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The Financial Solutions Advisor

Inside this issue:

Economic & Market Perspectives	1
Key Retirement and Tax Numbers for 2023	2
Time for a Spring Cleanup: Organizing Your Financial Records	3
The Top Six Inflation Drivers of 2022	3
50 and Older? Here's Your Chance to Catch Up on Retirement Saving	4
Random Acts of Financial Kindness	4

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Economic & Market Perspectives

Dear Valued Clients,

We hope this newsletter finds you well. As we enter the second quarter of 2023, we wanted to provide you with some thoughts on the past quarter, current market conditions, and our outlook.

Wall Street proved resilient during the first quarter of the year, despite rising inflation, uncertainty about the Federal Reserve's actions, interest-rate hikes, and banking concerns. Inflationary data in January seemed to show inflation may have peaked, and the Fed would scale back its interest-rate hikes, if not cut them. However, subsequent inflation data showed prices ramped up again. Stocks and bond prices dipped as investors responded to concerns that interest rates would continue to rise and for a longer period of time. In addition to the impact of rising inflation, two major banks collapsed in March, sending bank stocks lower.

Credit Suisse Group, nearing failure, was taken over by rival UBS Group, while several U.S. banks provided funds to keep First Republic Bank afloat. The economic recession that has been predicted has yet to come to fruition. The labor market remained strong, and while inflation continued to rise, the two primary indicators, the Consumer Price Index, and the Personal Consumption Expenditures Price Index, showed prices slowed on an annual basis.

Despite all of this apparent turmoil, coupled with the ongoing war in Ukraine, stocks regained their footing and ended the quarter on the plus side. The tech-heavy Nasdaq led the benchmark indexes, followed by the S&P 500, the Global Dow, the Russell 2000, and the Dow. Investors poured money back into Mega cap Tech shares, driving them higher during the first quarter of 2023 after an underperforming 2022.

The quarter kicked off with stocks

enjoying their best January performance since 2019, as inflation data suggested that inflation may have peaked, raising hopes that the Federal Reserve would scale back interest-rate hikes and temper fears of an economic recession. Nevertheless, Federal Reserve Chair Jerome Powell cautioned that the battle against rising inflation was far from over and additional rate hikes were upcoming. In fact, the Federal Reserve hiked interest rates 25 basis points on the last day of the month. Growth stocks performed best, with Mega caps making solid gains. Consumer discretionary, communication, and tech sectors performed well, while defensive sectors, such as utilities, health care, and consumer staples, dipped lower. Bond prices advanced, pulling yields lower.

Stocks gave up some of their January gains in February, with each of the benchmark indexes losing value. Consumer prices advanced, with core prices (excluding food and energy prices) climbing 0.6%, the biggest advance since August. Over 500,000 new jobs were added, nearly three times the consensus estimates, and the largest increase in six months. The unemployment rate slid to 3.4%, its lowest level since 1969. Consumer spending rose 1.8%, the most in nearly two years.

March was a very choppy month for market returns. Despite an apparent banking crisis, investors stayed the course for the most part, driving stocks mostly higher. The Nasdaq and the S&P 500 led the gainers of the benchmark indexes. Several sectors outperformed, including information technology, communication services, and utilities, while financials fell notably on the heels of the bank failures.

Recent events in the U.S. and European banking sectors have not altered our macroeconomic views. The Federal Reserve still has work to do to bring down inflation—a task that was always going to be a

2023 Returns

<i>S&P 500</i>	7.50%
<i>NASDAQ</i>	20.77%
<i>Russell Small Cap</i>	2.74%
<i>Russell Mid Cap</i>	4.06%
<i>MSCI EAFE</i>	8.47%
<i>MSCI World</i>	7.73%
<i>Barclay US Agg. Bond</i>	2.96%
<i>Barclay Municipal Bond</i>	2.78%

challenge, likely to entail higher unemployment and tighter credit and financial conditions. Deterioration in financial conditions has long been part of our expectation for a modest recession later this year.

Regardless, we seem to be already in that “higher-for-longer” interest rate environment, which is likely to trigger slower growth, make life more difficult for consumers and cause tighter liquidity conditions, all of which have portfolio construction implications.

Given the complicated economic and market backdrop, investors are facing a difficult journey. Unfortunately, we don't expect a smooth ride given that several risks still loom large. While the interest rate outlook remains uncertain, the post-Great Financial Crisis world of ultra-low rates is clearly behind us. Inflation remains elevated. And we expect the global economy will slow. In other words, investors are caught in a holding pattern until we get more clarity around the direction of rates, inflation, and growth.

Thank you for your continued trust and partnership with us. As always, please do not hesitate to contact us with any questions or concerns.

Best regards,
Your Financial Solutions Team

Key Retirement and Tax Numbers for 2023



Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2023.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2023 is \$17,000, up from \$16,000 in 2022.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2023 is \$12,920,000, up from \$12,060,000 in 2022.

Standard Deduction

Standard Deduction	2022	2023
Single	\$12,950	\$13,850
HOH	\$19,400	\$20,800
MFJ	\$25,900	\$27,700
MFS	\$12,950	\$13,850

Taxpayers can generally choose to itemize certain deductions or claim a standard deduction on their federal income tax returns. In 2023, the standard deduction is:

- \$13,850 (up from \$12,950 in 2022) for single filers or married individuals filing separate returns
- \$27,700 (up from \$25,900 in 2022) for married joint filers
- \$20,800 (up from \$19,400 in 2022) for heads of household

The additional standard deduction amount for the blind and those age 65 or older in 2023 is:

- \$1,850 (up from \$1,750 in 2022) for single filers and heads of household
- \$1,500 (up from \$1,400 in 2022) for all other filing statuses

Special rules apply for those who can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is \$6,500 in 2023 (up from \$6,000 in 2022), with individuals age 50 or older able to contribute an additional \$1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges (*see chart*). For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges (*see chart*). The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI for Traditional IRA	2022	2023
Single/head of household (HOH)	\$68,000 - \$78,000	\$73,000 - \$83,000
Married filing jointly (MFJ)	\$109,000 - \$129,000	\$116,000 - \$136,000
Married filing separately (MFS)	\$0 - \$10,000	\$0 - \$10,000

MAGI for Roth IRA	2022	2023
Single/head of household (HOH)	\$129,000 - \$144,000	\$138,000 - \$153,000
Married filing jointly (MFJ)	\$204,000 - \$214,000	\$218,000 - \$228,000
Married filing separately (MFS)	\$0 - \$10,000	\$0 - \$10,000

Employer Retirement Plans

Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$22,500 in compensation in 2023 (up from \$20,500 in 2022); employees age 50 or older can defer up to an additional \$7,500 in 2022 (up from \$6,500 in 2022).

Employees participating in a SIMPLE retirement plan can defer up to \$15,500 in 2022 (up from \$14,000 in 2022), and employees age 50 or older can defer up to an additional \$3,500 in 2022 (up from \$3,000 in 2022).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above \$2,500 in 2022 (up from \$2,300 in 2022) is taxed using the parents' tax rates.

Time for a Spring Cleanup: Organizing Your Financial Records

The arrival of spring is always a good time to dust off the cobwebs that have built up in your home during the winter. It's also a good time to clean out and organize your financial records so you can quickly locate something if you need it.

Keep Only What You Need.

If you keep paperwork because you "might need it someday," your home office and file cabinets are likely overflowing and cluttered with nonessential documents. One key to organizing your financial records is to keep only what you absolutely need for as long as you need it.

Tax records.

Keep all personal tax records for three years after filing your return or two years after the taxes were paid, whichever is later. (Different rules apply to business taxes.) If you underreported gross income by more than 25% (not a wise decision), keep the records for six years, and for seven years if you claimed a deduction for worthless securities or bad debt. It might be helpful to keep your actual tax returns, W-2 forms, and other income statements until you begin receiving Social Security benefits.

Financial statements.

You generally have 60 days to dispute charges with banks and credit cards, so you could discard statements after two months. If you receive an annual statement, throw out monthly statements once you receive the annual statement. If your statements include tax information (e.g., you use credit-card statements to track deductions), follow the guidelines for tax records.

Retirement account statements.

Keep quarterly statements until you receive your annual statement; keep statements until you close the account. Keep records of non-deductible IRA contributions indefinitely to prove you paid taxes on the funds.

Real estate and investment records.

Keep at least until you sell the asset. If the sale is reported on your tax return, follow the rules for tax records. Utility bills can be dis-

carded once the next bill is received showing the previous paid bill, unless you deduct utilities, such as for a home office.

Loan documents.

Keep documents and proof of payment until the loan is paid off. After that, keep proof of final payment.

Insurance policies.

Keep policy and payment documents as long as the policy is in force.

Auto records.

Keep registration and title information until the car is sold. If you deduct auto expenses, keep mileage logs and receipts with your tax records. You might keep maintenance records for reference and to document work done.

Medical records.

Keep records indefinitely for surgeries, major illnesses, lab tests, and vaccinations. Keep payment records until you have proof of a zero balance. If you deduct medical expenses, keep receipts with your records.

These are general guidelines, and your personal circumstances may warrant keeping these documents for shorter or longer periods of time.

Personal Document Locator.

A personal document locator is a detailed list of your personal and financial information that can assist others in the event of your death or disability. Typically, a personal document locator will include the following:



Personal information
(e.g., date of birth,
Social Security number)



Names and phone numbers of personal contacts



Online accounts, with usernames and passwords



Names and phone numbers of professional service providers (e.g., banker, physician, attorney, tax preparer, financial professional)



Location of important legal and financial documents

Securely Store Your Records

You can choose to keep hard copies of your financial records or store them digitally. You usually do not need to keep hard copies of documents and records that can be found online or duplicated elsewhere. Important documents such as birth certificates and other proof of identity should be

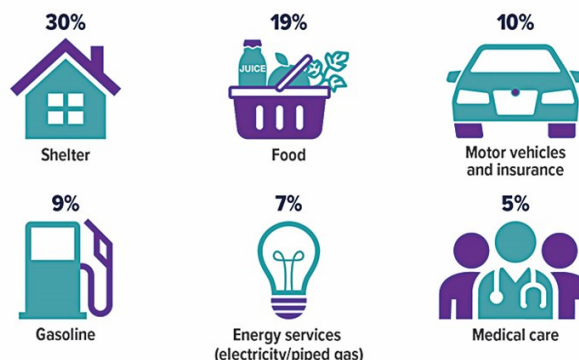
stored in a safe place, such as a fire-resistant file cabinet or safe-deposit box. You can save or scan other documents on your computer, or store them on a portable drive, or use a cloud storage service that encrypts your uploaded information and stores it remotely.

The Top Six Inflation Drivers of 2022

In June 2022, the 12-month rise in the Consumer Price Index (CPI) peaked at 9.1%, the fastest pace in 40 years, before dropping to 7.7% in October. This bout of inflation has been driven in large part by steep price hikes for essentials, hitting many U.S. households where it hurts the most. In fact, more than three-fourths of the annual increase in the CPI can be attributed to these six categories.

Source: US Bureau of Labor Statistics, 2022

Contribution to the 12-month, 7.7% increase in consumer prices, October 2022



50 and Older? Here's Your Chance to Catch Up on Retirement Saving

If you are age 50 or older and still working, you have a valuable opportunity to super-charge your retirement savings while managing your income tax liability. Catch-up contributions offer the chance to invest amounts over and above the standard annual limits in IRAs and workplace retirement plans.

2023 Limits

In 2023, the IRA catch-up limit is an additional \$1,000 over the standard annual amount of \$6,500. Participants in 401(k), 403(b), and government 457 (b) plans can contribute an extra \$7,500 over the standard limit of \$22,500. For SIMPLE plans, the catch-up amount is \$3,500 over the standard limit of \$15,500.¹

Tax Benefits

Contributions to traditional workplace plans are made on a pre-tax basis, which reduces the amount of income subject to current taxes. Contributions to traditional IRAs may be deductible, depending on certain circumstances.

If you are not covered by a retirement plan at work, your traditional IRA contributions are fully tax deductible. If you are covered by a workplace plan, you may deduct the full amount if your adjusted gross income is \$73,000 or less as a single taxpayer or \$116,000 or less if you're married and file jointly. If you are not covered by a workplace plan but your spouse is, you are eligible for a full deduction if you file jointly and your income is \$218,000 or less.²

Contributions to Roth accounts do not offer immediate tax benefits, but qualified distributions are tax-

free at the federal, and possibly state, level. A qualified distribution is one made after the account has been held for five years and the account owner reaches age 59½, dies, or becomes disabled.

Distributions from traditional accounts prior to age 59½ and nonqualified distributions from Roth accounts are subject to ordinary income taxes and a 10% penalty, unless an exception applies.

Still Time for 2022 Contribution

If you qualify, you can make a deductible IRA contribution for 2022 up until the tax filing deadline on April 18, 2023. The total contribution limit for someone age 50 or older in 2022 is \$7,000. You can open a new IRA or invest in a current one, but be sure to specify the contribution is for the 2022 tax year. The income limits for a full deduction in 2022 are \$68,000 for single taxpayers, \$109,000 for married taxpayers filing jointly, and \$204,000 for taxpayers who aren't covered by a workplace plan but their spouse is.²

- Participants in 403(b) and 457(b) plans may benefit from other catch-up contributions specific to each plan type. Participants in government 457(b) plans cannot combine age 50 catch-up contributions with other catch-up contributions. When calculating allowable annual amounts, contributions to all plans except 457(b)s must be aggregated.
- Phaseout limits apply. Married couples filing separately cannot take a full deduction. You must have earned income at least equal to your IRA contribution. Talk to a tax professional.

Random Acts of Financial Kindness

Acts of kindness, even small ones, can have lasting benefits. You may not always see the impact of your investment of time or money, but your acts of kindness will ripple through the lives of people you know...or don't know. Here are some ideas for practicing financial kindness.

Pay It Forward...or Backward

- Hand out gift cards in small denominations. Add in an extra one with a note asking that it be paid forward to someone else.
- Ask the manager of your local grocery store if you can buy pizza to thank employees for their hard work.
- Give a generous tip along with an encouraging note.
- Pay for the lunch of someone behind you in line.
- Buy extra groceries to donate to the food pantry the next time you shop.
- Recognize someone else's kind act with a note of thanks, public recognition, or a small gift.

Share Your Time and Talents

- Hire an intern or volunteer to mentor someone.

- Share what you've learned about finances with someone who could benefit from your expertise.
- Write a job recommendation.
- Offer your professional services for free.

Help Others Prosper

- Contribute to a scholarship fund in your community to help a student finish school.
- Donate books on finance to your local school or library.
- Support a financial literacy program.
- Help someone save for the future.
- Set up monthly donations to a favorite charity in someone's honor.
- Start a fundraiser for a good cause.

Don't Forget to Be Kind to Yourself

- Attend a financial seminar or webinar to learn how you might improve your financial health.
- Accept help from others and allow them to experience the joy that comes from being kind.
- Save for a rainy day.

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