at different rates—which means that your portfolio might end up out of line with the target allocation you have chosen. For example, some assets might recently have grown at a much faster rate, or perhaps a market correction has driven a certain part of your portfolio lower in the short term. To compensate, you might reallocate some of the value of fast-growing assets into assets with slower recent growth, which may now be poised to pick up steam while recent high-performers slow down. Otherwise, you might end up with a portfolio that carries more risk and provides a lower long-term return than you intended.

There's no official timeline that determines when you should rebalance your portfolio. If you are a more active investor, or during periods of high volatility, you might decide a quarterly re-balancing schedule is appropriate. Perhaps if you are a less active investor you may consider assessing whether you need to rebalance once a year as part of an annual review of your investments. The most important point is this – you should regularly examine the allocation of the portfolio to determine if it still reflects your long-term goals.

The Cost of Re-Balancing

Keep in mind that account re-balancing could mean potential tax implications and maybe even other fees. Aside from the costs you might incur, switching out of investments that have appreciated could mean recognizing a capital gain, or selling an asset that has performed poorly means locking in your loss. If selling an appreciated holding occurs in a taxable account, you could incur a tax, but you may be able to offset some or all of that with a tax deduction by selling assets that have declined. However, if you are rebalancing in a retirement savings account like and IRA or 401(k), you can't take a tax deduction on capital losses. If you aren't versed in this process, its best to seek the advice of financial professional.

Rebalancing Approaches

You can rebalance your portfolio in different ways to bring it back in line with the allocation you intend it to have. Here are three common approaches to rebalancing:

1. Redirect money to the lagging asset classes until they return to the percentage of your total portfolio that they held in your original allocation.

2. Add new investments to the lagging asset classes, concentrating a larger percentage of your contributions on those classes.

3. Sell off a portion of your holdings within the asset classes that are outperforming others. You may then reinvest the profits in the lagging asset classes.

All three approaches work well, but some people are more comfortable with the first two alternatives than the third. Psychologically they find it hard to sell off investments that are doing well in order to put money into those that aren't. Remember, though, that if you invest in the lagging classes, you'll be positioned to potentially benefit if they turn around and begin to prosper again.

Automatic Rebalancing with Lifecycle Funds

The asset allocation you choose to help you meet your financial goals at an earlier time in life may no longer be the ideal allocation after you've been investing for some time, for instance as you approach retirement.

Often too many investors simply never take the time to modify their portfolio allocations. Some may not feel confident doing so, or they simply get too busy and neglect a regular analysis of their investments. The result is they end up doing nothing.

That's where lifecycle funds, also called target date funds, come in. These funds are increasingly being offered in retirement plans, and are also available to investors outside of retirement plans, too. Each lifecycle fund is designed to have its asset allocation modified gradually over a period of years, shifting its focus from seeking growth to providing income and preserving principal.

Usually, this is accomplished by reducing your exposure to stocks and increasing the percentage your lifecycle fund allocates to bonds. To make matters simpler, a fund's timeframe is often part of its name. So, in 2015, if you're thinking of retiring in about 15 years, you might put money into Fund 2030. And if your target retirement date is 30 years away, you might choose Fund 2045. In theory, this is a good idea to help those investors who might be less willing, or able, to adjust their portfolio allocation themselves.

However, the caveat in the current environment is this – in a time period when the equity market is weak, and interest rates are rising, you could experience short term losses in both asset classes as the fund regularly re-balances. Before transferring your balances to a lifecycle fund, you'll want to investigate the fund as you would any potential investment, looking at its objective, fees, manager, historical performance and risk levels, among other details

Source: FINRA

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