



RETIREMENT & FINANCIAL PLANNING CORNER

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UNDERSTANDING THE CURRENT ECONOMIC AFFECT ON YOUR RETIREMENT & FINANCIAL PLANNING

Inflation

Inflation is running at its highest level in 40 years and this worries the average American.

- Inflation measures the increase in the price of goods and services. Or, the decrease in the buying power of the dollar.
- Cost-of-living measures the change, up or down, of the basic necessities of life, like food, housing, and healthcare.
- Housing prices are affected by many factors but one of the biggest of them is the cost of borrowing.



<https://www.investopedia.com/articles/personal-finance/081514/how-inflation-affects-your-cost-living.asp>

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Ukraine Invasion

Here are five ways the Russian invasion of Ukraine impacts Americans.

Energy & Oil Prices

With President Biden putting heavy sanctions on Russia, this has eliminated America's third biggest supplier for foreign petroleum.

Supply Chain Issues for Farmers

American Farmers were already facing record high prices on fertilizer because of inflation. With Russia being the second largest producer of fertilizer, American farmer's now have to deal with price gouging from fertilizer companies or plant less crops and use less nitrogen fertilizer on their fields for next year's growing season.

Travel Restrictions & Rising Airfare

The crisis is bound to contribute to already high oil prices. Jet fuel is one of an airline's biggest expenses, so it follows that persistently high fuel costs might be reflected in slightly higher fares.

Stock Market Volatility

The ongoing Russia-Ukraine geopolitical crisis may be pressuring stocks right now, but history suggests these dips could be good buying opportunities for long-term investors.

Faster Fed Rate Hikes

The Fed was already poised to hike interest rates several times this year, beginning in March, after inflation rose well above levels the bank expected.



<https://thehill.com/policy/finance/596203-five-ways-the-russian-invasion-of-ukraine-could-impact-americans>

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Interest Rates

When people talk about the Fed raising interest rates, they're referring to the federal funds rate, also called the federal funds target rate. When the Fed raises the federal funds target rate, the goal is to increase the cost of credit throughout the economy. Higher interest rates make loans more expensive for both businesses and consumers, and everyone ends up spending more on interest payments.

Impact on Stocks

When Fed rate hikes make borrowing money more expensive, the cost of doing business rises for public (and private) companies. Over time, higher costs and less business could mean lower revenues and earnings for public firms, potentially impacting their growth rate and their stock values.

Impact on Bonds

Bonds are particularly sensitive to interest rate changes. When the Fed increases rates, the market prices of existing bonds immediately decline. That's because new bonds will soon be coming onto the market offering investors higher interest rate payments.

Impact on Savings Accounts and Bank Deposits

While higher interest rates might be bad for borrowers, they're great for anyone with a savings account. That's because the fed funds rate is also a benchmark for deposit account annual percentage yields (APYs). When the FOMC raises rates, banks react by increasing the amount you earn from deposit accounts.

Impact on Consumer Credit

Variable rate loans are particularly sensitive to Fed rate changes as the interest rates they charge are based on benchmarks that reference the fed funds rate. New fixed-rate loans can see higher interest rates, but existing ones are immune to changes to the fed funds rate.



<https://www.forbes.com/advisor/investing/fed-raises-interest-rates/#:~:text=When%20Fed%20rate%20hikes%20make,rates%20and%20their%20stock%20values.>

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How to Invest During These Changing Economic Times?

Rising inflation, an ongoing pandemic and the Russian invasion of Ukraine are all stoking fears. The recent stock market volatility hasn't helped.

Luckily, there are steps you can take now to prepare. Below, six things' investors can do to help get their portfolios during these economic times.

1. Don't rebalance just yet

Rebalancing your portfolio — which involves buying and selling investments to restore your original asset allocation, or mix of stocks, bonds and other investments — is usually a good idea, but not during a market sell-off. When things are looking bleak, do your best to hold on to your investments. Selling during market lows can be one of the worst things you can do for your portfolio — it locks in losses.

2. Remember why you chose your investments

Diversification doesn't just mean allocating your money across different forms of investments like stocks or bonds. It also means that your money is spread across industries, geographic locations and companies of various sizes.

3. Invest in the necessities

Utilities are a classic lower-risk investment, but why? Utilities are essentials, and hopefully, most people will not have to forgo them during a recession. Household goods and other necessities are also considered recession-friendly investments.

4. Stay invested if you can

Try not to panic about the scary headlines and remember that staying invested is almost always the best response. Historically speaking, investors who hold on to their investments through recessions see their portfolios completely recover, and individuals who don't invest in the market at all lose out.

5. Dollar Cost Average

The goal of dollar-cost averaging is to reduce the overall impact of volatility on the price of the target asset; as the price will likely vary each time one of the periodic investments is made, the investment is not as highly subject to volatility. Dollar-cost averaging can help take the emotion out of investing. It compels you to continue investing the same (or roughly the same) amount regardless of the market's fluctuations, potentially helping you avoid the temptation to time the market.

[https://www.investopedia.com/terms/d/dollarcostaveraging.asp#:~:text=Dollar%2Dcost%20averaging%20\(DCA\)%20is%20an%20investment%20strategy%20in,price%20and%20at%20regular%20intervals.](https://www.investopedia.com/terms/d/dollarcostaveraging.asp#:~:text=Dollar%2Dcost%20averaging%20(DCA)%20is%20an%20investment%20strategy%20in,price%20and%20at%20regular%20intervals.)

<https://www.nerdwallet.com/article/investing/young-investors-prepare-recession>

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