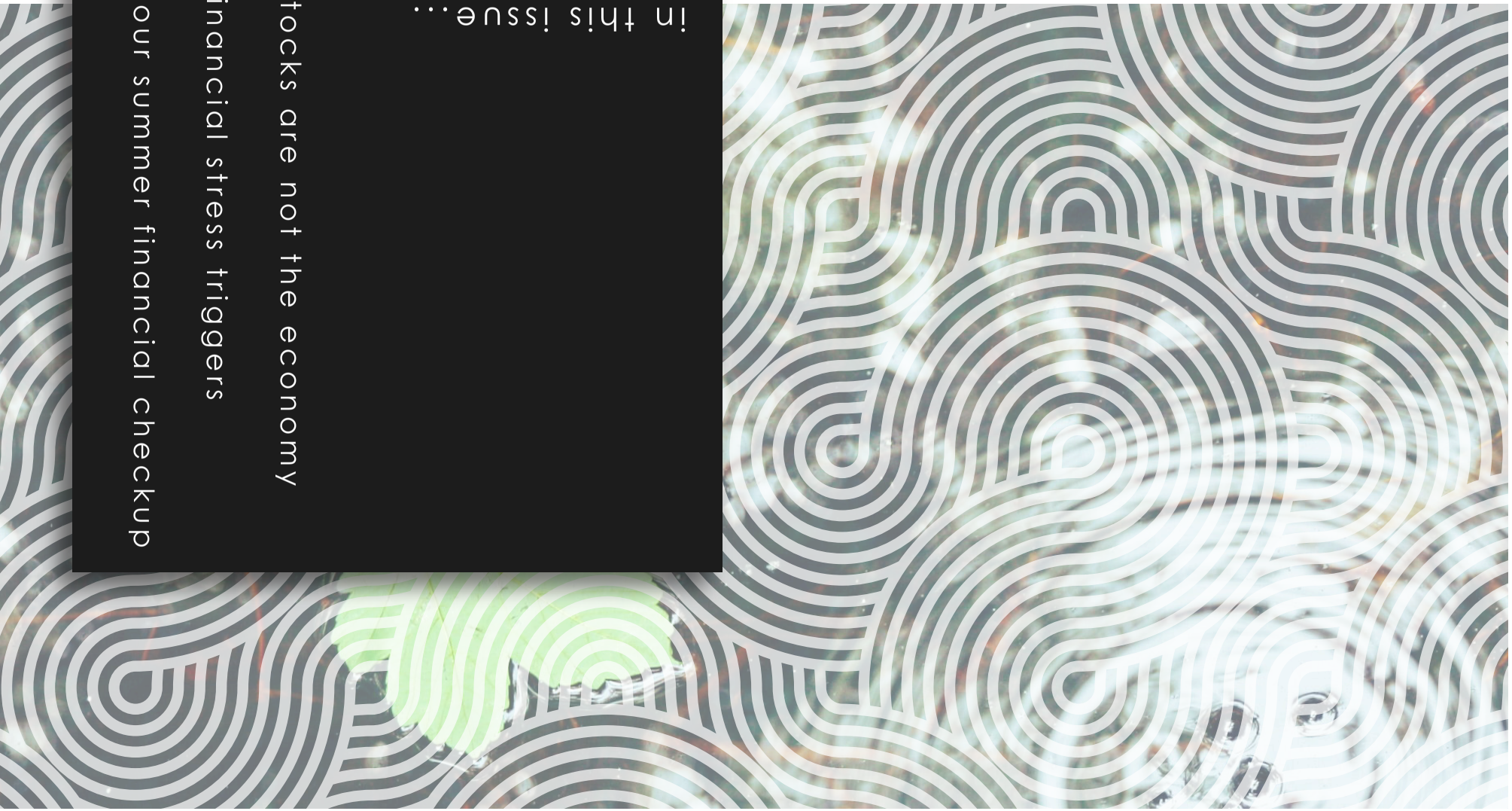

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2020 Q3

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Stocks & the Economy are Not the Same: The Difference

When we think of financial health, a few things might come to mind. We may think of our own financial status, our investments, the Dow Jones Industrial Average performance, the stock market as a whole, the economy, the country's employment status and so on. While some aspects may be interrelated on some level, they are not all one and the same, nor do they all indicate the status of one another.

The various ways we can characterize financial well-being speaks to why so many people think of the stock market and the economy's health as a gauge for each other. However, the stock market does not define economic health as a whole. As we've seen with COVID-19, stocks are back on the rise, but many individuals - and the country as a whole - are still facing the effects of business closures, record-breaking unemployment rates and more. So why is this? Below, we outline the major differences between the stock market and the economy and why one can progress while the other tells a different story.

What Is the Economy?

The economy can be defined as "the wealth and resources of a country or region, especially in terms of the production and consumption of goods and services."1 More specifically, one way we can understand economic activity is through real GDP (gross domestic product), which measures the value of goods and services while factoring inflation into the equation. As a result, understanding the health of the economy can be thought of in terms of the growth rate of real GDP, meaning whether or not the production of goods and services is increasing or decreasing.2

Economic Health in Terms of GDP and Employment

Naturally, employment may rise as production and consumption increase. To produce more goods, companies and factories might hire more employees to complete such production. With more individuals employed and gathering paychecks, more people have money to spend on such goods - increasing overall consumption. Sometimes, however, GDP can grow but not quick enough to create more jobs for those who are unemployed. 2

What Is the Stock Market?

The stock market can be defined simply as "a stock exchange."3 It is the buying and selling of ownership shares in a corporation.4 The stock market is comprised, therefore, of the buyers and sellers (with some buyers and sellers holding more "stock" than others) and is not necessarily indicative of every business, worker and family.

Some of the main indexes used to understand how the market is performing are the Dow Jones Industrial Average (tracking of 30 leading companies), the S&P 500 Index (500 stocks across all industries), and the Nasdaq Composite Index (a dynamic mix of 3,000 stocks across the technology, biotechnology and pharmaceutical sectors).5

The Stock Market vs. The Economy in the Context of COVID-19

The stock market and the economy can display very different pictures of "progress." One such example is with COVID-19. In regards to the stock market, the major indexes including the S&P, the DJIA and the Nasdaq Composite index all have surged since the market downturn in March.6 On the other hand, GDP decreased by five percent in 2020's first quarter, and as of June 2020, the number of unemployed individuals rose to 12 million since February. 7,8 Why is there such a disconnect? A few reasons below.

Reason #1

When considering the make-up of the S&P, the DJIA and the Nasdaq Composite index, the stock market isn't representative of

all who make up the U.S. economy. It is largely made up of companies that are different than small businesses, workers and cities in the U.S. - with different profits, greater access to bond markets and global positioning.

Reason #2
The stock market's performance as a whole only represents a portion of the U.S. employment market. A study conducted by the National Bureau of Economic Research showed that the wealthiest 10 percent of households in the United States were in control of 84 percent of the total value of stock shares, bonds, trusts and business equity and over 80 percent of non-home real estate. This was true despite the fact that half of all households owned a portion through mutual funds, trusts or various pension accounts. Therefore, the stock market may not display an equal distribution between those who make up the economy as a whole.9

Reason #3
It's long been understood that at times, investors may be driven by emotional or reaction decision-making. As a result, their behavior may not be mimicking the economy's current state nor affairs happening in real-time.

While the stock market may reflect some changes in the economy and vice versa, the status of one does not show the entire portrait of the other. At times, they can tell entirely different stories, as is the case with COVID-19. Considering other factors such as unemployment can provide a fuller depiction of the state of the economy and the financial well-being of its residents.

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Financial Stress Triggers & How to Overcome Them

As companies continue to navigate the uncertainties that have come with the coronavirus pandemic and employees figure out their day-to-day routine, financial stress triggers are bound to occur. While feelings of stress and anxiety are certainly heightened amidst the current pandemic, feeling stressed about your finances isn't anything new.

In fact, an American Psychological Association (APA) study found that 72 percent of Americans have felt stressed about money at least some of the time during the first few months of the COVID-19 pandemic.1

Here are six financial stress triggers that you may be experiencing and our tips on how to overcome them.

Trigger #1: Making Too Many Financial Decisions at Once
Making financial decisions can be overwhelming. Where you can, try writing down and organizing what needs to be done and how quickly. Decide what can wait (maybe a home renovation project) versus what can't (such as car repairs or maintenance).

Figuring out where you can minimize decision making and space out your financial obligations can help ease the stress of dealing with everything at once.

Trigger #2: Losing Track of Your Spending
It's easy to lose track of your spending, especially when using credit cards or contactless pay. The problem is, when the bill or bank statement comes around, it can be shocking to see how much

you've spent. Keeping track of your spending in the first place can really help reduce the stress and anxiety you feel when it comes time to check your account.

Trigger #3: Credit Card Debt
Having too much credit card debt goes hand-in-hand with letting your spending go unchecked. While it's nice to build good credit, and many credit cards offer reward points based on how much you use it, you still need to track your spending.

Credit card debt can rack up quickly. If you can't pay off your credit card, interest will grow - and quickly. Credit card companies make millions off the interest of unpaid balances, meaning paying at least the minimum payment each month should be a top priority of yours. Credit card debt can creep up quickly, and nipping it in the bud is much easier than trying to tackle it later down the line.

Trigger #4: Paying for your Children's Tuition
College tuition is always on the rise. In fact, the cost of college has increased by more than 25 percent in the last 10 years.2 This is a huge financial stress on many families, especially those with multiple children. While it may be a goal of yours to pay for your child's education, it just isn't always possible.

Many students have to take out student loans and apply for financial aid, which adds to the mounting student debt around the country. More than 40 million people collectively have over $1.5 trillion in student loan debt.3 To help reduce the amount of debt your child may have to take on in the future, you can start working now to help save. Options like a 529 plan are designed specifically for funding future education. Work with your financial advisor to determine how else you may be able to prepare.

Trigger #5: Paying for Healthcare Expenses
You never know when a sudden medical emergency will arise, and when one does, it can be a major financial stressor for many families. Aside from the general doctor visits and prescriptions, an unexpected hospital visit can really set a family back, and it can take months or even years to pay back these expenses.

If you have health insurance, take the time to reevaluate your coverage. Run through potential "what if" scenarios to determine how much you could be left paying out of pocket for you and your dependents. If you know you'll be responsible for paying a significant amount in the event of a medical emergency, focus on padding your emergency fund. Add to it regularly and determine if you're in a position to be contributing even more.

Trigger #6: Costs of Raising a Child
In a recent survey, 53 percent of those with dependent children say they are financially stressed.4 Beyond funding their education, other costs include:

- Diapers and formula for infants
- Childcare for younger children
- Doctor visits
- Family vacations
- Food
- Clothing

As any parent knows, the list goes on and on. You want nothing but the best for your children, and for many families, this may mean spending more than you have to support them and provide for them in the best way that you can.

To help alleviate some of the stress, revisit your family budget - or make one if you haven't yet. Laying out all upcoming expenses on paper can help make them feel more manageable, and it can give you a sense of how much you should expect to spend. Budgeting puts you back in control of your family's finances, especially when it comes to caring for your kids.

Getting your finances in order is not an easy feat. Start by identifying your own financial stressors and determining how you can start to address them. Doing so can help you and your family in the long run by providing a stronger financial future and peace of mind.

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Your End of Summer Financial Checkup

Summertime means we're officially halfway through the year. While we all want to spend our free time outside and in the sunshine, it's also an important opportunity to give your financial picture a mid-year check-in. Here are our tips for conducting your own financial checkup while there's still plenty of time to adjust course and make changes, and of course we are at your beck and call to help at a moments notice!

1 Start with your budget

Review your budget and your spending over the last couple of months. Do they match up? Identify areas where you are over-budgeting and/or under-budgeting.

Men spend an average of $125 over their budget per month, while women spend an average of $71 over their budgets.

2 Clean up your accounts

Take a look at all of your open bank accounts, check your statements and consolidate and/or close any accounts as necessary.

3 Move away from paper

Tidy up your space and do good for the environment by opting for paperless billing. Most services offer a paperless billing option, and this removes the hassle of sorting and organizing all your billing statements.

54% of American adults say they get a credit card or checking account paper statement by mail.

4 Check your insurance coverage

Go back through your documents and make sure that you are properly covered. It's also a good time to review your life insurance policy if your family has grown or if your income has changed significantly.

Among adults who were insured all year, 29% were underinsured in 2018, up from 23% in 2014.

5 Create a home inventory

Take pictures of your belongings, especially big household possessions such as electronics and furniture. Write down how much you paid for them, and continue to update your inventory with new purchases.

50% of homeowners have a home inventory.

6 Catch up on late payments

Work on paying your outstanding amounts and reduce your debt.

American household debt currently sits at $13.21 trillion.

7 Plan ahead

Create a financial plan if you haven't already, and write out your long- and short-term financial goals.

60% of Americans report benefitting from receiving retirement advice from a financial professional.

Each decision you make will have a ripple effect on your life and the lives of those you love

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