January 2023

Summary and Commentary

4TH QUARTER 2022

"The key to making money in stocks is to not get scared out of them."

-Peter Lynch

SUMMIT WEALTH & RETIREMENT PARTNERS

GUIDING YOU TO YOUR FINANCIAL DESTINATIONS

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Next month marks 3 years since the whole world began to shut down.

No one had ever seen anything like it before, because the last pandemic on a global scale had happened exactly a century earlier. The economic disruption that ensued was catastrophic and instantaneous. Domestically, our Gross Domestic Product (GDP) declined 19% in three months and equity prices followed.

There was no playbook for this.

Almost immediately, the Federal Reserve announced there would be no dollar limit to the extent it would support the economy. In six months, the equity market decline was erased. Over the next year and a half, equity markets soared to new heights. Then reality set in.

Inflation moved up to levels not seen in the recent past. For ten years, the Federal Reserve had tried to get inflation up to 2 percent and suddenly in the fall of 2021, it was eight percent. The Fed struck back aggressively, raising interest rates and decreasing its balance sheet and stocks and bonds both fell in value.

So, within 36 months we had a fierce bear market, an advance to new market highs and another bear market.

The chaos continued into 2022. This past year will be remembered as a year in which both stocks and bonds declined. This is highly unusual. The stock and bond markets fought higher interest rates, geopolitical risks and rising concerns surrounding an economic recession.

All major equity markets ended the year with double-digit losses with the exception of Large Cap Value which had single digit losses. International stock did better than domestic stocks and the tech heavy NASDAQ fared the worst of all.

The bond market had a disappointing year as prices fell and interest rates accelerated to levels not seen in years. Ultimately, the rise in yields negatively impacted bond market returns and all major indices ended the year in negative territory.

This positive correlation in the stock and bond markets (both moved down together), resulted in less diversification and a balanced (60% equity / 40% fixed income) portfolio had one of its worst performing years in decades.

So, what does this mean for 2023?

In spite of the events of the past three years, the equity market managed to close out 2022 somewhat higher than it was at the end of 2019.... this in spite of the fact that our entire economic, financial, political and geopolitical world experienced some issues never seen before.

This tends to validate our core investment strategy over the past three years— maintain a cash/liquid position for your short-term needs, stand fast, have a well-diversified portfolio, tune out the noise and continue to focus on your long-term plan.

The question of the hour seems to be whether and to what extent the Federal Reserve, in its inflation fighting zeal, might tip the economy into recession. Over the coming year, the way this plays out may determine the short-term trend of equity prices. Our position is that this outcome is simply unknowable, and that we cannot make rational investment policy out of an unknowable.

So, for this (and every year) it is important to remember that we are long term, plan driven wealth managers. We believe that lifetime investment success comes from acting continuously on your wealth management plan.

What the past three years have shown us again is that the economy can never be consistently forecast nor the financial markets consistently timed.

The most reliable way to capture the full return of the financial markets is to stay invested through their frequent, but historically always temporary, declines. This will continue to influence our investment policy as we pursue your most important financial goals together.

Some changes for 2023

On December 29, 2022, President Biden signed the Consolidated Appropriations Act of 2023 into law. In addition to the government spending in this bill, a successor retirement bill, SECURE 2.0 Act of 2022 (SECURE 2.0) was included in the legislation.

Some of the changes affecting retirement planning in this legislation were:

- Further increases to the Required Minimum Distribution (RMD) age up from 72 as follows:

  - Born in 1950 or earlier: no changes. Age 72

  - Born in 1951 to 1959: RMDs start at age 73

  - Born in 1960 or later: RMDs start at age 75

- The penalty for not taking a RMD has been reduced from a 50% excise tax to 25%

If you are participating in a workplace 401(k) plan, the maximum elective deferral has been increased to $22,500 per year and if you are over age 50, the additional catch-up contribution has been increased to $7,500. So, if you are under age 50, the new maximum deferral is $22,500 and if you are over age 50, you can defer a total of $30,000 into your retirement plan. You will want to make these changes to your payroll and 401(k) plan early in the year.

Lastly, inflation has increased the annual gift tax exclusion to $17,000 per person for 2023 and the Lifetime estate exclusion has been increased to $12,920,000 for 2023. Remember, without any changes to existing legislation, this number is scheduled to be reduced to $5,490,000 indexed for inflation at the end of 2025.

As we begin 2023, we cannot say enough- thank you for being our clients and for the trust and confidence you show in allowing us to assist you and your families in their wealth management planning.

Here’s to good health and happiness in 2023 from your Summit team!

All our best,

Hal, Rob, Scott, Ryan, Naumy, Dustin, Jennifer, Geoff, Maryline and Kevin

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Sources:

Charles Schwab and Co

JP Morgan

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Nick Murray Interactive

Morgan Stanley

Goldman Sachs

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Ed Slott and Co.