July 2023

THE CAPSTONE QUARTERLY

Summer is upon us, Independence Day parties are in full swing, and our country managed to avoid a default on its national debt. Despite some of the chaos in this world, we think there are plenty of things to celebrate. In this newsletter, Bryce gives a review of this last quarter and Casey provides details of the Schwab merger along with our investment strategy. Make sure you catch the update at the end of the newsletter on Bryce's new adventure.

BRYCE'S POINT OF VIEW

Bryce Pease, CFP®

Quarter in Review

The markets battled to gain momentum for most of May, rising and falling on a day-by-day basis, but struggling to keep a sustained trend week-to-week. The beginning of May brought an onslaught of headlines about the Debt Ceiling. The fear that the US could default on its debt by June sent the markets into a frenzy. One day up, one day down.

The US officially hit the debt ceiling in June, but the government was able to stave off the immediate effects by use of "extraordinary measures". Should the default have actually happened, the US would not have had enough money to pay its debts. The economic consequences could have been severe.

Thankfully, just by a hair, Congress was able to come to a deal to suspend the debt ceiling until January 1, 2025. In fact, rather than raising the debt ceiling to a new number, Washington has negated the idea of a debt limit altogether for the next eighteen months.

The beginning of May also brought on another "small" 0.25% rate hike by the Federal Reserve, bringing the rates to a 16 year high of 5.25%. The rate hikes are intended to serve as a deterrent against inflation, discouraging consumers and businesses from borrowing and rewarding them to save. Unfortunately, these rate hikes are a double-edged sword, they deter against inflation but can also depress an economy to the point of recession. The fear of recession, along with the higher interest rates, has triggered the market volatility that we've seen over the last quarter.

The rising interest rates have also done something else, too: they threatened the solvency of America's banks. Silicon Valley Bank, Signature Bank, and First Republic Bank all fell prey to the rising interest rates. All made long-term investment bets that turned out to be far too risky.

The good news is that the banking crisis seems to be quelled for the moment. The government acted fairly quickly in order to prevent any contagion from happening. If any other regional banks experience more credit shocks, or a fire sale on their stock prices, it might be like getting out of the frying pan only to fall into the fire.

The Federal Reserve decided to "pause" interest rates in the middle of June, with the likelihood that the interest rate hike will continue at a later date. For months, analysts have predicted that the labor market would slow down. Because of higher interest rates, companies would stop hiring, or even lay off workers. When unemployment starts rising, a recession is often not far behind.

To date, however, this hasn't happened. In May alone, the economy added 339,000 jobs[1] – far more than economists predicted. The more jobs there are, the more spending there is. The more spending there is, the more the economy will grow. However, the Fed may continue to raise rates if they believe that the economy can handle it, thereby injecting more uncertainty into the stock market.

We all know by now that the stock market doesn't like uncertainty. In the meantime, we celebrate the good news of the resolution of the debt ceiling and the fact that the economy didn't get sent into a massive recession. As advisors, we continue to be cautious and keep our eye on the markets every day. Your job is to enjoy the summer; we will pass along any information we feel you should be aware of.

CASEY'S CORNER

Casey Morris, CFP®

TD Ameritrade/Schwab Merger

You've read it in our letters, heard it from our mouths, and may have seen it on the news. A few years ago, Schwab purchased TD Ameritrade to merge two of the largest financial custodians in our country. The transition has been taking place behind the scenes over the past couple years and is set to move our advisory clients' accounts at TD Ameritrade in September.

We have made a concerted effort to call every single client and either speak to them by phone or leave a message detailing a few important items of the transition. You likely have gotten some correspondence from TD Ameritrade notifying you of the move that is set to happen over Labor Day weekend in a few months.

New account numbers will be assigned at Schwab and you will have a new online portal to access your account online. Nothing will change, however, with our relationship with our clients or their accounts. We will still have the same trading capabilities and authorities over the accounts like we had at TD Ameritrade. 529 College Savings Accounts will not be affected by this merger.

The process of the merger is considered a "negative consent". Our clients do not have to sign anything in order for it to take place. We will be the first to notify you if that should change. All addresses, information, and authorizations will make the transition over to Schwab and the accounts can be first accessed online at Schwab on Tuesday, September 5th.

Advisory clients with TD Ameritrade will be receiving several communications from either TD Ameritrade or Schwab over the next couple of months. If you receive anything that is confusing, please be sure to give us a call and we will guide you through.

As for our investment strategy going forward, we are proceeding with caution. As Bryce wrote about, there are many forces pushing and pulling the markets in different directions. We can't control which of those forces wins. Nor can we predict, day to day, which force will prove stronger. This is precisely why we have chosen a long-term strategy for investing.

We are erring on the side of caution for our advisory clients, as we have been for most of the year. We are participating in the markets by being invested; however, we still have a little cash on the sidelines mitigating some of the volatility. We feel that the interest rate hikes by the Federal Reserve will take about a year to truly affect the markets. Depending on what happens over this next 6 months to a year, it's possible that we may still see an economic recession. For this reason, we remain on the side of caution for our advisory clients. Should anything change in our opinion, we will be taking action and making the moves to try and participate in a rally. Like Bryce said, enjoy the summer months and we will be watching it for you.

Did you know?

It takes the government approximately 2.7 cents to make one penny. That's because of the price of copper and zinc – two key components in every penny. The price of copper and zinc have gone up over time, making the coin literally more expensive than it's worth.

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Facebook®: @capstonepacific or www.facebook.com/capstonepacific

FINALLY…

With much of the workforce transitioning to a hybrid model of remote work, Bryce has decided to join the pack. Late last year, his oldest daughter moved her family to a small town in the Midwest, taking her children with her. Bryce is now splitting his time between Nebraska and California, with Casey running the California office full-time. He will be expanding our company to the small farm town of 1,500 and opening an office on Main Street to work from while he is out there. The great thing about technology is that when Bryce is in Nebraska, he can still work as if he is sitting at his desk in California. His long-term plan is to stay in Nebraska full time and be able to provide investment management to a community that normally wouldn't have access to this type of service. If you happen to catch Bryce on the phone, be sure to ask him how the corn tastes directly off the stalk. And, no, we won't be changing our name to Capstone Central.

Sincerely,

The Team at Capstone Pacific

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P.S. If you ever run across anyone who could use our services or is unhappy with their current adviser's performance, we always appreciate it when you pass on our name.

1 "The US economy added 339,000 jobs last month," CNN Business, June 2, 2023.
https://www.cnn.com/2023/06/02/economy/may-jobs-report-final/index.html