Subject: Greenleaf Newsletter: Learning From Past Interest-Rate Increases, Will RMD's Empty My IRA?
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Hello Greenleaf,
Welcome to Our Client Newsletter

In the September Issue:

- **What can we learn from recent periods of multiple interest-rate increases?**
- **Question: I turn 72 next year and must begin withdrawing money from my IRA. How many years do I have before the account is emptied?**
- **Market News: The Summer Stock-Market Rally Evaporates.**

What Can We Learn From Recent Periods of Multiple Interest-Rate Increases?

The Federal Reserve announced its fifth interest-rate increase this week, a move that boosted the Federal Funds Rate to a range of 3.00% to 3.25%.

The Fed's interest-rate adjustments -- both up and down -- are intended to achieve their dual mandate set by Congress: Keep prices stable and maximize employment. The Fed also changes rates in

Question:

I turn 72 next year and must begin withdrawing money from my IRA. How many years do I have before the account is emptied due to these withdrawals?

Answer:

If you withdraw no more than your required minimum amount each year, you will always have money

Market News:

The Summer Stock-Market Rally Evaporates

Stocks rallied in the summer, but reversed course as concerns about global growth, widespread inflation, a soaring US dollar, and the ripple effects of Russia's aggression in Ukraine spooked investors. The Dow Jones Industrial Average recently dropped into a bear market having response to U.S. economic conditions.

Currently, with housing, consumer goods, and service prices staying stubbornly high, the Fed's primary goal is to reduce inflation rates that are impacting the purchasing power of Americans -- but without sparking a recession. Can they achieve this? What do past rate increases tell us?

Rate Hikes 1999 to 2000: The Dot-Com Boom
Between 1995 and its peak in March 2000, the tech-heavy NASDAQ index rose 400% in a frenzy of investing speculation.

The Fed stepped in with rate increases beginning in June 1999 and ending in May 2000. The Fed raised rates six times, going from 5% to 6.5%.

The dot-com bust, the 9/11 terrorist attacks, and an eight-month recession caused the Fed to then lower rates 11 times in 2001, dropping down to 1.75%. One cut in late 2002 and another in mid-2003 reduced the Fed's rate to just 1%.

Rate Hikes 2005 to 2006: The Housing Market Boom
The subsequent era of low rates would eventually result in a housing bubble due to rock-bottom borrowing costs for buyers, builders, and developers. The Fed tried to cool off the blazing hot real-estate market and the economy

will always have money in your IRA.

Although IRA owners often think their account balance will diminish quickly, this is not the case. For example, if you reach age 90 and your ending IRA balance the prior year was $100,000, then your RMD (Required Minimum Distribution) is just $8,197.

If you reach age 100 and your ending IRA balance the prior year was $100,000, then your RMD is higher, though not excessive at $15,625.

If you reach age 120 -- or older -- then you will have the highest required amount at 50% of the prior year's ending balance.

For each year, your RMD is calculated by the following formula: Your previous year-end balance divided by your life expectancy factor from the IRS' attached *Uniform Life Expectancy* Table.

For example, your first RMD at age 72 has a life expectancy factor of 27.4. If your IRA is $500,000, then your RMD is $18,248.18.

If you wish to delay your first (age 72) RMD, you may defer it until April 1st of the following year

declined -20% from its high on January 4, 2022.

Even with this drop, the Dow has held up better than the S&P 500 Index (down almost -24%) and the NASDAQ tech-heavy index (down -30%). Overall, however, all manner of investments, from currencies to commodities to bonds have been pummeled.

Normalizing two decades of extraordinarily low interest rates is not a task that can be solved quickly. However, a bear market decline is always gut-wrenching. Looking at past recoveries after bear markets for the S&P 500 Index may help.

1987: The market plunged 25% in a day known as Black Monday. The total loss was nearly -34%. Recovery took 20 months.

2000 - 2002: Speculation during the 1990's in internet-related stocks led to a -49% fall in the S&P 500 Index. Recovery took 56 months since tech stocks also dominated the S&P 500 Index.

2008: The housing bubble and subprime mortgage crisis caused the S&P 500 to fall -57%. Recovery took 49 months.

by hiking rates 17 times in two years to a June 2006 level of 5.25%.

By early 2007, the housing bubble was bursting and unemployment was increasing. The Fed then reduced rates beginning in September 2007. The Great Recession officially began in December 2007. Although the Fed paused rate cuts in mid 2008, they resumed later that year, dropping rates down to 0% to 0.25% in December 2008.

Going to zero was an unprecedented attempt to help the U.S. economy.

Rate Hikes 2015 to 2018: Seven years later, the Fed slowly began raising rates. Over a three-year period, rates rose to 2.25% to 2.5%.

In each era, rate hikes were made for different economic reasons. To its credit, the Fed attempted to overcome the boom/bust cycle of increases and cuts in the 2015 to 2018 period, but cuts were made again in 2019 and then again in 2020 when Covid-19 appeared.

Record stimulus helped avert economic disaster during the pandemic, but with rates at 0% to 0.25% again, the economy eventually overheated, housing prices soared, and inflation returned. We shall see over the coming few years if the pattern of rises followed by cuts occurs again.

of the following year. However, you must take your age 73 RMD in that same year, resulting in two RMDs in one tax year.

If your goal is to leave money to heirs, the IRA RMD rules will not prevent you from achieving that goal.

Please note that Inherited IRA withdrawal rules are different.

2018: The Index dropped -19.8%, just shy of a bear market level, mostly due to a trade war with China. Recovery to a new record high took 4 months.

2020: The global spread of Covid-19 sent the S&P 500 Index down nearly -34% in about six weeks. Six months later, the market had fully recovered.

Researchers note that once the S&P 500 reaches the -20% threshold, stocks typically fall by another -12% and it takes the index an average of 95 days to hit the end of a bear market.

In more than half of the 14 bear markets since 1945, the S&P 500 hit a low point within two months of initially falling below the -20% level and forward returns were largely positive with the index rising an average of 7% and nearly 18%, respectively, over 6- and 12-month periods.

Although it may seem like a long fall, the market can quickly change for the better. Hang in there, but don't hesitate to contact us for a conversation about your accounts.

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