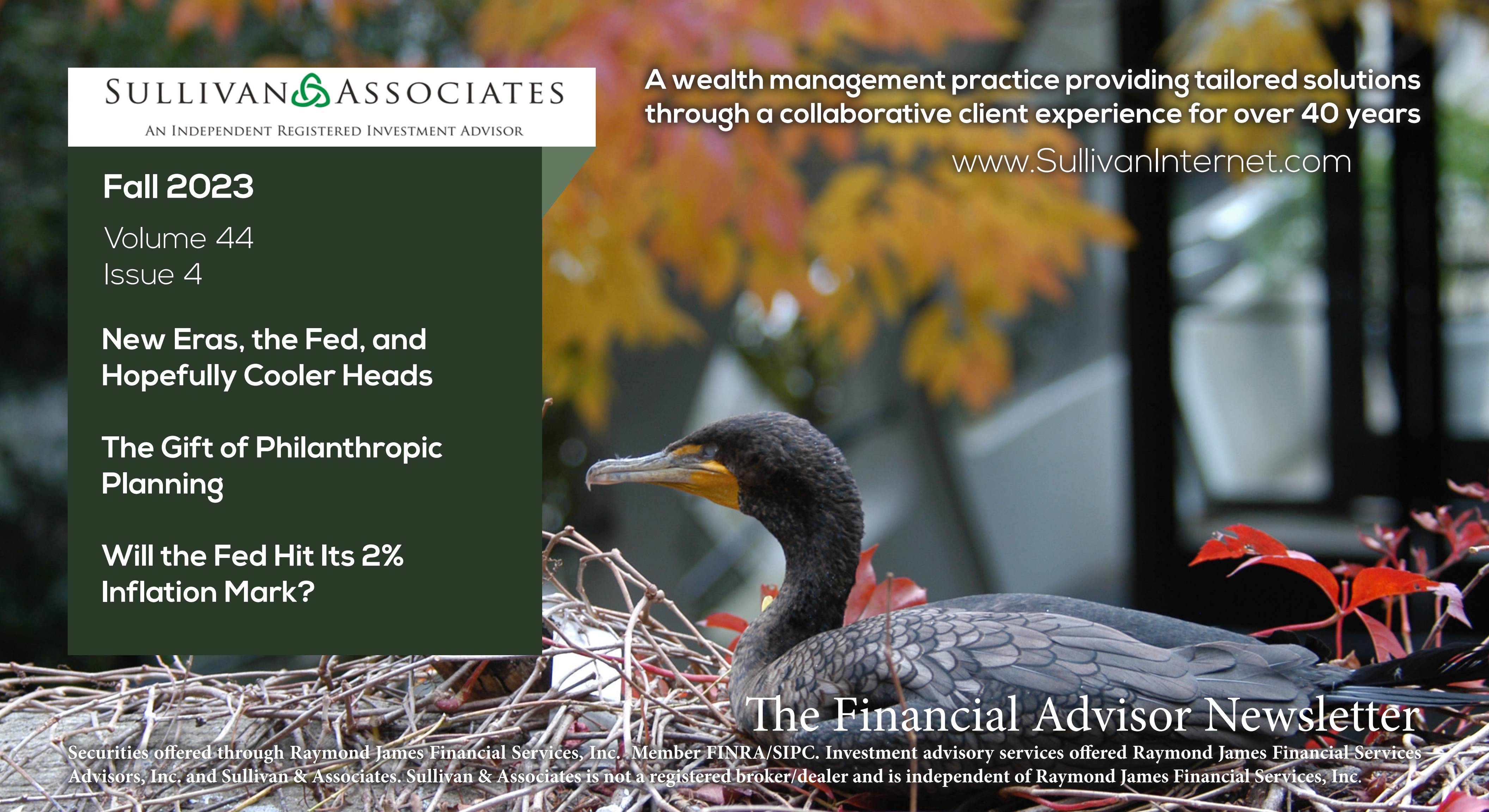


SULLIVAN & ASSOCIATES

AN INDEPENDENT REGISTERED INVESTMENT ADVISOR

A wealth management practice providing tailored solutions through a collaborative client experience for over 40 years

www.SullivanInternet.com

Fall 2023

Volume 44
Issue 4

New Eras, the Fed, and Hopefully Cooler Heads

The Gift of Philanthropic Planning

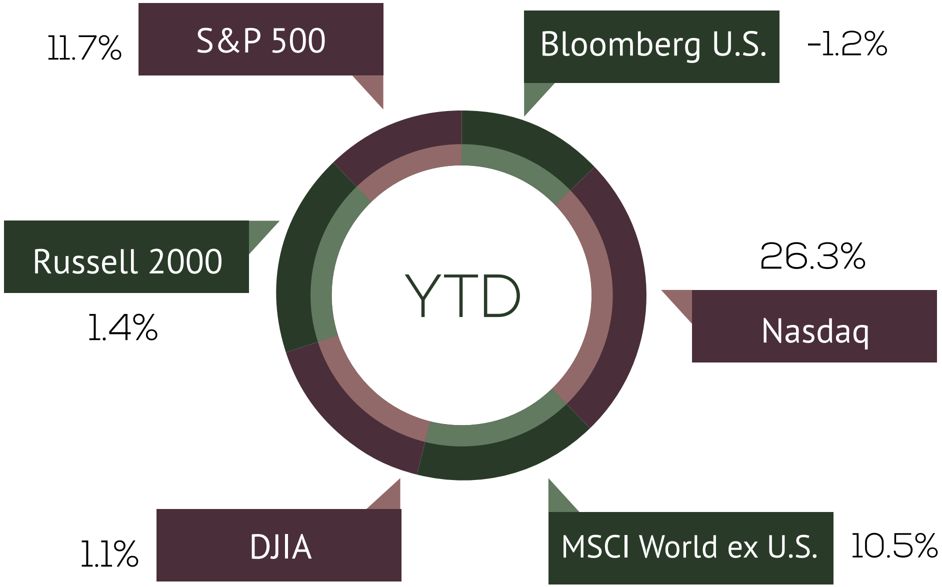
Will the Fed Hit Its 2% Inflation Mark?

The Financial Advisor Newsletter

CONTENT

Front cover photo taken by Patrick L. Sullivan

ECONOMIC **SNAPSHOT**



Source: WSJ, 10/02/2023 & FactSet, 09/29/2023. Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will effect actual investment performance. Individual investor results will vary. Past performance does not guarantee future results. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing the stocks of 30 companies maintained and reviewed by the editors of the Wall Street Journal. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Nasdaq composite is an unmanaged index of securities traded on the Nasdaq system. (The Dow Jones Global ex US is a stock market index measuring equity securities traded globally in 64 countries, excluding the U.S.). The Bloomberg US Aggregate Bond Index is a benchmark index composed of US securities in Treasury, Government-related, Corporate, and Securitized sectors. The Russell 2000 index measures the performance of the 2000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

KEVIN'S **VIEW**

NEW ERAS, THE FED, AND HOPEFULLY COOLER HEADS

As a child, fall was always a favorite time of year. When school started it always gave me an appreciation of the renewal and changes a new school year brought with it. Luckily, I maintain that appreciation of change because the way things are progressing, I think I may be using it a lot. Since 1945, the world has operated in basically two distinct periods, that were orderly. First was the Cold War with the competition between the United States and the Soviet Union, which effectively split most of the world in two and saw few major changes as both sides tried to outmaneuver the other without things spilling over into open war. The Cold War ended in 1991 with the collapse of the Soviet Union. The post-Cold War era was marked by globalization, a 'peace dividend', and a focus on business rather than warfare, with a few notable exceptions. Markets and countries opened in a way not seen before, trade flourished, and urban centers exploded as people moved out of rural areas to cities.

We are apparently now done with that era and entering a new one. One of the geopolitical authors I follow, Peter Zeihan, summed it up nicely in a recent video with the comment "This is what it looks like when history starts moving again." So far, this era has brought with it smaller generations, deglobalization with countries around the world trying to bring production closer to home, and a heightened level of conflict both between countries, but also within. Despite all this, our goal remains the same, to help our clients reach their goals. To do so, we will look at how the U.S. economy and capital markets have performed in the last quarter and what we see going forward within the backdrop described above.

The 3rd quarter of 2023 saw most stock indexes give up some of their gains from earlier in the year as bond yields continued to move up. Most of the focus is on the Federal Reserve (the Fed) and its continued response to inflation. There is a back-and-forth narrative of "will they or won't they" raise rates again. We suspect there may be one or two more movements up in interest rates before the Fed declares victory over inflation. One of

The highest compliment we can receive is when you let your families and friends know about us.
Referrals Welcome!

the most concerning economic aspects the Fed is seeing is the continued strong employment markets. Previous slowdowns have been marked by a spike in unemployment. So far, we have not seen any strong signs of that. We think that has to do with the continued reindustrialization of America along with the continued aging of the Baby Boomer generation. By some counts, there are ten thousand people turning 65 each day.

As we look forward to the end of the year and the beginning of next year, we suspect we will see continued volatility given the changes we are currently experiencing. Although, we expect to see some settling down once we get into the winter months. Next year is an election year, which typically bodes well for the equity markets as politicians tend to want to get reelected and a good economy lends itself well to reelection. While Washington D.C. always seems to be having issues these days, we still hope that cooler heads will eventually prevail given the stakes.

If you have any concerns or have had any changes in your circumstances, please reach out to our office if you would like to discuss them, or so that we may incorporate them into your financial plan. We very much appreciate the faith and trust our clients have put in us and look forward to working with you in the future. □

DID YOU KNOW?

A Legacy of Generosity

National Philanthropy Day is Nov. 15. To take the celebration a step further than writing a check, consider how you can teach the joy of giving to the next generation. If you want your charitable spirit to have more influence in your estate plan, connect with our office.

DATES TO REMEMBER

Nov. 30: Observe Information Security Day – keep your personal information secure by updating your operating system; visit ***ready.gov/cybersecurity*** for more tips.

Dec. 31: New Year's Eve is the year-end charitable gift deadline for check and wire transfers.
Last day to take annual required minimum distribution, unless you turned 72 in the current year.

FALL/WINTER 2023 MARKET CLOSURES

Nov. 23: Thanksgiving Day
Dec. 25: Christmas Day
Jan. 1: New Years Day
Jan. 15: Martin Luther King, Jr. Day

THINGS TO DO

- ☐ **Adjust your coverage:** Ready your documents for Medicare open enrollment, if eligible. If you're working and your employer offers benefits, take the time to understand them.
- ☐ **Refresh your plan:** It's important to monitor your retirement and investment accounts regularly and make adjustments to insurance and estate plans as needed. The holidays can be a good time to do this if you want to discuss what you're planning with close friends or relatives.
- ☐ **Fend off fraud:** Start by tracking and reviewing all of your bank and credit card statements for irregular activity. You can also request a copy of your consumer credit profile and stay on the lookout for scams asking you to confirm or update your account information via email.
- ☐ **Tend to your portfolio:** If you're invested in mutual funds, don't forget about capital gains distribution dates that typically fall in December. Consider balancing your realized capital gains with losses where appropriate. Talk with our office about whether this strategy might help lower your tax liability.
- ☐ **Revisit your resolutions:** Before beginning your New Year's celebrations, review the financial planning you did for the past year. Did you make progress toward your goals?

The gift of **philanthropic planning**

WHY DO YOU GIVE?

- What personal beliefs, values and experiences inspire your philanthropy?
- What do you want your generosity to accomplish?
- Which causes and communities are most important to you?

WHO ARE YOU HELPING?

- What issues or causes – education, public health, animal welfare – are important to you?
- What types of organizations – direct aid, volunteer, religious – appeal to you most?
- Which causes do you currently support? Do you plan to expand that support?
- Which new causes might you focus future efforts on?

YOUR FAMILY'S MISSION

Make your "why" official with a family mission statement, outlining core values, traditions and goals, to help ground and guide your giving.

WHO'S HELPING YOU?

- How are you involving your immediate family?
- How are you sharing giving traditions and including younger generations?
- Which professionals – financial advisors, estate planning attorneys, tax specialists – are already on your team?
- Which advisors – professional trustees, foundation directors, philanthropic consultants – might you consider adding in the future?

WHAT WILL YOU GIVE?

YOUR TIME

- Volunteering
- Joining a board
- Mentoring or consulting
- Running for office

YOUR RESOURCES

- Donating physical assets (vehicles, art, etc.)
- Offering the use of a property
- Providing supplies

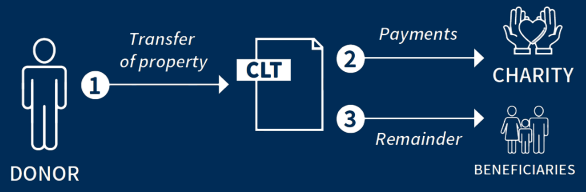
YOUR WEALTH

- Annual and responsive giving
- Individual or pooled giving
- Establishing a charitable trust, fund or foundation

WHAT TOOLS WILL YOU USE?

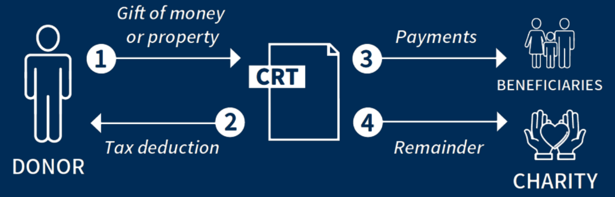
Charitable Lead Trust (CLT)

Enables tax-efficient giving during your lifetime, or a set number of years, with remaining assets earmarked for designated beneficiaries.



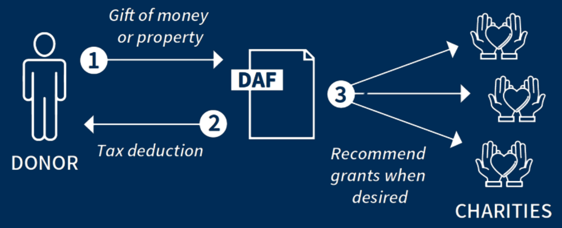
Charitable Remainder Trust (CRT)

Offers an initial tax break and income to named beneficiaries over the term of the trust, with remaining funds earmarked for a designated charity(ies).



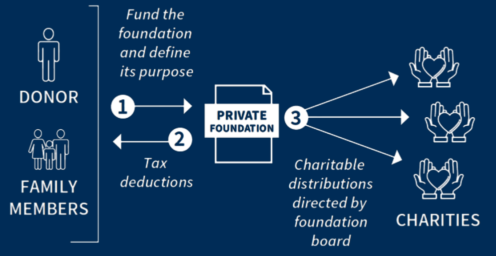
Donor Advised Fund (DAF)

Offers the opportunity to recognize charitable deductions today, while also allowing you to invest the assets for potential tax-free growth, and recommend grants to your favorite charities at a later time. Often referred to as a simplified version of a private foundation.



Private Foundation

Along with tax benefits, offers the opportunity to hire staff, custom design grant programs and appoint board members to govern the charity. Typically most suitable for donors looking to be actively involved in running a charitable organization that is primarily funded with sizeable donations from a single donor or family.



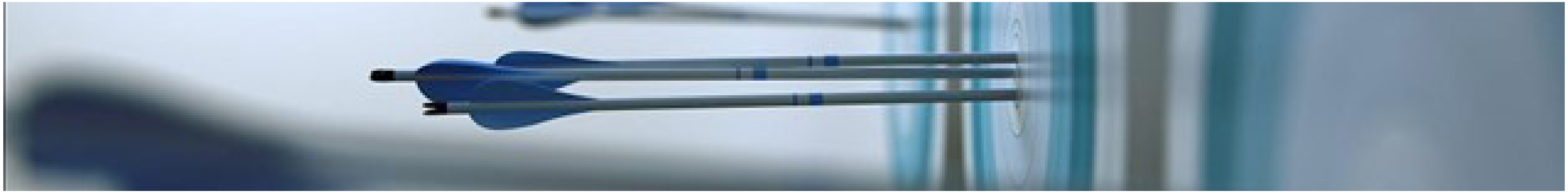
WILL THE FED HIT ITS 2% INFLATION MARK?

Chief Economist Eugenio Alemán and Economist Giampiero Fuentes note that while it is taking longer to bring inflation down, the Fed will continue to conduct monetary policy to reach its target rate.

Key Takeaways:

- The Federal Reserve (Fed) estimates that 2% for the Personal Consumption Expenditure (PCE) price index over the long run is the most favorable rate of inflation to support one of the institution's dual mandates: price stability. The Fed's second mandate is to keep the rate of unemployment as low as possible.
- Over time, there has been an inverse relationship between the rate of inflation and employment. If the rate of unemployment is too low, the rate of inflation would tend to increase, and vice versa. This is known as the Phillips Curve. But this relationship has broken down and a question for the Fed is whether the Phillips Curve will once again apply.
- Inflation occurs when there is a generalized increase in the level of prices in an economy. There are two ways in which inflation occurs, 'cost-push inflation,' which occurs when there is an increase in the cost of production in an economy, and 'demand-pull inflation,' which is when the demand for goods increases.
- Inflation has increased to the highest level in 40 years mostly due to consequences of the pandemic, including product shortages, supply chain disruptions, highly expansive fiscal policy, and strong consumer demand. Once these things normalize, inflation should return to the Fed's long-term target.
- The Fed is going to conduct monetary policy to reach its target rate of inflation. It is not going to change the target.

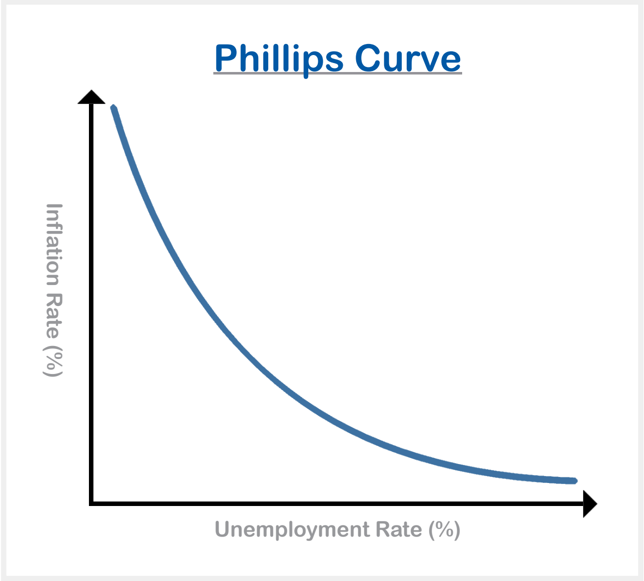
Inflation targeting was pioneered in New Zealand in the late 1980s as the country underwent significant economic and financial market reforms.



The primary goal was to maintain price stability by targeting inflation between zero and 2%, with the range allowing the country's Reserve Bank (its central bank) to accommodate volatility and external shocks. However, despite the flexibility, the Reserve Bank changed its targeting goal to 2%, providing more clarity to the public and policymakers. This experience with inflation targeting influenced central banks worldwide, including the Fed, which declared its 2% inflation target in 2012.

The Fed estimates that two percent for the Personal Consumption Expenditure (PCE) price index over the long run is the most favorable rate of inflation to support one of the institution's dual mandates: price stability. The second mandate is to keep the rate of unemployment as low as possible. But the biggest issue for the Fed is that in general, and over history, there has been an inverse relationship between the rate of inflation and employment. If employment is too strong – that is if the rate of unemployment is too low – the rate of inflation would tend to increase, and vice versa. This is what is normally called the Phillips Curve.

But this relationship has broken down over the last several decades. During the pre-COVID-19 pandemic years, the US was able to keep inflation under the 2% target while at the same time keeping the rate of unemployment at uncharacteristically low levels compared to the historical Phillips Curve relationship. Thus, the question for the Fed today is whether we will go back to a pre-pandemic relationship between inflation and unemployment or if the Phillips Curve relationship will once again apply.

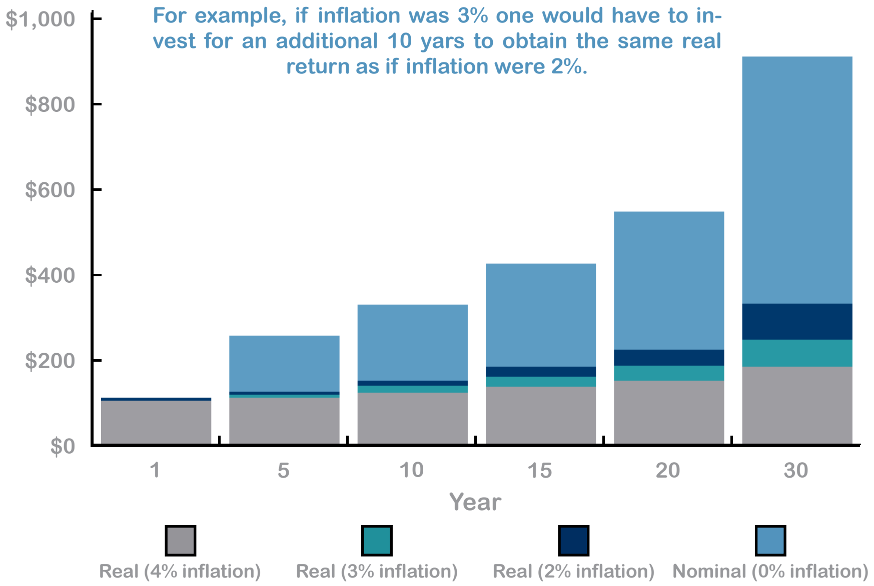


This Time Is No Different

Over the last two years, inflation has increased to the highest level in 40 years mostly due to consequences of the pandemic, including product shortages, supply chain disruptions, highly expansive fiscal policy, and strong consumer demand. However, once all the above return to normal levels, inflation should return to the Fed's long-term target. One of the biggest issues affecting inflation is immigration, which was severely curtailed due to COVID-19 but has returned to normal levels over the last year

The Impact of Inflation on the Return of a 60/40 Portfolio

Over the last decade, a 60/40 portfolio has returned a -6% a year on a normal basis (not adjusted for inflation). Therefor, $100 invested over 30 years at this rate would return -$575. Inflation of 2% over those 30 years would have shaved -$250 from this return, while a 3% inflation rate would have subtracted an additional -$60, and so on.*



or so. Although the labor force participation rate overall collapsed during the COVID-19 pandemic, the recent improvement in labor force participation will help normalize the U.S. labor market going forward.

The Bottom Line

The rate of inflation, after remaining below the Fed's 2% target for several years, has remained above target due to the severe COVID-19 pandemic shock and its policy aftermath. Although the Fed was caught off guard and reacted tardily to its inflationary impacts, the disinflationary process started in July of 2022 and has continued ever since.

It is true that inflation has remained above target for more than two years and thus it will take longer to bring down, but the process is guaranteed by the Fed's commitment to achieving its 2% target over the years and thus, there is nothing – other than sticking to the target – that the Fed has to do to achieve that target. □

*This is a hypothetical example for illustrative pursopes only. past performance may not be indicative of future results. there is no assurance these trend will continue. the market value of securities fluctuates and you may incur a profit or a loss. this analysis does not include transaction costs which would reduce an investors return. the 60/40 portfolio was 60% invested in the S&P 500 Index and 40% in the Bloomberg Barclays US Aggregate Bond Index. S&P 500 is an unmanaged index of 500 widely held securites. The Bloomberg Barclays U.S Aggregate Bond Ibdex contains aprx 8,200 fixed income issues and represents 43% of the total U.S bond market. An investor can not invest directly in these indexes.

SOURCE: Raymond James

Privacy Notice:

Sullivan & Associates is committed to protecting confidentiality of the information furnished to us by our clients. We are providing you this information as required by Regulation S-P adopted by the Securities and Exchange Commission. Information about you that we collect: We collect nonpublic personal information about you from the following sources: information we receive from you on applications or other forms or through our web site; information about your transactions with us, our affiliate or others; and information we may receive from a consumer reporting agency. Our use of information about you: We may share information about you with other companies in the Raymond James family - that is, companies that are owned by Raymond James Financial. In certain rare cases, we may share information with professional designation oversight bodies if an investigation is being conducted. Otherwise, we do not disclose any nonpublic personal information about you to anyone except as permitted by law. We follow the same policy with respect to nonpublic information received from all clients and former clients. How we protect your confidential information: Sullivan & Associates has policies that restrict access to nonpublic personal information about you to those employees who have need for that information to provide investment alternatives or services to you, or to employees who assist those who provide investment alternatives or services to you. We maintain physical, electronic and procedural safeguards to protect your nonpublic personal information. Opt-Out Procedure: If you prefer that Sullivan & Associates does not take your nonpublic personal information and use it at a nonaffiliated firm, you may direct us not to make or permit such disclosures by contacting us at the following toll-free number: 1-866-423-7237.

Disclosures:

The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any information is not a complete summary of statement of all available data necessary for making an investment decision and does not constitute a recommendation. Some material created by Raymond James for use by is advisors. Any opinions are those of Patrick Sullivan and Kevin Sullivan and not necessarily those of RJFS or Raymond James. Investments mentioned may not be suitable for all investors. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. While we are familiar with the tax provisions of the issues presented herein, as Financial Advisors of RJFS, we are not qualified to render advice on tax or legal matters. You should discuss tax or legal matters with the appropriate professional. There is no guarantee that the statements, opinions or forecasts provided herein will prove to be correct. Please note that international investing involves risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Investing in emerging markets can be riskier than investing in well-established foreign markets. Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Investing involves risk and investors may incur a profit or loss regardless of strategy selected. Diversification and asset allocation do not ensure a profit or protect against a loss. Dividends are not guaranteed and must be authorized by the company's board of directors. Re-balancing a non-retirement account could be a taxable event that may increase your tax liability.

Sullivan & Associates is registered with the State of Colorado as an Investment Adviser. Registration does not imply a certain level of skill or training. Pursuant to the Colorado Securities Act and Rules under the Act, we are required to offer you a copy of our current Disclosure Statement (Part 2 of the Registration Form ADV) upon your request. If you would like to receive a copy of the disclosure statement, please write to: Sullivan & Associates, 1229 Lake Plaza Dr, STE B, Colorado Springs, CO 80906.

SULLIVAN & ASSOCIATES

AN INDEPENDENT REGISTERED INVESTMENT ADVISOR

1229 Lake Plaza Drive
Colorado Springs, CO 80906

Your Dreams. Your Goals. Our Priority.

STAY **IN TOUCH**

719-576-4500 or 877-423-7237

Kevin P. Sullivan, CFA, CFP®, AIF
Wealth Manager, Branch Manager
Kevin.Sullivan@RaymondJames.com

Kristin Maksimowicz
Office Manager
Kristin.Maksimowicz@RaymondJames.com

Maryann Fulop, CRPS®
Investment Executive
Maryann.Fulop@RaymondJames.com

Katee M. Driscoll
Financial Advisor
Katee.Driscoll@RaymondJames.com

Katelyn Olson
Administrative Assistant/Receptionist
Katelyn.Olson@RaymondJames.com

Mikayla White
Client Service Manager
Mikayla.White@RaymondJames.com