Foresight
Capital Management Advisors, Inc.

NAPFA-Registered Financial Advisor

AIF Accredited Investment Fiduciary

Newsletter 1Q 2021 & Market Summary

The U.S. has come full circle through the shortest-lived recession to enter the next recovery period of the economy! We are optimistic that 2021 should see some growth in the market with expected GDP to rise as much as 5%. This seems contrary to the hurt we still see and feel from the Covid pandemic, continued high unemployment, and many businesses struggling or closing. However, this recession is reacting like history of the past in which the economy lags the market by about 6-12 months. After the election Foresight did reinvest the cash that was raised prior to the election because we saw the opportunity of the market rising with the silver linings and promises of more federal stimulus, Covid vaccinations, and President Biden with many new focused programs to help heal the economy. The Foresight Mutual Fund Models ended the year rising to the challenge of 2020 ending with double digit positive returns at December 31, 2020 as follows: Conservative +10.34%, Moderate +11.67%, and Aggressive +14.38%. The markets are rebounding nicely after bottoming in March at -33% and we believe the markets will calm down and settle into a growth recovery period for many years. The S&P 500 ended 2020 +18.40% and foreign investments were +8.28% at December 31, 2020.

Please welcome our newest employees and ask us about the Foresight Business Exit Planning service, a new service for small businesses.

Welcome our newest employees at Foresight

Amina Mukhametshina
College Intern MBA,
Eastern Michigan University

Jessica Sandusky
ParaPlanner/Assistant
Financial Analyst

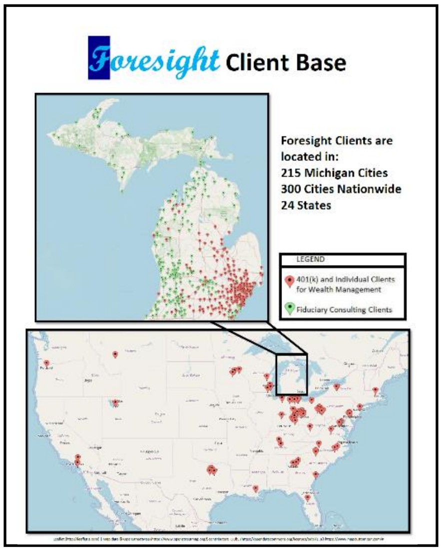
Dillon Schroeder *College Intern Eastern Michigan University*

Foresight has MOVED our office!

Our new address is:

Foresight Capital Management Advisors, Inc.
1205 Industrial Drive
Saline, MI 48176

We just moved around the corner in the same industrial park
In Saline, Michigan! See our new building entrance to the right.
Please update your records with our new address.



FCMA Mutual Fund Model Returns
Dec 31, 2020

Conservative Model	+ 10.34%
Moderate Model	+ 11.67%
Aggressive Model	+ 14.38%

Indexes:

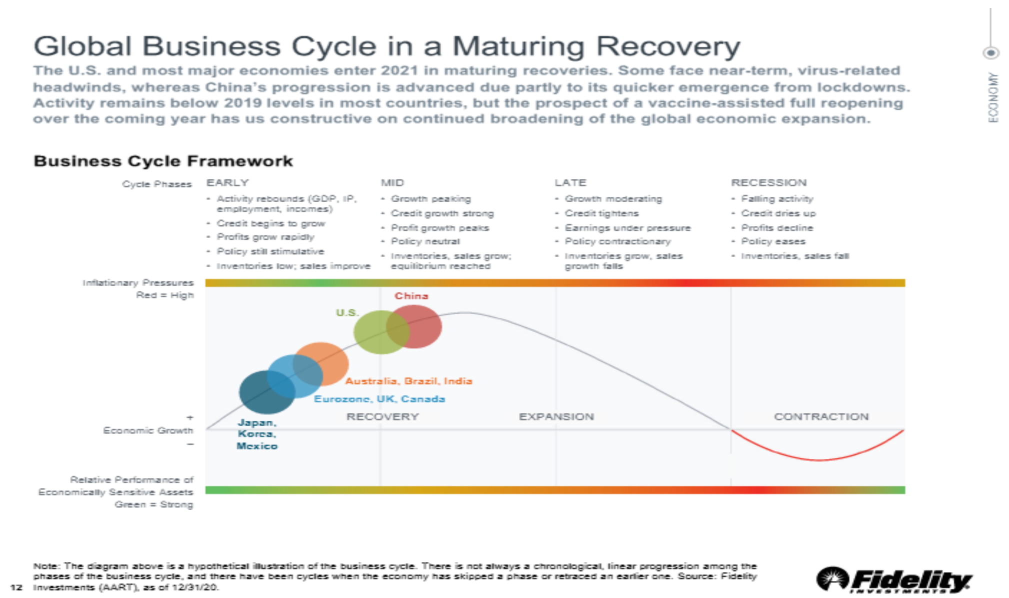
S&P 500 Index	+ 18.40%
MSCI EAFE Foreign	+ 8.28%
10Yr T-Bond Index	+ 7.51%

Future performance is not guaranteed; above returns are total return with reinvestment of dividends, interest, capital gains, and shown net of fees.

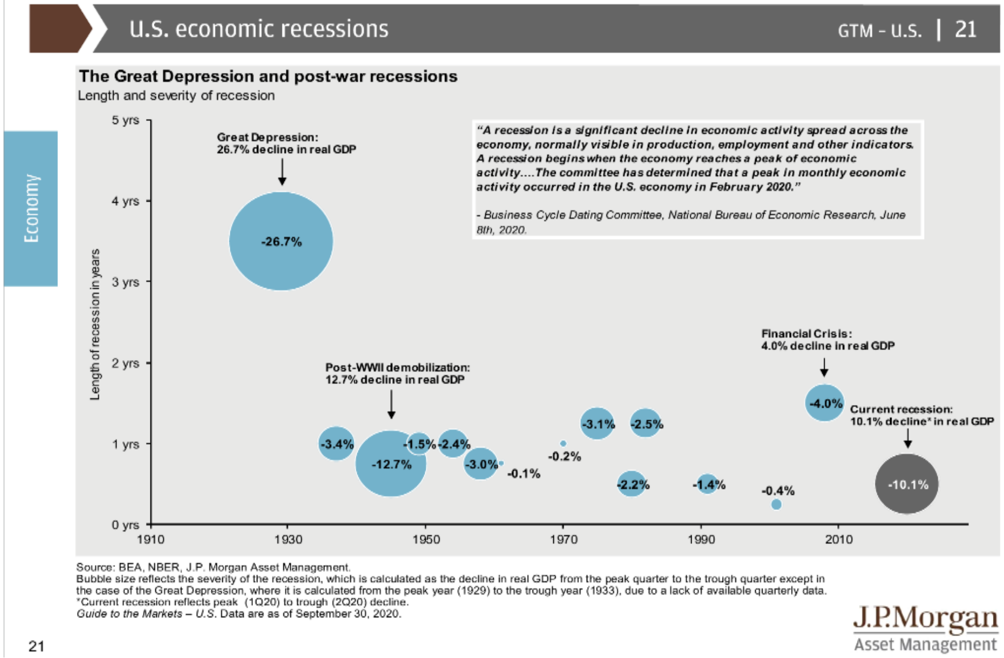
Foresight's Outlook and Portfolio Strategies

Ring in 

, as Nina Simone sang, "It's a new dawn, it's a new day… and I'm feeling good! Although the recession of 2020 is believed to have come and gone as the shortest-lived recession in history, the U.S. is now entering the beginnings of an economic recovery, which should make all of us feel good! This growth trend could continue over the next 7-10 years. The Fidelity chart to the right, shows the U.S., which is the green dot, ascending the hill to enter the early stages of recovery, just behind China. According to Factset the S&P 500 stocks have posted better than expected EPS with 86% beating and 82% beating revenues. If this continues then it will be the best earnings results since 2008. This comes after the S&P 500 market cap growth in 2020 was captured by only 5 of the largest technology companies (Apple, Microsoft, Google, Amazon, and Facebook) while the other 495 companies combined posted a decline in their market cap for 2020. According to Michael Arone, State Street Global Investments, the trend in investing use to be RO RO=risk on risk off, but now he sees it as GO GO=growth on growth off. By this he means the market is past the recession and is moving into a new growth bull market. It is now important to determine when to put growth on and growth off in your portfolios. Foresight had to pivot several times during 2020 by putting growth on in the

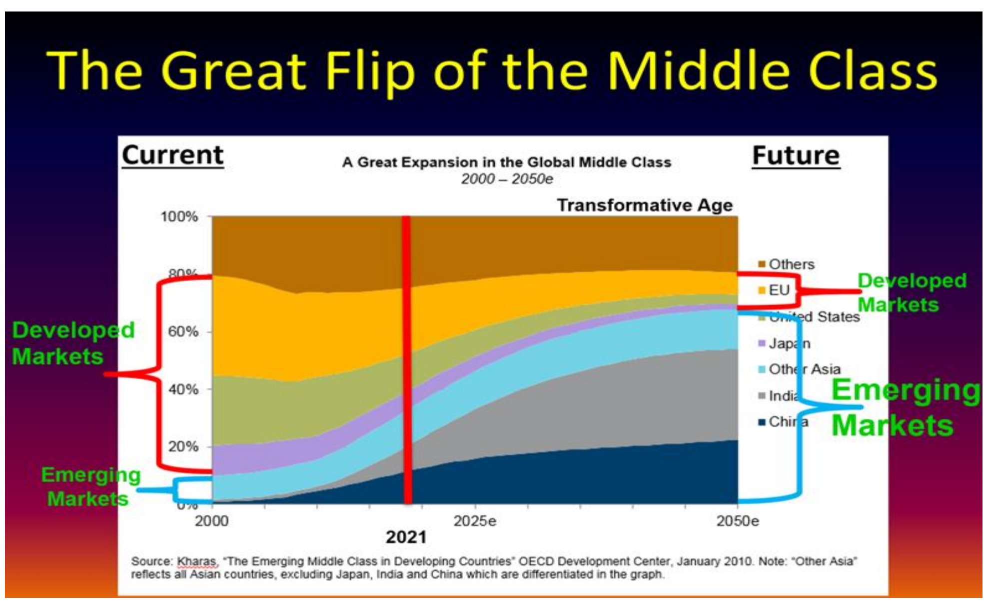


spring, then reducing growth coming into the election, to ending the year with growth on! This definitely worked for 2020, however 2021 it is expected that value will outperform growth.



Although short in duration, the Covid-19 recession has gone down as the third deepest recession in history in terms of GDP contraction (see the dark grey dot to the left), only trailing the post-WWII decline and the Great Depression. The U.S. GDP contracted over -10% this year, and is expected to finish the year negative 4.3% before rebounding in 2021 by +5%. Unemployment has dropped to 6.7% and inflation has fallen to .67% as of December. Inflation is expected to rise in 2021 up to 2.41% as federal stimulus pumps into the economy and prices rise. Interest rates are expected to stay near 0% for the foreseeable future as Federal Reserve Chairman Jerome Powell was recently quoted saying "We're not thinking about raising rates, we're not even thinking about thinking about raising rates".

Foresight sees opportunity in foreign emerging markets over the next 10 years due to the huge growth of the middle class. Countries like India and China are expected to double their middle class over the next 10 years, after already growing at an expediential rate over the last 15 years. This will lead to more opportunity from an investment perspective as these countries grow their economy and work force. Foresight has added to Emerging Markets and Foreign investments and will continue to add to this investment as this unfolds.



The Covid 19 vaccines have arrived! Now to vaccinate 330 million Americans is the next hurdle. In the meantime, social distancing and mask wearing will be with us for some time. So, we need to be as safe as possible about our loved ones and our lives, until safer days abound.

Foresight has moved the portfolios into their normal post-recession risk level allocations to seize the growth opportunities occurring in the recovery phase of the market. We see opportunities in technology, foreign and emerging markets, U.S. small and midcap stocks, U.S. large value stocks, convertible bonds, TIPS, and gold. For Individuals who have personal portfolios with Foresight we continue to monitor the stock portfolios weekly and have stop-losses on most double-digit gains within the stock portfolios. Last year the value stocks did not see the growth that the FANG growth stocks did, however the value stocks did the job they were to during the turbulent 2020 year. All of the Foresight value stock holdings maintained paying their dividends and continued the cashflow for our retirees depending on them. 2021 should see a return to value and these stocks should be in favor.

The Biden administration is expected to introduce several new tax initiatives and there is one thing that can be counted on to happen, which is taxes are likely to increase. Therefore, it is very important to consider Roth conversions and saving into Roth IRA and Roth 401(k)/403(b)'s over the next couple of years before the tax rates are hiked. Those individuals who have savings outside of their 401(k) and retirement savings should also consider harvesting some of the long-term capital gains that might be in their portfolios. This could be the lowest tax rates in history and it might be wise to pay some of the low capital gains taxes over the next couple of years before the tax rates rise. Please contact Foresight if you have any questions regarding the Roth savings or harvesting of capital gains ideas and we can help you determine what makes sense for your situation.

Foresight has crossed another milestone and has grown to $200 million of assets under management. We thank all our clients for making this milestone an achievable accomplishment!

Foresight Planning Ideas

***IRS Contribution Limits few Increases for 2021**: The IRS just release their new 401(k),403(b), and 457 savings limits for 2021 and will remain the same at $19,500 deferral max and for 50+ $26,000 deferral. Total Savings limits for deferral, match and profit sharing will rise by $1k up to $58,000. IRA limits remain the same at $6,000 and if age 50+ $7,000. HSA limits rise for single $50 up to $3,600 and for family up $100 to $7,200 and if 55+ up to $8,200.*

RMD's required minimum distributions are restated for 2021. It is required if you are age 72+ that a RMD is taken from all your pre-tax IRA's and retirement accounts. Please contact us if you have questions or would like us to help you to set this up from your accounts.

Charity Write offs increase in 2021: Every taxpayer in 2021 will get a direct charity tax write off which increases to a $600 write off for all joint filers in 2021. This is an increase over the $300 limit for 2020. So encourage giving at this time of need because Uncle Sam is giving you a tax benefit to do so!

Paycheck Protection Program: Has rolled out a second PPP loan program if a company has encountered a reduction in revenue of at least -25% for a quarter in 2020. Additionally, the first PPP loans have the 3508 forgiveness forms now available. The new form 3508S just became available for loans <$150k, which is an abbreviated forgiveness form. The AICPA is encouraging you to contact your lender for specifics regarding your loan and loan forgiveness if you received a PPP loan.

***SECURE ACT 2019**:* The recently passed SECURE Act has led to many changes in the retirement landscape. Most noticeably, the RMD required beginning date age for individuals turning 70 ½ after 12/31/2019 has changed to 72 years old. In addition to the later required RMD beginning date, individuals can now continue to contribute to an IRA passed 70 1/2 if they have working wages. However, a trade-off of the SECURE Act is that non-spouse beneficiaries of IRA's (inherited IRA's) must now distribute the entire account balance by the end of the 10-year period preceding the passing of the individual they are inheriting the IRA from. Another addition from the SECURE Act is that part-time employees now have easier access to participating in their company's retirement plan by working either 1,000 hours a year or by working at least 500 hours for three consecutive years. Please visit https://www.congress.gov/bill/116th-congress/house-bill/1994 for more information.

CEPA- Certified Exit Planning Analysis Services: Foresight is now certified to provide exiting planning valuations for businesses and owners. Our firm is also prepared to assist with implementing business improvements to assist with increasing the value of your business prior to an exit or retirement. If you are interested, or know of someone who is interested, in pursuing services in this area please reach out to Foresight at 877-429-4690.

Do you have a Letter of Instruction at Death with your Estate documents? This is the most neglected document in planning according to a recent training we attended from Walter Haig. The LID=Letter of Instructions at Death needs to include the following: Funeral arrangements (transport of body, prep of body, disposal of body, obituary, and ceremony) Contact List, a list of Passwords/Pins, Cell Phone Password, Care of Pets, Disposition of Personal Property to prevent heirs from removing stickees and taking family heirlooms. The LID document is usually missing from normal estate documents which should include a will, trust, durable POA, health directive, and general POA. We recommend you add a LID to your estate documents because it will finish out all your final planning.

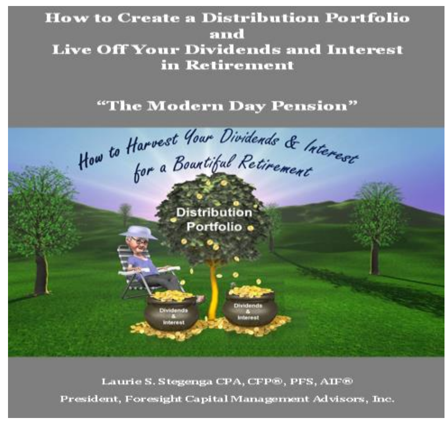
Millennials: are turning 40 this year. Millennials are now the largest % of the population, the most educated, and the most diverse group. This group will continue to drive the market and economy for years to come as they enter their highest earning years. Foresight has expanded our Speculative Portfolio which invests in future growth areas of the market. This portfolio is not for everyone, but especially millennials who have many years to let a portfolio grow, may find this a great opportunity. If you are interested in learning more about this please email us at consultant@fcmadvisors.net.

Consolidated Reporting-Do you have accounts outside of Foresight that you would like to see all in one place? We can help you get consolidated reporting! Sign up for By All Accounts which is a consolidating reporting company that will allow all your accounts to be reported with your Foresight accounts. Contact us at 877-429-4890 and ask for Justin or Melissa and they will help you complete this.

New Fiduciary Vetted Annuities are now available at Foresight: The NAPFA organization has worked to create a series of annuities that Foresight, a fee only registered investment advisory firm, can continuously rebalance quarterly in no-load mutual funds. Additionally, these annuities can be used over joint lives of the spouses and any remainder funds can be inherited by the estate heirs. Annuities are not for all investors, but if you are interested in learning more please contact Foresight because some of these annuities grow between 6%-7% over the next 10 years, which will double the investment during this time. Contact us at 877-429-4680 for more information.

Foresight Whitepaper 2nd edition released January 2021

Foresight is pleased to announce our newest published piece which details the key steps of how to invest your portfolios for retirement! Most people work all their lives saving money in their employers' 401(k), 403(b), and 457 plans. When they are nearing retirement, they do not realize it is best to transform these portfolios from mutual fund portfolios into distribution portfolios! The reason for doing this is the key message of our latest white paper titled, "The Modern Day Pension – How to Create a Distribution Portfolio and Harvest Your Dividends and Interest for a Bountiful Retirement".



HSAs with Foresight: Foresight now offers HSA accounts for your Company or Individual HSA savings. An HSA with Foresight will allow you to choose the same 3 Model portfolios of risk either Conservative, Moderate, or Aggressive. If you have a High Deductible Health Plan then you can consider opening an HSA = Health Savings Account with Foresight. The HSA savings are not subject to Federal Tax and will grow, much like a Roth IRA, with no tax due if used for all qualifying health expenses, note cannot be used to pay health insurance premiums. If you are interested in more information on this strategic investment idea for your healthcare savings please contact us.

Roth 401(k)'s should be rolled to an IRA before age 72: it is wise to roll these funds to a Roth IRA before you turn 72 because if the Roth funds are left inside a 401(k) they must take RMD (required minimum distributions) just like the pre-tax funds which defeats the purpose of letting the Roth grow! However, if you roll it over into a Roth IRA before 72 then you do not need to take the RMD from the Roth IRA. This is a very important hint to remember!

Roth IRA Ideas: If interested in additional savings ideas consider opening a Non-deductible IRA. This will allow you to save the maximum in your 401(k) and also save an additional $6k in a Non-deductible IRA, and $7k if age 50+. Then convert the Non-deductible IRA to a Roth IRA! It is a way to obtain a backdoor Roth IRA funding even if you are not able to save directly into a Roth IRA. Additionally, ask if your 401(k) allows for additional after-tax contributions. If so then you can add to the after-tax contributions and consider rolling them out to an IRA where you can do a conversion to a Roth IRA. This is another form of backdoor Roth!

On-line Access: Each year we encourage everyone to test your on-line access to your account(s) at the custodian or third-party administrator for your plan. Please visit Journeyrps.com, Noblepension.com, or Sentinelgroup.com retirement participant. For individual clients at TD Ameritrade access Advisorclient.com for Schwab Institutional Clients access Schwaballiance.com. To access your web portal for individual accounts, go to https://fp.morningstar.com. If you have any difficulty accessing your account, please email or contact us.

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1Q 2021 NEWSLETTER & MARKET COMMENTARY

Market Update

(all values as of 11.30.2020)

Stock Indices:

Dow Jones	29,638
S&P 500	3,621
Nasdaq	12,198

Bond Sector Yields:

2 Yr Treasury	0.16%
10 Yr Treasury	0.84%
10 Yr Municipal	0.71%
High Yield	4.79%

YTD Market Returns:

Dow Jones	3.86%
S&P 500	12.10%
Nasdaq	35.96%
MSCI-EAFE	0.83%
MSCI-Europe	-1.42%
MSCI-Pacific	4.67%
MSCI-Emg Mkt	8.11%
US Agg Bond	7.36%
US Corp Bond	9.41%
US Gov't Bond	8.83%

Commodity Prices:

Gold	1,780
Silver	22.72
Oil (WTI)	45.06

Currencies:

Dollar / Euro	1.19
Dollar / Pound	1.33
Yen / Dollar	104.06
Dollar / Canadian	0.76

Jan 2021

Macro Overview

COVID-19 reshaped markets, trade, retail, and consumer behavior globally in 2020 with lingering effects heading into 2021. Markets shrugged off pandemic concerns throughout the year, with all major equity indices reaching new highs in December. The anticipation of vaccinations along with the hope of a resurgence in consumer demand may eventually elevate economic activity to where it was before the emergence of COVID-19.

Passage of the $900 billion Coronavirus Relief Bill will place checks into the hands of millions of Americans as well as extend unemployment benefits and provide renewed funding for the Paycheck Protection Program (PPP). Other provisions included in the relief bill include deductions for business meals in 2021 & 2022 and a ban on surprise medical billing.

Vaccinations across the United States and internationally are expected to take months, as distribution efforts pose a challenge. The CDC estimates that at least 70% to 80% of the 330 million U.S. population needs to be vaccinated in order to achieve herd immunity. Guidelines issued by the CDC suggest that healthcare and essential workers should receive vaccinations first, then offered to the general public. The CDC is delegating the distribution of vaccines as well as the prioritization of inoculations to the individual states.

Optimism surrounding vaccinations is expected to propel consumer confidence higher, possibly leading to elevated spending levels. Employment and wages, which were hindered for most of 2020, are also critical factors in determining consumer expenditures.

The onset of inflation is becoming a reality for millions of Americans, as the cost of services and products has gradually been increasing since the pandemic began. Consumer inflation expectations rose in 2020 with the anticipation of lasting inflationary pressures heading into 2021.

The Federal Reserve communicated in December that it would continue to keep the federal funds rate near zero and buy $120 billion worth of bonds monthly until the employment situation improves. Rates held at historic lows in 2020 as ambitious efforts by the central bank facilitated liquidity and borrowing to maintain economic stability.

Behavioral consumer changes brought about by the pandemic shifted spending from restaurants, travel and movies to grocery stores and online shopping. Some economists expect the trend to stick even in a post pandemic environment.

Sources: Federal Reserve, CDC, Treasury, Tax Foundation

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MARGIN LOAN BALANCES INCREASED TO $722 BILLION

Markets Remained Resilient In 2020 – Equity Overview

Equity markets rebounded in a historical fashion from the lows in March 2020 to the end of the year, driven by vaccine optimism, low rates, and continued stimulus funding.

Margin loan balances increased during the pandemic, eclipsing $722 billion through November and surpassing the previous high of $668 billion in May 2018, as reported by the Financial Industry Regulatory Authority.

Despite headwinds from the pandemic, global equity markets were resilient for the most part, ending the year with favorable returns. Growth and momentum led with the technology and consumer discretionary sectors elevating the most.

The dramatic COVID-linked selloff in March and the subsequent recovery by August were of historical proportion, with unprecedented recaptures across nearly all sectors of the equity markets in 2020. (Sources: FINRA, Bloomberg)

Rates Held Steady Throughout 2020 – Fixed Income Update

Rates remained near historic lows throughout 2020 as ambitious efforts by the Federal Reserve and the Treasury ensured critical liquidity in the fixed income markets.

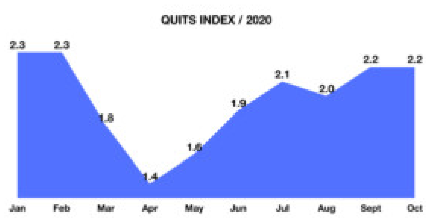
Key rates fell across the board in 2020, as injected liquidity and active monetary and fiscal policy initiatives contributed to a low rate environment. Mortgage rates fell to new lows in 2020 a dozen times according to Freddie Mac weekly data, triggering a flurry of refinance activity throughout the year.

The U.S. Treasury yield curve steepened towards the end of 2020, an indication to economists that inflation is expected to become more profound. The yield on the 2-year Treasury fell to 0.13% as the yield on the 10-year Treasury rose to 0.93 % in December, pushing short-term yields lower and sending longer term yields higher. Economists and market analysis also view a steepening yield curve as a validation that economic expansion is becoming a more promising possibility.(Sources: Treasury, Freddie Mac, Federal Reserve)

Workers Hesitant To Quit During Pandemic – Worker Confidence

Confidence among workers to freely leave and quit their current job has historically been an indicator of the current condition of the labor market. As COVID-19 took its toll on the economy with layoffs rapidly increasing, remaining workers became less confident in leaving their current jobs in fear that they might not be able to find another position.

The Department of Labor tracks voluntary job exits, also known as quits, which are considered very different from layoffs and work reductions. Less workers quitting also minimizes the chances of wage increases, as employers maintain similar wages for workers not confident enough to quit.(Source: Department of Labor)



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NEARLY 75% OF STAY AT HOME WORKERS EARN $200K & ABOVE

Grocery Store Sales Take Off In 2020 – Consumer Behavior

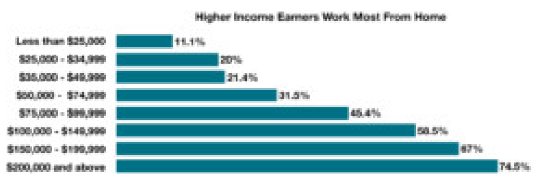
As restrictions surrounding restaurants and dining out set in due to the pandemic, consumers instead headed to grocery stores. Sales at grocery stores surpassed levels never reached over the past ten years. Stores witnessed an immediate surge in customers as news about restaurant closures and dwindling inventories of toilet paper and tissue became major headlines on social media and television.

Various products from toilet paper to frozen foods saw incredible increases in sales as the pandemic set in. Not only did demand for such products increase, but so did prices, thus allowing many food related companies to maintain profitability margins.

Many economists expect the shift to grocery stores by consumers a possible lasting effect, literally changing the way consumers feed themselves. (Source: Federal Reserve Bank of St. Louis)

Ability To Work From Home Tied To Income – Labor Market Update

As stay at home mandates came into effect throughout the country, companies scrambled to migrate their management teams and essential employees to home offices. Data tracked by the Labor Department revealed that higher income positions, which include management and technology jobs, were most likely shifted to home offices. Unfortunately, data also revealed that lower paid employees were the ones that did not have the privilege of transitioning to a home base, since most lower income jobs are found in sectors not supporting home based positions.



Analysts expect that many of the companies that transitioned employees home temporarily may eventually decide to make some of the transitions permanent. The shift in workplace dynamics that occurred in 2020 is considered substantial, producing lasting changes for years to come. (Source: Department of Labor)

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INFLATION EXPECTATIONS BY CONSUMERS IS 2.96%

Coronavirus Relief Bill Overview

The Coronavirus Relief Bill extends and modifies several provisions first enacted by the CAREs Act in March 2020. The package extends relief through mid-March of 2021, providing support to individuals and small businesses in order to get through the remaining months of the pandemic. Following are highlights from the relief bill:

Stimulus Payment; A one time direct payment in the amount of $600 for individuals earning up to $75,000, heads of household earning up to $112,500, and couples earning up to $150,000. There is also an additional $600 per eligible child dependent.

Extension of Unemployment Insurance Compensation Benefits; Unemployment benefits will be extended for 11 weeks and expire on March 14, 2021.

Paycheck Protection Program (PPP); renewed funding for small businesses providing forgivable loans to first time and second time small business borrowers. Different from the initial PPP provisions, businesses can deduct expenses paid with forgiven PPP loans as well as a simplified forgiveness application for loans up to $150,000.

Business Meal Deductions; Small businesses can now deduct up to 100% of business meal expenses for 2021 & 2022.

Medical Expenses; A ban on surprise medical billings.

Eviction Moratorium; Extended through January 31, 2021. (Source: Tax Foundation)

Consumers Expect Inflation To Rise – Inflationary Pressures

Even though traditional government data has current inflation at 1.2%, consumers have a different perspective with higher inflation expectations. The Federal Reserve Bank of New York tracks and maintains consumer inflation expectations every month, separate from traditional inflation data tracked by the Bureau of Labor Statistics.

The median one-year inflation expectation by consumers is 2.96% as of November 2020, nearly 2 1/2 times what the current inflation rate is. Unlike the traditional prices of goods and services translated into an inflation rate, as represented by the Consumer Price Index (CPI), actual consumer expectations are gathered and measured. Many economists view consumer expectations as a more accurate reading on inflation versus the CPI, since it tends to mimic consumer sentiment rather than a basket of stagnant goods and services.

Recent inflation expectations did rise during the pandemic, as consumers witnessed first hand price increases with groceries and essential items such as toilet paper and hand sanitizers. (Source: Bureau of Labor Statistics)

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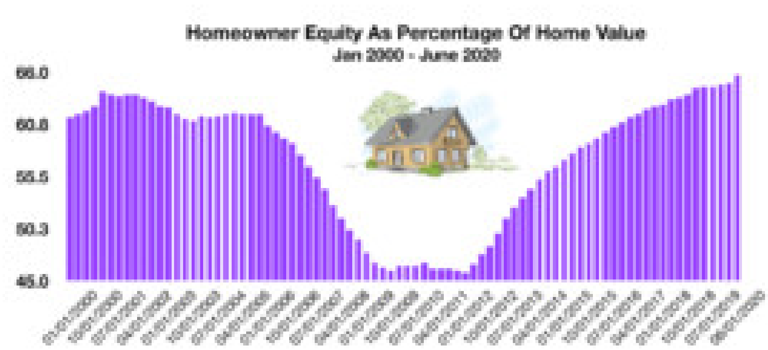
THE U-6 RATE IS 12.1%, NEARLY DOUBLE OF THE TRADITIONAL U-3 RATE

Homeowner Equity Reaches New Highs – Housing Market Update

Homeowner equity as a percentage of home values reached an all time high in the 2nd quarter of 2020, surpassing the most recent previous highs in 2001. Federal Reserve data revealed that homeowners had achieved over 65.5% equity in their homes, a level not reached since the early 2000's. Low interest rates have enabled mortgage holders to pay down their mortgage balances rapidly over the past twenty years, concurrently adding to their overall net worth. Homes rank as the single largest asset held by households nationwide.

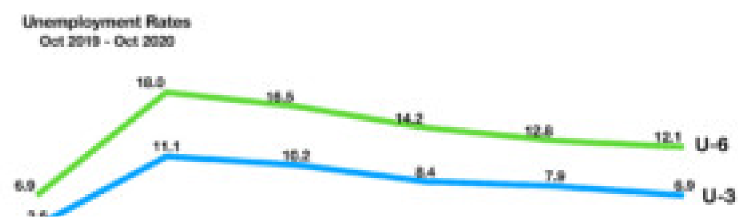


The high levels of equity has allowed some homeowners to borrow against their homes, enhancing household spending power even during elevated unemployment and lower wages. The concern among many economists and market analysts is the rising level of leverage and the payments required on new home equity lines of credit (HELOC).

(Source: Federal Reserve)

True Unemployment – Labor Market Overview

A closely followed economic statistic by economists and market analysts is the unemployment rate. In fact, the Department of Labor has numerous levels of unemployment rates that it compiles and reports. Of the various rates, the U-3 is known as the traditional or official rate, which came in at 6.9% for its most recent release. The U-3 rate is considered incomplete and inaccurate by many economists and analysts, since it only accounts for people actively seeking employment. Another available level of the unemployment rate is the U-6 rate, which is considered the true rate for unemployment. In addition to those people seeking employment, the U-6 rate also includes part time workers, underemployed workers, and discouraged workers. The U-6 rate is considered a more accurate assessment of the labor market and a true measure of unemployment. The most recent release for the U-6 rate is 12.1%, nearly double of the traditional U-3 rate.



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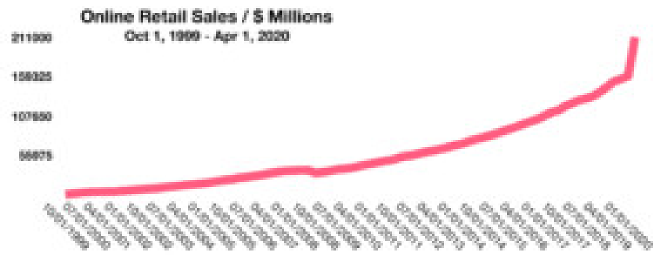
ONLINE SALES HAVE EXCEEDED 14% OF TOTAL RETAIL SALES

Online Sales Have Increased During Pandemic – Consumer Behavior

Ever since the internet brought about the ability to shop from home, online sales have been steadily increasing for the past two decades. Thus far this year, online sales have exceeded 14% of total retail sales, more than the 8.6% average over the preceding five years. The growth with online sales this year has been primarily driven by the pandemic, which has forced consumers out of retail stores and onto their computers.

Consumers are expected to resume spending patterns when retailers slowly start to reopen as the pandemic diminishes. Even as consumers return to retail stores, some analysts expect online sales to gradually continue rising. The ease and feasibility of online shopping became commonplace for consumers this year, entrenching many with new shopping habits. (Source: Federal Reserve)



How Lower Credit Limits Affect Your Credit Score Due To The Pandemic – Personal Finance

Millions of Americans are having their credit scores adversely affected by the pandemic, as banks and finance companies modify the extension of credit. As consumers struggle to retain a fragile balance between joblessness, lower wages, and household expenses, lenders are cutting credit limits, lines of credit, and credit card charge limits. The result has been a reduction in scores for millions of Americans even though many continue to manage their credit and payments successfully.

Lenders have been reducing their risk of exposure since March by reducing credit limits on consumer accounts. Since many of these credit accounts carry a balance, the credit utilization ratio rises as a credit limit is reduced. This ratio is a critical component used by the three major credit reporting firms in determining a consumer's credit score. As ratios rise because of a credit limit reduction, credit scores tend to drop. It is assumed that the higher the ratio, the greater the risk for lenders.

Consumers have been surprised by lower credit scores, since lenders are not obligated to warn customers about a pending credit limit reduction, but only do so after it has been done.

In order to try to curtail the effects of a higher utilization ratio, it is suggested that consumers contact their credit lenders directly and request a reinstatement of their prior credit limit. It is also suggested that simply paying down an existing balance may help in alleviating the threat of a credit score drop. (Sources: Federal Reserve)