Q3 2022

PERSPECTIVES

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10 Things Investors Should Know About the Dollar

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The U.S. dollar is getting a lot of attention these days. It's up about 10% year to date, which is a big move for currencies. The dollar matters for a number of reasons and we would argue probably deserves the attention it gets.

10 Things to Know About the US Dollar

1) S&P 500 companies that have a global footprint have to contend with a stronger dollar denting their revenue growth. Approximately 30% of S&P 500 companies' revenue is earned in markets outside the US.

During the second quarter earnings season many companies noted that the strength of the dollar hindered their top line revenue growth. We estimate currency took perhaps 2 to 2.5 percentage points out of S&P 500 revenue in the second quarter.

2) As shown in the LPL Chart of the Day, the “twin deficits” of the U.S. economy—the combination of the budget deficit and the current account (or trade) deficit—have been relatively accurate predictors of long-term trends of the US dollar. While the deficit has come down some in recent quarters, this relationship suggests the dollar is more likely to weaken over the next year or two.

3) An aggressive Fed rate hike campaign to curtail inflation would likely be bullish for the US dollar. Should inflation remain stubbornly high, the Federal Reserve may have work to do. In this scenario, the dollar may appreciate against the currencies of our key trading partners.

4) Emerging markets, in general, react negatively when the dollar climbs higher, as many have dollar-denominated debt with holdings of corporate and sovereign bonds. A stronger dollar makes it more difficult to service that debt. Many emerging market countries export commodities, so the strength of the dollar affects those sales. If emerging market countries import oil that’s priced in US dollars, it becomes more expensive.

5) Interest rate differentials affect currencies. When US interest rates are higher than those in other major economies, it tends to provide support for the U.S. dollar. The Fed’s aggressive rate hiking campaign has been supportive of the dollar to date, but Wednesday’s cooler inflation reading caused the market to pull back some on its rate hike expectations, causing the dollar to sell off.

6) A strong dollar is deflationary. As a historical net importer, the U.S. has usually carried a trade deficit (leading to a broader current account deficit in the process). As a result, the strong dollar is welcomed now with inflation being the biggest challenge for the U.S. economy.

7) International investments benefit from a weaker dollar. Most foreign-domiciled investments generate profits in foreign currencies. For U.S.-based investors those profits are worth less in a rising dollar environment.

8) Commodities tend to benefit from a weaker dollar. Because many commodities such as oil and gold are priced in US dollars and sold globally, a weaker dollar provides a boost for prices, and vice versa.

9) A strong US dollar tends to correspond to tightening financial conditions. As monetary policy in the U.S. gets tighter, we would expect the US dollar to experience some upward pressure. As such, the strong dollar has done some of the Federal Reserve’s work for them in tamping down inflation.

10 Things Investors Should Know About the Dollar

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10) The US dollar, as the global reserve currency, typically experiences safe haven demand when global economic and financial market conditions deteriorate. The dollar surged during the COVID-19 recession in the spring of 2020 and was strong from June 2021 up until just the past few weeks as markets increasingly priced in more Fed rate hikes and pushed Treasury yields higher.

So where does the dollar go from here? Our best guess is once the market begins to worry less about inflation and gets visibility into the end of the Fed's rate hiking campaign, that the dollar will weaken. The deficits have come down but they remain structural forces pushing the dollar lower.

At the same time, the challenging international economic environment, particularly with the energy crisis in Europe, and heightened U.S.-China tensions, may lead to periodic safe haven demand for the dollar.

The U.S. economy still looks to be in better shape than Europe or Japan with much higher interest rate levels. As a result, it may not be prudent to position portfolios aggressively for a weaker dollar.

Sincerely,

Healthcare Planning

Managing and wrapping your head around health care costs and health insurance may seem like a daunting task.

But there are ways to manage costs and reduce surprises as you travel the road into retirement.

Let's look at several ideas.

1. Do you have a health savings account?

You may qualify for an HSA if you have a high deductible health plan (HDHP). For 2022, the minimum deductible for an HDHP is $1,400 for an individual and $2,800 for a family.

In most states, a tax deduction is allowed for an HSA, earnings are not taxed within the account, and withdrawals can be made tax-free for qualified medical expenses.

Take full advantage of your HSA. You may even consider putting it roughly on par with a traditional IRA.

Healthcare Planning

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An HSA not only allows for tax-free withdrawals for qualified medical expenses, but once you turn 65, you may take a penalty-free withdrawal for any purpose, though you will pay ordinary income tax if not for a qualified medical expense. Penalty-free withdrawals for IRAs begin at 59½.

2. Get the right Medicare plan for your needs.

Do you want to enroll in traditional Medicare (Parts A—hospital insurance, B—medical insurance, and D—prescription drug coverage). Or would Medicare Advantage (Part C that is offered by private companies) be your best choice?

Medicare C plans are offered by private companies approved by Medicare and must follow rules set by Medicare. It's an option for you to receive your Parts A and B coverage.

You may be drawn to the advantages of Part C, including benefits for hearing, dental and vision, fitness programs, and the possibility of lower monthly premiums (can vary from $0 to $200+).

The maximum in-network, out-of-pocket, is $7550 in 2022.

Be aware that if you have a Medicare Advantage plan that includes prescription drug coverage, you will have a separate out-of-pocket maximum for prescription drug costs. Most Medicare Advantage plans include prescription drug coverage (Part D).

As with most choices in life, you must balance the benefits with any drawbacks.

Are your doctors within your plan's Medicare Advantage network or could the Part C plan you've chosen be discontinued? You may also face limits switching back to original Medicare. With Medicare, you can choose any doctor that accepts Medicare payments.

Choosing the right policy can be a daunting task, and the themes we've touched on are meant to provide you with a starting point. If you have questions or would like additional help, please download our guide **"Should I Change my Medicare During Open Enrollment."**

3. Be aware of the late sign-up.

Most of us are aware that Medicare becomes available at age 65. But did you know that if you miss your initial enrollment period (IEP), you will wind up paying a penalty unless you have other coverage that's similar in value to Medicare (like from an employer)?

The IEP spans from three months before the month you turn 65 through three months after you turn 65. It includes the month you turn 65 for a total of seven months.

Healthcare Planning

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If you miss your seven-month IEP], you may have to wait to sign up and pay a monthly late-enrollment penalty for as long as you have Part B coverage.

Late enrollment penalties are added to your premium—they are not a one-time late fee, and the penalty rises the longer you wait to sign up.

You may also pay a penalty if you must pay a Part A premium. Most people, however, don't pay for Part A.

You may also be subject to a permanent Part D penalty unless you have coverage that's similar in value to Part D or you qualify for what Medicare refers to as 'extra help.'

It sounds complex. However, if you have questions, please let us know.

4. Consider long-term care. Long-term care can be part of your overarching financial plan.

It can be a multifaceted and weighty topic that many delay talking about or planning for.

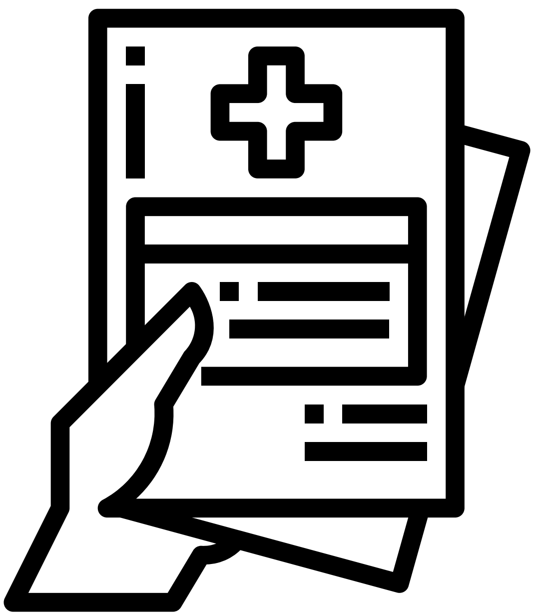
Someone turning 65 stands about a 70% chance]] of eventually requiring some type of long-term care, according to the Administration for Community Living.

Currently, Medicare only covers short nursing home stays or limited home health care when you require skilled nursing or rehab.

A long-term care policy can provide you with options and eliminate some costly risks, but plans aren't cheap and the premium may rise. If you choose to purchase insurance, it will depend on what's best for you, your family, and your ability to pay expenses out of pocket.

If you need long-term care, support usually comes from an unpaid family member or friend, a professional who comes to the home, adult day services, or long-term care facilities.

How you decide to approach health care will ultimately depend on various factors that are unique to your situation. We are here to assist and are happy to entertain any thoughts or questions you may have.



Tax Corner

End of the Year Tax Planning Reminder

During November and December, we want to help you spot planning opportunities that are very time-sensitive.

Perhaps you...
Are considering making year-end gifts to charitable organizations or family members, and need to determine your optimal funding strategy;

Are looking to reduce your income tax liability this year, and are seeking loss harvesting and income-reduction opportunities; or Wish to make a high-level survey of your financial picture, ensuring that you aren't missing any windows of opportunity that close with the calendar year.

Whatever the case may be, the end of the year is an important time for us to get together.

Tracking numerous deadlines and avoiding missed planning opportunities can be challenging during these busy months.

To help ensure that you remain on track, we have a checklist that outlines 18 time-sensitive considerations to guide your end-of-year review and tee up any adjustments for the coming year.

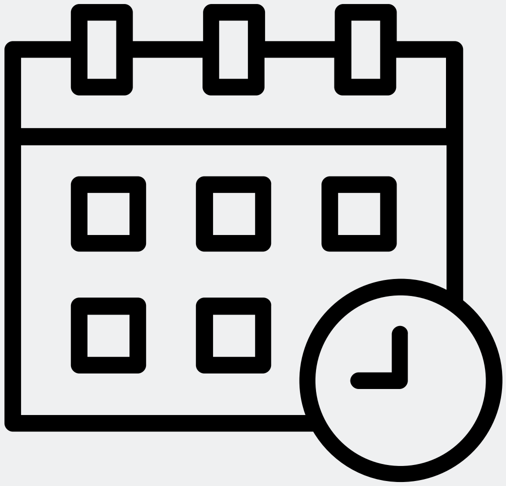
HALL & BURNS QUARTERLY RESOURCE

What Issues Should I Consider Before The End Of The Year?

While the checklist can help you spot good ways to identify all the different opportunities to consider, we are always available to meet with you to discuss your finances and goals, and to identify what the best opportunities are for you

Year-end topics can include tax planning, investment and retirement accounts, charitable giving, cash flow and savings, insurance and estate planning.

Download Our Resource Here



Did You know we offer Tax Planning Services?

Our firm offers annual tax planning as part of our comprehensive financial planning service. While often overlooked, robust tax planning is one of the most valuable pieces of a complete financial plan, and we are excited to offer it to you.

WHAT IS TAX PLANNING?

Tax planning refers to our review of your tax return to identify potential planning opportunities - both now and in the future - to keep your lifetime tax liability as low as possible. This is different than tax preparation (usually done by your CPA or an online service like TurboTax), which is focused on keeping you compliant with what the government thinks you owe each year.

WHY IS TAX PLANNING IMPORTANT?

Taxes touch every part of your financial life. Your tax return is a financial fingerprint: it's completely unique to you, complete with valuable clues and information, all of which is buried in dozens of pages and hundreds of numbers. Understanding your return equips us to have more valuable and actionable conversations with you. Additionally, we can demystify the world of income taxes and help you understand this important piece of your financial picture.

WHO IS TAX PLANNING FOR?

Everyone! Regardless of your income sources or filing status, nearly anyone who pays income taxes can benefit from having a professional review of your tax return to identify relevant planning opportunities. At worst, we'll review your return and conclude you are currently maximizing every available tax saving opportunity. That's great "peace of mind" news. Alternatively - and more frequently - we'll identify a handful of tax saving opportunities, both in the current year and in future years.

WHAT KIND OF OPPORTUNITIES MIGHT BE IDENTIFIED?

We will evaluate a number of opportunities during tax planning, including topics like most tax efficient retirement vehicles, charitable giving strategies, realizing capital gains, Roth IRA conversions, tax credit eligibility, and more. We can run projections to see how potential changes (e.g., filing status, dependents, the sale of a business, stock option exercises, etc.) may impact your upcoming tax liability.

WHAT DO WE NEED FROM YOU?

An electronic PDF copy of your most recent tax return. That’s it. Get us a copy of that most recent tax return, and we will take it from there.

By the Numbers

1. **INSURANCE -** In health insurance, IRS extends for 3-years the premium subsidies introduced by the 2010 Affordable Care Act at a cost of $64 billion over the next 10 years for 13 million insureds (source: Senate). 2.

2. WORSE OVER THERE – Consumer inflation in Turkey on a trailing 1-year basis as of 6/30/2022 was up +78.6% (source: Turkish Statistical Institute). 3. THIS WILL CHANGE IN THE FUTURE - 91% of the 128 million households in the USA own at least 1 car, SUV or light-duty truck, a total of 250 million vehicles. Surprisingly, electric cars and trucks make up just 2 million of the 250 million vehicles in our country today (source: Census Bureau).

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4. MAYBE, MAYBE NOT - 37 states do not tax Social Security benefits, while the other 13 states may or may not tax Social Security benefits dependent on other facts, e.g., an individual's total income (source: USA Today).

5. NOT JUST FOR KIDS – When asked how interested they were in seeing more sustainable (ESG) investments in their employer's retirement plan, 86% of Millennials (age 25-40) answered somewhat, very, or extremely interested, while 66% of Gen X (41–56) and 59% of Boomers (57–72) answered the same (source: MFS 2021 Global Retirement Survey).

6. SLACKERS NO MORE – Almost 1/4 of adults in the U.S. (23%) are part of the sandwich generation (age 40–59), but this percentage increases to 54% for adults in their 40s right now. Members of this club have a parent aged 65 or older and are either raising a child younger than 18 or providing financial support to an adult child (source: Pew Research Center).

7. RUSH TO BUY - Americans borrowed a record $1.61 trillion from mortgage lenders in 2021 to purchase homes, breaking the previous record high for purchase loans of $1.51 trillion set in 2005. The purchase loan total does not include individuals who refinanced existing mortgages (source: Mortgage Bankers Association).

8. INFLATION PROTECTION? – Despite a higherthan-average cost-of-living adjustment last year, Social Security retirement benefits have lost 40% of their buying power since 2000 due to inflation (source: The Senior Citizens League).

HALL & BURNS: Firm Updates

Thank you to everyone who attended our recent Durham Bull's night event. We had a wonderful time catching up with each of you and your friends and family.

Recent Travels

Kathy and Dave with their grandchildren, Paige & Grady, at Alligator Farm at Sand Dune National Park

About Us

At Hall & Burns Wealth Management, our mission is to build long-term relationships with a select group of clients by helping them to simplify their financial lives and empowering them to make informed decisions through education, communication and world-class service.

Learn More