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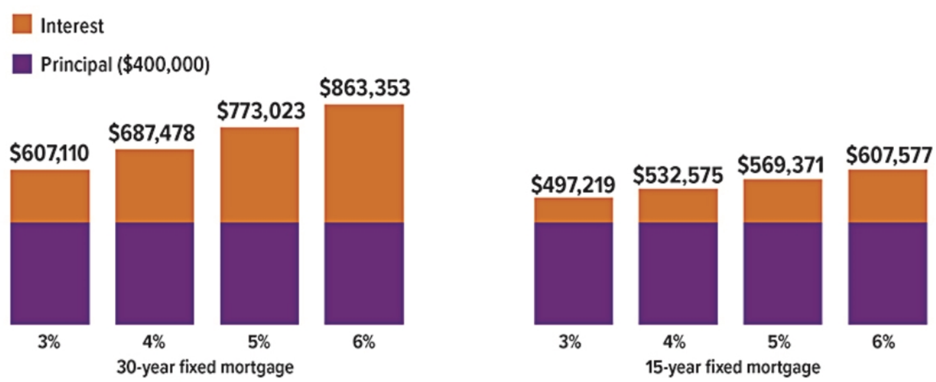
Make sure to read John Stewart's current market take, "Inflation Not Dead Yet" below.

The Cost of Borrowing

In April 2022, the average interest rate for a 30-year fixed mortgage surpassed 5% for the first time since April 2010, and it was still above 5% in August. With higher rates, it's more important than ever to understand how interest increases the total cost of a mortgage.

The chart below shows the total cost for a $400,000 conventional 30-year fixed mortgage and an accelerated 15-year fixed mortgage (typically used for refinancing) at different interest rates. A $400,000 mortgage would enable a buyer to purchase a $500,000 home with a 20% down payment.



Source: Freddie Mac, 2022. *This hypothetical example of mathematical principles is used for illustrative purposes only. Actual results will vary.*

Inflation Not Dead Yet

What a difference a week makes. Investors had begun to breathe a sigh of relief as stocks seemed to be pricing in a continued moderation in the rate of inflation by rising roughly 5 percent in as many days leading up to Tuesday's Consumer Price Index (CPI) inflation report for the month of August. Then, all of a sudden, BAM! A hotter than expected report on price pressures sent stocks tumbling to their worst day since the pandemic induced volatility of June 2020. The Dow fell by more than 1000 points. Equities have been on a schizophrenic back and forth for weeks now, bouncing up and down as if on a bungee cord between expectations of a soft landing or the possibility of a more damaging recession. We've been consistent in our message to investors that this type of volatility will likely continue for at least the next couple of quarters as the Fed tries to bring inflation under control. The $31 trillion question remains, just how much pain will accomplishing that goal require? Our focus remains on the path of earnings expectations and revisions to those expectations. For the time being anyway, the trend is not your friend.

If there is a cardinal sin when it comes to investing, it is selling your stocks at the worst possible time because you panic after the broader market has taken a turn for the worse. Investing is a long-term endeavor, and selling low because your emotions get the better of you is a sure-fire way to put the odds of success squarely against you. One reason investors are forced to sell stocks when the broader market is down is that they need the money for some reason; perhaps you are living off your investments for retirement income. Generating liquidity has been especially difficult this year as fixed income assets have broadly declined in value alongside equity investments.

One way to help avoid having to fire sell your stocks is to ensure they generate some income through dividend payments. While focusing solely on the dividend, or investing in stocks that pay above-average dividends can be risky, there are plenty of high-quality companies that pay dividends between 3 and 5 percent. The income those stocks generate can help supplement living expenses so that you aren't forced to liquidate the shares themselves at the worst possible time.

Another Fed meeting is upon us next week, and yes, they're going to hike the primary interest rate they control – the Fed Funds rate, which is the rate at which banks lend to one another in the overnight market. By all accounts, the expectation is for another three-quarter point rate increase, but after the hotter-than-expected inflation report earlier this week, the market was pricing in close to a 1-in-3 chance of a full percentage point hike. Nevertheless, that outcome seems pretty unlikely. While higher interest rates will continue to tighten financial conditions and put the brakes on an already slowing economy, the Fed is also draining liquidity from the financial system through a reduction in the securities holdings on its balance sheet. All this adds up to reinforce the point I made earlier – market volatility is upon us, and it is likely going to be with us for longer than many people may expect. There are still opportunities to make money in this market, but it will require more flexibility than many investors have been accustomed to.

How Much Life Insurance Do You Need?

Throughout your life, your financial needs will change and life insurance can help you meet some of those needs. But how much life insurance do you need? There are a number of approaches to help determine how much life insurance you should have. Here are three of those methods.

Family Needs Approach

With this approach, you divide your family's financial needs into three main categories:

- Immediate needs at death, such as cash needed for estate taxes and settlement costs, credit-card and other debts including a mortgage (unless you choose to include mortgage payments as part of ongoing family expenses), and an emergency fund for unexpected costs
- Ongoing income needs for expenses such as food, clothing, shelter, and transportation, which will vary in amount and duration, depending on a number of factors, such as your spouse's age, your children's ages, your surviving spouse's income, your debt, and whether you'll provide funds for your surviving spouse's retirement
- Special funding needs, such as college, charitable bequests, funding a buy/sell agreement, or business succession planning

Once you determine the total amount of your family's financial needs, subtract that total from the available assets your family could use to help defray some or all of these expenses. The difference, if any, represents an amount that the life insurance proceeds, and the income from future investment of those proceeds, might cover.

Income Replacement Calculation

This method is based on the premise that family income earners should buy enough life insurance to replace the loss of income due to an untimely death. Under this approach, the amount of life insurance you should consider is based on the value of the income that you can expect to earn during your lifetime, taking into account such factors as inflation and anticipated salary increases, as well as the interest that the lump-sum life insurance proceeds may generate.

Estate Preservation and Liquidity Needs Approach

This method attempts to calculate the amount of life insurance needed to settle your estate. Settlement costs may include estate taxes and funeral, legal, and accounting expenses. The goal is to preserve the value of your estate at the level prior to your death and to avoid an unwanted sale of assets to pay for any of these estate settlement expenses. This approach takes into consideration the amount of life insurance you may want in order to maintain the current value of your estate for your family, while providing the cash needed to cover death expenses and taxes.

Unfortunately, many people underestimate their life insurance needs. Often, the purchase of life insurance is based solely on its cost instead of the benefit it might provide. By the same token, it's possible to have more life insurance than you need. September is Life Insurance Awareness Month, a good time to review your life insurance to help ensure that it matches your current and projected needs.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company. Optional benefits are available for an additional cost and are subject to contractual terms, conditions, and limitations.

Interest in Life Insurance Stays Strong

Source: 2022 Insurance Barometer Study, Life Happens and LIMRA

Building Financial Resilience

Inflation, roller-coaster markets, global events, and life circumstances can test anyone's fortitude. You may not feel ready to handle these pressure-filled times and might worry about the potential effects on your financial well-being. Fortunately, you can take steps to build the resilience you need to help handle the turbulence and hopefully emerge even stronger.

Focus on the Foundation

Developing a new budget or reviewing an existing one may help reduce stress by reminding you that you still have control over many aspects of your personal finances. A budget outlines your income and expenses and shows how much money is coming in compared to how much money is going out. If you find that you are spending more than you realized, you can make adjustments.

An important companion to a budget is an emergency fund. When an unexpected expense comes up, you can use your emergency reserves to cover it, instead of dipping into long-term savings or racking up costly credit-card debt that could throw your budget off track at a time you can least afford it. Consider starting an emergency fund and build it up over time.

Stress-Test Your Portfolio

When you're investing for retirement or another financial goal, assessing the potential impact of various scenarios may help you prepare for unexpected events. This may be done using computer simulations to analyze how your portfolio might perform. Doing this at regular intervals may help take some of the emotion out of decision-making during stressful times, helping you address gaps and opportunities.

There is no assurance that a simulation will be accurate. Because of the many variables involved, you should not rely on simulations without realizing their limitations. All investing involves risk, and there is no assurance that any financial strategy will be successful.

It's better to look ahead and prepare, than to look back and regret.

Jackie Joyner-Kersee

Source: BrainyQuote.com

Prepare for the Future

Of course, you're never going to be prepared for every financial scenario. But developing a written financial strategy and reviewing it periodically may help you thoughtfully navigate life's twists and turns. It documents and organizes the pieces of your financial picture, helping you stay focused on the future as you weather the current storms.

Building financial resilience is an ongoing process, and it's never too late to start. Becoming better positioned for downturns can help you feel more confident that you can handle whatever challenges come your way.