NORTHSTAR
FINANCIAL PLANNERS INC.

DECEMBER 2022

FINANCIAL PLANNING NOTES
CLIENT NEWSLETTER

IN THIS ISSUE:

TIMING A RECESSION

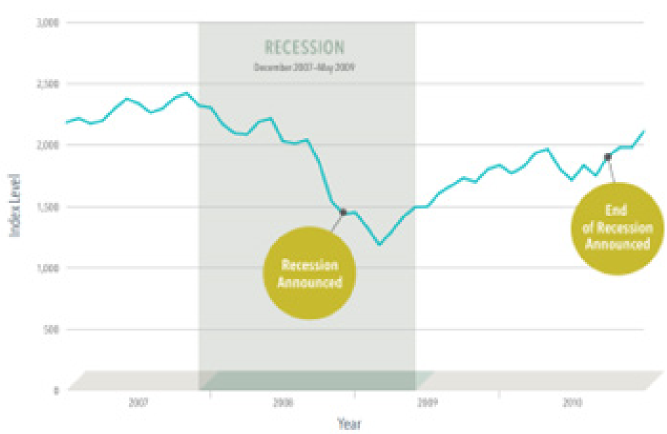
Ah, for lack of a crystal ball! With constant chatter for more than a year now of a coming recession, how simple it would be to profit if we knew exactly when the recession was going to begin and when it would end.

Or would it be that simple?

History tells a different story. In fact, markets move just based on the possibility of a recession. Often, by the time a formal determination is made that we are in a recession, capital markets have already fallen so much that an advantage might be hard to gain by trading on the news.

U.S. Recession and Stock Performance During the Global Financial Crisis[1]

S&P 500 Index, January 2007–December 2010



[1] Start and end dates of US recessions, along with announcement dates, are from the National Bureau of Economic Research (NBER).

Similarly, the official announcement that a recession has ended often comes after markets have recouped much of their losses. The table on the bottom left illustrates what your results would have been had you timed the market and sold off your equity position in 2008 following the announcement that the economy was in a recession, and then entered back in after the 2010 announcement that the recession was over.

The S&P 500 had been falling slowly but consistently for about a year from 2007 to 2008 when the collapse of Bear Sterns and Lehman Brothers sent markets into a freefall. Yet at that time, there had not been a confirmation we were in a recession. By the time that news was confirmed in December 2008, **the S&P had already fallen more than 40%!**

If you exited the market at that time and waited for the news that the economy was once again expanding, you would have been on the sidelines for nearly two years, until September 2010. By then, the S&P had rebounded from its recession low **and was about 50% higher than your exit point!** In fact, the low market point occurred **18 months earlier** in March 2009, and markets had steadily recovered that whole time that you would have been sitting uninvested.

The 2008 global financial crisis was not unique. There is usually a great lag between the beginning and end of a recession and the official news of such. According to the

National Bureau of Economic Research (NBER), the last six recessions were announced, on average, 234 days after the point that the recession actually began. And in five of the last six recessions, the end-of-recession announcement came more than a year after the actual end.

It is not even uncommon for the announcement of a recession to be made after the recession has already ended! This happened just two years ago, during the Covid shutdown. Looking back, we know the recession began in February 2020 and ended just two months later in April. Yet the announcement of the beginning came in June, and the end wasn't recognized until July 2021!

If you want to time markets, clearly formal announcements of recessions and recoveries are not a winning strategy. What is a winning market timing strategy? When I find it, I'll let you know!

—Steve, with information from Dimensional Fund Advisors

Other sources:

Calling A Recession: How Long Does It Take? By Rob Minto, Newsweek, 8/19/22

Past performance is no guarantee of future results. Investing risks include loss of principal and fluctuating value. There is no guarantee an investment strategy will be successful. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment.

THE FTX COLLAPSE FOR DUMMIES

If one of the young'uns here at Northstar explains crypto to me, really slowly, I get it … kind of … for a day or two. So when I title this article "For Dummies," I don't just mean you, if you are unsophisticated about this giant market sector. I'm talking about the author as well!

The first thing to understand about trading cryptocurrencies is you're not doing it through your regular brokerage account at TD Ameritrade or Schwab. You are opening an account, usually through an app on your phone, with a trading exchange such as TradeStation or Robinhood. Depending on how or where those exchanges are set up, there may be way less regulation than on your standard brokers and banks.

What could go wrong?

Well, what could go wrong or, more accurately, **everything** that could go wrong went wrong last month, as one of the largest crypto exchanges **went from tens of billions in assets to zero in a matter of days.**

This is the abridged, as best as a 59-year-old can understand it, story of the fall of FTX and its enigmatic and charismatic founder, 30-year-old Sam Bankman-Fried. SBF, as he is called, also had close ties to a crypto hedge fund called Alameda Research, which was run by his ex-girlfriend, the not-quite-as-charismatic, 28-year-old Caroline Ellison.

In addition to trading Bitcoin, Ethereum, and all the other well-known cryptocurrencies, you could also buy FTX's own token, cleverly named FTX Token.

Except there was no such thing as FTX Token. The money that was invested in it was heavily leveraged and used as collateral to borrow billions of dollars to buy a

bunch of other companies. SBF also funneled billions over to Alameda, as gigantic losses started to mount on Ellison's reckless, unhedged trades.

But the money invested in other, real tokens—that was OK, right? Nope. Despite investors believing they owned, collectively, billions of dollars of bitcoin, the amount FTX actually invested in it appears to be a big goose egg.

Some people started to get suspicious, and a social media blitz prompted a large number of investors to try to pull their money out at the same time, resulting in a "bank run"-type situation that collapsed the company and exposed the massive fraud. Investors opened their apps and found their account balance was $0.00.

Regulation in the crypto space has not yet caught up to the explosive growth and risk in the sector. Making it even more difficult, FTX was incorporated offshore, in Antigua and Barbuda, and headquartered in the Bahamas, allowing them to avoid even the little regulation we have in the U.S. That also meant investors had no FDIC or SIPC insurance as they would on U.S.-based banks and brokerage accounts.

We will definitely be learning more as this story unfolds, and look forward to many years of books, documentaries, and movies to come.

Bottom line: Investing with a phone app in an unregulated company in the Caribbean may seem "paradigm shattering" to some investors (or to be more accurate, some former investors). You may be called a dinosaur for resisting or dismissing it. If that's the case, call me T. rex!

—Steve

SOCIAL SECURITY RECIPIENTS CAN EXPECT A BIG BOOST IN 2023

If inflation offers seniors a silver lining, here it is: Social Security benefits will increase by 8.7% next year. This boost amounts to the biggest increase in four decades. Read on to learn more about the benefits increase, plus more good news about Medicare and VA benefits.

When Will Social Security Benefits Increase?

Social Security recipients will receive the increase in January. The adjustment will help more than 52 million seniors, as well as nearly 18 million younger beneficiaries receiving disability benefits, Supplemental Security Income (SSI), or Social Security benefits as a surviving spouse.

Why Are Benefits Increasing So Much?

The federal government pegs Social Security's annual cost-of-living adjustment (COLA) to the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). Because of inflation, the CPI-W rose by 8.2% in September.

The COLA bump is the fourth-largest increase since automatic inflation adjustments began in 1975. It follows last year's rise of 5.9%, which arguably did little for seniors facing rampant inflation.

Will Medicare Premiums Cut into the Benefits Increase?

In past years, the answer to that question has been "yes." Rising Part B premiums eroded the impact of cost-of-living increases for Social Security. However, this year, Social Security beneficiaries get a reprieve.

WHO WE ARE

ALLEN P. GIESE, ChFC®, CLU®, ChSNC®
President, CEO, Senior Financial Advisor

STEVE TEPPER, CFP®, MBA
Vice President, Chief Operations Officer, Chief Compliance Officer, Senior Financial Advisor

GARY S. GLANZ
Director of Business Development, Investment Advisor Representative

FELIPE MEJIA, CFP®
Lead Financial Advisor

CHARLES THOMAS, MBA
Associate Advisor

GARY C. GONZALEZ
Investment Advisor Representative

STACY SAAVEDRA
Director of Client Services

RICHARD LOTTIER III
Client Service Specialist

LIAN TEPPER
Client Service Specialist

NORTHSTAR
FINANCIAL PLANNERS INC.

(954) 693-0030
1250 S. Pine Island Road, Suite 275
Plantation, FL 33324

northstarplanners.com
info@northstarplanners.com

Part B premiums will slightly decrease—dropping $5.20 to $164.90. The annual deductible also will fall by $7 to $226.

The adjustment is due to lower-than-expected costs for Aduhelm, a drug to treat Alzheimer's disease.

How Does the COLA Increase Affect Taxes?

Some Social Security recipients will end up paying more taxes on their benefits. This is because the income thresholds governing the taxation of benefits haven't been adjusted since 1984. So increasing COLAs push some seniors into higher thresholds.

Here's how it works:

- No taxes if combined income* is at or below $25,000 (single filers) or $32,000 (joint filers)
- Up to 50 percent of benefits are taxed for combined income of $25,000-$34,000 (single filers) or $32,000-$44,000 (joint filers)
- Up to 85% of benefits are taxed for combined income above $34,000 (single filers) or $44,000 (joint filers)

**Combined income is considered adjusted gross income and half of a recipient's Social Security benefits.*

What About VA Benefits?

Veterans Affairs won't finalize rates until December. However, adjustments to VA benefits and pensions are also based on the CPI-W index. So beneficiaries are expected to see an 8.7% increase too.

Final Thoughts

Year-end is a great time to examine your cash flow. With inflation's rise, you may want to adjust your expense estimates. And, of course, you can calculate your Social Security benefits for 2023 and plan accordingly. We are always happy to help you evaluate your cash flow needs—just give us a call!