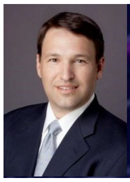
1st Quarter 2023 Newsletter
February 2023

NovaPoint CAPITAL LLC

NovaPoint Capital ● 1175 Peachtree Street NE, Suite 1825, Atlanta GA 30361 ● Phone 404-445-7885 ● www.novapointcapital.com



MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

Coming in for a Landing

2022 was the year of the Fed. The Federal Reserve's actions to aggressively raise short-term interest rates dominated both the equity and fixed income markets. This was part of a monetary policy plan to slow the high rates of price inflation in the economy.

Rising rates of core inflation appear to have peaked in September. While still elevated on a year-over-year comparison, they are trending slowly towards the Fed's goal of a 2% annual rate. The greater concern at this point to the Fed is to prevent a reemergence of inflationary pressures. The large 0.75%-sized rate increases are behind us, but smaller increases are likely to persist for a few months and monetary policy is likely to stay restrictive as the Fed assesses what impact the cumulative series of increases has had on the economy.

The debate whether the economy will experience a hard landing or a soft landing seems to capture some attention, but we see that as a narrow debate. Most pundits have said that a hard landing would only be a mild recession or that a soft landing will only narrowly avoid a recession. We're going to come in for a landing either way and the difference on either side of the line seems too thin to argue about.

Higher interest rates and their slowing effect on the economy have had an impact on both consumers and corporations. Large amounts of personal savings that were stored away during the pandemic have reversed and now credit card debt levels are rising as consumers deal with higher prices. Corporations appear to have become more cautious in both their hiring and capital expenditures. That is the exact behavior the Fed has been trying to influence. Their actions to curtail the demand side of spending is noticeable.

The remaining piece of the puzzle is the labor market. Despite layoff announcements from many high visibility companies, job growth has remained strong. That is likely to weaken in coming months and slack in the workforce should curtail wage inflation. If that comes together orderly, then we will likely see the marginal soft landing and if it proves difficult then the shallow hard landing likely plays out. Either way, the Fed tightening cycle will run its course and its restrictive monetary policy stance should end in late 2023 or early 2024.

Corporate earnings have been mixed so far during the current fourth quarter reporting period. Still, investors seem to be looking for reasons to own stocks. January saw a healthy rebound, especially among some of the high profile stocks that saw steeper declines in 2022. The combination of investor pessimism heading into 2023 coupled with declining rates of inflation are likely to set up 2023 as a positive year for equities even if earnings growth struggles.

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.

	4Q22 Return	2022 Return
S&P 500 Index	7.6%	-18.1%
Dow Jones Industrial Average	16.0%	-6.9%
NASDAQ 100	0.0%	-32.4%
Russell 2000 (Small Cap Index)	6.2%	-20.4%
International Stocks (MSCI ex-US)	13.7%	-18.2%

	4Q22 Return	2022 Return
Aggregate Bond Index	1.6%	-12.0%
U.S. Dollar Index	-7.7%	7.9%
WTI Crude Oil	-3.7%	2.7%
Gold	9.9%	-0.2%
Real Estate (US REIT Index)	4.2%	-27.0%

As of December 31, 2022
Sources: S&P Global, Thomson Reuters

Is it Tax Season already?

A tax return is the way our silent business partner, the government, collects money from all the income we create. This allows them to fund government spending. Everyone who earns money, whether it's from a job or doing chores for neighbors, pays a part of it to the government.

It's that time of the year where we bust out those 1040s. We tally up all the income and search for deductions…as many deductions as possible. After those deductions we get the adjusted gross income (AGI). We insert the AGI into the tax calculator and out pops out our tax liability.

Each month or quarter we pay allowances towards our federal tax withholding. It's like putting money into a savings account at the bank of the IRS. This does two things: 1) It ensures you don't owe a large lump sum tax payment to the government at the end of the year. 2) If the tax withholding is greater than you're your tax liability then you get a tax refund.

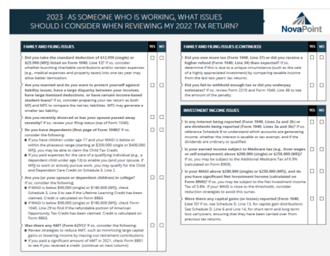
This is where most people get hung up. We are happy getting a refund from the government or we are sad we did not receive a refund. The tax liability goes completely neglected. Tax liability is more important than a tax refund. This is because it determines how much money you owe the government. Understanding your tax liability places you in control. It helps you budget your money and make sure you have enough money to pay your taxes.

Focusing on the tax liability starts to move you from the reaction space to the planning space. Tax planning is important because it helps you prepare and make smart decisions. By planning, you understand how deductions will help or hurt you. It will allow you to adjust your withholdings as necessary.

While your focusing on completing your 2022 tax returns, it is also a good time to take control of your 2023 tax planning.

Happy Tax Season!

Download our Checklist for Reviewing Your Taxes


2023 · AS SOMEONE WHO IS WORKING, WHAT ISSUES SHOULD I CONSIDER WHEN REVIEWING MY 2022 TAX RETURN?

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.

The SECURE Act 2.0

We are used to small changes in retirement rules each year. Often it is only modest changes in IRA and Roth IRA contribution amounts, how much the catch-up contribution was raised to, or adjustments to the defined contribution plan employee contribution amounts.

This year, Congress gives us so much more to cover with the Secure Act 2.0. This is the newest version of "Setting Every Community Up for Retirement Enhancement Act" and, in total, contains more than 92 provisions.

Here are some highlights and what it means for you:

<u>Distribution Changes</u>

- Required minimum distributions (RMD) increase to age 73 in 2023 and increase to age 75 in 2033.
- No RMD's are required in 2024 if you have an employer sponsored Roth.
- The penalty for not taking an RMD has been reduced from 50% to 25%.

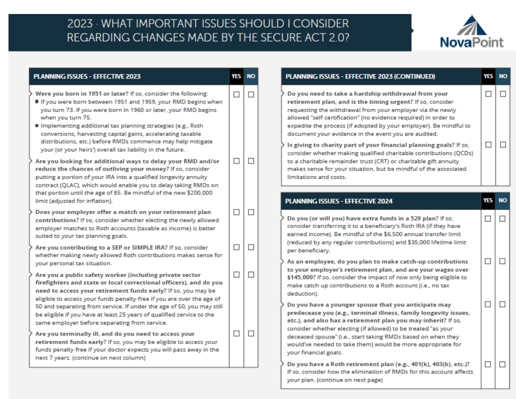
<u>Contribution Changes</u>

- Contribution Rates increase to $6500 for IRA, $66,000 for SEP-IRA, and $22,500 for 401k.
- Catch-up contributions increase as well. In a workplace plan, people aged 50 and older can catch up with $7500. If you are 60 to 63, starting in 2025, that amount is $10,000. The catch to this is that if you earn over $145,000 in the prior calendar year, the catch up amount must be made to a Roth account. Also, for IRA's, the catch up contribution will begin to be indexed to inflation starting in 2024.
- The age limit on IRA contributions has been removed if you have earned income.
- It will now be possible to receive matching employer contributions in a Roth account, although it remains to be seen how long it will take this to be offered by payroll companies and plan providers.
- If you own a business and offer a 401k plan, you will need to auto enroll employees. While this is a wonderful tool to encourage savings, the administrative issues need to be worked out.

<u>New Items</u>

- Starting in 2024, employers will be able to match employee student loan payments with contributions to retirement accounts.
- After 15 years, 529 plan assets that have not been used can be rolled into a Roth IRA for the beneficiary, subject to a $35,000 lifetime limit.
- As an additional means of encouraging savings, defined contribution plans can add an emergency savings as part of a Roth account.

Download our [Guide to the SECURE Act 2.0]


2023 · WHAT IMPORTANT ISSUES SHOULD I CONSIDER REGARDING CHANGES MADE BY THE SECURE ACT 2.0?

NovaPoint

PLANNING ISSUES - EFFECTIVE 2023	YES	NO
Were you born in 1951 or later? If so, consider the following: ■ If you were born between 1951 and 1959, your RMD begins when you turn 73. If you were born in 1960 or later, your RMD begins when you turn 75. ■ Implementing additional tax planning strategies (e.g., Roth conversions, harvesting capital gains, accelerating taxable distributions, etc.) before RMDs commence may help mitigate your (or your heirs') overall tax liability in the future.	☐	☐
Are you looking for additional ways to delay your RMD and/or reduce the chances of outliving your money? If so, consider putting a portion of your IRA into a qualified longevity annuity contract (QLAC), which would enable you to delay taking RMDs on that portion until the age of 85. Be mindful of the new $200,000 limit (adjusted for inflation).	☐	☐
Does your employer offer a match on your retirement plan contributions? If so, consider whether electing the newly allowed employer matches to Roth accounts (taxable as income) is better suited to your tax planning goals.	☐	☐
Are you contributing to a SEP or SIMPLE IRA? If so, consider whether making newly allowed Roth contributions makes sense for your personal tax situation.	☐	☐
Are you a public safety worker (including private sector firefighters and state or local correctional officers), and do you need to access your retirement funds early? If so, you may be eligible to access your funds penalty-free if you are over the age of 50 and separating from service. If under the age of 50, you may still be eligible if you have at least 25 years of qualified service to the same employer before separating from service.	☐	☐
Are you terminally ill, and do you need to access your retirement funds early? If so, you may be eligible to access your funds penalty-free if your doctor expects you will pass away in the next 7 years. (continue on next column)	☐	☐

PLANNING ISSUES - EFFECTIVE 2023 (CONTINUED)	YES	NO
Do you need to take a hardship withdrawal from your retirement plan, and is the timing urgent? If so, consider requesting the withdrawal from your employer via the newly allowed "self-certification" (no evidence required) in order to expedite the process (if adopted by your employer). Be mindful to document your evidence in the event you are audited.	☐	☐
Is giving to charity part of your financial planning goals? If so, consider whether making qualified charitable contributions (QCDs) to a charitable remainder trust (CRT) or charitable gift annuity makes sense for your situation, but be mindful of the associated limitations and costs.	☐	☐

PLANNING ISSUES - EFFECTIVE 2024	YES	NO
Do you (or will you) have extra funds in a 529 plan? If so, consider transferring it to a beneficiary's Roth IRA (if they have earned income). Be mindful of the $6,500 annual transfer limit (reduced by any regular contributions) and $35,000 lifetime limit per beneficiary.	☐	☐
As an employee, do you plan to make catch-up contributions to your employer's retirement plan, and are your wages over $145,000? If so, consider the impact of now only being eligible to make catch-up contributions to a Roth account (i.e., no tax deduction).	☐	☐
Do you have a younger spouse that you anticipate may predecease you (e.g., terminal illness, family longevity issues, etc.), and also has a retirement plan you may inherit? If so, consider whether electing (if allowed) to be treated "as your deceased spouse" (i.e., start taking RMDs based on when they would've needed to take them) would be more appropriate for your financial goals.	☐	☐
Do you have a Roth retirement plan (e.g., 401(k), 403(b), etc.)? If so, consider how the elimination of RMDs for this account affects your plan. (continue on next page)	☐	☐

© fpPathfinder.com. Licensed for the sole use of representatives of NovaPoint. All rights reserved. Used with permission. Updated 1/11/2023.

Please reach out of we can help: [Contact Us]

Bacon Parmesan Popovers

Ingredients (makes 6)

2 large eggs

1 cup milk

1 cup flour

2 tablespoons grated Parmesan cheese

3 bacon strips, diced

1/4 teaspoon salt

Instructions:

1. Beat eggs and milk. Combine flour, cheese, and salt, and add to egg mixture.

2. Preheat oven to 450-degrees.

3. Cook diced bacon until crisp. Grease cups of a nonstick popover pan with bacon drippings. Stir bacon into batter and then pour into cups.

4. Bake 15 minutes, then reduce heat to 350-degrees for an additional 15-minutes.

5. Remove popovers from pan. Poke with a knife to let steam escape. Serve.

Courtesy of Taste of Home

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

Welcome Marisa Shipman!

Please welcome Marisa Shipman to the NovaPoint! She joins us as a member of the accounting team.

Marisa is a U.S. Army veteran and Air National Guard veteran. She has a strong background in operations and logistics. Marisa earned her Bachelor of Business Administration degree from Tiffin University and her MBA from Liberty University.

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.

Alan J. Conner
President
aconner@novapointgroup.com
404-596-8935

Joseph Sroka, CFA, CMT
Chief Investment Officer
jsroka@novapointgroup.com
404-941-8910

Frederick Wright, CFA
Managing Director
fwright@novapointgroup.com
404-920-8574

Timothy Benbow, CFP
Managing Director
tbenbow@novapointgroup.com
678-427-1285

Allan Duncan
Investment Adviser
aduncan@novapointgroup.com
770-853-9487

Larry Dixon
Managing Director
ldixon@novapointgroup.com
360-813-4080