4Q22

The Financial Solutions Advisor

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Economic & Market Perspectives

Stocks and bonds declined for the third consecutive quarter, the longest streak in almost 50 years. The S&P 500 fell 5.3%, 10 year Treasury yields rose 85 basis points, and two year yields rose 130 basis points resulting in the most inverted yield curve in several decades. The dollar rose for the fifth straight quarter, increasing 7%, the largest quarterly gain in nearly 8 years.

The big story for the quarter was the tightening of financial conditions driven by expectations of a more aggressive global rate hike cycle leading to increased fears of recession. A second overhang that will be watched in Q4 is the risk that earnings expectations (which are too high) may fall. By the end of the quarter, worries surfaced that tighter financial conditions could lead to liquidity or credit problems and a break in the system. Crude oil fell more than 20% and gold dropped nearly 8%.

The world has entered a high risk zone as a consequence of the largest rise in inflation in 40 years, rise in policy rates, several developed market countries having excessive debt levels, some poorly timed fiscal actions, and the awakening of the bond vigilantes.

The US economic foundation is solid (consumer, corporate, jobs), but the odds of a US recession occurring next year have increased. While a tight labor market and robust consumer cash levels have prevented a recession, it seems increasingly likely that in 2023 a hard landing will be a result of higher inflation and in turn higher interest rates.

The negative economic growth that occurred in the US in the first half of the year was driven by an export shock in Q1 and a substantially negative contribution to growth from inventories in Q2. During that period, job growth remained quite strong, and consumer spending was growing at a modestly sub-trend pace – patterns that are not consistent with a recession.

We continue to expect inflation to decline from the 8-9% level at the peak to 4-5% on an annual basis by year-end. Contributors to the decline include the Fed's tightening process intended to slow growth, the significant slowing in money growth, the strength in the dollar, lower commodity prices, and some improvement in supply chain disruptions.

The Fed will deliver on its projected rate hikes in the next two meetings but could pause by Q1 of next year to assess the impact on the economy. This would open a window for bond yields to consolidate from oversold levels.

2022 Returns

S&P 500	*-23.87%*
NASDAQ	*-32.35%*
Russell Small Cap	*-25.10%*
Russell Mid Cap	*-24.27%*
MSCI EAFE	*-27.09%*
MSCI World	*-25.42%*
Barclay US Agg. Bond	*-14.61%*
Barclay Municipal Bond	*-12.13%*

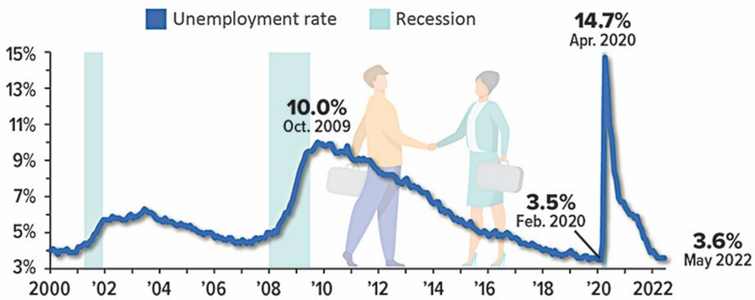
Stocks have retraced there late summer gains as investors came to the realization that they jumped the gun on the disinflationary narrative in reaction to the July CPI release. The recent revisions to the FOMC's expected path of interest rates at its September meeting prompted an acceleration of the equity selloff. Equities will likely continue to face headwinds as economic and earnings expectations decline even as the Fed pushes interest rates into restrictive territory. It is possible, if not likely, that absent a liquidity or credit accident, equities have limited downside risk, but in the near term, probably not much upside potential.

Source: Bob Doll, Crossmark Global Investments

Quick Recovery for Unemployment Rate

The U.S. unemployment rate skyrocketed to 14.7% in April 2020 when the economy shut down in response to the pandemic. This was by far the highest rate since the current tracking system began in 1948. Fortunately, employment has recovered at a record pace — the unemployment rate was just 3.6% in March, April, and May 2022, nearly the same as before the pandemic.

The official unemployment rate only reflects unemployed workers who are actively looking for a job. A broader measure that captures workers who want a job but are not actively looking, as well as part-time workers who want full-time work, dropped from 22.9% in April 2020 to 7.1% in May 2022.



Source: U.S. Bureau of Labor Statistics, 2022
National Bureau of Economic Research, 2022

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How Much Life Insurance Do You Need?

Throughout your life, your financial needs will change and life insurance can help you meet some of those needs. But how much life insurance do you need? There are a number of approaches to help determine how much life insurance you should have. Here are three of those methods.

Family Needs Approach

With this approach, you divide your family's financial needs into three main categories:

- Immediate needs at death, such as cash needed for estate taxes and settlement costs, credit-card and other debts including a mortgage (unless you choose to include mortgage payments as part of ongoing family expenses), and an emergency fund for unexpected costs
- Ongoing income needs for expenses such as food, clothing, shelter, and transportation, which will vary in amount and duration, depending on a number of factors, such as your spouse's age, your children's ages, your surviving spouse's income, your debt, and whether you'll provide funds for your surviving spouse's retirement
- Special funding needs, such as college, charitable bequests, funding a buy/sell agreement, or business succession planning

Once you determine the total amount of your family's financial needs, subtract that total from the available assets your family could use to help defray some or all of these expenses. The difference, if any, represents an amount that the life insurance proceeds, and the income from future investment of those proceeds, might cover.

Income Replacement Calculation

This method is based on the premise that family income earners should buy enough life insurance to replace the loss of income due to an untimely death. Under this approach, the amount of life insurance you should consider is based on the value of the income that you can expect to earn during your lifetime, taking into account such factors as inflation and anticipated salary increases, as well as the interest that the lump-sum life insurance proceeds may generate.

Estate Preservation and Liquidity Needs Approach

This method attempts to calculate the amount of life insurance needed to settle your estate. Settlement costs may include estate taxes and funeral, legal, and accounting expenses. The goal is to preserve the value of your estate at the level prior to your death and to avoid an unwanted sale of assets to pay for any of these estate settlement expenses. This approach takes into consideration the amount of life insurance you may want in order to maintain the current value of your estate for your family, while providing the cash needed to cover death expenses and taxes.

Unfortunately, many people underestimate their life insurance needs. Often, the purchase of life insurance is based solely on its cost instead of the benefit it might provide. By the same token, it's possible to have more life insurance than you need. September is Life Insurance Awareness Month, a good time to review your life insurance to help ensure that it matches your current and projected needs.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges.

Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company. Optional benefits are available for an additional cost and are subject to contractual terms, conditions, and limitations.

Interest in Life Insurance Stays Strong

The Potential Benefits of Roth IRAs for Children

Most teenagers probably aren't thinking about saving for retirement, buying a home, or even paying for college when they start their first jobs. Yet a first job can present an ideal opportunity to explain how a Roth IRA can become a valuable savings tool in the pursuit of future goals.

Rules of the Roth

Minors can contribute to a Roth IRA as long as they have earned income and a parent (or other adult) opens a custodial account in the child's name. Contributions to a Roth IRA are made on an after-tax basis, which means they can be withdrawn at any time, for any reason, free of taxes and penalties. Earnings grow tax-free, although nonqualified withdrawals of earnings are generally taxed as ordinary income and may incur a 10% early-withdrawal penalty.

A withdrawal is considered qualified if the account is held for at least five years and the distribution is made after age 59½, as a result of the account owner's disability or death, or to purchase a first home (up to a $10,000 lifetime limit). Penalty-free early withdrawals can also be used to pay for qualified higher-education expenses; however, regular income taxes will apply.

In 2022, the Roth IRA contribution limit for those under age 50 is the lesser of $6,000 or 100% of earned income. In other words, if a teenager earns $1,500 this year, his or her annual contribution limit would be $1,500. Other individuals may also contribute directly to a teen's Roth IRA, but the total value of all contributions may not exceed the child's annual earnings or $6,000 (in 2022), whichever is lower. (Note that contributions from others will count against the annual gift tax exclusion amount.)

Roth IRAs offer an opportunity to learn about important concepts that could provide a lifetime of financial benefits.

Lessons for Life

When you open a Roth IRA for a minor, you're giving more than just an investment account; you're offering an opportunity to learn about important concepts that could provide a lifetime of financial benefits. For example, you can help explain the different types of investments, the power of compounding, and the benefits of tax-deferred investing. If you don't feel comfortable explaining such topics, ask your financial professional for suggestions.

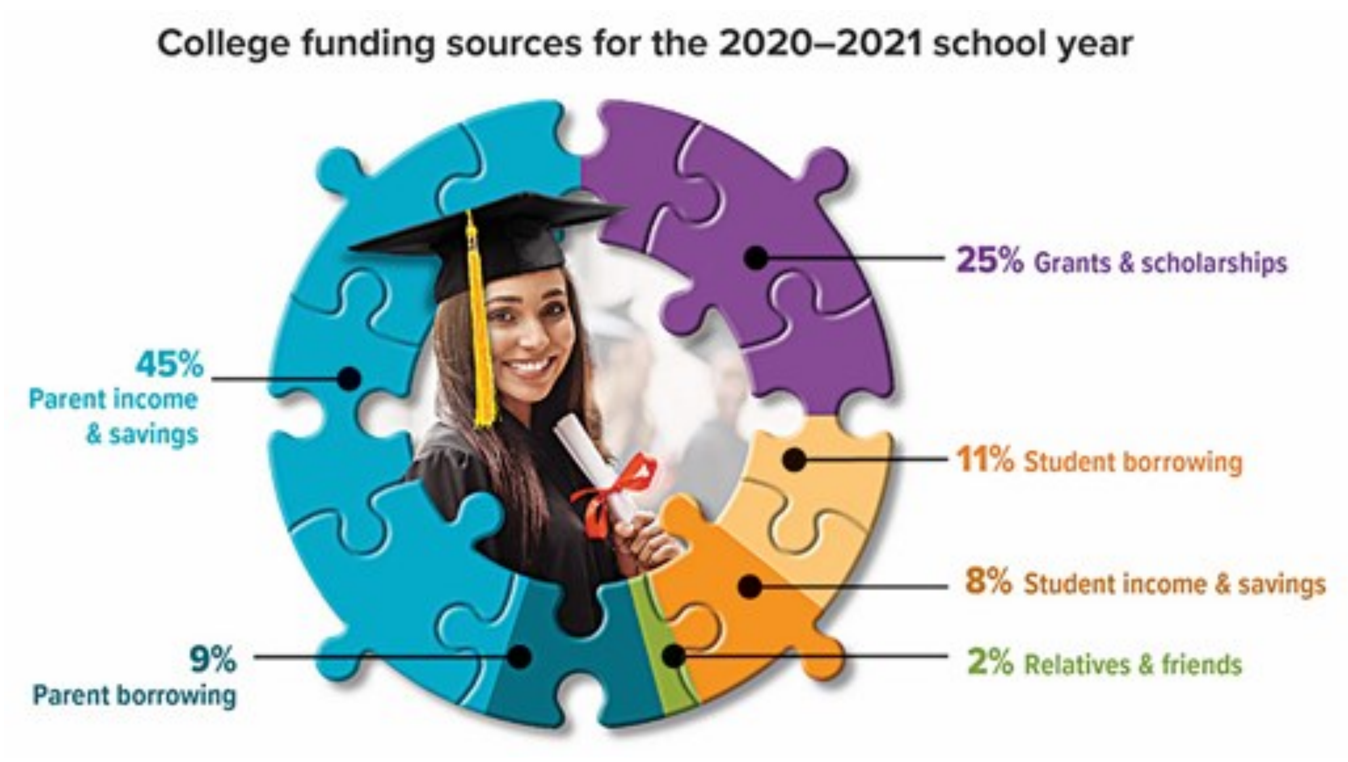
The young people in your life will thank you — sooner or later.

For questions about laws governing custodial Roth IRAs, consult your tax or legal professional. There is no assurance that working with a financial professional will improve investment results.

Paying for College: Pieces of the Funding Puzzle

The typical family uses a combination of income, savings, borrowing, and grants/scholarships to pay for college. Not surprisingly, the largest source of funding — 45% — comes from parents in the form of current income and savings.

Starting a college fund as early as possible and aggressively looking for grant aid at college time can help families reduce the amount they may need to borrow, giving students greater flexibility when making decisions. Colleges are usually the best source of grant aid. A net price calculator (available on every college website) can help students estimate how much grant aid they might receive at specific colleges.

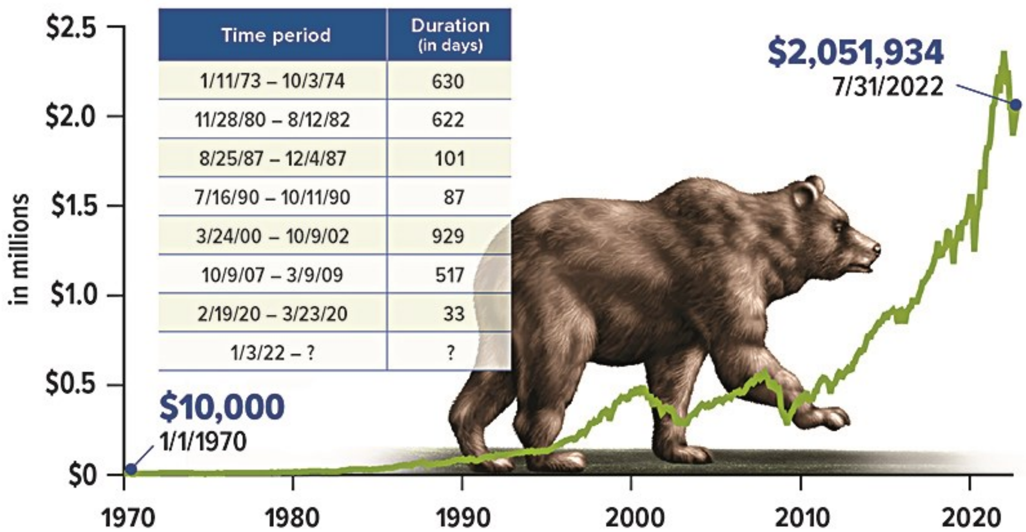


Retirement Savings in a Volatile Market

If you worry about your retirement investments during market downturns, you're not alone. Unfortunately, emotions are often the enemy of sound investing. Here are some points to help you stay clear-headed during periods of market volatility.

Markets Rebound
Historically, even the worst bear market has bounced back and eventually gone on to reach new highs. In fact, since 1970, bear markets have lasted an average of 14 months.

A Chance to Buy Low
If you're investing a set amount of money on a regular basis, such as in a retirement plan account, you're buying fewer shares when prices are high and more shares when prices are low — one of the basic tenets of investing wisely.



Time period	Duration (in days)
1/11/73 – 10/3/74	630
11/28/80 – 8/12/82	622
8/25/87 – 12/4/87	101
7/16/90 – 10/11/90	87
3/24/00 – 10/9/02	929
10/9/07 – 3/9/09	517
2/19/20 – 3/23/20	33
1/3/22 – ?	?

Systematic investing involves making continuous investments on a regular basis, regardless of fluctuating share prices. Although this strategy does not ensure a profit or prevent a loss, you must be financially able to continue making purchases through extended periods of high and low price levels.

Retiree Strategies
The risk of experiencing poor investment returns just before or in the early years of retirement is a significant factor that can affect a nest egg's long-term sustainability. Fortunately, some strategies can help mitigate this risk.

For example, consider a tiered investment strategy, in which you divide your portfolio into tiers representing your short-, medium-, and long-term needs for income and growth.

The short-term tier(s) could contain the amount you need for about two to five years, invested in assets designed to preserve value. The medium-term tier(s) could hold investments that strive to provide income for perhaps three to 10 years, balanced with some growth potential. The longer-term tier(s) could hold higher-risk, higher-growth potential assets that you wouldn't need for at least 10 years. Generally, this tier is intended to feed the shorter-term tiers and fuel the strategy over the course of your retirement.

Another possible strategy is using a portion of your retirement savings to purchase an immediate annuity, which offers a predictable retirement income stream you could pair with Social Security and any other steady income sources to cover your fixed expenses.

An immediate annuity is an insurance-based contract in which you pay the issuer a single lump sum in exchange for the issuer's guarantee of regular income payments for a fixed period or the rest of your life. With some exceptions, you typically receive fixed payments with little or no variation in the amount or timing. When purchasing an immediate annuity, you relinquish control over the amount you invest.

A Financial Professional Can Help
If volatile markets prompt you to question your retirement investing strategy, your financial professional can be an objective third party to help ease your worries and evaluate possible portfolio shifts.

Bear Markets Eventually End
A bear market is generally defined as a loss of at least 20% from a recent high. From 1970 to 2021, there were seven bear markets, the longest lasting less than three years. A new bear market began in January 2022. Despite these down periods, a hypothetical $10,000 investment in the S&P 500 in 1970 would have grown to more than $2 million by 2022.

Source: S&P Dow Jones Indices and Refinitiv, 2022, for the period 1/1/1970 to 7/31/2022.

At Financial Solutions you'll find a fee-only Registered Investment Advisor (RIA) committed to putting your interests and your needs first, eliminating the commissions and self-serving incentives that get in the way of solid, successful financial planning and investment management.

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