3rd Quarter 2022 Newsletter
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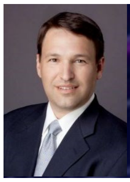


MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

Inflation has been the key word dominating headlines over the past few months. The impact of inflation has been widespread and most visible to consumers in areas such as gasoline and food prices. Fuel prices have only recently declined after reaching a nationwide average of $5.016 per gallon in mid-June. The impact of higher interest rates is also starting to impact housing, as increases in mortgage rates have started to slow home sales.

The labor market has remained relatively healthy, though we have seen layoffs at some high growth companies in the technology and consumer sectors. A healthy labor market is essential to the Federal Reserve being able to raise interest rates to combat inflation. The Federal Reserve kept an accommodative monetary policy in place until almost all of the jobs lost during the COVID-19 pandemic had been recovered. It then turned its focus aggressively toward fighting inflation with interest rate increases at the past few Federal Open Market Committee (FOMC) meetings.

The S&P 500 Index ended the second quarter –16.1% and other U.S. and international markets performed similarly. Increases in interest rates also caused a negative return in the aggregate bond index during the quarter.

The Fed has been solely focused on reducing inflation the past few months. As of this week, the Federal Reserve raised the Fed funds target rate to a 2.25% to 2.50% range and signaled that additional increases are likely. The next FOMC meeting is scheduled for September 20th—21st. The Federal Reserve has also been steadily reducing its $9 trillion balance sheet. It has primarily been reducing the balance sheet by letting treasury and mortgage debt mature and not issuing new debt to replace it. The schedule reflects reducing the balance sheet by $47.5 billion per month for June through August, then a step up to $95 billion per month starting in September. The normalization of interest rates and liquidity are a vital step for the long-term health of the economy.

Corporate earnings have not been immune from the Federal Reserve's market actions. Higher interest rates in the United States has raised the value of the dollar against most major currencies. This causes lower translation of foreign currency earnings for U.S. multi-national companies in their overseas operations. More cautious spending for both corporations and consumers has caused many companies to adopt more cautious outlooks for the remainder of the year. That more cautious posture across the economy is the behavior the Federal Reserve is trying to induce through the tightening of monetary policy.

The path to year-end could likely see a big impact from the November elections. Depending on which party controls Congress after the elections, there could be potential changes in fiscal policy. The Federal Reserve will continue to decide monetary policy independently from partisan politics, but the combination of fiscal and monetary policy can impact the path of the economy.

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.

	2Q22 Return	YTD Return
S&P 500 Index	-16.1%	-20.0%
Dow Jones Industrial Average	-10.8%	-14.4%
NASDAQ 100	-22.3%	-29.2%
Russell 2000 (Small Cap Index)	-17.2%	-23.4%
International Stocks (MSCI ex-US)	-13.9%	-19.1%

	2Q22 Return	YTD Return
Aggregate Bond Index	-4.3%	-9.6%
U.S. Dollar Index	6.5%	9.1%
WTI Crude Oil	5.5%	40.6%
Gold	-6.7%	-1.2%
Real Estate (US REIT Index)	-17.6%	-21.5%

Sources: S&P Global, Thomson Reuters

A Down Market may be a Good Time for a Roth IRA Conversion

While a declining stock market may make you feel like there aren't many proactive decisions you can make, this can be an opportunistic time to consider a Roth conversion for a portion of your retirement assets.

What is the difference between a Roth IRA and a traditional IRA? Both allow your money to grow tax-free. Money contributed to an IRA is tax deductible and thus provides a benefit by lowering your 2022 taxable income. Down the road, however, IRA distributions are taxed. Meanwhile, Roth IRA contributions are made after-tax, meaning you receive no tax deduction for 2022. But when money is withdrawn from a Roth IRA (no earlier than age 59 ½ to avoid penalties), there is no tax obligation whatsoever.

IRS regulations limit the amount you can contribute to a Roth IRA (specifically: $6,000 per year if you're under age 50, $7,000 if over 50). Roth IRAs also have income limits. If your modified Adjusted Gross Income exceeds $214,000 (married filing jointly) or $144,000 (single), then you are ineligible to contribute.

However, the Roth IRA conversions opportunity is different than a Roth IRA contribution. The conversion allows you to move assets from an existing IRA, where withdrawals are subject to taxation as ordinary income, and convert them to a Roth IRA. You can convert the entire IRA balance or just a portion. However, you will have to pay tax on the money converted in the current tax year.

Here is an example: Let's imagine you had an IRA with a $100,000 balance on January 1, 2022. Today, that amount might be as much as 20% lower as a result of the sharp year-to-date decline in the equity markets. Had you decided to do a Roth conversion on January 1st, you would have added $100,000 to your ordinary income for tax year 2022. Today, with the balance temporarily lower because of the market decline, that same conversion would only add $80,000 to your 2022 ordinary income. When the market recovers, the increase in value is now in your Roth IRA account and grows tax free, as well as no tax owed on withdrawals in the future.

There are always additonal issues to consider such as your investment time horizon, how a current year increase in taxes impacts your overall tax bill, and the potential for tax rate changes in the future.

The best place to start may be a review of all your investment accounts and current tax situation. We can help you evaluate the pros and cons when considering a Roth IRA conversion.

Please reach out if we can help: Contact Us

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.

How many 401(k)'s do you have....How many do you need?

From Several to One

You may have multiple 401(k) accounts if you have worked at several companies and left your account with each employer's plan when you moved. If these are accounts you haven't been paying attention to, it may make sense to consolidate them into a Rollover IRA. You aren't getting the benefit of pre-tax contributions if you are no longer employed at the company, and you certainly are no longer earning a match for the contribution you aren't making. In essence, you aren't getting the benefit of participation. Additionally, participants are likely limited to the mutual fund choices at that plan, while you may prefer the freedom to better control your investment choices. In this case it may make sense to transition from multiple old 401(k)'s to one Rollover IRA. You can still contribute to the 401(k) at your current company.

Employee There, Owner Here

You may be an employee at a company that offers a 401(k) plan, but you may also have your own small business. In this case, you may be able to participate in the 401(k) at your employer and also have a retirement plan for your own small business. The plan at your employer allows you to reduce the tax on your W-2 wages. If the employer offers a matching contribution, then that is an additional monetary benefit for participating in the plan. Meanwhile, if your self-owned small business is making money, you can potentially set up a 401(k) or other retirement plan to reduce the tax on your earnings in that business.

In this instance, our suggestion is to maximize the employee contribution at your W-2 job, and, if applicable, get the maximum employer match. You can then determine the amount available that could be contributed to a 401(k) plan for your own business. When utilizing multiple active 401(k) plans, the annual maximum contribution amount is still $61,000, and the maximum employee contribution is $20,500 (plus the $6,500 catch up contribution if you are over age 50). Managing multiple 401(k) accounts does take a bit of care to make sure that you don't violate the employee maximum contribution, and combined maximum.

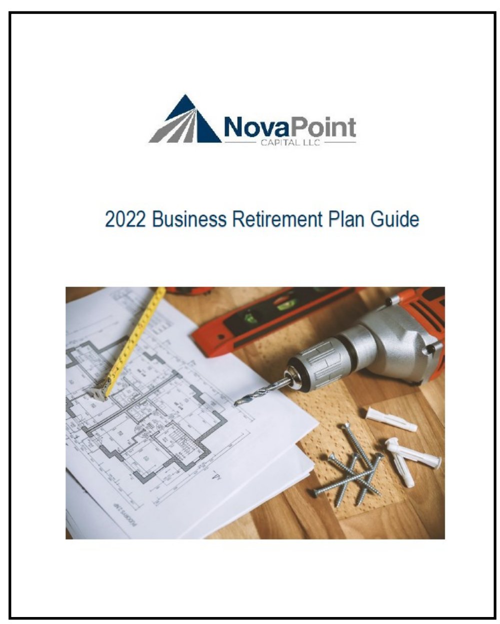
One is Better than Zero

If you are self-employed or a business owner with no current 401(k) or other retirement plan in place, you are missing out on the opportunity to lower your taxes and build assets for retirement. In this case, we can help you select the plan that best suits your business and personal needs, and the needs of your employees if you have any.

If you have one or more 401(k) accounts at previous employers and are now self-employed or a business owner, you can transfer those assets into a new 401(k) that you set up for your business. As the business owner, you can select the features and benefits of the plan to include a Roth option and loan provision. Plus, you can decide on the investments for the plan. This gives you more control of your assets and allows you the ability to design the best plan for your needs.

An overview of the types of business retirement plans available is contained in our 2022 Business Retirement Plan Guide at the link below. As always, please reach out if we can help you evaluate your options.

Download the Guide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2022 Business Retirement Plan Guide

Cobb Salad Tacos

Ingredients

2 tbsp minced shallots

2 minced garlic cloves

1/2 tbsp olive oil

2 cups cubed ham

2 tbsp mayonnaise

2 tbsp buttermilk

1/4 cup crumbled blue cheese

8 corn tortillas

2 chopped hard boiled eggs

2 slices chopped bacon

2 cups sliced romaine lettuce

1/2 cup diced tomatoes

1/2 cup chopped avocado

Instructions:

1. In a pan, heat olive oil. Add shallots and garlic and cook for 1 minute. Remove from heat and add ham.

2. Combine mayonnaise and buttermilk, then stir in blue cheese.

3. Heat tortillas in a pan to the crispness level of your liking. You can also char on the burner.

4. Add ham to the finished tortilla. Top with lettuce, tomato, avocado, egg, and bacon. Dress to taste.

Makes 8 tacos. Enjoy!

Courtesy of Tried and Tasty

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

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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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