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FRESH ADVICE

FOLLOWING THE FED

FRESH ADVICE FROM THE PITON WEALTH TEAM



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The "Fed" has been in the headlines even more than usual recently, so the Fresh Advice team thought that this would be a good time to present the Piton perspective on the Federal Reserve. That perspective is fundamentally to follow what the Federal Reserve is doing and work to anticipate how those decisions will change or create opportunities for Piton's client investors. CEO and founder Michelle Clary puts it this way, "For us it's about the potential impact on clients. While plenty of people have strong views on the Fed, as long as we stay focused on our clients, we are maintaining focus on what matters most." While the Federal Reserve System has a broad range of functions and responsibilities, Piton maintains a constant watch on a few activities.

THE FEDERAL OPEN MARKET COMMITTEE

The Federal Open Market Committee (FOMC) is the principal organ of United States national monetary policy. Of particular importance for Piton is that this committee makes key decisions about interest rates and the growth of the United States money supply. The members of the FOMC include all seven of the members of the Board of Governors (commonly referred to as the Federal Reserve Board), the main governing body of the Federal Reserve System. The committee also includes the President of the Federal Reserve Bank of New York ("New York Fed") plus four Presidents out of the other eleven Federal Reserve Banks (rotating annually from four groups: Boston, Philadelphia, and Richmond; Cleveland and Chicago; Atlanta, St. Louis, and Dallas; and Minneapolis, Kansas City, and San Francisco). Thus the committee always has twelve voting members, while seven other members attend meetings and periodically rotate into voting status.

All nineteen members (the twelve voting members and the other seven) contribute to one of the resources that Piton's Investment Committee regularly consults, the "dot plot." Every quarter the nineteen members are surveyed about their expectations for the benchmark interest rate (the federal funds rate) at the time and into the future. The responses are compiled and published (without linking individual members to individual votes) in a chart known as the "dot plot" [for more detailed information about this publication, visit https://www.fidelity.com/learning-center/trading-investing/federal-reserve-dot-plot). Piton's Senior Vice-President of Research, Chuck D. Etzweiler, MBA, CIMA®, CFP®, CMT, summarizes why analyzing this chart can be so helpful: "In recent years we have found that the data on the dot plot correspond pretty well with the direction and decisions that the FOMC makes about the federal funds rate. That rate in turn tends to correlate to the interest rates on other types of loans." Chuck then explains how this helps investing clients. "Interest rates on loans impact a lot of different businesses. If a business will be operating with a lot of money from loans, a change in interest rates can change how much they spend on interest for a loan. That means every time interest rates change, it changes what businesses represent the best opportunities for our clients' investments. There is no magic formula. Every time there is a change, we have to do a deep dive into a lot of businesses, but the impact of interest rates is one of the items that we analyze."

And more changes could be coming. The correlation between the data on the dot plot and the FOMC's

decision-making could change as new members rotate on to the committee. "Historically, the members of the FOMC are approaching consensus when they generate the dot plot. There is now talk that future members of the committee might be more likely to share divergent preferences or dissenting votes. If that becomes a trend, then we will adjust our analysis to factor that in." Could that put investing clients at a disadvantage? Michelle Clary does not think so: "Absolutely not! The work is finding opportunities for clients. Whatever that work takes, that is what we love to do and what we will do."

GDP FORECASTS AND MORE

The Federal Reserve plays a role in many areas of finance, and there are other Fed tools that do not generate as many headlines but are helpful for Piton's investment analysis. For example, two of the Federal Reserve Banks publish regular projections about the U.S. Gross Domestic Product (the New York Fed at https://www.newyorkfed.org/research/policy/nowcast/#nowcast/ and the Atlanta Fed at https://www.atlantafed.org/cqer/research/gdpnow). Chuck Etzweiler again: "We follow the GDP numbers as they come out quarterly, plus revisions and so on, but these projections give us more regular data along the way and we love that."

Michelle Clary brings it full circle, "Someone might expect that what the Fed does or all the data could make us frustrated or stressed, but honestly that never happens. And that's because we know the goal. Of course we can't pick the perfect investment every time, but we remain confident that studying resources from the Fed helps us make better picks than we would otherwise. And when we nail a great choice, it means more opportunities for our clients!" and that is truly the Piton perspective.

QUIZ

How many votes does the FOMC cast when voting on the Federal Funds Rate?

a. 1 (just the Fed President)
b. 7 (the Board of Governors)
c. 12 (Board of Governors + 5 additional members)
d. 19 (7 Governors + 12 Fed Bank presidents)

Thank you!

The Piton team will be back with more Fresh Advice in October with the Piton perspective on a new topic!

Visit pitonwealth.com/learning for videos and more free information

CAN YOU FIND the HIDDEN PITON?

A piton is a tool which mountain climbers use to secure a hold and climb higher than they could have otherwise. That is why we are Piton Wealth, to advise clients so they climb to ever higher goals. Comprehensive financial planning is the dedicated tool that the Piton team uses for clients to achieve those goals. The ultimate goal is a fulfilling and generous life. The Piton team hopes to see you as part of that life at one of Piton's community events, or any of the many life-affirming events in our communities, and we would love to talk to you about a plan, so please reach out to us when you want to find out about a potential Navigated Journey for you and your loved ones.

If you are interested in Piton Wealth's services, call (509) 582-0570 or visit pitonwealth.com/request-an-appointment/

We hope to hear from you!

ANSWERS: c. You can see the piton on page 2 last paragraph

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The Federal Reserve Board (FRB) is the governing body of the Federal Reserve System, America's central bank. The FRB is an independent governmental agency in charge of conducting monetary policy through open market operations or setting interest rates.

The Federal Open Market Committee (FOMC) is the branch of the Federal Reserve System that determines the direction of monetary policy. The FOMC has 12 voting members, including all seven members of the Board of Governors and a rotating group of five Reserve Bank presidents. The Chair of the Board of Governors also serves as Chair of the FOMC.

Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health.