Private Wealth *perspectives*

VERSION 21.4

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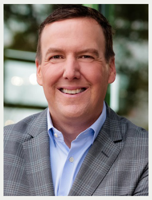
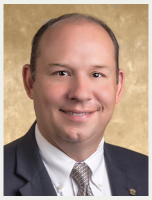


We appreciate you taking the time to benefit from our Perspective. This quarter our team spends some time discussing how the Fed's actions over the last 14 years leave our economy in a precarious situation. Additionally, we provide an overview of how increased life expectancy has created opportunity for investment and tax planning related to RMDs from qualified accounts. We are running headlong into the Holiday Season, please take a moment to spend time with the people in your life who bring you the most joy.

Stay Healthy. Stay Safe. Stay Positive.

Michael Joyce
President, Private Wealth Advisors

INVESTMENT MANAGEMENT



FED Games

To gain insight into the current policies and practices of the Federal Reserve (the Fed), we first need to look back into recent history and review the series of events that led us to where we are today. As a backdrop to the entire story, it is critical to understand that former Fed Chairman Ben Bernanke was a lifelong student of the Great Depression. You could say he was obsessed with it. "I'm a Great Depression buff, the way some people are Civil War buffs," Bernanke wrote in 2000. His first term as Fed Chairman began in February 2006, just one year prior to the Global Financial Crisis (GFC) of 2007 – 2008. At the time, most economists considered the GFC to be the most serious financial crisis since the Great Depression. If ever there was someone prepared to tackle a financial crisis, it was Ben Bernanke. After reading Milton Friedman and Anna Jacobson Schwartz's "A Monetary History of the United States, 1867-1960" as a graduate student at MIT in the 1970's, Bernanke became convinced that an "inept" Federal Reserve brought about the Great Depression. The Fed had "foolishly" raised rates in 1928 to end speculation on Wall Street. Then, it let thousands of banks fail and the money supply shrink. If the Great Depression stands as the prime historical example of "underdoing it" from a monetary policy standpoint, Bernanke was not going to underdo it during the GFC of 2007 - 2008. The policy playbook he created and put in place during the GFC is still in use today and has arguably grown into a prime example of monetary policy "overdoing it".

When the time for action came in 2008, Bernanke unleashed a series of policy tactics that were largely untested. One of the first moves was slashing interest rates (Federal Funds Rate) to zero, where it would remain for the entirety of Bernanke's two terms as Fed Chair. As banks began to fail, government bailouts became the norm. The phrase "too big to fail" was coined, as many believed if large banks failed, the entire financial system would collapse. The Federal Reserve announced the first round of Quantitative Easing (QE) in November 2008. The initial QE was aimed at saving the housing market which had experienced a dramatic decline from pre-GFC levels. During QE1, the Fed massively increased its standard open market operations. It purchased debt from its member banks, in this case mortgage-backed securities, to create liquidity in the debt markets. The Fed can buy as much debt as it wants, anytime it wants. It has this ability so it can quickly pump liquidity into the economy as needed. This was followed by QE2 in 2010, QE3 in 2012 and QE4 in 2013. Since interest rates were already zero or near 0% levels and the economy was not recovering as robustly as hoped for, the Fed continued to use quantitative easing to shore up liquidity. It's important to remember that most of these methods had never been tried before, thereby placing the American economy at the center of a real time experiment. By the time the tapering of QE was announced near the end of Bernanke's second term in 2014, the size of the Fed's balance sheet had grown from $1 trillion (pre-GFC) to nearly $4 trillion. Through his determination not to use the same monetary policy tactics as the Federal Reserve during the Great Depression, Bernanke was successful in avoiding another depression under his watch.

Janet Yellen's four-year term as Fed chair was relatively calm, as the economy showed enough strength to justify nine rate increases between 2015 and 2018. QE had been suspended and the Fed balance sheet had begun to slowly decline by the time Jerome Powell became Fed Chair in February 2018. Things were running relatively smoothly through 2019 and into early 2020. Then came COVID-19. Powell pulled out Bernanke's old playbook and the games began again. This time, the strategies were intensified, and the size of the Fed's balance sheet grew to $7 trillion virtually overnight. QE was re-ignited, with the Fed again purchasing massive amounts of securities to backstop markets. In two swift cuts, the Fed Funds Rate went back to zero, where it remains. Powell's statement on March 23rd, 2020, that the Fed would do "whatever it takes" to prevent another Depression, marked the low point for a stock market that had declined nearly 35% in the three weeks prior. By essentially guaranteeing that the Federal Reserve would not allow the bond market, or the stock market, or the housing market… to fail, Powell set off an "everything" bull market that is still in full swing. The

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Fed balance sheet continued to swell, passing the $8 trillion mark in mid-2021. Once again, these actions served to keep the U.S. economy from falling into a depression. But where have they left us?

Since 1977, the Federal Reserve has operated under a mandate from Congress to "promote effectively the goals of maximum employment, stable prices, and moderate long term interest rates." You will note that nowhere in that mandate is the stock market mentioned. It is not the job of the Fed to ensure that the markets can not and do not ever suffer a correction. Yet increasingly, that is the way the Fed is acting. Though apparent to most observers, Fed officials won't admit that fear of the stock market's reaction to the tapering of the Fed stimulus is driving their decisions. The Fed now must "talk about talking about" raising interest rates so the stock market can digest the news without suffering a blip. They are the helicopter parent who hovers over the market and jumps in at the slightest sign of trouble to protect investors from pain and disappointment. It's an admirable gesture, but a far cry from their Congressional mandate. We teach our children that they are not going to win every game. As parents, we understand that sometimes the best way for a child to learn a lesson is by letting them fail. The last Fed chair to treat the economy and markets that way was Paul Volcker. Did he make some very unpopular decisions? Yes. Did he do the right thing instead of the easy thing? Absolutely.

Trillions have been "printed" and injected into the economy…. where does it all end up? A case can made that the great majority of it ultimately ends up in financial assets. Charting the increase in the Fed balance sheet since 2008 alongside the increase in the S&P 500 over the same period shows a remarkable correlation. The world's billionaires have seen their wealth surge by over $5.5 trillion since March 2020. Their total wealth has increased more in the past 17 months of the pandemic than it did in the 15 years prior to the pandemic. In late September, the heads of the Federal Reserve banks of Dallas and Boston, Robert Kaplan and Eric Rosengren, resigned after public financial disclosures showed they personally traded millions of dollars in stocks ahead of the Fed's March 2020 actions to backstop the markets. Jerome Powell himself owned millions in municipal bonds, an asset type purchased by the Fed during the pandemic to stabilize the bond market. Conflicts of interest haven't been taken seriously for many decades, but these findings are creating renewed interest, even catching the attention of Senator Elizabeth Warren. Top Fed officials are setting the interest rate policy for the most important economy in the world and making decisions they know full well will influence the direction of the stock market. By the time their 2020 trades became publicly known, Kaplan and Rosengren's trades had made them millions of dollars. With apologies to Scooby Doo, they would have gotten away with it too, if it hadn't been for some sharp eyes sifting through their annual disclosures. Actually, they did get away with it because there have been no fines, penalties or charges handed down. Jerome Powell has only called for an "ethics review" of senior Fed officials. The irony behind Kaplan and Rosengren's resignations is that they were two of the more "hawkish" Fed members, meaning they were in favor of raising rates and tapering off some of the Fed stimulus. This means their replacements could potentially tilt the Fed into even more Dovish territory, extending the game even longer.

The Fed now has to walk a fine line to reign in its stimulus programs, while at the same time not sparking a recession. Raise rates too quickly and they will squash economic growth. Keep rates too low for too long and inflation could escalate even more. It's a problem of their own making. I liken Fed stimulus to drug addiction. Once an addict has achieved a high, it takes a little more of the drug to reach the same high the next time. And now that the markets have tasted the highs of massive Fed stimulus, they don't ever want to go back. At some point, our nation's economy and markets will have to re-learn how to stand on their own, without help from the Fed. The game's afoot.

Travis McEowen
Portfolio Manager

RETIREMENT PLAN SERVICES

IRS ISSUES NEW LIFE EXPECTANCY TABLES

GOOD NEWS! Starting in 2022 IRA and retirement plans required minimum distributions (RMD) will be somewhat smaller. Why might you ask? Because the population's life expectancy is getting longer, the IRS released new life expectancy tables that will be used starting with the 2022 RMDs.

The majority of the time the Uniform Lifetime Table is used to calculate an RMD but depending on the circumstances there are two other tables that can be used as well (Single Life Table and Joint and Last Survivor Table) and these tables have also been updated.

The Single Life Table is used to calculate RMDs for inherited IRAs, but only if they are an "eligible designated beneficiary." Eligible designated beneficiaries include: a surviving spouse; a minor child; a chronically ill individual; disabled individual; or someone no more than 10 years younger than the account holder. All other individual beneficiaries who received an inherited IRA after 2019 are subject to a 10-year payout rule.

The Joint and Last Survivor Table is used to calculate RMDs for IRA owners that have a spouse beneficiary that is 10 or more years younger.

A smaller RMD means less taxes and more retirement savings you can retain for tax-deferred growth. Taking more than the RMD is always allowed, however, if the RMD is not taken, a 50% penalty could be handed down from the IRS. FMPWA would appreciate the opportunity to serve you, and we hope this information helps you understand the upcoming changes to your Required Minimum Distributions.

Eva Kreps
Retirement Plan Advisor

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If you have any questions or would like to talk to one of our retirement plan team members, the Retirement Specialists at First Merchants Private Wealth Advisors are here to help:

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> *"As the adage goes, clients do not care how much you know until they know how much you care. And more than the reward of effective expertise, it is the strength of the relationships we have with our clients that brings us charging through the door each day.*
>
> MICHAEL JOYCE
> *President, Private Wealth Advisors*