

October 2020

THE EDUCATED INVESTOR

A GUIDE TO RETIREMENT PLANNING

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Implications of Fed's Average Inflation Targeting

Key Takeaways

- The Fed recently changed its inflation-targeting stance, a move that may appear trivial but could have significant implications for investors.
- This new policy means that the Fed will likely hold off on raising short-term interest rates allowing the economy to grow at a stronger pace.

In late August, Federal Reserve (Fed) Chair Jerome Powell announced a new policy framework for managing inflation known as “average inflation targeting.”¹ This move came as the Fed has already implemented several policy measures to limit the damage from COVID-19 lockdown and maintain financial stability. For investors, this move might seem trivial but could have significant implications and is worthy of a deeper discussion.

What is different about this?

The Fed has two mandates: maximum employment and price stability.² Maintaining price stability, that is avoiding high inflation rates or deflation (falling prices), is important because fluctuating prices can distort economic growth and make it difficult to evaluate how to align monetary policies such as setting interest rates. Previously, the Fed’s definition of price stability

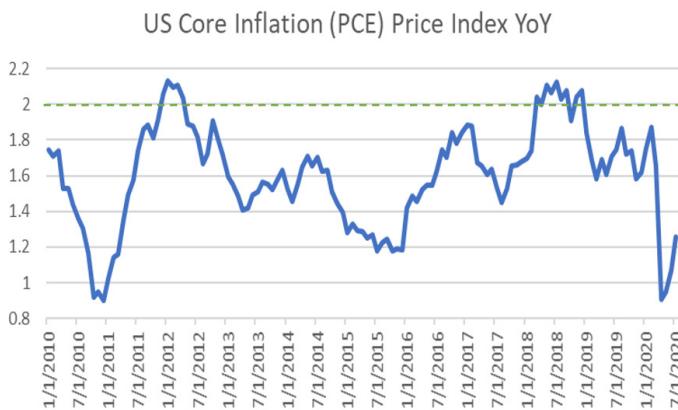


was to aim for 2% inflation as measured by Personal Consumption Expenditures price index (PCE). In the new version, the Fed believes that if inflation averages below 2% for long periods, as it has for the past ten years, then it would allow inflation to run well above 2% to achieve the 2% target, on average. The Fed has not provided a precise formula on what would define the average, thus providing them adequate wiggle room to target average inflation in a flexible way.

Why the shift in stance on inflation?

Since the great financial crisis, the Fed implemented unprecedented policies by slashing interest rates and buying bonds and other assets known as quantitative easing. These actions spurred a decade-long expan-

sion and historic low unemployment prior to the COVID-19 crisis. Despite achieving the goals of economic growth and maximum employment, inflation has remained below target.



Source: Bloomberg

This breaks with a classic theory that the Fed has relied on called the Philips Curve³ – an economic theory that lower levels of unemployment contribute to higher wages and, in turn, higher inflation. Thus with the recent changes, the Fed acknowledged that while price stability is important for a well-functioning economy, it raised concerns of persistently low inflation being a drag on economic growth. The Fed's goal is that the average inflation target will make it easier to fight economic downturns.

How does this impact investors?

There are three key takeaways for investors. First, this new policy means that the Fed will likely hold off on raising short-term interest rates until prices rise above the target inflation of 2%. This is a deviation from the past when it raised interest rates during 2018 and 2019 as inflation reached the 2% target. Keeping interest rates low for a longer period will allow the economy to grow at a stronger pace than usual and

allow the unemployment rate to fall to very low levels. A low interest-rate environment has historically been positive for risk assets like equities. Second, debtholders will benefit. Continued low interest rates help those who may currently hold a mortgage or a car loan to refinance higher interest loans to lower payments, freeing up money for additional consumption. Finally, inflation could become a concern down the road.



Investors concerned about longer-term inflation should consider incorporating inflation protection within portfolios for the long run.

¹<https://www.federalreserve.gov/faqs/what-economic-goals-does-federal-reserve-seek-to-achieve-through-monetary-policy.htm>

²<https://www.chicagofed.org/research/dual-mandate/dual-mandate>

³<https://www.stlouisfed.org/open-vault/2020/january/what-is-phillips-curve-why-flattened>

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2020 Election Voting Information

Election day is quickly approaching:

Tuesday, November 3, 2020

The 2020 election looks different than past U.S. elections with campaigning and voting taking place during the global COVID-19 pandemic. Voting has already begun. Be sure to request an absentee ballot in early October if you wish to vote while avoiding public areas.

Specific voting information and registration deadlines vary by state. You can visit www.vote.gov to read more.



5 reasons why this is the most important flu shot of your lifetime

From herd immunity to helping the fight against COVID-19, here's why a flu shot this year matters more than ever.



When it comes to viruses, most people are only thinking about COVID-19. But there's another virus that remains a medical focus of attention every fall, and is especially important to think about this year. It's the seasonal flu.

You might be surprised to learn that according to the Center for Disease Control and Prevention the impact

of the flu in the United States has been huge:

- 5.5 million illnesses
- 16.5 million medical visits
- 500,000 hospitalizations
- 34,200 deaths

Still, only about half of eligible Americans choose to get immunized in any given year. And common reasons for the hesitation are often based on lack of accurate information and rumors – “it’s not that serious” or “the vaccine will give me the flu.”

It's time to set the record straight, because in this year of the global COVID 19 pandemic, getting a flu shot is more important than ever. Remember the following:

1. A flu shot can save your life

The flu is a serious disease and its complications are significant. There's a risk of bacterial pneumonia, ear

and sinus infections, and worsening of chronic diseases like diabetes, heart disease and asthma. Like other viruses, those at increased risk are people over 65, children under age 5, pregnant women, and those with compromised immune systems.

2. Flu shots can help in the fight against COVID-19

A vaccination can help prevent the flu in about half of those receiving it, and also lessen the severity of the illness if you do get it. That's especially important now because the same hospital medical resources are used for the flu and for COVID-19 infections. And without a vaccine for COVID-19, protection from the flu helps both individuals and available medical care.



Hospitals approach peak capacity during flu season. By cutting down on flu-related hospitalizations, the risk of overwhelming the medical care system, with added COVID-19 patients, is largely reduced.

And a milder case of the flu (if you do get it) could make you less likely to head to the doctor or emergency room – just when they are filled with COVID-19 patients.

3. Flu shots do NOT cause the flu

Most people only have a bit of arm soreness at the injection site for a few hours. But some might experience a mild reaction – slightly feverish or achy – which simply shows that your immune system is working. It is NOT the flu.

4. The flu shot changes every year

Flu shots are recommended every year for almost everyone over the age of 6 months. But always check with your doctor for personal guidance. Flu shots are generally about 50 percent effective in preventing infection by the main strains of virus expected to be circulating. It's never going to be 100 percent effective, because vaccine development is not a perfect process. At the end of every flu season, the new vaccine for the following year is modeled after the strains seen earlier in a "best guess" of what strains will be circulating. Even so, a 50 percent response is highly impactful for disease prevention.

5. The flu shot helps with "herd immunity"

It's important to get a flu shot because it protects more than you, and can cut the risk of everyone around you. When many people get vaccinated, there are fewer germs around, and fewer people get the flu. That concept is called "herd immunity" – we all protect each other. It's especially important because it helps protect people who are not able to get vaccinated including babies, and people with weak immune systems. The flu spreads easily, the same way as COVID 19, so when everyone is "at risk" – you can protect yourself and your community.

When to get your flu shot

The CDC recommends getting your flu shot by the end of October, as it takes about 2 weeks to develop full immunity for the season. Most seasons stretch from late October to early April, but this can vary, with some seasons active until early May. And while fall is the ideal time for a flu shot, anytime during the season is a good time – don't think it's too late, and you've missed your "protective window."

Title: 5 reasons why this is the most important flu shot of your lifetime
Author: Justin Sullivan
Source: <https://www.nbcnews.com/know-your-value/feature/5-reasons-why-most-important-flu-shot-your-lifetime-ncna1241251>
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Pumpkin Pie Cheesecake Dip



What's in Season for October?



Pumpkins



Pears



Kiwi

Apples

Avocados

Bananas

Beets

Bok Choy

Broccoli

Brussels Sprouts

Carrots

Cauliflower

Celery

Corn

Cranberries

Eggplant

Grapes

Greens

Leeks

Lemons/Limes

Mango

Melons

Mushrooms

Okra

Pomegranates

Potatoes

Raspberries

Rutabagas

Strawberries

Sweet Onions

Sweet Potatoes

Turnips

Winter Squashes

INGREDIENTS:

- 3/4 cup International Delight Pumpkin Pie Spice Creamer
- 1 3.4 oz package pumpkin spice instant pudding
- 1 8 oz package cream cheese softened
- 1/4 cup granulated sugar
- 2 cups frozen whipped topping thawed
- Graham cracker crumbs for garnish

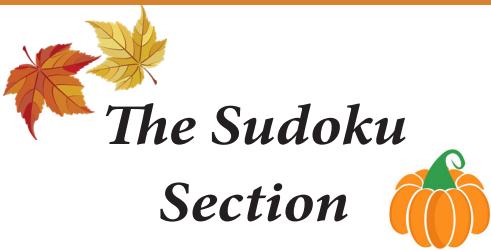
SERVINGS: 5-7

Prep Time: 10 Minutes

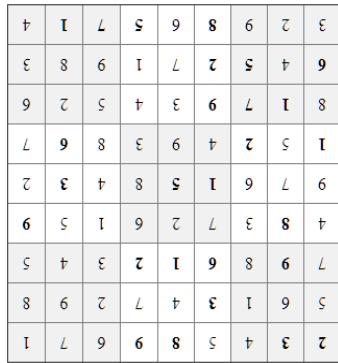
INSTRUCTIONS:

1. In a bowl, whisk together the International Delight Pumpkin Pie Spice Creamer with pumpkin spice instant pudding. Set aside for about 5 minutes.
2. In a mixing bowl, beat together the softened cream cheese and sugar.
3. Add in pudding to cream cheese mixture and beat.
4. Once well combined, fold in the 2 cups of thawed whipped topping and refrigerate.
5. When ready to serve, fill bowl with Pumpkin Pie Cheesecake Dip topped with graham cracker crumbs.

Sources: <https://www.anightowlblog.com/pumpkin-pie-cheesecake-dip/>, Produceforkids.com



The Sudoku Section



2	3			8	9			
				3				
	9			6	1	2		
	8							9
				1	5			3
1		2						6
	1	7	9					
6		5	2	4	2			
	8	9	6	1	5	3	2	

The answers



October Special Days & Holidays

(Financial Planning Month)

4th- World Animal Day

16th- World Student Day &

5th- Child Health Day &

World Food Day

World Teacher's Day

24th- Make a Difference Day

12th- National Savings Day

25th- Mother-in-Law Day

13th- Good Samaritan Day

26th- Pumpkin Day

15th- International Credit Union Day

31st- Halloween



Source: www.printmysudoku.com