

Summer 2023

For many people, there's no better way to unwind than by spending an afternoon on a beautiful, freshly mowed golf course, swinging away the stresses of everyday life. This would have no doubt distressed King James II of Scotland, who banned the sport in 1457 because he determined that it was causing his parliament to neglect their military training. He also banned soccer that year, so it's fair to say he was not a sports fan. Despite the initial attempts to eradicate the sport, golf has grown exponentially since the 1400s. According to Forbes magazine, 24 million Americans count it among their preferred pastimes. Unlike most other sports, you don't have to worry about someone derailing a great shot by tackling you or stealing the ball. Instead, whether your performance is impressive or disappointing is almost entirely up to you. And for anyone who has a competitive edge and enjoys a good challenge, that may be as daunting as it is thrilling. More often than not, however, what makes golf great are the people with whom you enjoy it. After all, who doesn't want an excuse to spend a few hours outdoors with close friends? We hope that during national golf month, you find time to grab your clubs and hit a few rounds. Even if playing through the traditional 18 holes isn't your forte, everyone can get in on the fun with minigolf.

Let's take a look at the numbers.

Major Stock Indexes	(As of 6/30/23)
Dow Jones Industrials	+3.80 %
S&P 500 Index	+15.91 %
NASDAQ Composite	+31.73 %
Russell 2000	+7.24 %
MSCI EAFE Index	+11.67 %
MSCI Emerging Markets	+4.89 %
Major Bond Indexes & Rates	(As of 6/30/23)
Barclays U.S. Aggregate Bond	+2.09 %
Barclays U.S. Corporate Bond	+3.33 %
Fed Funds Rate	5.00 – 5.25 %
30-year fixed mortgage	7.12 %

Source: The Wall Street Journal and Barron's

*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 affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

Arizona

3610 N. 44th St., Ste 220
Phoenix, AZ 85018
T 602.604.9711

Colorado

30752 Southview Dr., Ste 290
Evergreen, CO 80439
T 303.674.9711

California

3202 Governor Dr., Ste 204
San Diego, CA 92122
T 858-450-9711

FINANCIAL AND INVESTMENT PLANNING

This summer marks the 110th competition of the most prestigious bicycle race in the world, the Tour de France. It is a grueling three-week race where cyclists ride over 2,200 miles. Some days the cyclists ride over terrain that is flat, while other days they have brutal mountains to climb, like the famous Alpe d'Huez. The race organizers change the course every year. Like the Tour, the economy and markets change every year as well. At times it seems easy, like when the economy benefited from the 'doping' effects of unparalleled fiscal and monetary stimulus during the pandemic. Like the Tour officials who finally cracked down on the cyclists who were 'doping' years ago, the Fed decided to tackle inflation by raising interest rates 5% since early 2022. During this tightening cycle, the markets felt like they were climbing a never-ending mountain. As the cyclists continue to pedal throughout the Tour, so does our economy.

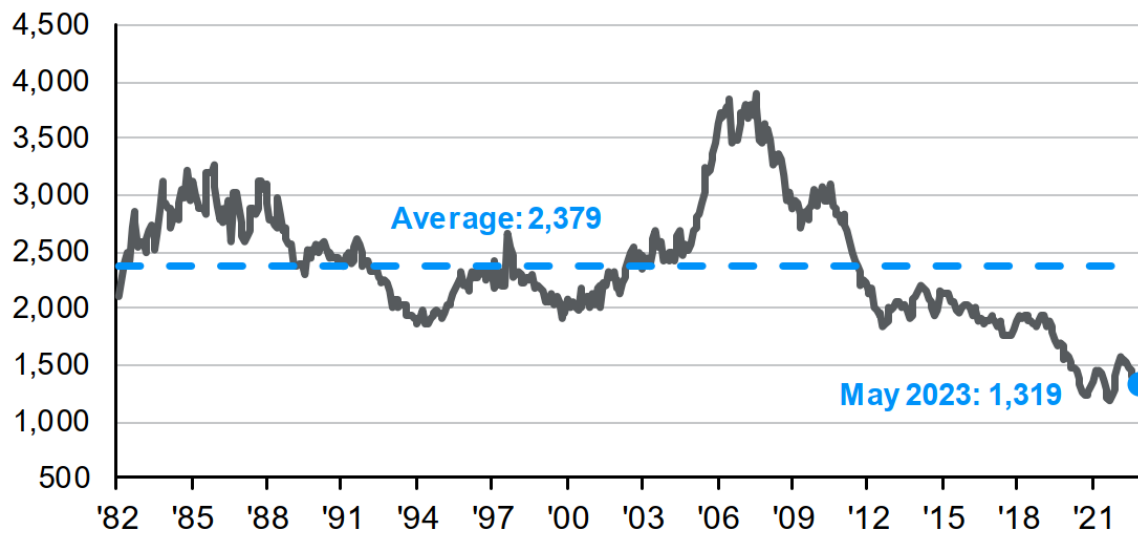
The first half of 2023 sure gave investors plenty to worry about – from inflation, to rising interest rates, a possible recession, the Silicon Valley Bank collapse and the D.C. drama surrounding our debt ceiling limit. Despite those concerns, the equity and fixed income markets have had a strong start to the year. The primary driver to the strong start is the belief that the Federal Reserve (the Fed) is nearing the end of a rate-hiking cycle that began in the spring of 2022. The Fed decided not to raise the Fed Funds Rate in June, but said they do intend to raise it by 25 basis points in July and September. If the U.S. economy continues to be resilient, consumers should expect higher rates for longer. However, if the economy starts to soften, the Fed will be under pressure to lower rates to stimulate growth. Looking back to 2000, the Fed talked tough on rates and raised the Fed Funds Rate from 5.5% to 6.5%. In 2001, they lowered it all the way down to 1.75%. While no one has a crystal ball, many economists, including Gregory Davis, Chief Investment Officer at Vanguard, believe the Fed Funds Rate will settle in the 5.5% range and then stay there for an extended period. This means they don't believe a hard economic landing is likely. We may experience a mild recession later this year or early next year (similar to the 2022 recession in 1Q22 and 2Q22).

Looking at the data, the Fed appears to be winning their fight against inflation and slowing down the U.S. economy. Housing inflation has peaked. That is important because housing is the biggest component of the inflation index measured by the Consumer Price Index (CPI). Raymond James Chief Economist, Eugenio J. Alemán, PhD, recently said, "adding to our expectations for the US labor market, housing costs are starting to weaken and will start to put inflation on a faster disinflationary path during the second half of the year. Both, the CPI—the Shelter Cost Index, —as well as the Housing Price Index for the Personal Consumption Expenditures (PCE) Price Index have started to pivot on a year-over-year basis. The process is just starting and will take some time to become more apparent, but it will hopefully convince the Fed that it doesn't need to go much higher in terms of interest rates to continue to see the disinflationary process move forward."

Residential real estate values have dropped in most markets over the past year due to stretched valuations and rising interest rates. A byproduct of extremely low rates for years means many homeowners locked in a very low mortgage rate. In fact, more than half of the homeowners with mortgages are locked in for less than 4% on their fixed mortgages. This, combined with the home builders not building enough new homes in previous years, has now led to lower inventories as many homeowners don't want to give up their low mortgage rate for a new home with a higher rate. The below charts illustrate the current inventory of single-family homes and housing starts:

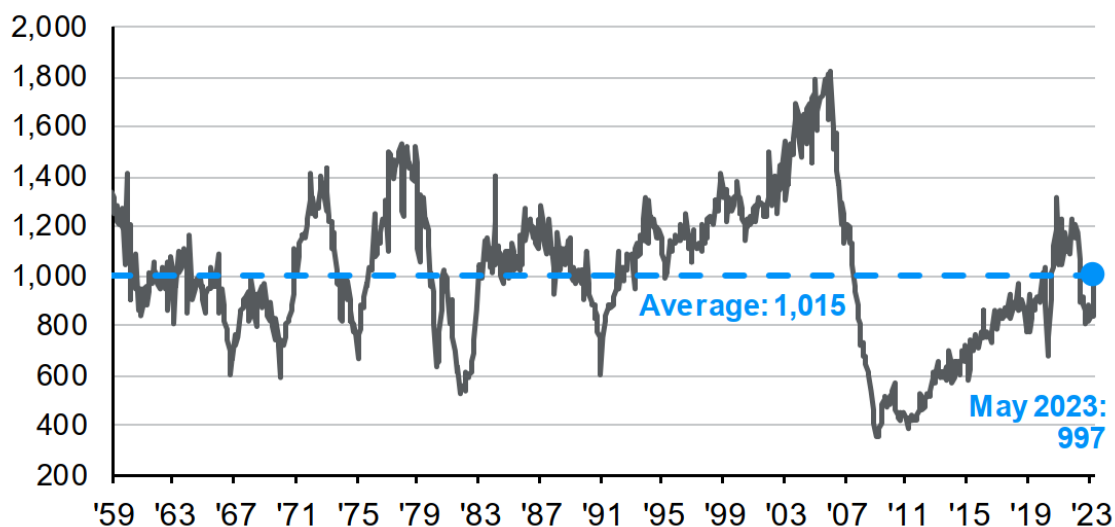
Housing inventories

Inventory of new and existing single family homes for sale, thous, SA*



Single-family housing starts

Seasonally adjusted annual rate (SAAR), thous houses



Source: U.S. Census Bureau, U.S. National Association of Realtors, J.P. Morgan Asset Management

The jobs market continues to surprise to the upside. According to the U.S. Bureau of Labor Statistics, the U.S. economy add 732,000 jobs during the 2nd quarter of 2023. The unemployment rate is still at a historically low level at 3.6%. Inflation, as measured by CPI, continues to come down. It now stands at 3% (Core CPI, which excludes food and energy is at 4.8%). The number of job openings has decreased to 9.8 million, from a peak of around 12 million last year. There are currently about 6 million people looking for work, so essentially 1.8 jobs available for each individual looking for work.

The U.S. dollar continues to weaken relative to other currencies. The greenback had an 11-year bull run vs the euro, the yen and others. The dollar peaked last October and has since declined 6%, as measured by J.P. Morgan USD Real Effective Exchange Rate Index. According to Andrew Cormack, a portfolio manager with Capital Group, when discussing the drop in the dollar, "while that may not seem like

much, currency trends often play out over long periods of time. And I think the strong dollar cycle we saw over the past decade was a bit long in the tooth.”

While expectations at the start of the year were very pessimistic, earnings have been better than expected, inflation continues to fall and the U.S. government did not default on their debt. Year to date, the technology sector has worn the coveted *Yellow Jersey* (the fastest cyclist in the Tour de France wears the *Yellow Jersey*). Time will tell if the tech sector continues to be the top performer or if other sectors will catch up. The economy does appear to be softening a bit and a shallow recession wouldn't surprise us. If the economy were to slide into a recession again, it will be temporary and consensus is we might see a drop in GDP of ~1%. A long-term strategy helps investors ignore the short-term headlines and stay focused on their important financial goals. If you have any questions, as always, please don't hesitate to reach out. We are here for you.

Source: FactSet, as of 1/31/23. Drawdown is a measure of market declines from a peak to a subsequent trough. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results.

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- The Dow Jones Industrial Average (DJIA), commonly known as “The Dow”, is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.
- The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material accurate or complete.
- The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market and includes over 3,000 companies.
- Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Bonds are subject to credit and interest rate risk. Timely payments of interest and principal payments are based on the financial condition of the issuer. Yield and market value will fluctuate with changes in market conditions. There is an inverse relationship between interest movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Diversification does not insure a profit or a guarantee against a loss. Investing involves risk and you may incur a profit or loss regardless of strategy selected. Please note that international investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

PERSONAL

As spring turns to summer, another school year comes to a close. Macy and Kora just completed 5th and 6th grade and will be in middle school together next year. The sisters were excited to be on the swim team again this summer. Kris and Angie remember the early swim lessons – from being afraid to dive to swimming never ending zig zags across the pool. Now they regularly win races at their swim meets and are often faster than many of the boys. Mikaela Shiffrin is an American Olympian and World Cup alpine skier who has the most World Cup wins in history (men or women). Kora and Macy love Mikaela and Mikaela's mantra – A.B.F.T.T.B. “Always Be Faster Than The Boys.” Whenever they beat a boy, dad often gets a quick glance from them to make sure he noticed. Outside of the pool, the girls love to play volleyball in the front yard, hang out with their dog, JoJo, and eat ice cream!



April marks the end of spring softball season. Lots of personal growth and skill development. In her 8U (ages 8 and under) league, Elle received the Amanda Rozsa award for being the best kid ever (biased parent's opinion) – the player who exhibited sportsmanship, leadership, citizenship, and friendship on and off the field. She is so sweet, caring, inspirational, and a hard worker. This was such a proud parent moment. Ava played in 12U and their team got 1st. She was a base stealing machine all season. Ok, parent will stop gloating now.

If you love the outdoors and have never been to Joshua Tree National Park, put it on your calendar. Every year, the YMCA Adventure Guides program devotes the weekend camping in this vast wilderness of dreamlike geological landscapes. Kids and their dads spend their time hiking, climbing, stargazing and exploring this almost-alien like land. This year was no different. Garry, Ava and Elle enjoyed every minute of adventure.

In the same month, along with other Rotarians from the La Jolla Golden Triangle Rotary Club, 50 native trees and shrubberies were planted around the recently built carnivore enclosure at Project Wildlife San Diego Humane Society in Ramona, CA. Since 1972, Project Wildlife's dedicated staff and volunteers have given injured, orphaned, and sick wild animals a second chance at life. This commitment to helping wild animals has grown tremendously and Project Wildlife is now one of the largest wildlife rehabilitation organizations in the country.

Ava's love for cars is undeniable. She follows Formula 1, sketches, builds (out of Legos, play-doh, cardboard boxes, and so on), and dreams about racecars. So, what better way to feed that passion than a trip to the Peterson Automotive Museum in Los Angeles. Luckily, this interest is shared by the rest of the family. In June the clan spent the afternoon gawking at the amazing machines this exhibit has to offer.



End of the second calendar quarter came to an end. And, just like that another school year whizzed by. Starting in the fall Ava and Elle will be in different schools until they re-unite for one year in high school. Ava is excited and nervous to make the leap to middle school (entering 6th grade). Elle will “hold down the fort” at the elementary school (going into 3rd grade).

We wish you and your loved ones a wonderful summer. Thank you for your trust, confidence and friendship.

It’s not enough to add years to one’s life... one must also add life to those years.”

– John F. Kennedy

A handwritten signature in blue ink, appearing to be 'GK'.

Garry Kachkovsky, CFP®
Financial Planner

A handwritten signature in blue ink, appearing to be 'KR'.

Kristian R. Fisher, CFP®
Financial Planner