

# Wisdom For Wealth. For Life.®

SPRING ISSUE | MAY 2023



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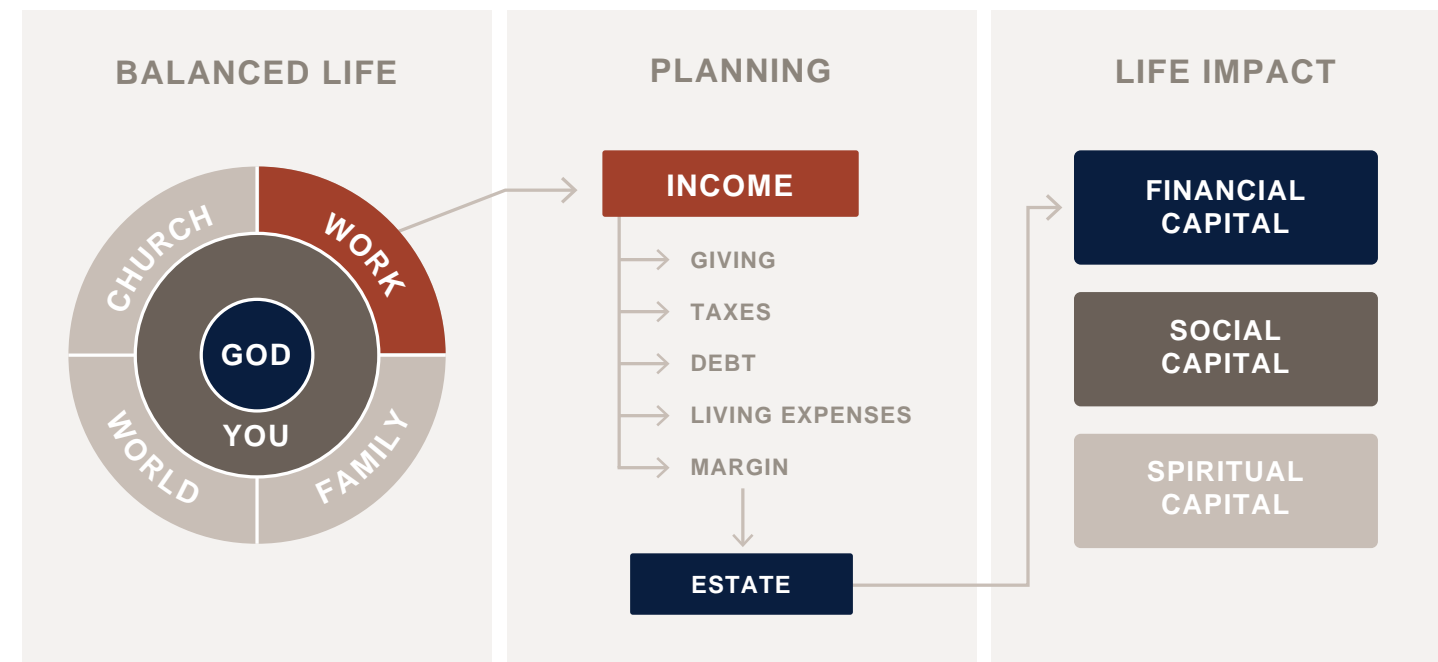


# Investing in Future Generations

In the financial-planning process, we believe that a person’s true “life balance sheet” goes beyond just financial resources and includes both tangible assets and intangible experiences. Although most people are focused on financial capital when they think of a balance sheet, those who wisely manage their financial resources can also have opportunities to invest in other forms of capital and leave a lasting legacy.

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## LIFE-OVERVIEW BALANCE SHEET



### Looking at Finances Through a Life-Overview Lens

To maintain a holistic view of money and its purposes, we frequently walk clients through what we call a “Life-Overview Balance Sheet,” which has three components:

- 1. Life issues that everyone must balance.** We believe an individual’s primary responsibility is his or her relationship with God. Beyond that, one must balance the demands of family, work, church, and the world in general.
- 2. Financial planning and the flow of money.** Starting with work and other sources of income, people use their earnings in one of four ways: living expenses, taxes, paying off debt, and charitable giving. If they have managed their funds wisely after meeting these obligations then they may have money left over, known as margin or savings, and have options of how to utilize those funds. They can choose to increase their giving, accelerate debt repayment, increase living expenses, boost retirement savings, or invest in a short- or long-term personal goal.
- 3. Life impact and legacy.** Your legacy (how you are remembered after you are gone) is about more than the wealth and material assets you leave behind. In addition to building your financial capital, you can also use your

time and money to establish social and spiritual capital in your family and others. Often the impact of these two types of capital is more meaningful than what you leave financially. Using your wealth to develop the character of your posterity has enormous payoffs.

### What are Financial, Social, and Spiritual Capital?

Let’s look more closely at these three forms of capital. Here is how we define each type of capital people can invest in and ultimately leave as part of their legacy:

- **Financial capital** consists of money and material assets like stocks, bonds, and real estate.
- **Social capital** is the resources we need to relate to society. The character qualities necessary to live as a contributing member of society and effectively and productively interact with others are part of a person’s social capital. These traits and characteristics might include values such as responsibility, empathy, honesty, integrity, loyalty, and discipline.
- **Spiritual capital** is the ability to understand and apply the Bible to life. It’s using the truths found in God’s Word to determine right from wrong and good from evil. It also includes following biblical principles on matters such as managing money, raising a family, and walking in faith.

After meeting their immediate financial obligations, most people default to investing their remaining funds—margin or savings—in traditional financial investments, such as a personal or retirement account, or perhaps using it to pay off debt. While it is well known that future generations can benefit from these types of investments, it's important to realize that you can also utilize your wealth to build important character traits (social capital) as well as pass along your values and ideals (spiritual capital) to future generations.

## Practical Ways to Invest in Social and Spiritual Capital

Whether you are just starting out, in the thick of raising your family and building your career, or winding down and reflecting on how you've spent your life so far, everyone must learn to:

- Balance life while earning money
- Use money wisely and make good financial decisions that will free up time and financial margin
- Strategically invest the time and money he or she has freed up

By wisely balancing all aspects of life early on (including your career), you have more freedom to invest in the spiritual and social capital of others. These investments will most likely require some monetary funding, but it's important to remember that the value they provide far exceeds the face value of the money.

As families prepare for summer activities with kids home from school, now is a great time to consider investments you can make in the people that mean the most to you and the relationships that God has put in your life. Here are some ideas and examples of activities and investments that can build social and spiritual capital in your family and others:

- A budget for special family meals at restaurants or a well-stocked pantry to enjoy dinners together at home
- Summer camps or mission trips that emphasize spiritual growth
- Lessons to learn a sport that the family can play together
- Investments in material items like boats, recreational vehicles, camping equipment, or vacation property that will allow for quality family time
- Marriage enrichment weekends or church retreats that will enhance family life

- Prudent use of outside services, such as paying others to do housecleaning or yard maintenance, which will free up precious weekend hours to do more fulfilling things together

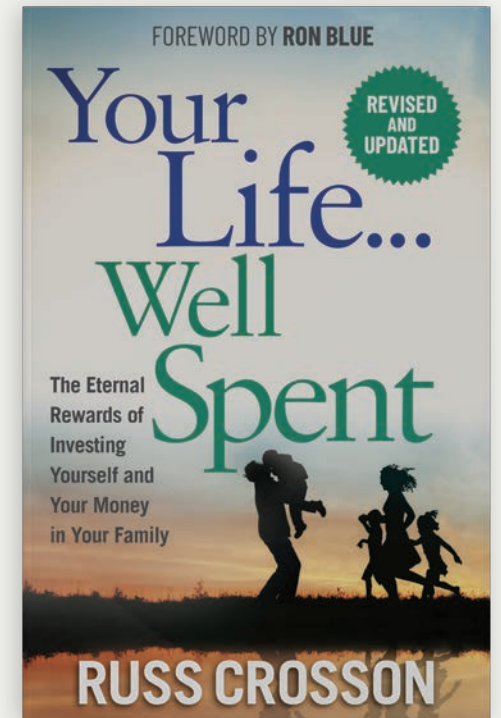
These are just a few examples of what we would call “money well spent” or financial capital intentionally invested to produce social and spiritual capital in others. Summertime, when schedules are more relaxed and children are home from school, is a great opportunity to invest in young people—whether it's helping them develop their work ethic, incentivizing them to save for something meaningful, or simply taking the time to help them plan for their future.

Ecclesiastes 7:11-12 says: “Wisdom, like an inheritance, is a good thing and benefits those who see the sun. Wisdom is a shelter as money is a shelter, but the advantage of knowledge is this: Wisdom preserves those who have it.” An inheritance is good, but wisdom is even better. Therefore, it is imperative that anyone trusted to steward financial capital has a strong foundation of social and spiritual capital.

## The Importance of Financial Planning for Building Social and Spiritual Capital

Experience has taught us that today's financial decisions have lifetime implications. Money, possessions, cars, homes, clothing, health, and status will all fade with time. Effective financial planning can bring more balance to our lives and allow us to focus more of our time, energy, and resources on eternal purposes and investing in others. Financial planning can also help free us from economic fear and bondage, as well as enable us to become more effective stewards of our God-given resources. If we develop and maintain a long-term perspective, we will make wiser short-term decisions and have a clearer vision of the legacy we want to leave for our loved ones.

While it's true that we may forgo accumulating some additional financial capital if we use our resources to invest in our family and others, the returns in social and spiritual capital are priceless and cannot be quantified on a balance sheet.



## Your Life...Well Spent Offer

As a part of the Ronald Blue Trust family, you may be familiar with the book, *Your Life...Well Spent* by Russ Crosson. This book challenges readers to learn from God's Word and distinguish the world's view of success and prosperity versus God's view, and it further unpacks the Life-Overview Balance Sheet illustrated on the previous page.

If you would like to receive a complimentary copy of *Your Life...Well Spent* for yourself, your children, grandchildren, friends, or neighbors, please email [info@ronblue.com](mailto:info@ronblue.com). It is our prayer that this book is a useful resource as you seek to invest in future generations.





## Putting Inflation into Perspective

Inflation has been a major concern over the past few years. It seems that everything costs more, and there are very few signs of prices abating. We understand your concerns about inflation and would like to provide some perspective on how inflation has historically affected investments, as well as emphasize the importance of having a financial plan and continuing to follow it, regardless of the current economic environment.

It is important to remember that even when inflation was high in the past, the stock market held up well. For example, the highest inflation rate in recorded history was 14.4% in 1947. That year, the S&P 500 returned 5.2%. The second-highest inflation rate was 13.6% in 1980, and the S&P 500 returned a whopping 31.7% that year! As you can see, a high rate of inflation doesn't necessarily correlate to a poorly performing stock market.

It's also important to remember that the economy is cyclical. Throughout history, periods of deflation and inflation have occurred and when stock market crashes have happened, large booms that led to substantial investor returns have followed.

## Avoiding Emotionally Driven Reactions to Inflation

Inflation risk occurs when rising prices outpace the returns delivered by your investments. Several key data points at the beginning of the year suggested that the economy was on solid footing; however, persistently high inflation rates and recent bank failures indicate that downside risks to the economy are still elevated. For these reasons, uncertainty remains very high about both the pace of economic growth and the degree of disinflation to expect over the near term.

When faced with a challenging and uncertain economy, investors are often tempted to change their investment strategies. Two common behaviors connected to fear and greed that can emerge are:

- A desire to move money to “safer” places, such as buying only U.S. Treasury investments, keeping large amounts of cash, or purchasing gold and other commodities.
- A willingness to make investing “bets” on riskier investments with the hopes of making a higher return.

Allowing either of these emotions to drive decision-making is typically counterproductive to a long-term investment strategy. One of the benefits of following a consistent financial plan is that it allows you not to worry as much about your investments when inevitable market declines occur. Staying invested in the stock market can actually help hedge against rising prices over the long term. Statistics show that stocks historically have outpaced inflation—the S&P 500 has gained an average of 10.7% annually since 1957 while the inflation rate in the U.S. averaged 3.7% from 1957 to 2022.

## Employing a Time-Based Framework

Using time-tested principles is a sound way to approach the problem of inflation. For example, holding a reasonable amount of money in liquid assets in sensible places, such as FDIC-insured products, can offer investors some protection against events like bank failures and market crashes. After clients have accumulated three to six months of “emergency” funds, we help them map out the short- and long-term needs for their money.

Spreading assets across multiple time horizons helps protect against inflation over the long term. Here's how it works:

- Money that you may need in the short term (the next one to two years) is typically invested in money market funds and high-quality, short-term bonds so that these assets are accessible to you. Examples of goals that fall in this category include buying a car, putting a down payment on a house, or making large purchases such as furniture or home improvements.
- Money needed in the intermediate term (five to eight years from now) is invested primarily in bond funds. Examples of intermediate-term goals may include paying for a college education or starting a business.
- Money needed for the long term (10 years and beyond) is invested primarily in stocks, which creates opportunities for the growth of these assets. Retirement and paying for long-term senior health care are goals that may fall in this category.

Matching investments to time-based needs for capital is a key aspect of goal attainment. Following this approach not only increases the probability that you'll meet your goals; it also takes the focus off the state of the economy today and alleviates some fear and worry.

Unfortunately, inflation is a part of life. It's not clear how long the current cycle will last and whether elevated prices are here to stay. However, the good news is that investors can still achieve their financial goals despite this uncertainty.



## We Want to Hear From You

Ronald Blue Trust is proud to announce the opening of our seventeenth office! On May 1, Walnut Creek, California, became the home to our newest office and will provide offerings to the Bay Area. We are grateful and excited about our expanding locations as they allow us to reach more people with our biblically based financial counsel and services.

As we continue to spread awareness about our offerings, we are asking for your help by sharing your Ronald Blue Trust experience with others. We know that wealth management is a personal and sensitive matter, and your trust and confidentiality are among our highest priorities. However, we also recognize that others can benefit from your insights and experiences.

Just as people often look at reviews before booking a hotel or buying a vehicle, they also read reviews before selecting a financial advisor. A recent survey showed that 96% of our clients reported they would likely recommend Ronald Blue Trust to friends and family. We are humbled by this number and hope that you will help us reach others who are looking for an exceptional, trustworthy wealth management firm.

One way to help spread the word about Ronald Blue Trust is to leave a Google review. The process is quick and easy. Simply follow these steps:

- 1. Search for your Ronald Blue Trust location on Google:** Open Google Chrome in your web browser or on your phone and search for the office you want to review. Example: “Ronald Blue Trust Atlanta”
- 2. Click on “Write a review”:** Once you have found the office you want to review, scroll down until you see the “Write a review” button. Click on it to get started.
- 3. Sign in to your Google account:** If you are not signed into your Google account, then you will need to sign in to leave a review.
- 4. Give a star rating:** Select a star rating based on your overall experience with Ronald Blue Trust. You can choose a rating between 1 and 5 stars.
- 5. Write your review:** In the text box provided, write your review. Be honest and specific about your experience, and keep your review concise. Feel free to share about a service you received, your relationship with your advisor, or your overall experience with Ronald Blue Trust.
- 6. Submit your review:** Once you’re happy with your review, click on the “Post” button to submit it. Google will publish your review online for others to see.

Thank you for the trust you place in our team. We are honored to be a part of your financial journey and look forward to continuing to serve you with excellence in the future.

## RonaldBlueTrust®

Ronald Blue Trust advisors apply biblical wisdom and technical expertise to help clients make wise financial decisions to experience clarity and confidence and leave a lasting legacy. With nearly \$13 billion of assets under advisement and a nationwide network of 17 offices, we offer comprehensive financial services and objective advice to more than 9,500 clients across the wealth spectrum in all 50 states (as of 5/1/2023 and subject to change).

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## RonaldBlueTrust®

Wisdom for Wealth. *For Life.*®

## Investment Perspective

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## Fasten Your Seat Belts

### WILL THE ECONOMY HAVE A SOFT OR HARD LANDING—OR NO LANDING AT ALL?

In making interest rate decisions this year, the Federal Reserve (Fed) has stated its goal is to achieve an economic soft landing, in which the economy slows enough to cool inflation but avoids a recession. Of course, that's not the only option. The other end of the spectrum is a hard landing, which equates to a recession. This year, a third option has surfaced: no landing. In this scenario, the economic slowdown in the first half of 2022 represented a quick touchdown for our economic plane, followed by a re-acceleration of growth with no real "landing" at all. While this scenario remains a possibility, it appears less probable after the recent banking turmoil.

Which outcome is most likely, and how do investors need to prepare? Let's take a closer look at recent events and the current economic climate to answer those questions.

## Economic Overview

### SUPERCORE INFLATION COMES TO THE FORE

Measures of inflation have cooled during 2023, but not uniformly. Headline inflation, measured by the U.S. Consumer Price Index (CPI), has fallen. So has the Core CPI, which excludes food and energy prices. The Fed's preferred inflation gauge—the Personal Consumption Expenditures (PCE) price index—has also slowed.

In recent months, however, the Fed has pointed to a lesser-known data point, "supercore inflation," as a key measure of central bank monetary policy. Fed officials break core PCE

inflation into three components: core goods, housing, and core services excluding housing. The last one is known as the supercore, and it has been running at about 4%—well above the Fed's 2% target. Supercore inflation is an area of focus because it is often more persistent than the other components and has shown no real signs of slowing.

### BANKING TURMOIL OF 2023 HAD A MAJOR IMPACT

Expectations for the Fed's path forward were extremely volatile leading up to the Fed's meeting on March 22. After a 0.25% hike in February, a 0.50% increase in March was becoming more likely due to the strong economic and inflation data.

However, that all changed on March 8 when Silicon Valley Bank (SVB) announced a \$1.8 billion loss on the sale of bonds. After SVB experienced a bank run of unprecedented demand and speed, federal regulators took over on March 10, marking the second-biggest bank failure in U.S. history at the time. A small number of other banks in the U.S. and Europe followed suit, and stock values plummeted across the banking sector.

After the Fed stepped in to insure all deposits—even those above the Federal Deposit Insurance Corporation (FDIC) insurance coverage level of \$250,000—and offered a new emergency liquidity facility for banks (the Bank Term Funding Program), the situation was contained, that is, until First Republic Bank succumbed to a similar fate in May. Like SVB, after experiencing a significant run-on deposits First Republic ultimately went bankrupt on May 1, overtaking SVB as the second-biggest bank failure in U.S. history. JP Morgan Chase acquired First Republic out of bankruptcy and reassured clients that the banking system is still sound. However, investor concerns have lingered.

It's uncertain what implications this banking turmoil will have for the future. There are discussions around

temporarily increasing the FDIC coverage amount, but the situation is continually evolving. Other short-term impacts may include banks tightening their lending standards and shoring up their balance sheets. In the long term, these events could lead to increased bank regulation and/or consolidation of banks.

## Our Perspective

### THE FED WALKS A TIGHTROPE

The Fed has the power to support economic activity through tools such as lowering interest rates and quantitative easing. The central bank can help slow the economy by restricting or tightening monetary policy, as it started to do in March 2022, with the goal of cooling inflation. It's a delicate balance, and when rates rise, recessions often follow.

So far, then, the Fed appears to have done a good job of slowing inflation without pushing the U.S. into a recession, according to the National Bureau of Economic Research (NBER). However, investors remain wary.

Recessions vary in their length, severity, and depth. Since World War II, the average recession has lasted just over 11 months. As you would expect, U.S. equities tend to decline during recessions. Since the 1920s, the S&P 500 has hit a low during 13 of the 15 NBER-defined recessionary periods, and the index has lost an average of 6.4% during recessions. But that figure may be a bit deceptive. If one eliminates the Great Depression and the Great Financial Crisis—the longest recessions of the last 100 years—the picture is much brighter, with the S&P 500 posting a 1.8% advance during recessions, on average.

### WHICH LANDING SCENARIO IS MOST LIKELY TO OCCUR?

It looks to us like the Fed has more work to do because getting inflation down to its 2% target will likely prove much more difficult than it was to get inflation from 9% to below 6%. Given this ongoing effort, we believe a no-landing scenario is the least likely to play out.

A soft landing remains a possibility. The housing market would likely have to cool off as we move into summer, allowing core-services inflation to follow suit. We believe the labor market could tolerate a moderate increase in unemployment without weighing too heavily on economic growth, allowing the Fed to avoid aggressive tightening. If that all happens, we could see lower Gross Domestic Product (GDP) growth over the short term, followed by a relatively quick rebound.

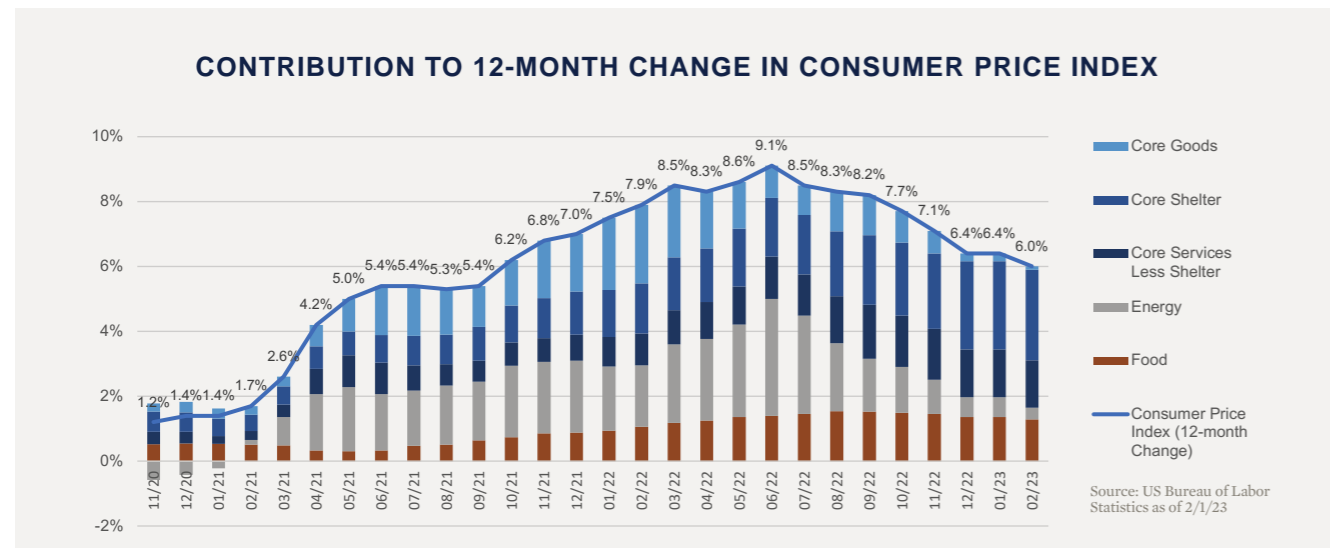
Nonetheless, it's wise to prepare for the possibility of a hard landing. The Fed has indicated they are willing to do what it takes to bring inflation back to target levels, even if it means a recession. Interest rate hikes tend to take six to 12 months to work their way through to the market, so we may see continuing volatility over the short to medium term.

We've made changes over the last 12 months to better prepare our portfolios for the increasing probability of a recession. Bonds have traditionally performed well during recessions, and with yields higher than they have been in a long time, we have increased our allocation to U.S. Treasuries. Our long-term solutions are diversified to help cushion losses in a recession, but we still believe investors should hold stocks in their long-term portfolios.

## Conclusion

The fact is, no one knows what kind of landing we're in for, or how the economy and markets will shake out throughout the rest of 2023 or beyond. There are simply too many variables—the job market, the banking crisis, the Fed's actions, and on and on—to allow for accurate predictions.

Amid today's very high degree of uncertainty, we rely on our investment principles and the three pillars of our investment approach to keep us grounded. We strive to invest in markets



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[ronblue.com/library/newsletter](https://ronblue.com/library/newsletter)

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# Principles-Based Investing

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## PRINCIPLE OF APPLIED WISDOM

We believe that applying principles can improve the chance of successful investment outcomes.

## PRINCIPLE OF LEADERSHIP & GOVERNANCE

Leadership significantly influences the productivity of the people they lead. Environments with greater civil and economic freedom tend to provide increased fertile ground for investment.

## PRINCIPLE OF INSTABILITY

Markets and economies are not stable, and provisions against uncertainty may fail. Risk needs to be managed through diversification.

## PRINCIPLE OF UNCERTAINTY

Provision against an uncertain future is a reason to save and invest.

## PRINCIPLE OF INHERENT VALUE

Investors and markets are not always rational. Opportunities or risks can be identified when a disciplined valuation process is used to determine the inherent value of an investment.

## PRINCIPLE OF HUMAN PRODUCTIVITY

Wealth is created as a result of human productivity. Productivity is the combination of human creativity and natural resources.

### THREE PILLARS OF OUR INVESTMENT APPROACH

Based on the principles above, the strategies we build exhibit these characteristics:

**GROWTH: MARKETS WITH FASTER ECONOMIC GROWTH**

**VALUATION: ASSETS PRICED APPROPRIATELY**

**DIVERSIFICATION: ACCORDING TO YOUR TIME HORIZON & CASH FLOW NEEDS**

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