Yanni & Associates
Investment Advisors, LLC

Third QUARTER – 2021 CLIENT NEWSLETTER
REVIEW OF THE MARKETS:

Index:	3Q21	2021
S&P 500	0.58%	15.92%
S&P Mid-Cap	-1.76%	15.52%
S&P Small Cap	-2.84%	20.05%
Morgan Stanley's EAFE (International Stocks)	-0.45%	8.35%
Barclay's US Aggregate (Bonds)	0.05%	-1.55%

Kevin Faes new employee – A few months ago, we hired Kevin as our Client Account Administrator. Kevin will be handling a variety of operational related and client onboarding responsibilities for YAIA. Kevin's prior role was handling operational responsibilities at a major Pittsburgh financial institution. Prior to that, he worked in a similar capacity for an Investment Firm. Please welcome Kevin Faes (rhymes with "ice") to our team!!

Money movement requests – As a kind reminder, we normally ask for about a week's notice for money movements. It does take time for the trades to settle and the money to be ACH'd (not wired) out to clients' bank accounts.

ECONOMY & MARKETS:

As we head into the fourth quarter of 2021, these headlines remain at the forefront of investors' minds:

The Delta Variant – Progressing into the Fall, the vaccination rates still appear to be lower than most people anticipated several months ago. Further, variants have been forming with one predominant one appearing in the States called "The Delta Variant". Boosters are starting to become available and it appears the vaccines will soon be approved for young children. As the cooler weather begins, schools are now back in session, and it's unclear whether the infection rates will rise once again.

Extended Unemployment Benefits – The Federal government's additional $300 weekly benefit expired in September. This has dramatically affected many businesses' ability to hire particularly in the service industry where we have seen many local restaurants unable to find people willing to work. Some States took different actions a few weeks prior to this occurring (offering financial incentives or new job bonuses for those returning to work, requiring stricter rules for collecting unemployment, some eliminating this benefit weeks ago, or other). It's challenging to predict the ultimate outcome of these extra benefits expiring, but one may be able to ascertain that we should initially see a drop in consumer spending followed by an influx of workers into the job market.

Federal Reserve beginning to Taper – The Fed is now projecting it will begin reducing (taper) its monthly purchases of $120 Billion of bonds ($40b mortgage-backed securities and $80b Treasuries) starting as early as their next November 3rd meeting and concluding in the middle of 2022. In theory, the reduction in bond purchases translates into lower demand for bonds, thus putting pressure on longer-term interest rates to rise. Since the Fed's September meeting, longer-term interest rates have begun their climb and stock market volatility has returned.

Federal Reserve projected interest rate hikes – The Fed's overall projections for increasing short-term interest rates are again more aggressive compared to prior meetings earlier in the year. September's recent meeting showed half of the 18 officials expecting to raise short-term interest rates by the end of 2022 (coined "lift-off"). In the June meeting, most officials were not expecting to raise rates until 2023. Six months ago, the March meeting projections were drastically different which included maintaining low interest rates through 2023.

Inflation – Common inflation measures remain at elevated levels. The Fed's September meeting showed projections of inflation not being completely transitory and accelerating faster than previously forecasted. Supply chain disruptions mainly from China do appear to cause prolonged issues. Oil prices have also surged over the last several months as well. Social Security recipients will receive a whopping 5.9% increase as a result.

Economic Statistics (year-over-year basis)	*Most Recent*	*Previous report*
▪ GDP growth rate	2Q21 up 6.7%	1Q21 up 6.4%
▪ Inflation (CPI)	Sept up 5.4%	Aug up 5.3%
Core CPI *(excludes food & energy)*	Sept up 4.0%	Aug up 4.0%
▪ Unemployment rate	Sept up 4.8%.	Aug up 5.2%
▪ S&P 500 Forward P/E ratio	20.5	5-year average 18.3

What is the amount that I'll need to save for my child's college education?

We have been addressing this question more frequently lately and thus, thought it would be a great newsletter article. Coincidently, our oldest child just started her junior year in high school. Thus, it's a question my wife and I have been discussing at home amongst ourselves. Whether your child is 16 or six months, saving properly for college education is an important topic one must address in their overall financial plan.

<u>HOW MUCH WILL COLLEGE COST?</u>
Many moons ago, I graduated from Allegheny College (private institution) with an Economics degree, then immediately obtained my M.B.A. in Finance from the University of Pittsburgh (public institution). According to Allegheny College's website, their tuition plus room & board, etc… is estimated to cost approximately $68,000 per year. According to the University of Pittsburgh's website, its cost is approximately $38,000 for an undergraduate business degree. Multiplying those figures over four years (not including tuition increases), that is an estimated $272,000 for Allegheny College and $152,000 for the University of Pittsburgh. Both are great institutions and while I attended each, that is a big difference! Our main point to this section is <u>the cost of college can vary drastically depending on the institution chosen</u>.

Other factors to consider are:

- Will you want to pay entirely for your child's education or do you want them to be partially responsible for the overall cost?
    - *Back when I was in college it was the beginning of the technological boom and my job was a Computer Assistant. At the time, helping students log into their computers or email was very easy.*
- Will your child get an athletic or academic scholarship or even financial aid?
- Will your child continue to pursue a post graduate degree such as a Masters, Doctorate, etc…?
- You will not be responsible to pay the entire cost on day one!

<u>WHAT IS THE BEST WAY TO SAVE FOR COLLEGE?</u>
Currently, the best way to save for college is to utilize a 529 Savings Plan. Some states offer a Prepaid 529 Plan, where you pay for future tuition credits ahead of time (*in theory, even though we like these plans, we have found they do not always work out as well as anticipated*). We will outline in bullet point fashion some of the more important facets of 529 Savings Plans:

- These are state sponsored plans and thus, the states actually compete with each other. Most commonly, if you invest in your own State's 529 plan, the contributions usually are state income tax deductible (*there may be limits on deductions and some states rules could vary).*
    - The State of Pennsylvania is one of a few states whereby you can invest in any states 529 plan and still get a state income tax deduction for contributions.
- Earnings grow tax free and withdrawals are tax free, as long as they are used for "qualified" expenses. Non-qualified withdrawals will have taxes and penalties imposed on the earning's portion (*we don't recommend this and would guide you to talk to your CPA*).
- There is one Owner (you) and one Beneficiary (child). If your child gets a full scholarship, the Owner can always change the beneficiary to another family member (*certain rules apply*)
    - 529 plans could affect financial aid eligibility.
    - Excess money left over can always stay in the account for a grandchild.
- Contributions to 529 plans do count towards one's "annual gift exclusion" (currently $15,000 per person for any non-spousal member). The 529 plans do qualify for a special five year accelerated gift rule that permits you to use your current and next four year's annual gift exclusion on that child (*call to discuss*).
- The IRS now permits a $10,000 pre-college withdrawal to pay for private school tuition.

Thus, to answer the original question:
<u>What is the amount that I'll need to save for my child's college education?</u> – Generally, we guide clients' to expect to pay at least $150,000. However, given the numerous variables above, there is no definitive answer to this question. Regardless, the best way to plan for college for your children is to start saving today!