The Mosaic Financial Group LLC

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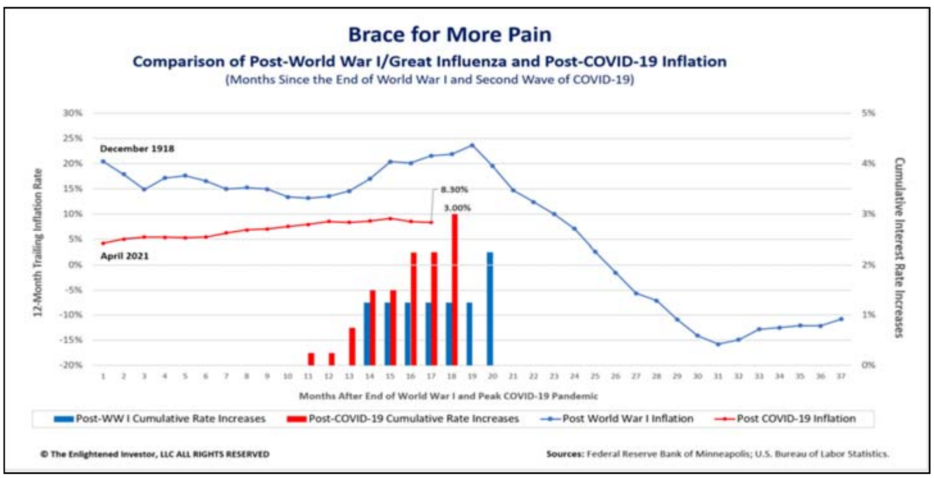
Fed Policy, Inflation And The Investment Outlook

The Standard & Poor's 500 stock index fell into a bear market on June 13, 2022, rebounded in the summer, and then tanked again as summer ended; autumn begin with the fall continuing. Despite aggressive Federal Reserve tightening since March, inflation has remained stubbornly high. When the post-Covid financial pain will stop?

since the end of the COVID-19 peak period of quarantine in April 2021. Twenty months after the peak in the Spanish flu, Fed tightening finally broke the back of the inflation cycle, throwing the economy into a recession.

The red line, representing the annual inflation rate in today's post-Covid world, is approaching the



pivotal 20- month mark of the post-pandemic inflation crisis a century ago. Meanwhile, the blue bars show the cumulative interest rate increases by the Federal Reserve after the 1918 pandemic and the red bars show the Fed's actions, so far in the post Covid-19 era. "We are right about at the point when disinflation starts and the economy enters recession," says Mr. Higgins.

Using history as a guide, the bad news is probably not all behind us, but it's also not so far from ending, according to financial historian Mark J. Higgins. Mr. Higgins, says the post-Covid financial challenges facing the U.S. are a lot like the post-pandemic years following The Great Influenza of 1918 and World War I.

To illustrate the point, the blue line in the chart above shows the trailing 12- month inflation rate for the 37 months after the peak of The Great Influenza of 1918, and the red line shows the trailing Fed Policy, Inflation And The Investment Outlook 12-month inflation rate for the 17 months

So, what does this historical parallel mean to investors? It means investors should expect:

1. more rate hikes by the Fed to

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Spotlight On... Carolyn Vlasek

Hello, my name is Carolyn Vlasek. I joined Mosaic in 2022 as the Administrative Assistant.

I am originally from Texas. I lived in Switzerland for four years during high school followed by four years in Boston. I love working in downtown Chicago near such amazing attractions

like Navy Pier, the Art Institute and Maggie Daley Park. Some of my hobbies are painting, baking, yoga, and reading. In my free time I also love trying new restaurants, taking my dogs for walks, and going on spontaneous adventures around the city.

A Caution About Calling IRA Custodians

This is a heads up for anyone deciding on how to designate beneficiaries of an IRA of federally qualified retirement account based on advice from an IRA custodian call center.

When you call your IRA custodian, checking your account balance or requesting paperwork for a transaction is usually the most straightforward and simple way to get help. However, designating beneficiaries, paying an IRA to a trust, or leaving someone other than your spouse assets held in your IRA or federally qualified retirement plan account is a different matter.

The representative that answers the call is not something you control. Whether you are calling with a question about a complex topic involving a large inherited IRA account or to ask a simple question about the amount of your last withdrawal, your call is routed to a representative on a service team who happens to be free.

Even if the service from your IRA custodian receives high ratings from consumers, calling in with a question about the disposition of an IRA upon your death may be placing faith in the advice of a recent college graduate new to financial and tax planning.

Relying on advice from a custodian call center employee about your IRA beneficiary designations is a gamble unless you're an expert on IRAs. Which brings us to the heart of the issue: the rules on IRA and qualified retirement plans are complex and subject to change.

For example, even if you have a will, your beneficiary designation will override it. So, even though your will may say you wish to leave all your assets to your children, if your IRA beneficiary designation names your first spouse, that you divorced 20 years ago, as the account beneficiary, then your ex-spouse would be entitled to inherit the IRA account upon your death. Designations made years ago at old IRA accounts should be confirmed as correct and in accordance with your wishes.

In addition, under the SECURE Act, which became effective January 1, 2020, the beneficiary of inherited IRA or 401(k) accounts is required to deplete the accounts within 10 years. The Act exempted disabled, chronically ill and children. It's a lot to know.

Complicating matters, two years and three months after the SECURE Act went into effect, the IRS augmented the rules on distributions from IRA and Qualified Retirement Plans implementing the Act and the new rules went into effect at the beginning of 2022.

If you own a sizable IRA, 401(k) or other retirement plan account, and your beneficiary is your spouse, an

individual with a disability, chronic illness, or a minor child, planning properly to taking full advantage of these rules can make a big difference in the life of a loved one who can use the help.

They can stretch out distributions over their actuarial life expectancy, thus, leaving the assets to compound tax-free for a much longer period. If you are calling a custodian for help with complex area of retirement tax planning, exercise caution, and we are here to help.●

The Warren Buffett Of The Early 1900s Was A Woman: Here's

In an era of financial titans like Elon Musk, Jeff Bezos, and Warren Buffett, it's hard to imagine that, at the turn of the 19th century, one of America's dominant investors was a woman. But it's true.

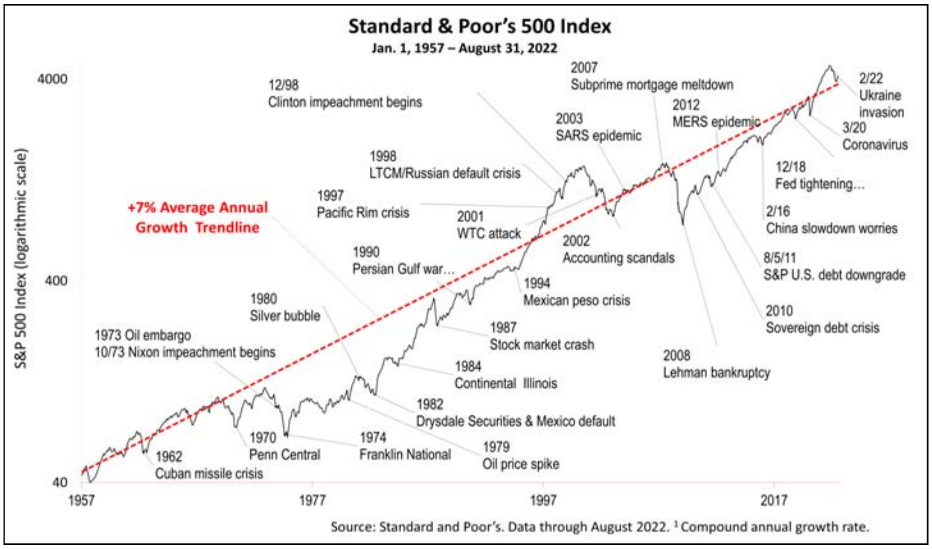
Born in 1834, in New Bedford, Massachusetts, Henrietta (Hetty) Green came from a wealthy family and, as a child, she read financial reports to her grandfather. The knowledge stuck, and she became the greatest value investor of her era and an influential figure in America for many decades.

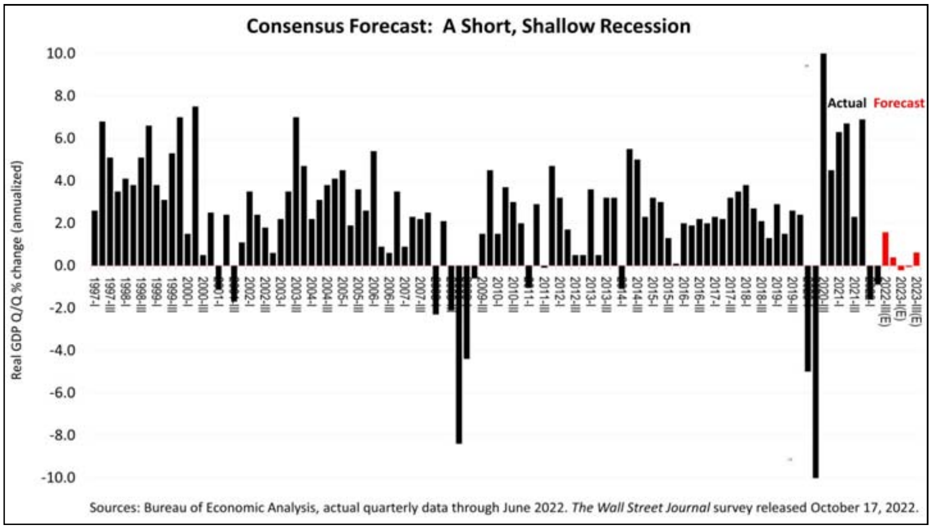
She was a key figure in rescuing the U.S. Treasury from a frightening financial crisis. The Panic of 1907 was the last major financial crisis to occur without the support of a central banking system in the United States. If not for J. Pierpont Morgan's effort to secure financial support from banks and trusts, along with a small group of individual investors, including Hetty Green, the entire U.S. financial system would have collapsed, and the nation almost certainly would have descended into a Great Depression-level event. Historical accounts indicate the Panic of 1907 was so terrifying that it led to codification of the nation's central banking system, the Federal Reserve Act of 1913.

Less well-known, however, is the role played by Hetty Green. In an era in which women were forbidden from holding a position on a corporate board or even exercising the right to vote, Hetty Green was invited to the Morgan Library in midtown Manhattan to brainstorm solutions to the national financial emergency.

In contrast to J. P. Morgan, Hetty Green saw the crisis emerging and had prepared for it by raising a mountain of cash in advance. This enabled her to assist, not only with her great financial mind, but also with her wallet. She lent generously at reasonable rates to steer the nation clear of a self-reinforcing deflationary vortex.

Bracing For Recession In A Bear Market





Stocks have been in a bear market since June 13, 2022. The decline began on January 3rd, worsened in February when Russia invaded Ukraine, and sunk deeper after the Federal Reserve in March began an aggressive series of interest rate hikes to fight inflation.

The price of the Standard & Poor's 500 index and historic financial crises since 1957, shown in black in the accompanying chart, is a reminder that the U.S. economy and stock market endured many setbacks and bear markets throughout modern U.S. history. The dotted line in red shows the average annual growth rate on the S&P 500 stock index was 7%, despite the many crises.

In recent months, the S&P 500 index declined from the heights of late 2021. The decline brought the price of the stock index right at its historical trend rate of 7%. This indicates stocks are not overpriced, like they were in the tech-stock bubble, which began in 1997 and peaked in 1999 and 2000. Yet the economy is hobbled by high inflation and the stock market decline is unnerving. How bad do things look to leading economic experts?

According to the latest Wall Street Journal quarterly survey of 60 leading economists, the consensus forecast is for a recession in the first and second quarter of 2023, but the downturn will be short and shallow, and they call for a return to positive growth of six-tenths of 1% in the third quarter. To be clear, more pain is ahead, and stocks may decline further, but the consensus of the leading economists is for growth to return to the economy in the third quarter of 2023, and that's a reminder to investors as we brace for a recession amid a bear market.●

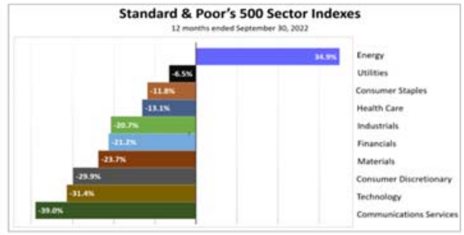
The Inspiring Story Of Hetty Green

Hetty Green's financial help during the Panic of 1907 was the most public accomplishment of her long career, but her achievements in prior decades were no less impressive. She remains one of America's all-time best investors.

For more on Hetty Green's inspiring story, visit the Museum of American Finance online at www.moaf.org, and read the Fall cover story of *Financial History* magazine.

Financial historian, Mark J. Higgins, contributed to this article. His full ï¬nancial history of the U.S., The Enlightened Investor (Greenleaf Book Group), is expected in bookstores in Fall 2023. ●

Market Data Bank: 3rd Quarter 2022



THE BEAR MARKET OF 2022

The pandemic, Russian war on Ukraine, soaring inflation, rising interest rates, and growing fears of recession triggered a –4.9% loss in the third quarter, a -16.1% loss in 2Q 2022, and a -4.6% loss in 1Q 2022. On June 13, 2022, the S&P 500 dropped more than -20% from its Jan. 3, 2022, all-time high and a bear market started.

FOUR BEAR MARKETS IN FIVE YEARS

Despite three, consecutive quarterly losses, the S&P 500 stock index over the five years ended September 30, 2022, showed a total return, including dividends, of +55.5%. The period included four bear markets, inlcuding the pandemic meltdown of February and March 2020, when the S&P 500 lost -34% of its value.

INDUSTRY SECTORS

Higher energy prices propelled energy companies to the top of the 10 industry sectors in the S&P 500 stock index, with a +34.9% return in the 12 months ended September 30. Energy was No. 1 for the past four quarters but it was the worst performer for the five previous quarters starting in 4Q 2019.

INDEXES TRACKING 13 ASSET CLASSES

Despite the bear market, No. 1 of the broad array of 13 indexes representing investments for the five years ended September 30, 2022, was U.S. stocks. Bonds and foreign equities were laggards. While energy was a leader in the last year, the index of crude oil investments lost -2.7% versus the +55.5% on the S&P 500 index.

VOLATILITY SPIKES

This chart shows all the one-day drops of 3% or more since 2014 in the S&P 500. Since the beginning of 2022, volatility has increased. Without bear markets and spikes in downward volatility, however, investors would not have an opportunity to earn a return in excess of fixed income investments.

NO SUCH THING AS A FREE LUNCH

Although stocks are a risky asset, subject to periodic bear markets drops of 40% or even 50%, they paid a premium annually over risk-free 90-day U.S. Treasury Bills for the past 20 years, which included bear markets in 2002, 2008, and early 2020 as well as the 2022 stock market downturn.

Past performance is never a guarantee of your future results. Indices and ETFs representing asset classes are unmanaged and not recommendations. Foreign investing involves currency and political risk and political instability. Bonds offer a fixed rate of return while stocks fluctuate. Investing in emerging markets involves greater risk than investing in more liquid markets with a longer history. Indices are unmanaged and not available for direct investment. Investments with higher return potential carry greater risk of loss. Sources: Sector performance data from Standard and Poor's. Household net worth data through March 2022 from Federal Reserve Bank of St. Louis, released June 9, 2022; Equity risk premium data from Craig Israelsen, Ph.D., of Advisors4Advisors..

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destroy demand for goods and services before inflation is tamed. Prepare for jobs to be harder to find, new-home building to continue to slow, slower earnings growth on the blue-chip companies in the S&P 500, and continued volatility in the stock market in 2023.

2. waves of selling by investors no longer able to resist dumping stocks, as losses mount, possibly beyond -25%, -30%, or -35% from the all time high of January 3, 2022. That is about in range what occurred in recent bear market downturns.

Keep in mind studies have shown timing when to sell and buy stocks is too hard to do consistently with reliability. For example, consider a 2022 study by BofA Global Securities, that showed missing just the 10 best days of every decade since the 1930s would have resulted in a +22,120% total return for an investor who did not sell through the end of 2001. In comparison, missing the 10 best days of every decade in the same period resulted in a relatively paltry +60% total return, which demonstrates the futility of trying to get in and out of stocks at just the right moment.

Mark J. Higgins is a regular contributor to this newsletter. His book, "Becoming an Enlightened Investor," a full financial history of the United States, is expected to be available on Amazon in Fall 2023.●