

# ***My Views from Wall St. to Center St.***

**“To give anything less than your best is to sacrifice the gift.”**

**~ Steve Prefontaine**

- Personal Notes
- A crisis of confidence
- A far cry from 2008
- The Fed broke something
- Managing your Social Security
- Types of Social Security
- Final Thoughts

## **Personal Notes**

It's been a while since I have written a “My Views...” For that I apologize. Lots of things have happened in the world, to me, to B&H, and many of you, I'm sure.

You will read about some of the things happening in the world as you read through this letter and I look forward to hearing from each of you about the things happening in each of your lives; vacation, grandkids, great-grandkids or whatever you want to share. I want to know all these things and if there needs to be an adjustment to your individual family plan, please reach out to me immediately.

As for myself and the firm a lot has happened in the last several months. So let's Do Happy 1<sup>st</sup>! I got remarried on June 24, 2022. I can report my wife, Aleta and I are very happy, but our new marriage began with “stormy seas.” A week before our wedding I had my 3<sup>rd</sup> surgery to my left eye (2 in August of 2021), I had 4 more surgeries from July to Oct. and in between that I lost my mother & my brother. The surgeries have resulted in loss of sight(mostly). The loss of my mother was sad, but it was her time, she was 93, but the loss of my brother, John, was profound. It hurt so much I don't have words to express the pain and emptiness that I felt. These “losses” challenged my physical, mental, & emotional ability to live, much less work. It challenged my “Faith...”

But thanks to the help of my family and the B&H Family, and an “old friend,” “my faith,” it has been renewed. So the good news is that my family and the B&H family are stronger than they ever have been, ever!

In addition, through the “stormy seas” my son, Jake has stepped up in a big way. He is working with me the way I did with my dad (30 years ago)! The good news is he is a lot smarter than I am, but the bad news is my dad was a much better teacher. I am becoming a better, more tolerant, more patient teacher than I was. If you haven't been in lately to experience the B&H present & future, I encourage you to do so soon. It is exciting for the B&H family to move forward in a positive way.

I will continue to write about our transformation over the next several letters. But, let me emphasize I'm not going anywhere. I love what I do and have no intention of stepping away from B&H. B&H has had an amazing 57 years & I look forward to many more. This is just the next season.

## **A crisis of confidence**

Have you ever reflected on the foundation of the financial system? What comes to mind? Banks, investors, the stock market, the bond market, or the credit markets? That's partially true. They are the underpinnings, but the foundation or the bedrock of the financial system is confidence. Without confidence, we are left in a very precarious situation.

We have full confidence that when we withdraw cash from a bank account or money market fund, or for that matter, close out an account, we will have immediate access to those funds. But bank vaults aren't filled with cash that can be easily repatriated to depositors if, by an incredible long shot, everyone shows up one day to close their account. Our deposits are invested in high-quality bonds, Treasury bills, and loans.

What happened at Silicon Valley Bank last month was simply and old-fashioned bank run. Why? Confidence quickly evaporated. But the root cause of its demise had many regulators, investors, and Fed officials scratching their heads because nearly everyone was caught off guard.

## **A far cry from 2008**

Unlike 2008, when major banks were saddled with bad real estate loans, SVB invested heavily in a portfolio of high-quality, longer-term Treasury bonds. From a credit standpoint, these are super-safe investments. What could go wrong? Well, nothing if the bonds were held to maturity or if interest rates had remained stable. Bond prices and bond yields move in the opposite direction. When yields rose, the bonds fell in value, creating a paper loss.

But its customer base of venture capital investors had been drawing down on their deposits as more traditional sources of funding were drying up. With deposits being drawn down, SVB was forced to sell \$21 billion in bonds, and the bank took a nearly \$2.0 billion loss. SVB's hastily announced plan to raise capital was quickly scuttled when its stock tumbled, and depositors quickly began to withdraw cash, since a large majority of the bank's deposits were above the FDIC limit.

Less than two days after the bank revealed its loss on the sale of Treasuries, regulators were forced to shut the bank. Time to failure: less than 48 hours from a late March 8<sup>th</sup> announcement of its plans to raise capital and a morning shuttering on March 10<sup>th</sup>. Moreover, Signature Bank, which was heavily into the cryptocurrency space, was closed on Sunday, March 12<sup>th</sup>.

SVB and Signature were the second and third largest bank failures in U.S. history, respectively. Regulators did not have the time to line up buyers, and the FDIC moved to guarantee all bank deposits of the two-failed banks.

As controversial as it was, Treasury and Fed officials fretted over the potential of massive bank runs when markets opened on Monday.

It's difficult to estimate the carnage we might have seen on Monday morning, but the plan to ring-fence the banks with deposit guarantees and a new lending facility from the Federal Reserve helped contain the crisis and prevent contagion.

The new lending program from the Fed enables banks with high-quality bonds to borrow against the full value (par value, not current value) of their bonds, using the bonds as collateral. In theory, there is no need to sell the bonds. As the month came to a close, worries began to subside, and it was reflected in most of the major market indexes.

**Table 1: Key Index Returns**

	MTD %	YTD %
Dow Jones Industrial Average	1.9	0.4
NASDAQ Composite	6.7	16.8
S&P 500 Index	3.5	7.0
Russell 2000 Index	-5.0	2.3
MSCI World ex-USA**	1.7	7.2
MSCI Emerging Markets**	2.7	3.6
Bloomberg US Agg Total Return	2.5	3.0

Source: Wall Street Journal, MSCI.com, Bloomberg  
 MTD returns: February 28, 2023 – March 31, 2023

\*\*in US dollars  
 YTD returns: December 30, 2022 – March 31, 2023

## The Fed broke something

The epicenter of 2008 was subprime lending. Today, the failure of some banks to properly manage the duration of their assets (loans and bonds) and liabilities (deposits), coupled with sharp rate hikes and regulatory missteps, are the primary causes of today's problem.

Banks such as SVB piled into high-quality, long-term bonds but didn't hedge against the possibility of a rapid rise in interest rates. Rising interest rates exposed a fatal flaw in its portfolio. Regulators will dive into the details for a more thorough understanding of what happened, but the finger-pointing has already begun. Nonetheless, the impact may be felt for quite some time.

The Fed was probably on track to boost the fed funds rate by 50 basis points (bp, 1 bp =0.01%) to 5.00%- 5.25% at its March meeting. Inflation remains stubbornly high, but the Fed wisely chose to defer to banking stability, and opted for a cosmetic hike of 25 bp. It gives the appearance that inflation remains a priority, while focusing on the banking system. It also puts the Fed in a difficult position, as it hopes to tackle two conflicting goals: fighting inflation with rate hikes, which would put added stress on banks, or concentrating on financial stability.

The crisis might do the Fed's job for it, as tighter lending standards slow economic growth. How much? No one knows. Inflation hasn't been squashed, but problems with SVB have not spread to other banks. The crisis eased as the month ended, and most of the assets of the failed banks were purchased.

In recent days, sentiment has shifted on rates, but sentiment is ever-shifting. How the Fed reacts this year will depend on economic performance. As the month came to a close, fears have waned, helping shares rally, and the month ended on a favorable note.

## Managing your Social Security

On January 31, 1940, the first monthly Social Security check was issued to Ida May Fuller of Ludlow, Vermont. She received \$22.54. Before passing away in 1975, she collected \$22,888.92 in Social Security benefits.

Interesting trivia aside, many younger folks have little faith that Social Security will be there for them when they retire. According to Northwestern Mutual's 2020 Planning and Progress Study, nearly 75% of Gen Z (born after 1996) believe it's somewhat likely or not likely at all that they will receive benefits.

The program that began nearly 100 years ago is heading toward insolvency. However, that does not mean monthly checks will disappear. Instead, benefits would be reduced by about 21% if no action is taken. This reduction would balance the inflow of taxes with the outflow of payments.

The Social Security trust fund for retirees will run out of funds in about 10 years if Congress does nothing. We can't control how Congress addresses a funding shortfall. We advise you to control what you can control, and preparing for benefits is of paramount importance.

Social Security wasn't designed to replace all your income, but coupled with retirement savings, it will provide you with additional support. Besides, you've paid into the program your entire working life. When the appropriate time comes to receive benefits, you deserve your monthly check.

## **Types of Social Security**

1. **Retirement benefits.** These are the benefits most of us are familiar with. The earliest you may receive a monthly payment is age 62. The full retirement age is between 66 and 67. It's rising to 67 for those who were born in 1960 and after.

So, when should you grab your benefit? There's no hard and fast rule, but the best guideline is to wait as long as you can. The longer you wait, the greater the benefit, up to 70.

For example, if you are born in 1960, you'd receive 70% of the full retirement benefit at 62. That rises to 75% at 63, 80% at 64, 86.67% at 65, 93.33% at 66, and 100% at 67...continuing on, 108%, 116%, and 124% from 68 to 70. That higher or lower benefit lasts for the rest of your life and increases with annual cost-of-living adjustments based on the rate of inflation. Simple math tells us that someone who receives a 5% cost-of-living adjustment on a \$1,500 per month payment will receive a smaller increase than someone with a \$2,000 payment. Those annual increases (assuming inflation is above zero) compound for a lifetime.

If you are married, you have other items to consider. At full retirement age, you can take either 100% of your own retirement benefits or 50% of your spouse's, whichever is higher. If you are divorced and you were married for 10 years or more, you can receive benefits based on your ex-spouse's Social Security record (up to 50% of their full retirement benefits). This won't affect your current spouse's benefit if you have re-married. If you're widowed, you can receive either your own retirement benefit or up to 100% of your spouse's benefits, whichever is higher.

These are guidelines and are designed to provide you with a broad understanding of Social Security basics. We are happy to work with you and refine your approach. A brief mention of other benefits and terms can be found - <https://www.ssa.gov/agency/glossary/>

Let me give you an example of how we recently helped some clients:

*John & Mary started working with me in 2013. Their situation was unique. John was terminally ill and wanted to do everything he could to make sure Mary was taken care of financially. We did an evaluation of their assets, his life insurance, pension benefits available to Mary, and Social Security benefits that Mary could utilize.*

*I informed them that if John died before age 62, Mary could start drawing Social Security survivors benefits at 60 and could receive that for her lifetime, but she would be eligible to convert to her Social Security benefit upon her full retirement (age 66 & 4 months) if it was more.*

*John died late in 2013, and in 2016, Mary started receiving the Social Security survivors benefits and in 2022 (upon reaching her full retirement age), she was able to convert to her Social Security retirement benefit which provided over \$300 more monthly income than the survivors benefits.*

Social Security benefits can be a complicated, confusing and convoluted maze of difficult choices to make. I have helped guide many clients through these choices over the past 30 years. If you would like an analysis of your options, please contact me.

2. If you meet the requirement, usually work experience between five and ten years, **Social Security Disability** may be available to you if you have a severe medical impairment (physical or mental) that's expected to prevent you from doing "substantial" work for a year or more, or have a condition that is expected to result in death.
3. **Dependent benefits** may be available to your spouse or dependent. Minor children may also qualify for benefits, depending on the worker's income.
4. If you are the surviving spouse of a worker who qualified for Social Security retirement or disability benefits, you and your minor or disabled children can be entitled to **survivor benefits** based on your deceased spouse's earnings record.

As a widow or widower, you may begin to collect benefits once you reach age 60, or age 50 if you have a disability that prevents you from working.

Children qualify if they are unmarried and under age 18, under 19 but still in school, or 18 or older but they were disabled before age 22.

### **Final thoughts**

It's important to check on your earnings history. It's easy to do. You can verify your earnings history, its accuracy and much more through a personal My Social Security Account which is simple to set up: <https://www.ssa.gov/myaccount/>

Do you have any questions? We understand that Social Security may be complicated. There are various paths you can take to maximize your benefits, and we are here to guide you through the maze.

I trust you've found this review to be educational and insightful. If you have any questions or would like to discuss any matters, please feel free to send me an email (jeff@bhretire.com) or give me a call.

As always, thank you for the trust, confidence, and the opportunity to serve as your financial advisor.

Thank you,

Jeff

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