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of Wells Fargo Advisors

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We have been giving much thought when preparing portfolios and plans for the potential of a slowing economy.

In addition to the data our team pours over and some of the technical content we delivered recently, I have been thinking about a tagline that was part of a commercial years ago and a book that I like to think of as required reading. The main tagline from the commercial (running during the last recession) said, "Is this the Great Recession, or the Recession that makes us great?" The book is "Who Moved my Cheese." I'm sure you can find them both on the internet, and I would be happy to mail the book to anyone who requests one after reading this note.

What I saw during the economic down-turn starting in 2008 validated my optimism in people. I recall there to be an original shock to investors hearing and seeing the effect of a negative investment market and then an adjustment in how they chose to live their lives. I believe the tag line was referring to the way people remembered to enjoy the "basic" things and were willing to make changes. The result of changes was that expense budgets were reduced, investment plans were secured, and people seemed happier. More time outside, making dinners with families vs. eating out, vacations in their own state, etc. All these things had/have a positive impact on our lives. People did not wait for the cheese to come back to them (ok, you must read the book to get this…did I mention I will mail to you!).

Enter in 2022, and it would appear we are going in that direction again as it relates to the economy, but with a couple of very different items in balance (some that are negative and some that are positive). Some of the obvious points:

I. When we add up our core expenses, we are starting at a higher number in our budget that we need to cover. Higher fixed expenses are painful (what the Fed is claiming they are fighting):
   a. Rise in energy and food prices
   b. Rise in costs associated with real assets (your home) – higher costs associated with taxes, services, insurance, etc.
   c. Rise in costs with utilities that are not part of our fixed expense – cell phone, internet
   d. Rise in expenses associated with items tied to interest rates – variable rate loans, credit card debt

II. The political divide seems much larger then in 2008, and the triggers of the topics discussed look to be separating people more than allowing people to work together. I recall a much different feeling during the 2008 period. This is not a political statement; it is simply an acknowledgement of where we are.

III. In general, today the work force has a lot more flexibility as to where they are working from. This is helping cut down costs. Less travel costs (think Zoom meetings and remote work), less office expenses (think scanning vs. copying), less work-related expenses (think less dry cleaning).

IV. In general, wages are higher.

V. Todays' higher Interest rates are helping investors earn money on conservative investments.

VI. Savings rates are higher today then in 2008, and this higher rate provides some cushion to inflation and economic downturn.

VII. Today, consumers and individuals are less levered. One of the main issues associated with the "Great Recession" was the issue that the consumer and corporations were over leveraged.

So, will this be the next Great Recession, or a "Great Re-set." In fairness, we have not labeled this period as a recession yet (although I believe we will).

What do I mean with my term, "Great Re-set" from a financial and a personal perspective? From a financial perspective it is quite simple. After 25+ years of helping manage investments and plans, I can finally get risk free assets with interest rates that meet expectations.

We have literally seen rates on 1 year CD's go from a range of 0.50% - 1% to 4.5% - 4.7% APY over the course of twelve months (as of 11/7/2022).[1] That means $100,000 in a CD is now earning $4,700 in income vs. $1,000. Even if a portfolio has been reduced by 20% to $80,000, income from that reduced asset has grown by 376% ($3,760 vs. $1,000). I am not advocating everyone goes and buys a cd, but I am using it as an example of the very dynamic situation.

Some questions that come to mind:

- Will this interest rate environment be the new norm?
- How will the rise in income in portfolios compare with the rise in the costs of goods?
- Will consumers (you and I) need to "re-set" the basket of goods in their household, and do we have the flexibility (and the desire) to do that?

Perhaps, for me, it is easier to live a life full of optimism. I do believe this period of time can be remembered as the "Great Re-set," and we can make adjustments that not only improve our long-term plans but also allow us to once again focus and enjoy the simple things that make life more rewarding. To that end, please lean on myself and our team, and let me know if I can send you the simple book, "Who Moved my Cheese."

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[1] APY = Annual Percentage Yield, subject to availability, as of 11/07/2022. Generally, CD's may not be withdrawn prior to maturity. CDs are FDIC insured up to $250,000 per depositor per insured depository institution for each account ownership category. CDs may be issued out of state institutions. Minimum purchase of $1,000 face value. Periodic interest payments are not reinvested into the CD.