



## MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

### Three Up and Three Down

Mr. Market has been pitching a shutout so far this year. The S&P 500 Index has declined all three quarters of 2022, with a third quarter return of -4.9%. The other major U.S. indices saw similar negative returns and international stocks fared even worse. Higher interest rates also caused negative returns in the aggregate bond index.

Rates of inflation remain stubbornly high year-over-year and the labor market has remained healthy. The latter has given the Federal Reserve the ability to aggressively tighten monetary policy to slow the advance of the former.

The Federal Reserve's two key mandates are full employment and price stability. It chose to initially support the employment mandate coming out of the pandemic. While this may have put monetary policy behind the curve regarding inflation, the Federal Reserve has aggressively raised short-term interest rates over the course of 2022. The current Fed funds rate target range is 3.00% to 3.25% and expected to move higher this week. The Federal Reserve has gone all-in on restricting inflation and the Fed funds rate likely rises toward 5% in early 2023, but perhaps in smaller increments than the 0.75% moves we seen over the past few Federal Open Market Committee meetings.

Corporate earnings have been mixed so far in the third quarter reporting season. A stronger U.S. Dollar has reduced revenue growth for many large, multi-national companies. Impacts of inflation and supply chain shortages have been noticeable, but some companies have demonstrated the ability

to pass along price increases effectively. Consumer spending continues to be a key component of economic growth, even with higher inflation. A strong labor market has been a great help to support spending.

Between now and year-end, the U.S. midterm elections could provide additional clarity on the business and economic environment for 2023. Tighter fiscal policy could make the Federal Reserve's job of containing inflation easier. History tells us that a Democrat controlled White House and Republican controlled Congress can be a positive set up for stock market returns.

#### Average Annual Returns of S&P 500 Index based on which political parties control the government

Party in Power	Avg Return
All Democrat	9.8%
All Republican	12.9%
Democrat President / Republican Congress	13.0%
Republican President / Democrat Congress	4.9%
Democrat President / Split Congress	13.6%
Republican President / Split Congress	5.2%

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.

	3Q22 Return	YTD Return		3Q22 Return	YTD Return
S&P 500 Index	-4.9%	-23.9%	Aggregate Bond Index	-4.2%	-13.5%
Dow Jones Industrial Average	-6.2%	-19.7%	U.S. Dollar Index	7.1%	16.8%
NASDAQ 100	-4.4%	-32.4%	WTI Crude Oil	-24.8%	5.7%
Russell 2000 (Small Cap Index)	-2.2%	-25.1%	Gold	-8.1%	-9.2%
International Stocks (MSCI ex-US)	-11.1%	-28.0%	Real Estate (US REIT Index)	-10.8%	-30.0%

As of September 30, 2022

Sources: S&P Global, Thomson Reuters



# WEALTH MANAGEMENT

By Timothy Benbow, CFP®



## Pros and Cons of Higher Interest Rates

The Federal Reserve has steadily been increasing interest rates over the course of the year to counter the impact of inflation. Most market watchers view this action negatively as it slows economic growth, however, there are both Pros and Cons to higher interest rates.

### Pros

**Higher Yields for Savers:** Whether in money market funds, CD's, or bonds, savers are finally being rewarded for having some cash on the sidelines. Although it's important to be selective as not all fixed income investments are the same, the one-year U.S. Treasury bill yields over 4.4% as of this writing. Meanwhile, several widely available money market funds which offer daily liquidity with yields nearly 3%.

**Dollar Strength:** The rapid rise in interest rates has helped strengthen the U.S. dollar to near record levels against many foreign currencies. If you've been itching to travel internationally and just waiting for the right time to do it, opportunity knocks!

### Cons

**Borrowing money is more expensive:** Mortgage rates have

been increasing, with the current 30-year fixed mortgage rate now above of 7% according to Bankrate.com. Unfortunately, lower duration loans offer only a slight discount, with the 10-year fixed mortgage above 6.3%. Higher mortgage rates make buying a home more expensive, which can hurt home prices, thus sharing the pain with potential sellers. Adjustable-Rate Mortgages (ARM), with lower rates at the outset, could surprise some borrowers as rates re-set in the future. Still, if potential home buyers can find a home at a reduced price and afford the monthly payments at current mortgage rates, there is always the potential to refinance at lower rates in the future.

### Summary

Tread water carefully as many times things aren't what they first appear to be. For example, most checking account yields remain dreadfully low, so that isn't a good place to park cash. Also, beware of investing in a bond mutual fund or TIPS, as these securities often do not perform how one might expect.

Please reach out if we can help: [Contact Us](#)

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## 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



## SEP IRA vs Solo 401(k)

### Which to Pick when going it Alone

When you are self-employed or a business owner with no qualified employees, then you are on your own to create and manage your retirement plan.

A retirement plan through the business is an excellent way to both reducing taxes while saving for retirement. Two options to consider as a self-employed individual or business owner are the SEP IRA and the Solo 401(k).

The simplified employee pension (SEP) is an individual retirement account (IRA) that allows a self-employed person or business owner a tax deduction for contributions made to a SEP IRA and makes contributions to each eligible employee's plan on a discretionary basis. A Solo 401(k) is similar to a traditional 401(k) but tailored for the individual business owner.

Let's start a comparison by understanding the similarities of the two:

1. Both allow employer contributions to be made
2. The deadline for employer contributions is the business tax filing deadline.
3. The maximum employer contribution is the lesser of 25% of compensation or \$61,000

The differences between two types of plans are worth understanding to make an informed decision which is best for you.

In the Solo 401(k):

1. You can contribute up to 92% of your earnings up to \$20,500
2. Some plans offer both pre-tax and post-tax accounts
3. 401k accounts can have a loan provision
4. 401k can also be paired with a Defined Benefit Plan
5. Allows for a catch-up contribution of \$6,000 if you are over age 50

In the SEP IRA:

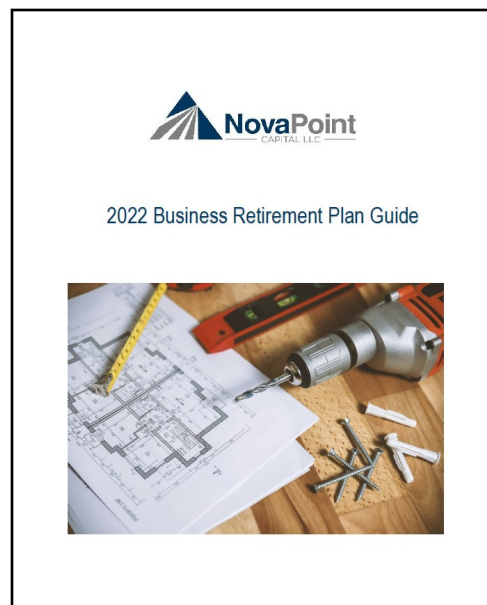
1. The SEP is restricted to employer contributions only
2. There is no catch-up contribution for a SEP
3. Simplified documentation rules.

If you are looking to save both on taxes and for retirement, the Solo 401(k) is the better of the two options, as the 401k allows you to put away more pre-tax income than a SEP, given the employee contribution provision. The only catch is that in order to do an employee contribution, you will be required to run payroll, which does incur some additional cost.

We are experts in these types of plans and would be happy to discuss how to set one up for your business. We can also help if there are employees.

Information on all types of business retirement plans can be found in our Business Retirement Plan Guide.

[Download the Guide](#)





## Bacon Brittle

### Ingredients

8 ounces of bacon, cooked crisp  
1 cup granulated sugar  
1/4 cup water  
1/4 cup unsalted butter  
3 tablespoons light corn syrup  
1/4 teaspoon baking soda  
Coarse sea salt

### Instructions:

1. Chop bacon into 1/4 inch pieces
2. Butter a rimmed baking sheet or add a baking mat
3. In a saucepan, combine sugar, water, butter, and syrup. Bring to a boil until it reaches 350-degrees. This should take 10 to 15 minutes.
4. Remove from heat, stir in baking soda, and then bacon bits. Pour onto baking sheet and spread into a tin, even layer. Sprinkle with sea salt.
5. Allow brittle to cool. Break into pieces and enjoy!



*Courtesy of Food52*

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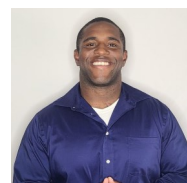
## Follow our Weekly Blog Posts

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](mailto:info@novapointcapital.com)

## Welcome Larry Dixon!

Please welcome Larry Dixon to the NovaPoint team! Larry joins as a Managing Director to head up the NovaPoint CFO tax and accounting practice. Larry has 10 years experience in the accounting field. Prior to joining NovaPoint, he founded his own company, Atlas Solutions, where he was CEO and lead tax strategist. Larry has served as a Field Artillery Officer in the U.S. Army. He earned his Bachelor of Science degree from the U.S. Military Academy at West Point in Economics, where he was also a four-year letterman on the Army Football team. Larry's volunteer activities are focused on helping dog shelters and working with rescues to find good homes for dogs. Welcome Larry and Beat Navy!



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