July 2022

THE CAPSTONE QUARTERLY

Welcome to Summer! Where the weather is hot, and the stock market is not. In this newsletter, Bryce answers some questions we've gotten around the office lately, and Casey discusses some strategies for using your home equity towards retirement goals.

BRYCE'S POINT OF VIEW

Bryce Pease, CFP®
Chief Investment Officer

Economic Recession

As you can imagine, we spend a lot of time talking to our clients, peers, friends, and family about the economy and stock markets. One question that has been repeatedly asked is if we do go into an economic recession, what will happen to the stock markets?

First, let me define a recession. Experts declare a recession when a nation's economy experiences negative gross domestic product (GDP) for an extended period of time, typically 6 months. Simply put, a recession is when the economy stops growing and starts shrinking. Recessions can be triggered by a number of things, some of which include a sudden economic shock, excessive debt, asset bubbles (like real estate), or too much inflation.

Now, when calculating the growth of our economy (or GDP) many times inflation is used to account for the "real" numbers. So, even if we have positive growth but inflation is higher than that growth, we will fall into a negative GDP like we did earlier this year. By nature of inflation being so high, we are likely going to be in a negative GDP again next quarter (totaling 6 months) and therefore in a recession.

We believe that if a recession is announced in the coming months, the markets will likely take another turn downwards. Many economists are not expecting the next recession until the first half of 2023, however. If it comes sooner, it will be a shock and will make investors wonder how $10 trillion in combined monetary and fiscal stimulus since COVID began fizzled out so quickly! That will show that the economy is as weak as we fear it is, which has been masked by all this endless and escalating stimulus.

Remember the term "quantitative easing"? Or QE1, QE2, QE3 as was commonly thrown around after the big market crash in 2008 and 2009? The quantitative easing was when the Federal Reserve was lowering interest rates to try and stimulate the economy. Car loans, mortgage rates, and bank savings rates all followed suit with lower rates as well. Quantitative easing finally ended, and the Fed has committed to do the reverse and raise the interest rates, as part of quantitative tightening, trying to slow down the economy.

If a recession is announced, it will be hard for the Fed to change course so fast after finally committing to the tightening policy. It would make it look like the Fed is panicking over the weakness of the economy. The trillion-dollar question is, how do the Fed and central banks react if we do go into a recession so quickly after so much COVID stimulus? And how do investors react if the Fed does panic and reverse policy back to stimulus (lowering interest rates) so quickly?

Personally, I think it will look like the central banks have lost control. It will make it hard for them to come back and say $10 trillion wasn't enough, we need another $10 trillion (or more!). The central banks may have finally backed themselves into a corner with their something-for-nothing policies.

How many zeroes are in a trillion? 12 to be exact: 1,000,000,000,000. Every 1% increase in interest rates, our national debt payments increase somewhere around a half of a trillion dollars. This is probably not sustainable by continuing to print more money.

One more question that came to us lately was about our country trying to adopt crypto currency as the standard currency:

There are hundreds of crypto currencies currently available, and it may very well be common in the future, but I'm not sure we've seen the final product yet. So far most have acted more like a Ponzi scheme, many crypto currencies have gotten hacked, and thousands of people can't get their money because they've lost their passwords. No password resets are available in the crypto world that we know of. There is lots of talk about ending the US dollar, but I am very skeptical.

As far as our clients' accounts are concerned, currently we have no investments in the stock markets and remain in cash (money market). We are watching closely, as always, and looking forward to what may be some exciting future opportunities.

Did you know?

The stock market has a new holiday! The Juneteenth National Independence Day became a federal holiday last July commemorating the end of slavery. It is the first national holiday created by Congress in nearly four decades. Juneteenth is celebrated on June 19th but this year was observed on Monday, June 20th. The stock market was closed, and so was Capstone Pacific. But, as always, you can send us an email or leave a message and we will get back to you as soon as possible.

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CASEY'S CORNER

Casey Morris, CFP®

Is Home Equity an Asset?

The significant recent growth in home equity for homeowners has many folks wondering about how it impacts their overall financial planning. The answer is a typical response that you've heard from us time and time again: "It depends". Most often, my clients would like to stay in their primary home as long as possible and only consider the sale of their home and using the home equity as a last resort. Typically, in many financial plans, this home equity is set aside and not included as a retirement resource.

We asked our friend (who has also been a mortgage advisor for 32 years), John Thompson at Smpl Mortgage, to discuss some of the scenarios he has come across recently in relation to the soaring home prices – and here's what he had to say:

A more active approach to integrating home equity into planning conversations can yield important benefits for some families. For many people, the equity in their home is the largest asset on their personal balance sheet. Think about your own situation - is the equity in your home larger than your 401k or IRA? Is it larger than all your other assets?

Rather than having the home equity be a "last resort" in the financial plan, it might make sense to put that money to work for you in the meantime. Here are a few recent cases that have come across his desk:

> *"I lost my job early in Covid, I now freelance and would like to keep doing so. We have so much home equity – should I use that to not go back to a "Job"?*
>
> *"My folks are not going to have enough money unless they move away out of state, how do we use their home equity to keep them nearby to see their grandkids grow up?"*
>
> *"Over the years, my business has accumulated a large amount of debt, I want to retire or slow down soon but I am not sure if I should sell my house or try to stay?"*

"I have a large IRA, good savings, a nice house, and a mortgage – but I am not 100% confident I am going to make it through retirement."

There are several strategies that use home equity as an asset to help answer some of these questions to try and achieve financial and personal goals. Of course, everyone's situation is different and often finding a solution would involve the opinion of a tax person and attorney in addition to a financial advisor. Some of these strategies might include:

- Debt consolidation/restructure to increase current cash flow
- Adding cash flow/wealth/generational living options by building an additional dwelling unit on a property
- Trading your home up or down to try to maximize wealth
- Using home equity to further your education, or pay for another's education
- Cash flow/lifestyle planning to help a person age gracefully in their own home
- Protecting the sandwich generation who is taking care of aging parents as well as their own kids
- Is it better to stay in your home or sell?
- Is it better to inherit now or later?
- Risk avoidance/family peace of mind to pay for nursing home and other long-term care needs
- And many more….

When it comes to financial and retirement planning here at our office, we find that there is a recent trend with individuals and families wanting to utilize their home in retirement planning. Whether that be to use the home equity towards expenses, downsize, or sell and pay cash for a new home out of state, a home can be a major asset to use towards some of these goals. If it has been a while since we've reviewed your financial plan, or haven't worked on one together yet, feel free to give us a call so we can continue helping you plan for your future.

FINALLY…

With the ongoing TD Ameritrade merger to Schwab, our clients that are set up for e-delivery (electronic/email notices) of account statements will need to take action. To continue to receive statements and confirmations by email from TD Ameritrade, you will need to create your login credentials (if you haven't already) on www.advisorclient.com and select e-delivery. For those clients that already login regularly to AdvisorClient, confirm your e-delivery preference on the "my profile" section of the website. If action is not taken by July 22, 2022, then the e-delivery will expire and TD Ameritrade will begin sending paper statements and confirmations.

No action needs to be taken on your part to continue to receive emails from us, Capstone Pacific. If we are set up to send you emails (like this newsletter, for example) from Capstone then we will continue to do so no matter what your preference is with TD Ameritrade.

Sincerely,

The Team at Capstone Pacific

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.

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