3rd Quarter 2023 Newsletter
July 2023

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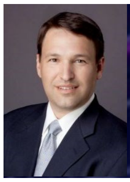


MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

Filling the Glass

Whether or not investors are currently optimists or pessimists, it does feel like the glass has been gradually filling all year.

The S&P 500 Index advanced 8.7% in the second quarter and finished the first half of the year 16.9% higher. The Nasdaq 100 Index, led by the large cap technology stocks that have done an "about face" from 2022, ended the second quarter 15.4% higher and the first half 39.4% higher. The Dow Jones Industrial Average has seen more modest gains in 2023 following its relative resiliency in 2022, advancing 4.0% in the second quarter and 4.9% higher for the first half of the year.

The Federal Reserve appears likely to complete its current cycle of raising interest rates later this year. While highly data dependent, current policy is targeted toward two additional 0.25% increases in the Fed funds rate. The first of these two increases likely occurs at the next Federal Open Market Committee (FOMC) meeting in late July. After that, we would look for the FOMC to update its quarterly Summary of Economic Projections at its meeting in September and adjust policy as appropriate, given changes in economic conditions through mid-September. A combined 0.50% increase in the Fed funds target rate would raise the target rate to a 5.50% to 5.75% range, a level not seen since early 2001.

Last quarter we discussed monetary and fiscal policy obstacles that needed to be overcome for investors to have more confidence in the market. Two of those obstacles have been cleared. The stand-off over the debt ceiling was overcome in early June, and inflation is moderating, not to the Fed's target yet, but enough to convince investors the worst is over.

There are certainly still some challenges for markets to keep the current momentum. Despite many high profile layoff announcements, the labor market has remained fairly resilient. The unemployment rate remains under 4% and that is not producing enough slack to reduce wage increases and, in turn, reduce the impact of higher wages in inflation data.

Corporate earnings also present some challenge. Earnings in the first quarter of 2023 for the S&P 500 Index was flat year-over-year. The current second quarter earnings are expected to decline 8.1% year-over-year and full-year 2023 earnings are only expected to increase 0.3% versus 2022. While worth monitoring, the stock market tends to be a forward looking system and focused on where earnings can grow once higher interest rate have been fully digested, and potentially decrease in 2024.

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.

	2Q23 Return	YTD Return
S&P 500 Index	8.7%	16.9%
Dow Jones Industrial Average	4.0%	4.9%
NASDAQ 100	15.4%	39.4%
Russell 2000 (Small Cap Index)	5.2%	8.1%
International Stocks (MSCI ex-US)	2.4%	9.5%

	2Q23 Return	YTD Return
Aggregate Bond Index	-0.6%	2.3%
U.S. Dollar Index	0.4%	-0.6%
WTI Crude Oil	-6.6%	-12.0%
Gold	-2.5%	5.2%
Real Estate (US REIT Index)	1.6%	3.3%

Sources: S&P Global, Thomson Reuters

What is the Augusta Rule?

The Augusta Rule is a special rule in the tax code that allows homeowners to exclude some rental income from their taxes. It's called the Augusta Rule because it started in Augusta, Georgia, where they host a famous golf tournament called The Masters. People in Augusta wanted to rent out their homes during the tournament without having to pay a lot of taxes, so they convinced the government to create a rule that allows homeowners to exclude rental income for up to 14 days.

Here's how it works: If you live in a house and rent it out for less than 15 days in a year, you don't have to pay taxes on that rental income. This rule applies to different types of homes to include primary homes, vacation homes, and even boats. However, you can't deduct any expenses related to renting out your home.

When it's time to file your taxes, you don't have to report the rental income if it's within the 14-day limit. But it's important to keep records of the rentals, including proof that you owned the home, rented it at a fair price, and it is used it as your personal home for the rest of the year.

The Augusta Rule can benefit anyone, regardless of their income or filing status. If you want to take advantage of it, you can use services like Airbnb to find renters and make sure you follow any local rules about short-term rentals. Also, if you plan your rentals during times when the rental market is busy and prices are high, you can earn more money tax-free.

Another cool thing about the Augusta Rule is that small business owners can use it to save on taxes. For example, if you own a small business and rent your vacation home to your business for a few days, the business can deduct the rental expense, and you don't have to report that rental income on your personal taxes. Just make sure you keep records of the rental agreement and any business-related activities during the rental.

So, the Augusta Rule is a way for homeowners and small business owners to save on taxes when renting out their homes. It's important to understand the rules, keep good records, and follow any local regulations.

Let us know 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.

BUSINESS RETIREMENT PLANS

By ALAN J. CONNER

Solo 401(k) versus SEP-IRA

We are often asked the difference between a Solo 401(k) and a SEP-IRA. Both retirement savings plans are designed for self-employed individuals or small business owners. They share some similarities, but also have some distinct differences.

Eligibility:
- Solo 401(k): Available to self-employed individuals with no employees, except for a spouse.
- SEP-IRA: Open to self-employed individuals, small business owners, and those with employees.

Contribution Limits:
- Solo 401(k): In 2023, the maximum contribution is $66,000 or 100% of compensation, whichever is less. If you are 50 years or older, you can make an additional catch-up contribution of $7,500.
- SEP-IRA: The contribution limit for 2023 is up to 25% of compensation or $66,000, whichever is less. SEP-IRAs do not have a catch-up contribution provision for older participants.

Employer Contributions:
- Solo 401(k): As both the employer and employee, you can make both salary deferral contributions and employer profit-sharing contributions.
- SEP-IRA: Only the employer can contribute to the SEP-IRA, and the contribution percentage must be the same for all eligible employees.

Employee Loans:
- Solo 401(k): Some Solo 401(k) plans allow participants to take loans against their vested balance.
- SEP-IRA: SEP-IRAs do not permit loans.

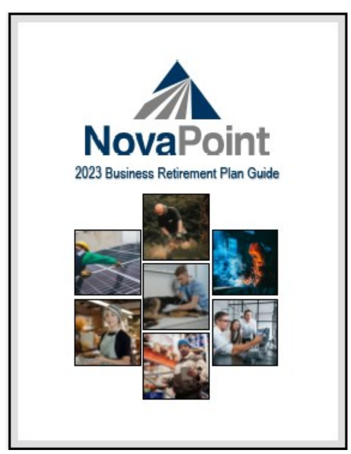
Administrative Complexity:
- Solo 401(k): Generally, Solo 401(k) plans involve more administrative responsibilities, such as annual Form 5500 filing once the account balance exceeds $250,000.
- SEP-IRA: SEP-IRAs have minimal administrative requirements, with no annual filings required.

Flexibility:
- Solo 401(k): Offers more flexibility in investment options, as it allows for a wider range of investment choices, including stocks, bonds, mutual funds, and alternative investments.
- SEP-IRA: Typically, SEP-IRAs have fewer investment options, limited to stocks, bonds, mutual funds, and other similar investments.

IRA Compatibility:
- Solo 401(k): Solo 401(k) funds can be rolled over into a traditional IRA upon termination of self-employment.
- SEP-IRA: SEP-IRA funds can be rolled over into a traditional IRA or another employer's qualified plan.

In summary, Solo 401(k) plans are suitable for self-employed individuals without employees, offering higher contribution limits and the ability to make both employer and employee contributions. SEP-IRAs are better suited for self-employed individuals with employees, featuring simpler administration and the ability to contribute for eligible employees. The choice between them depends on your specific circumstances, goals, and preferences. It is advisable to consult with an investment adviser or tax professional to determine the best option for your situation.

Please reach out if we can help: Contact Us



Link to the NovaPoint Retirement Plan Guide

Brussel Sprouts with Bacon and Pine Nuts

Ingredients

1/2 pound sliced bacon

1/4 cup butter

2/3 cup pine nuts

2 pound Brussel sprouts, sliced in half

3 green onions, minced

Salt and pepper

Instructions:

1. Cook bacon until crisp. Drain and save 2 tablespoons of bacon grease in the pan.

2. Melt butter with bacon grease. Add pine nuts and stir until browned. Add Brussel sprouts and green onion. Season with salt and pepper.

3. Cook until Brussel sprouts are tender. Stir in crumbled bacon.

This can also be made as a sheet pan dish. Substitute a light spray of olive oil for the butter if you use this method.

Courtesy: *allrecipes*

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

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