2nd Quarter 2022 Newsletter
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NovaPoint CAPITAL LLC

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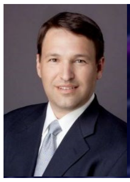


# MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

Fear of the economic impact of higher inflation and higher interest rates has ruled over markets year-to-date. That fear prompted the first negative quarterly return in the major equity indices since the early days of COVID in the first quarter of 2020.

The S&P 500 Index ended the first quarter –4.6% and other U.S. and international markets performed similar. Increases in interest rates even produced a negative return for the aggregate bond index. Upside was limited to commodities such as oil and gold.

The Fed has already made an initial 0.25% increase in the Fed funds target rate. Multiple rate increases are planned for the remainder of 2022, with the next policy announcement scheduled at the conclusion of the May 4th Federal Open Market Committee meeting. A 0.50% increase in the Fed funds rate is likely at that meeting.

As we head into mid-year, the Fed will begin reducing the size of its $9 trillion balance sheet at a pace of $95 billion per month. This combination of actions should moderate economic growth and remove liquidity from the financial system in an effort to slow inflation. While the market appears to be absorbing the news in a negative manner, this is simply a normalization of the excess liquidity that was pushed into the economy during the pandemic. The normalization is a necessary step for the long-term health of the economy. It is the uncertainty of the magnitude and timing of these policy actions that create the market volatility. As we move through this cycle, the market should absorb the information and volatility should subside. Markets like predictability.

Corporate earnings have mixed half way through the first quarter reporting cycle, but have generally trended above expectations. A snapshot at the half-way point shows quarterly earnings for the S&P 500 Index should grow approximately 10.1% year-over-year on 12.5% revenue growth. Earnings for 2022 should normalize to a more traditional comparison with earnings growth of approximately 9.3% versus 2021.

While investors will eventually absorb the monetary policy action of the Federal Reserve, we believe volatility is likely to persists leading up to the mid-term election. With control of both houses of Congress at stake, the campaign trail is likely to be a verbal battleground for many economic and policy positions that could keep volatility elevated.

Our equity holdings are well-diversified across sectors. We favor high-quality stocks with a demonstrated track-record of increasing dividends as we believe they are more durable through economic cycles, while the growth of the dividends can help offset the impact of inflation.

| | 1Q22 Return |
|---|---|
| S&P 500 Index | -4.6% |
| Dow Jones Industrial Average | -4.1% |
| NASDAQ 100 | -8.9% |
| Russell 2000 (Small Cap Index) | -7.5% |
| International Stocks (MSCI ex-US) | -6.0% |

| | 1Q22 Return |
|---|---|
| Aggregate Bond Index | -5.6% |
| U.S. Dollar Index | 2.4% |
| WTI Crude Oil | 33.3% |
| Gold | 6.0% |
| Real Estate (US REIT Index) | -4.7% |

Sources: S&P Global, Thomson Reuters


## Adjusting Sails

**“I can't change the direction of the wind, but I can adjust my sails to always reach my destination.” Jimmy Dean**

While there are always economic and geopolitical uncertainties that can cause apprehension – “markets climb a wall of worry” as the saying goes – 2022 has presented its share of factors that seem to indicate a shift in the macroeconomic environment.

We previously addressed perspectives on navigating inflation and difficult yields, but the increase in both, the Russian invasion of Ukraine, and the resulting market volatility year-to-date have overshadowed a healthy economy, corporate earnings, and labor market.

Making binary bets on future economic outcomes is difficult. We find it better to adjust our strategies to plan and invest opportunistically though different market environments. The ability to monitor economic data, monetary and fiscal policy, and changes in the markets allow for the advantage of making gradual changes as additional information becomes known.

For investors concerned about rising rates, we have long advocated high quality fixed income with lower risk to value as interest rates change. This is achieved by shortening duration. For investors concerned about inflation, we advocate investing in asset classes that have historically delivered greater returns over time than inflation. For investors concerned about the economic cycle, we advocate high quality investments that return increasing cash flow, such as companies that have consistently grown their dividends.

While it is important to adjust to changing economic and market environments, it is more important to adjust to changes in personal circumstances. Part of making your money work for you is having it serve your personal needs and goals.

Life or personal changes can affect an investor’s goals or risk profile. We can’t always control what happens in our personal circumstances but we can make adjust when those circumstances change.

A change in investment time horizon can present an opportunity to either harvest profits if cash is needed or invest more in the face of uncertainty if liquidity is not needed. Adjusting strategic asset allocation is an example of implementing a personal portfolio update while implementing the micro adjustments as a part of implementation.

Our process is not one of timing the markets, but adhering to investor goals and objectives in a strategic manner, while including thematic adjustments as a part of a research based process.

Stay the Course, but Know your Course First.

## Do You Know Your Risk Number?

Individuals often classify their investment risk tolerance with adjectives such as "Conservative", "Moderate", or "Aggressive".

These can be highly subjective and may not correctly identify the amount of risk someone is actually comfortable taking.

One self-described Moderate investor may feel uncomfortable if their portfolio fell 5%, while another may not feel uncomfortable until their portfolio falls more than 20%.

While investors understand that the purpose of taking risk is to achieve investment returns, they may not have a realistic sense of how much risk is required to achieve a targeted level of return. In this case, they may not be taking enough risk and are left wondering why they are unable to achieve the returns they are targeting.

We work with clients to identify the level of risk they are comfortable taking and balance it with the investment objectives they are seeking to achieve.

Follow this link to take our complimentary risk analysis questionnaire.

# BUSINESS RETIREMENT PLANS

By ALAN J. CONNER

## Is everything OK with the 401k?

### Plan Participant Tips

Most major market indices, both equity and fixed income, declined in the first quarter of the year. Reading the quarterly statement for your 401k, or other retirement plan, may have been a disappointing experience.

Here are a few ideas for thinking through your 401k:

Review Investment Choices: Your plan should be offering a broad range of investment selections. Some new ones may be added from time-to-time as well. You may want to review the full list of investment choices and see if you want to make changes. You should be able to see the investment strategy for each selection, its historical performance, and fees. Make sure you are allocating to investment choices that meet your personal risk tolerance and return expectations. If you need assistance creating a portfolio that suits your needs, please let us know.

Rebalance: When the performance of different investments vary over time, the allocation percentages in your 401k can start to drift from the percentages you originally selected. Review your statement and determine if you would like to rebalance back to the original allocation percentages. This sells some of the over-allocated fund and buys the under-allocated funds. Since this is in your 401k, there are no tax consequences.

Change Monthly Allocations: You can also change the investment selections that your monthly contributions go into. You can change the percentages to increase funds that may have underperformed and less to funds that have outperformed as a way to create a gradual rebalance over time. You can also elect to add money to a new investment or cease contributing to an existing investment.

Dollar Cost Averaging: One benefit to regular 401k contributions with the same dollar amount each period is that you are buying more shares of investments that have gone down and less shares of investments that have gone up. This process, known as Dollar Cost Averaging, helps manage market risk and volatility. As with many actions that are beneficial to our lives, consistency is the key to success.

### Business Owner Tips

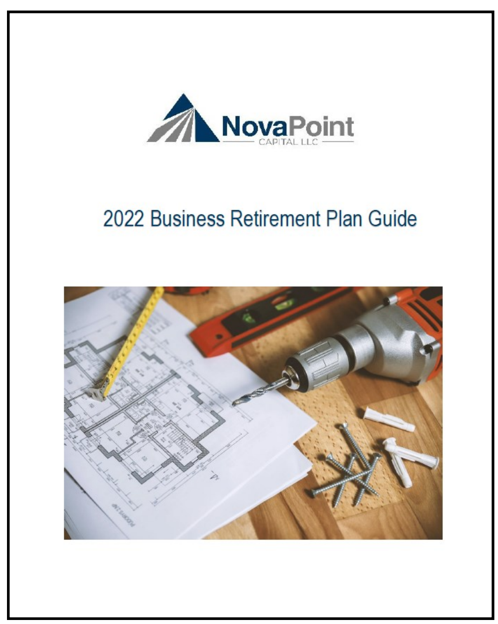
If you own a business, or are self-employed, and you do not have a business retirement plan in place, you may be missing out on the opportunity to both lower your taxes and save for retirement. 2022 can be the year to establish a plan to achieve these goals.

In a tight labor market, offering a 401k plan can be one of the perks used to both hire and retain quality employees.

There are a variety of business retirement plan types that have different features and benefits. If you would like to explore the different types of business retirement plans to help determine which would be best suited for your business, you can download a copy of our 2022 Business Retirement Plan Guide at the link below.

We are available to help you design and manage a plan that best suits your needs.

Download the Guide



## Pecan-Bacon Squares a la Mode

Ingredients

Crust:

6 tablespoons unsalted butter
1 1/4 cups flour
1/4 cup sugar
Pinch of salt
2 teaspoon fresh lemon juice

Filling:

8 slices of bacon, diced and cooked
3 large eggs
1 cup light corn syrup
1/3 cup sugar
5 tablespoons unsalted butter
1 teaspoon vanilla extract
1/2 teaspoon apple cider vinegar
1 cup pecans, plus more for topping
Vanilla ice cream for serving

To make the crust:
Preheat the oven to 375 degrees F. Butter an 8-inch-square baking dish and line with nonstick foil, leaving an over-hang on 2 sides. Lightly butter the foil.

Combine flour, sugar, and salt in a food processor and pulse to combine. Add the butter and pulse until the mixture looks like coarse meal. Add the lemon juice and pulse until the dough just comes together. Press the dough into the baking dish and bake until lightly golden, about 15 minutes.

To make the filling:
Whisk eggs, corn syrup, sugar, melted butter, vanilla and vinegar bowl.

Scatter the pecans and bacon over the crust, then pour in the filling. Bake until set and the nuts are golden brown, 30 to 35 minutes.

Let cool. Cut into squares and top with ice cream and more pecans.

Enjoy!

*Courtesy of the Food Network*

### Follow our Weekly Blog Posts

Each Monday, we publish a report on the NovaPoint website blog highlighting important financial and investment issues for the week. You can find the blog on the website on the News dropdown menu or at https://novapointcapital.com/blog/

If you'd like to receive the blog each week via email, please send a request to info@novapointcapital.com

NovaPoint CAPITAL LLC

Visit our website: www.novapointcapital.com

NovaPoint Capital is an investment management and advisory firm. We manage investment portfolios for individuals, family offices, businesses and their retirement plans, nonprofit organizations, and institutions.

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