SALTMARSH FINANCIAL ADVISORS, LLC

4th Quarter 2022

INVESTMENT UPDATE

MARK HEMBY, CFA® PROMOTED TO SENIOR FINANCIAL ADVISOR

Join us in congratulating Mark Hemby, CFA®, on his recent promotion to senior financial advisor! Mark has been a key member of our investment advisory group since joining the firm in 2020. Mark has over 15 years of experience working with individuals and organizations to manage their portfolios and coordinate investment activities. Mark is dedicated to his clients and works with them to find the best path to financial success.

INSIDE THIS ISSUE

2022 YEAR-END TAX PLANNING HIGHLIGHTS

While we're all getting back in the groove after the holiday season, we encourage you not to overlook tax planning and to identify opportunities for reducing, deferring or accelerating tax obligations. To help you get started, download our 2022 Tax Planning Highlights for both individuals and businesses: saltmarshcpa.com/cpa-resources.

CLIENT SUCCESS & SATISFACTION

At Saltmarsh Financial Advisors, we consider our clients' satisfaction to be evidence of our success as a company. We value our clients and aim to provide consistent, personalized service. We are proud that our clients have used terms such as professional, knowledgeable, reliable, and of our industry leading Net Promoter Score – 89.1% on the customer loyalty metric.

ESTATE PLANNING UPDATE

Did you know that under current tax law that the estate tax exemption will be reduced by more than 50% beginning January 1, 2026? What this means is you have less than three years to utilize the current $12.06 million lifetime exemption (which will increase each year with inflation) to transfer assets out of your estate - tax free. For example, if you have assets totaling $20 million you can transfer $12.06 million out of your estate today, which would result in almost $5 million of tax savings. However, if you do not transfer assets prior to 2026, your estate of $20 million could pay taxes of almost $5.6 million.

Time is of the essence to start planning to pass your wealth down to future generations. Do not hesitate to reach out to our Trust and Estate Planning team to see how we can help you with your estate planning needs: saltmarshcpa.com/cpa-services/trust-estate-services.asp.

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THIS HAS BEEN A TEST: DEVELOPING A FINANCIAL PLAN YOU CAN STICK WITH

BY DAVID BOOTH, EXECUTIVE CHAIRMAN & FOUNDER, DIMENSIONAL FUND ADVISORS | DEC 20, 2022

Think back to December 2019. The economy was humming. Unemployment, interest rates, and inflation were at historically low levels. But then what happened?

- A global pandemic hit. By the end of March, the S&P 500 had dropped nearly 20% in value.[1]
- Later in the year, scientists announced that they'd developed a vaccine, and markets roared back.
- FAANG stocks soared … before giving up a lot of gains.[2]
- Meme stocks shot way up … and fell back down.
- Bitcoin and other cryptocurrencies reached record highs … and then crashed.
- Inflation spiked to the highest levels most of us have ever experienced.[3]
- And Russia invaded Ukraine, sparking a humanitarian crisis and geopolitical uncertainty.

I don't know anyone who predicted all of that back in December 2019. But what if someone had? What would you have done?

Next question: What if that person told you that, despite all that news, the Russell 3000 would average a return of 10% a year over the next three years?[4] Would you have believed them? Would you have stayed in the market?

Because that's what happened. A yearly return of 10%! That's pretty darn close to the stock market's historical average over the past century.[5]

The conclusion I hope you reach is that it's unrealistic to think you can outguess markets. You're probably better off expecting that markets do their job of capturing the human ingenuity taking place every day across thousands of publicly traded companies around the world.

What do I mean by markets doing their job? When news of the pandemic hit, markets adjusted and prices went down. In other words, when uncertainty peaked around March 2020, investors demanded a higher return to jump into the market. Then, when news of a vaccine spread, the market adjusted its expectations accordingly. In the short term, there are often wild swings up or down. Making a change during either can be dangerous.

The past three years were a good test of whether or not you had an investment plan that was sensible to stick with. So take a moment to think about why you did what you did, and prepare for next time. Because the next three years may be just as uncertain.

First, make sure your investment plan is sensible and based on financial science. Second, make sure it's realistic for you and your own unique situation. Even the greatest plan is no good if you can't stick with it during tough times. Invest in markets in whatever asset mix is right for you. If you're not sure, talk with a financial advisor who can help you.

WHAT HAS STAYED CONSTANT THROUGHOUT MY LIFE IS THE POWER OF PEOPLE TO MAKE PROGRESS IN THE FACE OF CHALLENGES.

I don't make predictions, but I do believe in the power of human ingenuity to fix problems big and small, innovating the whole way. What has stayed constant throughout my life is the power of people to make progress in the face of challenges.

We've seen it in the fight against COVID-19, where vaccines developed at lightning speed are now being administered around the world. We've seen it in the continued progress of gene therapy, which is revolutionizing the treatment of multiple diseases. So as we start 2023, let's remember the lessons of the past three years. Let's develop—and stick to—plans that take us through the short-term ups and downs of market fluctuations so we can capture the long-term benefits of human ingenuity.

1. *S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Decrease of 19.6% was from Jan. 1, 2020–March 31, 2020.*
2. *Facebook-parent Meta, Amazon, Apple, Netflix, and Google-parent Alphabet.*
3. *Gwynn Guilford, "U.S. Inflation Hit 7% in December, Fastest Pace Since 1982," Wall Street Journal, January 12, 2022.*
4. *In US dollars. Russell 3000 Index annual returns December 2019–November 2022. Copyright © FTSE Russell. All rights reserved.*
5. *In US dollars. S&P 500 Index annual returns 1926–2021. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.*

2022: A YEAR TO FORGET?

BY CHRIS STENNETT CFP®, SENIOR FINANCIAL ADVISOR, SALTMARSH FINANCIAL ADVISORS | JAN 9, 2023

At the end of each year, we like to reflect on what transpired the previous 12 months. The general tenet of last year's article[1] was that it was a year to remember for investors as stocks soared again. In contrast, this year was one many investors would like to forget. While we recognize the challenges this year brought, we feel it's important to look back at what made this year so historic.

LOSSES IN STOCK AND BOND MARKETS

US Stocks (S&P 500) finished the year down -18.1% while Bonds (Bloomberg Aggregate Bond Market) finished down -13%. When you factor in the returns for 10-year U.S. Treasuries, down more than 15%, you have the worst year for bond investors ever. Investors with a 60% stock/40% Bond portfolio experienced the 3rd worst year on record, down -16.9%. 2022 was an exceptionally painful year for all investors. While there were many contributing factors, two of the key reasons were persistent inflation and rising interest rates.

40-YEAR HIGH INFLATION LEVELS

In late 2021 the US Consumer Price Index, used to quantify inflation, rose dramatically. That trend continued into 2022 with CPI reaching 9.1% in June. The last time investors experienced inflation at these levels was when Ronald Regan took office in 1981. A host of factors contributed to inflation, as the US money supply increased, as did the demand to spend by consumers. Coupled with persisting supply challenges related to the pandemic shut-down and higher labor costs, it's easy to see why prices on most goods surged. To combat high inflation, the Federal Reserve[2] began to aggressively raise interest rates.

HISTORIC INTEREST RATE RISES

Interest rates represent the cost of borrowing. In an effort reduce inflation and tighten the money supply, the Fed began raising the Federal Funds rate in early 2022. This overnight lending rate ballooned from .08% to 4.33% at year-end. For context, a 4.3% rate is a historically normal rate and is nowhere near the 20% rate of 1980. However, the speed of the increase, from essentially 0% to 4.3% in a year, created a great deal of pressure on existing bond prices and significantly contributed to the year's losses. Fortunately, higher interest rates translate into more yield opportunity for bond investors[3]. Additionally, during the last four months of 2022, CPI dropped, showing signs that inflation may be slowing. Unfortunately, the rapid change in interest rates created a challenge in the US real estate market.

STALLING REAL ESTATE MARKET

Prior to this year, the housing market had been red hot as the pandemic helped to accelerate 10 years' worth of housing market gains into an 18-month period. This all changed when the Fed began raising interest rates, as mortgage rates for new loans climbed from 3% to just under 7% in one year. That meant that at the beginning of this year, a homebuyer who could have previously afforded the monthly payment on a $350,000 home, can now only afford a $200,000 home. Unfortunately, the previously mentioned home price acceleration meant that first time homebuyers were either priced out of the market or unable to find inventory they could afford. To make issues worse, home sellers were faced with a precarious choice: they could sell their home at a lower cost relative to the past two years to match demand or stay in a place they expected to leave. Additionally, once they sold their home, they likely would need to find a new home (at higher mortgage rates) creating a stalemate. Unless sellers were forced to sell due to job relocation or other unavoidable circumstances, they had no incentive to list their property.

STRONG LABOR MARKET

Fortunately, there are some things that did go well in 2022 – the labor market being chief among them. At the end of 2022, there were approximately 1.7 jobs available per unemployed person. Even if we assume that half of these postings are duplicates related to remote work, there are jobs available. Employees have been advantaged for the first time in decades as job switches saw a 20% increase in nominal wages (or a 10% increase in their real wages, net of inflation).

VALUE SHINES

Another bright spot on the year comes from the performance of value stocks, relative to growth. US Growth Stocks finished the year down -25.4% (S&P 500 Growth) while US Value Stocks finished the year down -4.8% (S&P 500 Value). A key principle of our investment philosophy emphasizes value investing to achieve higher expected returns over time. While 2022 returns were negative across the board, value tilts in portfolios helped dampen the pain.

SECURE ACT 2.0

In the final days of 2022, Congress approved an omnibus spending bill that includes retirement related provisions known collectively as the Secure Act 2.0. The original SECURE Act[4] was written into law almost exactly three years prior and was meant to increase access to retirement savings for Americans. The SECURE Act 2.0 aims to build off the previous bill's success and introduces some important improvements to how Americans save for retirement. You can read more about the new law here[5].

While 2022 is a year that many investors would like to forget, we look at it a little differently. From a historical standpoint, this year will stand out among some of the major market years like 2008, 2002, 1974, 1937 and 1931. While these were all very traumatic moments for investors, they also brought valuable lessons about the importance of risk management and the principles of growing wealth over time. 2022 put an end to wild speculation that arose during the pandemic and manifested into cryptocurrencies, NFTs, Meme stocks, YOLO trading and SPACs. Call it what you will, Normalization, the Great Reset or the Great Inflate – 2022 will be a year investors will never forget.

1. *www.saltmarshcpa.com/cpa-news/blog/2021__a_year_to_remember_.asp*
2. *www.saltmarshcpa.com/cpa-news/blog/inflation_and_the_fed.asp*
3. *www.saltmarshcpa.com/cpa-news/blog/_bonds_101.asp*
4. *www.saltmarshcpa.com/cpa-news/blog/secure_act_passes.asp*
5. *www.schwab.com/learn/story/congress-passes-major-boost-to-retirement-savings*

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- UPCOMING EVENTS -

QUARTERLY MARKET REVIEW: 4TH QUARTER 2022

Thursday, Feb. 2nd @ 11:30-12:30 PM CST/12:30-1:30 PM EST

Join us and guest **Chad Burns, CIMA®**, from Dimensional Fund Advisors for a Quarterly Market Review webinar to discuss recent market events and implications to investors and address top-of-mind client questions from the 4th quarter of 2022. Learn more and register: saltmarshcpa.com/seminars/#itm_246

Building Confidence: A Woman-Focused Series

PART 1: NAVIGATING LOSS

Tuesday, March 7th @ 9:00-10:30 AM CST

Saltmarsh's Pensacola Office

Legal, financial and logistical challenges can add to the heavy emotional burden left after the loss of a loved one. While loss can be a difficult topic to discuss, one of the best ways to demonstrate care for your loved ones is to create a plan to assist in navigating the passing of a family member. Whether you have recently lost a loved one or hope to ease the burden for the future, this panel of experts will address your questions on estate planning, financial planning, emotional wellness and end-of-life medical care.

Learn more about the series and register: saltmarshcpa.com/cpa-news/blog/buildingconfidence2023