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SUMMER 2016

Federal Reserve Policies and Their Economic Impact

The policies of the Federal Reserve directly impact our economy, though the extent of that impact varies. In order to understand the effects of the Federal Reserve's policies, it's important to discern between these policies and those of the legislative branch.

While Congress focuses on a wide range of issues; when it comes to money, their task is what's referred to as fiscal policy: government spending, borrowing, and taxation. To keep the economy balanced and growing, the Federal Reserve steps in to enact what is called monetary policy, primarily focusing on our country's money supply — specifically, currency and price stability. These policies most often involve adjusting interest rates or lending policies to help maintain or reestablish stability with a focus on unemployment and economic growth.

There are two main categories of monetary policy: expansionary, which focuses on increasing the economy's money supply; and contractionary, which focuses on either slowing or decreasing the money supply. Contractionary policy might involve raising interest rates or reserve requirements to discourage lending in an attempt to slow expansion that may lead to inflation. On the other hand, expansionary policy is typically carried out during recessions or times of slow economic growth, when the Fed will often set lower interest rates or reserve requirements to encourage

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Upcoming Summer Events

Friday Golf for 4
Preschedule a Friday round of Golf this Summer or Fall | Big Springs Country Club –or– Harmony Landing
Client Event: State of the Markets, Halftime Report
July 14, 6:00 – 8:00 pm | Clifty Falls Restaurant, Clifty Falls State Park | Dinner Provided
July 18, 6:00 – 8:00 pm | Two Rivers Restaurant, General Butler State Park | Dinner Provided
July 19, 6:00 – 8:00 pm | Drury Inn & Suites, Louisville | Dinner Provided
State of the Markets, Halftime Report
Aug 22, 6:00 – 8:00 pm | Two Rivers Restaurant, General Butler State Park | Dinner Provided
Aug 23, 6:00 – 8:00 pm | Drury Inn & Suites, Louisville | Dinner Provided
Aug 25, 6:00 – 8:00 pm | Clifty Falls Restaurant, Clifty Falls State Park | Dinner Provided
Client Event: Circle of Family
Sept 12, 6:00 – 8:30 pm | Belterra Casino & Resort | Dinner and Drinks Provided
Maximizing Your Social Security Benefit
Sept 19, 6:00 – 8:00 pm | Two Rivers Restaurant, General Butler State Park | Dinner Provided
Sept 22, 6:00 – 8:00 pm | Clifty Falls Restaurant, Clifty Falls State Park | Dinner Provided
Sept 26, 6:30 – 7:30 pm | Drury Inn & Suites, Louisville | Light Snacks & Beverages Provided
Sept 29, 6:30 – 7:30 am | Drury Inn & Suites, Louisville | Light Snacks & Beverages Provided

For more event information or to RSVP, call our office at 502-690-3434.

You can also go to **www.InvestmentAnswers.net** and click on "EVENT RSVP."

Federal Reserve

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borrowing — particularly by businesses — in hopes of fostering economic growth and addressing unemployment. Monetary policy enacted by the Fed in the past decade has been largely of a more expansionary nature, although this policy has most recently begun to take a different turn.

The Fed's most notable changes in recent years have been setting unusually low interest rates. Beginning in 2008, they initiated what would become a seven-year period of record-low interest rates with the goal of revitalizing the economy and encouraging spending. Lowering interest to speed up the economy is nothing new — the idea stems from the theory that lowering these rates will encourage spending and borrowing via lower-interest credit cards, loans, and mortgages. The hope is that as more money becomes available to spend, consumer demand will increase and businesses will expand to meet that demand. As prices slowly increase, confidence in the dollar and therefore, investing, will follow. As predicted, this seven-year period of low interest rates did just that, though many financial commentators argue this growth has been mediocre at best.

This is because economic growth is *nearly always* measured by a country's gross domestic product (GDP), which is essentially its output of goods and services. Critics of the government's recent policies note the diminished average annual GDP growth percentage of 1% from 2008–2014, as opposed to nearly 3% between 1988 and 2007. This lower GDP rate, coupled with a national debt that has more than tripled since 2008, has left many people and economic experts jaded about monetary and fiscal policy.

Still, forecasters with a more optimistic outlook point to a mostly gradual increase in the GDP growth rate each year (with the exception of 2013), asserting that the 2014 GDP growth percentage of 2.4% marked the highest annual rate in four years, more closely resembling pre-2007 rates. Furthermore, *The S&P Case-Shiller Home Price Index* has noted a stronger housing market since 2012, with an average housing price increase of over 6% per year in spite of month-to-month sales fluctuations. This is up from a reported 33% price fall between the 2006 housing peak and 2012.

In light of labor market indicators, which the Fed believes point to both decreasing unemployment and sustained job gains, monetary policy has most recently begun to take a different shape. In December, the Fed announced plans to gradually increase interest rates in increments of .25% and .50% over the next three years. In addition to increased confidence in economic growth, they expressed concern that prolonged record-low interest rates could be dangerous in the event of another economic lapse, since they'd either be unable to slash interest rates or face lowering these rates into the negative zone.

Interest rates changes aren't the only monetary policy tool implemented by the Fed. As our Central Bank, the Federal Reserve also controls reserve requirements and lends money to U.S. banks. In December, the Fed tightened these lending policies, announcing a .25% interest rate hike on emergency loans to banks. They also declared they would no longer lend any emergency funds to banks facing bankruptcy. As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the new policy will essentially shelter taxpayers from inheriting the potentially costly burden of banks' financial mistakes.

Critics of these new policies, particularly the Fed's decision to raise interest rates, argue that historically, interest rates have only been raised during times of increasing inflation; they assert that with inflation still low by historic standards, the rate hike decision could discourage buying and investing, further stalling the economy from stronger growth. ❍❍❍

Should You Serve as a Guardian?

When asked to serve as the guardian of someone's minor children in the event of his/her death, it is usually meant as a compliment. While you may fear that you'll hurt your relationship by saying no, don't accept this role without serious thought. Consider the following:

- **Are your lifestyles compatible?** Go over all details involved in raising the children. Consider the impact on your children, including the fact that you will probably have less time available for them.
- **How much financial support will be available?** This involves more than making sure money is available for college and other expenses. Additional children in your house will increase many of your bills.
- **Are you comfortable taking on responsibility for the children's finances?** You may feel more comfortable with another person involved to review how the children's money is spent.
- **Has a contingent guardian been named?** Find out if a contingent guardian has been named in case you cannot serve. However, don't use this as an excuse to say yes when you really want to decline. ❍❍❍

Does Your Insurance Need Adjusting?

Your insurance needs evolve throughout your lifetime, and the types of policies and the amount of appropriate coverage for you also changes. We have some amazing resources to assess your insurance needs, your existing policies, and ways to simplify your insurance landscape, with the goal to make it more effective for you for today and in your future.

Have you recently married or divorced? A marriage or divorce may affect several different types of insurance needs, including:

✔ **Life** — If you've recently married, you may want to purchase a life insurance policy that would provide a source of additional income to your surviving spouse if you die. If you've recently divorced, you'll want to remove your ex-spouse from your insurance policies and name a new beneficiary.

✔ **Health** — You'll typically need to add your spouse to your employer-sponsored health insurance within 30 days of marriage or wait for the open enrollment period that typically occurs once a year. If you're divorced, you'll want to remove your ex-spouse from your plan.

✔ **Homeowners** — If you're combining households, you may need to increase personal property insurance so that all possessions are protected in case of theft or damage.

✔ **Auto** — Many insurance companies offer discounts for multiple policies. The savings can be significant if both you and your new spouse have autos insured by the same company. Insurance companies that offer both auto and homeowners insurance may provide even larger discounts for those who purchase both types of policies.

Has your spouse died or become disabled? These types of changes warrant a reassessment of all your insurance needs. If your spouse has died, you'll want to rename beneficiaries on your life insurance policies.

Have you had a baby? According to the Insurance Information Institute, five million households with new babies have not updated their life insurance protection. You should ensure that your life insurance coverage is sufficient to provide for the child's needs until adulthood, perhaps including education expenses in addition to day-to-day expenses.

Also review your disability insurance coverage, since you now have another dependent relying on your income. Look into both short- and long-term disability coverage. Many employers offer some level of disability insurance coverage. However, don't just assume that coverage is sufficient. You may need to purchase additional insurance to supplement that offered by your employer.

Keep in mind you typically have 30 days after birth to add your child to your employer-sponsored health plan.

Are there any new drivers in your household? If you have a teenager who has just started driving, be prepared for significant auto insurance increases. Insurance companies often give premium discounts when the new driver has taken a certified driver's training course or is a good student, so make sure to check with your insurance company. Once your child goes away to college, inform your insurance company if your child did not take a car to college.

Have you switched jobs and/or dramatically increased or decreased your earned income? Have you retired? If you have a significant increase or decrease in your income that has caused changes in your lifestyle, you may want to adjust your life insurance policy.

Once you retire, reevaluate your life insurance to see if any changes are warranted. And if you're no longer commuting every day, you may qualify for lower auto insurance premiums. Also make sure to review your long-term-care needs.

Have you acquired any new valuables? Have you purchased or sold a home? Your homeowners insurance policy, which also covers personal property up to specified limits, typically covers new purchases automatically. However, make sure that any new purchases don't exceed the limits of your policy, or the item may not be covered. Periodically review your inventory of personal property and compare it to your homeowners insurance.

Have you made extensive renovations on your home? The Insurance Information Institute indicates that nearly 40% of homeowners who have significantly remodeled their homes have not updated their homeowners insurance. Make sure to review your policy limits when you add significant value to your home. It's actually a good idea to review your policy periodically to make sure it will replace your home if it is totally destroyed. Changes in the cost of rebuilding a home can outpace the limits of your policy, and you don't want to be left unprotected.

Are you interested in simplifying your insurance? Are you unsure if your income is insured in case the unexpected happens? We're here to help. ❍❍❍

Chicken Ranch Burgers with Avocado Mayo

Serves 4 – 6

This is a delicious way to change up the classic summertime burger.

1 lb. Ground Chicken

½ Package of Hidden Valley Ranch Salad Dressing & Seasoning Mix

2–3 Tbs. Bread Crumbs, 1 Minute Oatmeal, or Cooked Brown Rice

1 Avocado

4–5 Tbs. Mayonnaise ***(or use Low-Fat Yogurt or Sour Cream)***

Garlic Powder ***(optional)***

Directions: Mix together ½ package of Ranch Seasoning with 1 pound of Ground Chicken in a bowl. Add 2–3 Tablespoons of something to hold the burger meat together — we usually use precooked rice or sprinkle in uncooked flakes of 1 Minute Oats. The classic burger recipe would use Bread Crumbs.

Form burger patties: 1 pound will give you 4–6 burgers. I tend to make these fairly small and flat, so I usually end up with 5 burgers.*

Preheat a skillet with oil — I often use a cast iron skillet with Crisco Vegetable Shortening. They will burn if your skillet gets too hot. Cook on one side for 3–4 minutes — until the sides of the burger are no longer pink, and it releases easily from the pan. Flip the burgers over and cook fully through. Set aside to cool. When they've cooled a few moments, garnish with your favorite toppings, such as a Bun, Avocado Mayo, Lettuce, Onion, Tomato, Pickle.

Avocado Mayonnaise

In a mixing bowl, scoop out an entire avocado fruit; add 3 Tablespoons of Mayonnaise, and sprinkle in some Garlic Powder to taste (approximately ¼ tsp.). Add additional Mayo until it is creamy and smooth. Use it to garnish your sandwich. When storing in the fridge, place plastic wrap directly on top of Avocado Mayo to reduce browning.

**Ground Chicken is much wetter than ground beef, so you will want to get your hands in the meat mixture, mix it really well, and be prepared to wash really well afterward!*

Investment Answers News

Summertime is a special time of the year when families often reconnect and spend time together. If you and your family members need to schedule a Family Meeting, we recommend the summer as the ideal time to have those conversations. We value the relationship you have with your loved ones and beneficiaries. We are here to provide resources for your entire family and look forward to meeting soon.

After 4 ½ years of service to Investment Answers, we bid Amy Lindroth farewell this summer. She will be spending more time with her kids, and we wish her well in the future. All of your contact information for the Client Relations Desk (CRD) will remain the same. You can contact the CRD by e-mail at **admin@investmentanswers.net,** and the CRD mobile number will remain the same, 502-741-1817.

We are very excited for some internal operational updates that are happening here at Investment Answers. We'll be releasing them gradually as we continue to improve the services we provide for you.

Financial Thoughts

Approximately 22% of long-term-care costs were paid out of pocket, while private insurance paid for 18%. One in five elderly Americans will incur more than $25,000 in lifetime out-of-pocket long-term-care costs before they die (Source: *REP.*, November 2015).

The lifetime probability of becoming disabled in at least two activities of daily living or being cognitively impaired for individuals age 65 and over is 68% (Source: Centers for Disease Control and Prevention, 2015).

Approximately 87% of Americans received needed long-term care from informal or unpaid caregivers (Source: AARP, 2015).

Individuals age 65 and older spend 33.9% of their annual budget on housing, 15.9% on transportation, 13.4% on health care, 12.5% on food, 5.8% on cash contributions, 5.5% on entertainment, and 12.7% on other expenses. Average annual expenditures totalled $43,635 (Source: Bureau of Labor Statistics Consumer Expenditure Survey, 2014).

Life expectancy at birth in the United States is 78.8 years — 76.4 years for males and 81.2 years for females (Source: Centers for Disease Control and Prevention, 2015). ❍❍❍