SULLIVAN & ASSOCIATES

AN INDEPENDENT REGISTERED INVESTMENT ADVISOR

A wealth management practice providing tailored solutions through a collaborative client experience for over 35 years

www.SullivanInternet.com

Summer 2022

Volume 43
Issue 3

Storms & Predictions

Inflation Sticker Shock

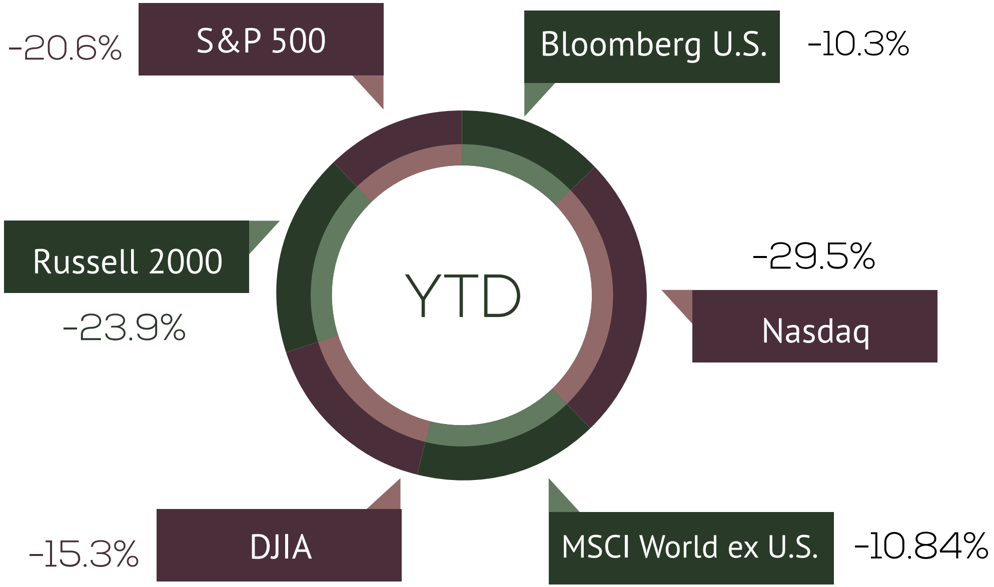
How to Combat Healthcare Cost Inflation in Retirement

The Financial Advisor Newsletter

CONTENT

Front cover photo taken by Patrick L. Sullivan

ECONOMIC **SNAPSHOT**



Source: WSJ, 07/01/2022 & FactSet, 06/30/2022. Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will effect actual investment performance. Individual investor results will vary. Past performance does not guarantee future results. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing the stocks of 30 companies maintained and reviewed by the editors of the Wall Street Journal. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Nasdaq composite is an unmanaged index of securities traded on the Nasdaq system. (The Dow Jones Global ex US is a stock market index measuring equity securities traded globally in 64 countries, excluding the U.S.). The Bloomberg US Aggregate Bond Index is a benchmark index composed of US securities in Treasury, Government-related, Corporate, and Securitized sectors. The Russell 2000 index measures the performance of the 2000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

KEVIN'S **VIEW**

STORMS & PREDICTIONS

As we pass the halfway point of 2022 one thing is very clear; there is a growing feeling the future will not look like the past. It is reminiscent of a climber who sets out to summit a mountain on a beautiful crisp crystal blue morning only to see the clouds roll in and near the summit during a white-out blizzard. Of course, in investing, we never really reach a 'summit', but rather we must adjust our portfolios to ride out the storm.

Oh, what a storm it is! There is no shortage of things to be worried about. A quick survey includes a resurgent pandemic, supply chain issues, inflation, high energy and food costs, war in Europe, saber-rattling in Asia, and a possible upcoming recession. Let's look at each in turn and see what may become of them.

COVID Redux
COVID continues to be an issue in parts of the world, although we are rapidly moving towards a begrudging coexistence. Most of the world has moved away from large government-based responses and in most places, it is being handled by individuals usually on their own. We are seeing spikes here and there and will likely continue to see those over the coming years, much like the flu. The exception to this is China where they are still locking down entire cities. This strategy will continue to cause supply chain issues.

Supply Chain Disruptions
While supply chains have started to unsnarl from their COVID-induced knots, China excepted, other issues are cropping up. The world is currently de-globalizing and countries look to have more control over the production of key goods. This will be a slow and, at times, painful process as it will not happen overnight. Companies (and individuals) will be forced away from highly efficient "just-in-time" inventories to more robust "just-in-case" inventories. What winners and losers come out of this process will be a key thing to monitor.

The highest compliment we can receive is when you let your families and friends know about us.
Referrals Welcome!

Inflation

Looking at inflation, we have seen it spike up to a level not seen since the 1970s. The Federal Reserve (and other central banks) have started to address these issues by raising interest rates. Increasing interest rates typically slow down the economy, but they take time to be effective. Imagine you were driving a car and when you pressed the brake it took ten minutes for the car to actually slow. That is how interest rate increases work. We are starting to see the beginning effects of interest rate hikes in areas like housing, commodities (oil excepted), and car sales. These are likely to become more pronounced over time.

Food and Energy Costs

Food and energy are highly interrelated as it takes a lot of energy to produce and move food. They have moved up together as inflation has moved higher. However, we may start to see a divergence. Food prices will likely stay elevated because the price increases in food are not just about the higher cost of energy. They include the Ukraine war as both Russia and Ukraine are large exporters of food and fertilizers and other countries who produce fertilizers are having issues as well. Energy on the other hand may see a dip if we do end up in a recession (see below).

War in Ukraine and Tensions Around Taiwan

The war in Ukraine continues well beyond what most thought was possible. Although there seems to be growing pressure to end the conflict, it is far too early to speculate on how or when that will happen, but hopefully for the people involved it is sooner rather than later. As for China and Taiwan, the status quo is the most likely scenario. The swift and deservingly harsh worldwide response to the Ukraine war has changed the perceived costs of aggression. No doubt efforts are underway to mitigate those costs should China decide to invade, but those efforts take time.

Recession Ahead?

Recession is rapidly eclipsing inflation as the most talked-about economic term. As a reminder, a recession happens when the economy shrinks. They are typically marked by higher unemployment and lower demand for commodities (like oil) goods (like houses) and services. We are likely headed for one, although it is not written in stone. We had a one-month recession at the start of COVID, which was one of the fastest and deepest drop-offs of economic activity in history. It was also one of the shortest as government action moved quickly to offset the effects of COVID. Before that, the last recession was 2008, also known as the Global Financial Crisis. Typically, a recession lasts on average, 11 months. During recessions, the Federal Reserve typically cuts interest rates to encourage economic growth.

Conclusion

Niels Bohr, a Noble prize-winning physicist once said, "Prediction is very difficult, especially if it's about the future." I'm not sure I've ever felt those words more sharply than at the current time. However, it is at times like these we return to the fundamentals. We are still adherents to asset allocation to diversify portfolios. While diversification is not a panacea to risks or loss, it should continue to provide benefits. Additionally, keeping our time horizon in mind is key. We've been through times of uncertainty and recessions before and staying the course (with perhaps some minor changes) has been a superior course of action versus trying to outsmart the markets by making large changes.

Finally, a note of caution. In today's world of 24-hour news channels and ubiquitous social media chatter, it is easy to get caught up in various narratives. More often than not, those narratives are dire in nature. Most people can name at least one prognosticator who has predicted the end of the world or a significant calamity. Very few can name someone who said the world is changing and it will have both good and bad effects, but things will carry on. It's worth acknowledging that those who predict very bad things may be more motivated by the notoriety they receive for catastrophic predictions rather than their ability to accurately predict.

We thank you for your continued confidence and trust during difficult times. while we always endeavor to meet with everyone on a regular basis, please always feel free to contact us with questions or concerns.

DID YOU KNOW

August 5th is Information Security Day
Criminals are getting more sophisticated. But you can combat the risk by putting these protections in place:

- Use multifactor authentication, which requires two or more authentication factors to access devices, applications or online accounts.
- Use secure passwords that include a mix of uppercase and lowercase letters, numbers and symbols. Make sure each password is at least 12 characters and doesn't contain personally identifiable information.
- If you are unsure if a call you answer is a vishing scam, hang up and dial the company you believe is trying to reach you – for example, your bank – directly.

Dates to Remeber
Sept. 15: Third quarter estimated tax payments are due.
Oct. 1: Last day to establish a SIMPLE IRA plan or a safe harbor 401(k) to be effective for 2022.

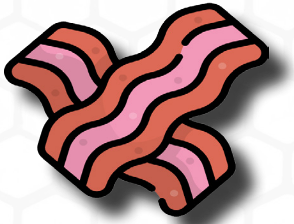
Summer 2022 MARKET CLOSURES

September 5: Labor Day

Source, Raymond James

INFLATION STICKER SHOCK

Inflation rises at fastest pace in 40 years



Bacon, 1 lb. Sliced, US Avg.

MAY 2012:
$4.57

MAY 2022:
$7.36

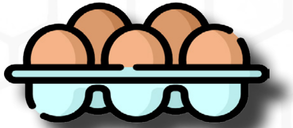
+61.05%

Milk, 1 Gal. Whole, US Avg.

MAY 2012:
$3.42

MAY 2022:
$4.20

+22.81%



Eggs, Grade A, Large, Per Doz. US Avg.

MAY 2012:
$1.69

MAY 2022:
$2.86

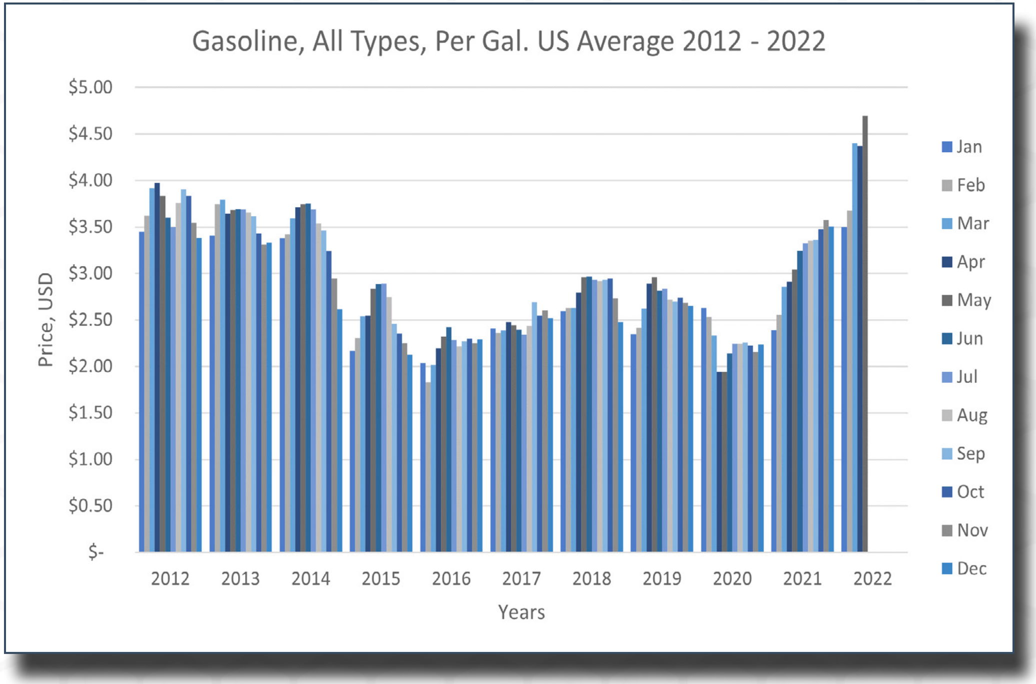
+69.23%

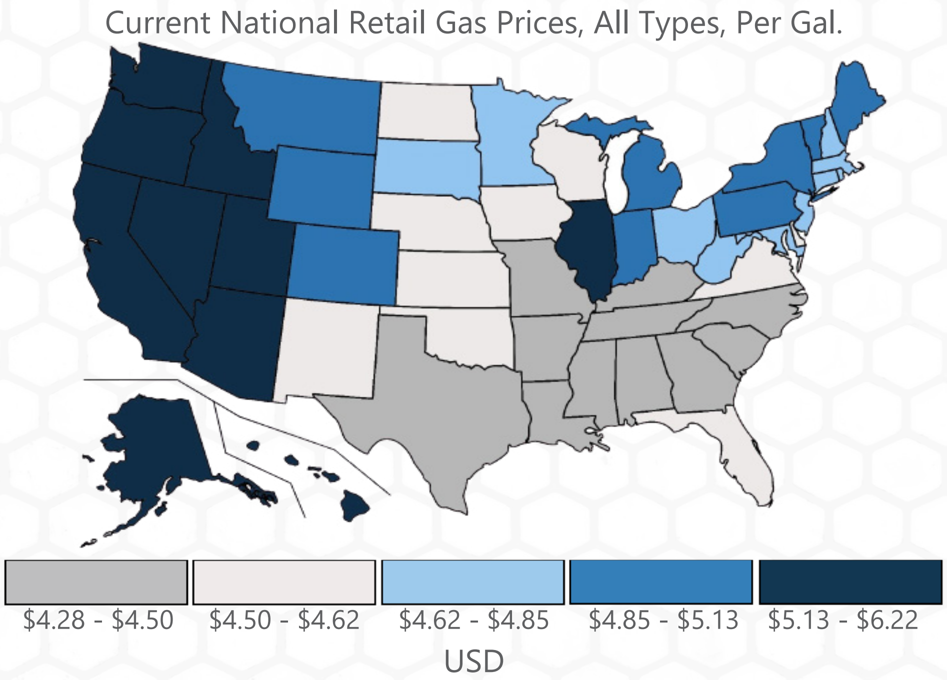
Gasoline, All Types, Per Gal. US Avg.

MAY 2012:
$3.83

MAY 2022:
$4.70

+22.72%





Source, Bureau of Labor Statistics, AAA

HOW TO COMBAT HEALTHCARE COST INFLATION IN RETIREMENT

Health-related expenses can arise unexpectedly. Learn how to prevent them from throwing your long-term plan off track.

You're ready for retirement. You've prepared mentally, emotionally and financially. But inflation may occupy a corner of your mind, considering the jumps it has made over the past year. The U.S. Bureau of Labor Statistics reported an increase in the Consumer Price Index (CPI) of 5.4% in July from a year earlier, matching the largest rise since August 2008. While everyone is talking about inflation for all sorts of reasons, it may affect retirees in other ways – namely, rising healthcare costs.

Even with Medicare, healthcare costs can add up to a major component in a retiree's budget. According to the 2021 Retirement Healthcare Costs Data Report, lifetime health costs for couples retiring in 2021 can range widely – from $156,208 to $1,022,997. Factors that impact expenditures include coverage, health, longevity, income, and state of residence. And, unfortunately, the historical trend that healthcare costs rise 2 to 2.5 times faster than overall U.S. inflation is expected to continue. No reason to panic. Remember, you've planned for this, and you have an advisor to help you through it.

How to combat it

There's nothing we can do to stop inflation, but we can plan to deal with its potential implications. Knowing unpredictable healthcare costs may be coming – and will likely be higher than they are today – it's wise to examine your specific situation with your advisor so you can set yourself up for the retirement you envisioned. Here are some dos and don'ts as they pertain to your financial planning for rising healthcare costs due to inflation.

Don't expect Medicare to take care of it all

Despite having Medicare coverage, there are still out-of-pocket costs, such as dental, vision, long-term care, and other potential expenses. It pays to learn how the system works and what can be done to minimize costs. Work with a trusted advisor to help navigate the waters and understand the differences in coverage options. That might mean considering a Medicare Advantage Plan (or Part C) or a Medicare supplement to ensure you're covered. Determining if your doctor and preferred facilities accept Part A and Part B, as well as ongoing medication costs (Part D), should all be calculated when comparing plans – and recalculated when open enrollment launches each October. Also, keep in mind that Medicare does not cover long-term care, so you would need to consider adding that coverage separately.

Do optimize your Social Security strategy

Before you stop working, think about when and how to implement a claiming strategy that will help your household get the most from Social Security. So much of our strategy on how to maximize Social Security retirement benefits depends on guesses as to how long we'll live. How are your blood pressure, cholesterol, weight, and other health markers? How long have your parents and other relatives lived?

Another thing to remember is that Social Security is indexed to inflation, so there's built-in protection (even if it's not as high as medical inflation). Remember, too, that you don't have to take Social Security just because you're retired. If you can live without the income until age 70, then you will ensure the maximum payment for yourself and lock in the maximum spousal benefit. Just be sure that you have enough other income to keep you going and that your health is good enough that you are likely to benefit from the wait.

Don't forget about your health savings account (HSA)

While you're still working, consider maxing out contributions to your HSA. The annual limit for 2022 is $3,650 for self-only coverage and $7,300 for a family plan. It might not seem like much but, because contributions never expire, you can sock these savings away to use in retirement. A bonus? For those 55 and older, you can elect to add $1,000 annually as a catch-up contribution. Years of these contributions do add up and can lessen the blow of medical expenses later in life.

Remember, these contributions are pre-tax and withdrawals for qualified medical expenses are tax-free. Some plans even allow you to invest unused funds. After you reach age 65 or if you become disabled, you can withdraw HSA funds without penalty, but the amounts withdrawn will be taxable as ordinary income.

Do consider a line of credit for health emergencies

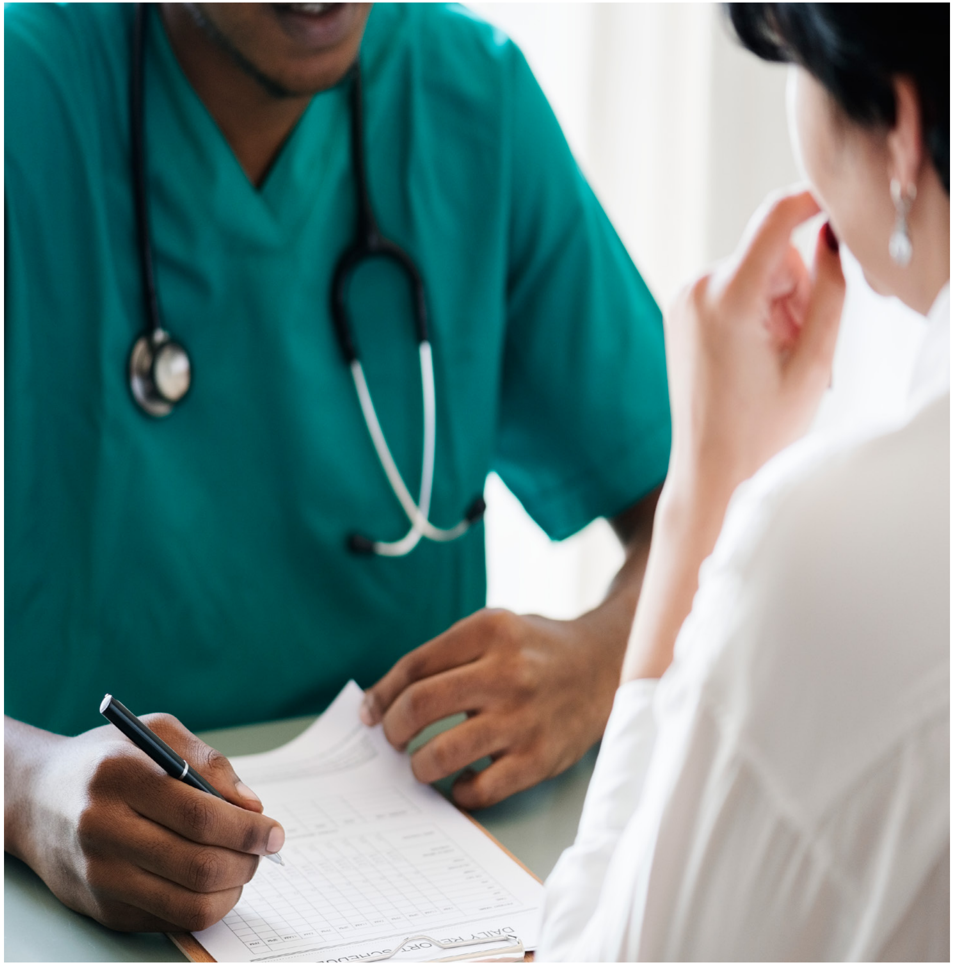
If you're concerned about unforeseen medical expenses, think about opening a line of credit that would give you peace of mind. Doing so leaves

Sources: thestreet.com; hvsfinancial.com; medicare.gov; medicare.gov; forbes.com; shrm.org; jackson.com; nerdwallet.com invested funds working toward your larger financial plan, while an open line of credit with securities as collateral can be leveraged in case of an emergency. Homes are typically retirees' largest assets, so a home equity loan may be an option to consider. There are even medical credit cards that offer zero interest for promotional periods that could be of use in an emergency and allow you to pay it in full before you incur any fees.

Don't take on additional risks to make income

It may be tempting to get more aggressive with your investments to make up for the gap inflation is causing, but you've been too calculated and strategic all these years to make a hasty decision like that. Consult your advisor to determine if your risk level is ideal for your situation, considering your concerns about inflation. Your situation is not like anyone else's, so you can't let headlines sway you from your well-thought-out plans. Getting riskier is just that and not a mitigation tactic for inflation.

The biggest thing to do when thinking about how inflation is affecting your retirement plans is to have these discussions with your advisor. The value of having a financial advisor at your side is to help guide you through the considerations and trade-offs you should think through. They know your specific situation and can partner with you to adjust if needed. With proper precautions in place, you'll be able to achieve the retirement you've been dreaming about.



Privacy Notice:

Sullivan & Associates is committed to protecting confidentiality of the information furnished to us by our clients. We are providing you this information as required by Regulation S-P adopted by the Securities and Exchange Commission. Information about you that we collect: We collect nonpublic personal information about you from the following sources: information we receive from you on applications or other forms or through our web site; information about your transactions with us, our affiliate or others; and information we may receive from a consumer reporting agency. Our use of information about you: We may share information about you with other companies in the Raymond James family - that is, companies that are owned by Raymond James Financial. In certain rare cases, we may share information with professional designation oversight bodies if an investigation is being conducted. Otherwise, we do not disclose any nonpublic personal information about you to anyone except as permitted by law. We follow the same policy with respect to nonpublic information received from all clients and former clients. How we protect your confidential information: Sullivan & Associates has policies that restrict access to nonpublic personal information about you to those employees who have need for that information to provide investment alternatives or services to you, or to employees who assist those who provide investment alternatives or services to you. We maintain physical, electronic and procedural safeguards to protect your nonpublic personal information. Opt-Out Procedure: If you prefer that Sullivan & Associates does not take your nonpublic personal information and use it at a nonaffiliated firm, you may direct us not to make or permit such disclosures by contacting us at the following toll-free number: 1-866-423-7237.

Disclosures:

The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any information is not a complete summary of statement of all available data necessary for making an investment decision and does not constitute a recommendation. Some material created by Raymond James for use by is advisors. Any opinions are those of Patrick Sullivan and Kevin Sullivan and not necessarily those of RJFS or Raymond James. Investments mentioned may not be suitable for all investors. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. While we are familiar with the tax provisions of the issues presented herein, as Financial Advisors of RJFS, we are not qualified to render advice on tax or legal matters. You should discuss tax or legal matters with the appropriate professional. There is no guarantee that the statements, opinions or forecasts provided herein will prove to be correct. Please note that international investing involves risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Investing in emerging markets can be riskier than investing in well-established foreign markets. Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification. Investing involves risk and investors may incur a profit or loss regardless of strategy selected. Diversification and asset allocation do not ensure a profit or protect against a loss. Dividends are not guaranteed and must be authorized by the company's board of directors. Re-balancing a non-retirement account could be a taxable event that may increase your tax liability.

Sullivan & Associates is registered with the State of Colorado as an Investment Adviser. Registration does not imply a certain level of skill or training. Pursuant to the Colorado Securities Act and Rules under the Act, we are required to offer you a copy of our current Disclosure Statement (Part 2 of the Registration Form ADV) upon your request. If you would like to receive a copy of the disclosure statement, please write to: Sullivan & Associates, 1229 Lake Plaza Dr, STE B, Colorado Springs, CO 80906.

SULLIVAN & ASSOCIATES
AN INDEPENDENT REGISTERED INVESTMENT ADVISOR
1229 Lake Plaza Drive
Colorado Springs, CO 80906

Your Dreams. Your Goals. Our Priority.

STAY **IN TOUCH**

719-576-4500 or 877-423-7237

Kevin P. Sullivan, CFA, CFP®, AIF
Wealth Manager, Branch Manager
Kevin.Sullivan@RaymondJames.com

Kristin Maksimowicz
Office Manager
Kristin.Maksimowicz@RaymondJames.com

Maryann Fulop, CRPS®
Investment Executive
Maryann.Fulop@RaymondJames.com

Katelyn Olson
Administrative Assistant/Receptionist
Katelyn.Meeks@RaymondJames.com

Katee Driscoll
Client Service Manager
Katee.Driscoll@RaymondJames.com

Mikayla White
Client Service Manager
Mikayla.White@RaymondJames.com