LINEWEAVER financial group

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LOOK BACK 2022 - LOOK AHEAD 2023

COMMENTARY BY JERRY HERMAN, CFA®

As we sit in the darkest days of the solar year, we are encouraged to know that the days ahead will have more light – the days will be brighter. And for the financial markets we are optimistic that this will be true in the figurative sense as well. 2022 was a year of recognition and reality - recognition that the stimulus endeavors of prior periods needed to be unwound and the reality that the process could be painful. 2023 offers opportunities and optimism - opportunities being presented in sectors and asset classes that we haven't seen for some time and the optimism that the Fed will get it right and avoid a deep recession, and global and domestic political and social tension will ease.

In 2022, the forces of pandemic-induced supply chain disruptions, exceptionally high consumer demand for goods such as housing, autos, and appliances, and services like travel and entertainment, combined with an energy shock brought on by the Russia-Ukraine conflict, drove inflation to its highest level in four decades! In June, the inflation rate hit 9.1% and averaged just over 7% for the year, more than double the historical average of about 3%. To combat inflation, the Fed increased interest rates seven times during the year to 4.25-4.5%, levels not seen since 2008.

The year was difficult for investors. Facing the headwinds of rising interest rates, a very tight labor market, and capacity and supply constraints in many areas, the S&P 500 declined 19% in 2022, and was down as much as 24% at one point, officially entering bear market territory (as defined by a market decline of 20% or more). The more industrial and value-oriented Dow Jones Industrial Average was down 9% for the year, while the tech-heavy NASDAQ was off 33%.

Fixed income, the traditional ballast to a portfolio, provided little shelter. The US Bond Index (AGG) was down about 13%. Bond returns have been negative for two years in a row, only the third occurrence of this since 1926. A hypothetical blended 60% equity/40% bond portfolio (comprised of SPY and AGG) experienced a loss of about 16% in 2022, one of the worst on record and only the third time in history when both stocks and bonds were down in the same year. Volatility picked up as well – there were 46 trading days the S&P 500 moved +/-2%; the most in more than a decade.

Entering 2023, the Fed remains front and center as it attempts to navigate the elusive "soft landing" – driving inflation down without throwing the economy into a deep recession. With this we cite several key issues entering 2023.

First, the markets must digest the damage that will be caused by significantly higher rates to ease inflation and how it will be reflected in financial market pricing. Many powerful voices suggest that a recession is foretold; but at the very least there is an increasing likelihood of recession. If the Fed tightens too much and recession emerges, its depth will be reflected in earnings and market valuations. In short, conditions for equities remain uncertain near-intermediate term, but we remind investors that historical average returns for equities are 10%, and they also tend to serve as a hedge against inflation. Patience is key.

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FINANCIAL RESOLUTIONS TO MAINTAIN THROUGHOUT THE NEW YEAR

by Jim Lineweaver, CFP®, AIF®
President and Founder

It might not be so shocking to learn that many of us don't stick to our New Year's resolutions. In fact, according to a study conducted by the University of Scranton in Pennsylvania, only 8% of people achieved their New Year's resolutions in 2021.

One problem that typically arises is that we set aspirational goals for ourselves instead of ones based on the reality of integrating them into our everyday activities. This can set us up for failure and create self-doubt in our abilities. Here's a list of attainable resolutions I've put together to give you the confidence needed to stay true to your financial goals throughout the new year.

The first resolution that will help set a solid foundation to your financial plan is to set aside time to look at your insurance plans. You'll want to make sure all your insurance is in proper order including life insurance, disability insurance and even property and casualty. Because we specialize in working with retirees, long-term care is of top priority to our clients. And if you have rental or vacation homes, you may want to consider an umbrella policy.

Another resolution is to establish your financial goals. Both long and short financial goals should be driven by your personal goals. That could look like sending your children or grandchildren to college, passing on the family business or having a retirement plan that allows you to travel. I like to sit down with my clients and help them create a list and help them get a plan in place to reach those goals.

A third resolution that we can easily help get started is creating an estate plan. You'll want to make sure your will, healthcare and financial powers of attorney are established and up to date. You should also meet with an estate planning attorney and talk about trusts. Establishing tools like a bloodline trust can help with family wealth planning and can save you a lot of time and money in the long-run.

The final resolution I want to leave you with is to make sure you have all the above coordinated and working together in a way that benefits you. In addition, you'll want to make sure all the advisors you have working for you to help meet these goals are coordinating with each other to create a plan that best benefits you. It's helpful to have someone working in your corner as a Financial Quarterback to make sure these pieces are moving together in the same direction.

When we meet with our clients, we consider these points and ensure a coordinated approach to their financial, tax, legal and insurance plan that's developed and maintained by a personal Financial Quarterback. We know the right plan properly executed can help save time, money and unneeded stress. We hope that these resolutions can help set you up for success in the new year!

Let Us Help With Your Taxes

Tax season is upon us. Our Lineweaver Tax Team is ready to help you with all your tax needs. Lead by Tax Planning and Preparation Specialist Mark Sipos, from left, with Tax Assistant and Administrative Support Loryn Zaffle and Tax Associate Josh Wenhold.

To learn more about our services or access helpful resources, visit lineweaver.net/tax-services today.

Is market volatility taking a bite from your savings?

Is your excess cash earning low interest rates?

12-MONTH CERTIFICATE OF DEPOSIT

4.55%[1]

Start saving for the future with a CD or Bond Ladder today

Lineweaver Wealth Advisors offers CDs or high-quality short-term bonds to meet your financial needs.

TERM	INTEREST RATES[2] CDS	BONDS
12 MONTHS	4.55%[1]	4.75%[1]
18 MONTHS	4.55%+[1]	~5.00%[1]
24 MONTHS	4.75%+[1]	~5.00%[1]

Benefits of a CD

FDIC Insurance[3]

Your savings are FDIC insured up to $250,000.

Maximize Your Savings $

Lock in a competitive rate and earn more.

% Competitive Rate

LWA offers some of the highest rates around.

Bonds are considered fixed income securities and if sold or redeemed prior to maturity may be subject to additional gain or loss. Bonds are subject to interest rate risk. As the prevailing level of bond interest rates rise, the value of bonds already held in a portfolio declines. Portfolios that hold bonds are subject to declines and increases in value due to general changes in interest rates.

1. Rates based on market pricing as of December 29, 2022. Subject to change. Subject to availability at time of purchase. CD rates based on FDIC brokered CDs. Bond rates based on investment-grade corporate bonds. Average minimum deposit of $5,000 per product. Fees will reduce account earnings. A penalty may be imposed for early withdrawal. Lineweaver Wealth Advisors may impose a minimum account balance for new and existing accounts.

2. Interest rate may include a component of interest paid and price appreciation from a discount to par at maturity.

3. FDIC-insured up to $250,000 per depositor for each ownership category.

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A second key thought is to revisit bonds. Higher yields on fixed income are a gift to investors who have long been starved for income. Today, yields are available on higher quality corporate debt that exceeds the historical inflation rate average of about 3%. There appears to be opportunities in bonds for income-oriented investors that have not been seen for quite some time.

And another key issue is the Inflation debate. For the decade ending 2020, the average rate of inflation was only 1.7%. Higher rates should help bring inflation down, but a simple reversion to the historical mean suggests higher inflation rates will persist above levels of the past decade. Moreover, worldwide capacity constraints caused by geopolitical conflict and fragmentation, Covid and other issues: on-shoring and self-sufficiency initiatives, combined with an aging US workforce, may keep employment conditions tight creating pressure on prices. With this, investors need to consider protection against inflation.

Bottom line: The backdrop entering 2023 is challenging and there may be the need to adjust as the year progresses. For now, we suggest that specific opportunities include short-term government bonds for income as U.S. two-year Treasury yields have soared. There are some attractive areas within investment grade credit – higher yields and strong balance sheets suggest that investment grade credit may be a good place to weather a recession. U.S. agency mortgage backed securities (MBS) can be attractive for their higher income and because they offer some credit protection. And if inflation persists it makes sense to consider inflation-linked bonds. In equities, recession is a concern. For now we prefer areas such as healthcare, and among cyclicals energy and financials offer opportunity. After years of underperforming, value stocks are preferred over growth.

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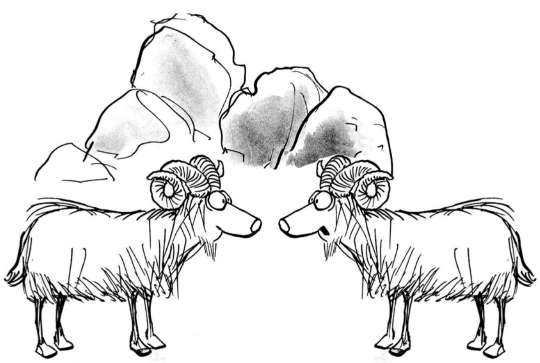

"The last thing I want to do is butt heads over this."

DID YOU KNOW:

The largest snowflake ever recorded was 15 inches wide. The giant snowflake was seen by Army personnel in 1887 who were posted toward the western side of the then-Territory of Montana. According to scientific theories, snowflakes can reach this size by many snowflakes sticking together due to water base stored in them and forming one giant flake.

Source: World Atlas

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