QUARTERLY NEWSLETTER VOLUME 15 ISSUE 4

LINEWEAVER FINANCIAL MARKETS UPDATE

By Travis Dragan CFA®, FRM, CMT, Portfolio Manager

Following the conclusion of its September meeting, The Federal Reserve (Fed) announced another "jumbo" interest rate hike of 0.75% and communicated that further interest rate increases will likely be appropriate in the coming months. The Federal Open Market Committee now projects its target interest rate to be raised an additional 1.00% to 1.25% by the end of 2022. Following this announcement stock markets declined, resulting in the S&P 500 index re-entering bear market territory (more than 20% below its January high).

In August's inflation report, the Consumer Price Index rose 8.3% from a year ago, suggesting that inflation may prove higher and longer lasting than many previously believed. In response, Federal Reserve chairman Jay Powell reiterated that the Fed intends to continue raising interest rates, rather than prematurely pausing or pivoting as financial markets had hoped over the summer. From June lows to August highs, the S&P 500 index rallied nearly 19%. As you may recall, we took advantage of that run-up in equity markets to rebalance investment portfolios back in line with the asset allocation most appropriate to meet long-term investment objectives (for reference, asset allocation is the percent of a portfolio's investments held in each major asset category, such as stocks, bonds, or other securities). We did this to manage risk as we entered what we felt may be a volatile fall.

Thus far, stock declines have occurred while corporate profit estimates have remained relatively stable. This has led to the price-to-earnings ratio (the price of a stock or index, divided by earnings per share of the stock or index) of the market to decline from elevated levels to near its historical average. In our view, any further declines in the stock market from here would likely be driven by declining corporate profit estimates.

As the Fed continues to raise interest rates to levels it considers "restrictive" (designed to intentionally slow the economy), there are likely to be downside economic consequences, though to what degree remains uncertain. A slowdown in demand for goods and services and broad economic activity is required to bring down prices sufficiently to get inflation under control.

Current market anxieties - including rising interest rates and previously noted persistent inflation - have pushed the S&P 500 Index into its 12th bear market in the past century. The current bear market is already nine months old, compared to the average bear market lasting between 14 and 15 months.

In time, current market anxieties will pass, as have past bear market worries, including a pandemic, global banking crisis, technology bubble bursting, savings and loan crisis, previous periods of inflation, and oil embargos. So, while we are managing risk in the near term, as we anticipate volatility to remain elevated, we are also positioning to take advantage of opportunities in the coming quarters, which previous bear markets have presented.

As the markets continue to adjust to changing conditions, we will closely monitor the situation and make changes based on your financial needs, goals, and risk tolerance as necessary. If you have any questions in the meantime, please contact your advisor.

TUITION AND STUDENT LOAN PAYMENTS

by Jim Lineweaver, CFP®, AIF® President and Founder

Anticipation is swirling around the pending student loan forgiveness plan announced by the Biden Administration in late August.

The plan can cancel up to $10,000 in debt for eligible student loan borrowers who didn't receive a Pell Grant. If a borrower is a Pell Grant recipient, they will be eligible for up to $20,000. To be eligible, you must be a student loan borrower with a federal student loan and earned up to $125,000 of annual income (or $250,000 as a joint filer) during the COVID-19 pandemic.

Here's where the plan is so far:

- An exact date for applying for loan forgiveness has not been set, but the U.S. Department of Education says to expect it by early October. The initial form will be available online, with a paper version available later.

- The payment pause has been extended through the end of 2022, and another pause will not be coming. Interest will begin accruing again on January 1, 2023, and regular payments will resume. To receive loan forgiveness before the payment pause ends, the Department of Education recommends applying for relief before November 15.

- Loan servicers will send a notification when relief has been applied to an account. Borrowers should see forgiveness applied to their loan balances within four to six weeks after submission of the application.

- Note that borrowers with FFEL or Perkins loans not held by the Department of Education may not be able to obtain debt relief due to new guidance issued by the Department of Education on September 29, 2022. The best way to find out if loans are eligible for forgiveness is to contact the company holding them.

Even after wide-scale student loan forgiveness and the student loan payment pause, millions of student loan borrowers will still have weighty student loan debt. Parents or grandparents may want to help their student by making payments on their balance owed.

Tuition payments made directly to an educational organization are exempt from gift taxes and — in the case of grandparents — the Generation-Skipping Transfer Tax. There is no limit on the dollar amount, but it's important to note that these cash payments may adversely affect financial aid depending on the institution. Most colleges treat these direct payments as cash support, which is counted as untaxed income on the FAFSA application.

One alternative to making payments on behalf of a student is to contribute to a 529 plan for the student. It's possible to front-load 529 plan contributions up to $80,000 and make use of the five-year gift-tax averaging, assuming that no other gifts are made to the same child during that time.

After utilizing the student loan forgiveness plan, direct payments on student loans or giving money to a student to pay the loans will be considered gifts. As a reminder, an individual can gift up to $16,000 per person, per year. Parents can each gift $16,000 to their child per year. However, if the parent is a co-signer on the loan, the payments are not considered gifts. These payments are considered payments on debts and not subject to the gifting rules.

As always, it's important to stay on top of the timeline and make sure paperwork is filed on time. Borrowers can register to be notified when the application form is available through the Department of Education. The final date to apply for forgiveness is December 31, 2023.

CLIENT SPOTLIGHT

ORIGINAL LYRICS BY JOHN JAROS PERFORMED DURING NATIONAL POLICE WEEK

Lineweaver Financial client John Jaros has potentially found his second act as a lyricist.

While on the way home from an annual police memorial commemoration, the retired Mentor police captain was listening to Leonard Cohen's "Hallelujah" when he started coming up with his own lyrics.

John was able to compose five verses, with each verse representing different people involved with a fallen officer.

Being encouraged by friends to build on the idea more, John partnered with retired Federal Agent Michael Rae and musician Andy DiLiello to create a tribute titled "Hallelujah, The Thin Blue Line."

Andy recorded the song and Michael worked his connections to send the lyrics to coordinators of this year's National Police Week, which was held May 11 to 17 in Washington, D.C.

From left, Michael Rae, Andy DiLiello and John Jaros

The coordinators loved the trio's rendition and asked if it could be performed at some point during the commemoration.

Then on May 13, while a crowd of 10,000 people gathered at the National Mall, Andy opened the National Law Enforcement Officers Memorial 34th Annual Candlelight Vigil with their creation, bringing John's lyrics to life.

BEHIND THE SCENES AT LFG

LFG Investment Research and Client Service Team Member Dylan Casler poses with the foul ball he caught during a recent company outing to a Cleveland Guardians game against the Los Angeles Angels.

LFG employees participated in a friendly axe-throwing competition, where Travis Dragan, CFA®, FRM, CMT, Portfolio Manager, was deemed the "Lumber Lord" after earning the highest score and was presented an accompanying belt.

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"We need to get you a wreck room."

DID YOU KNOW:

The most popular, but likely wrong, theory as to why we yawn is to increase levels of oxygen to the brain. A more plausible theory is that yawning cools the brain down. A study conducted on mice found that as mice sucked in air, their jaws stretched—this increases blood flow to the brain. This combination of cooler air intake when yawning mixed with the blood flowing to the brain is thought to eventually cool the brain down.

Source: Reader's Digest

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If you would like to receive our newsletter through email, please email Alyssa at alyssaschmitt@lineweaver.net