Sowa Financial Group, Inc.

Your Money Matters

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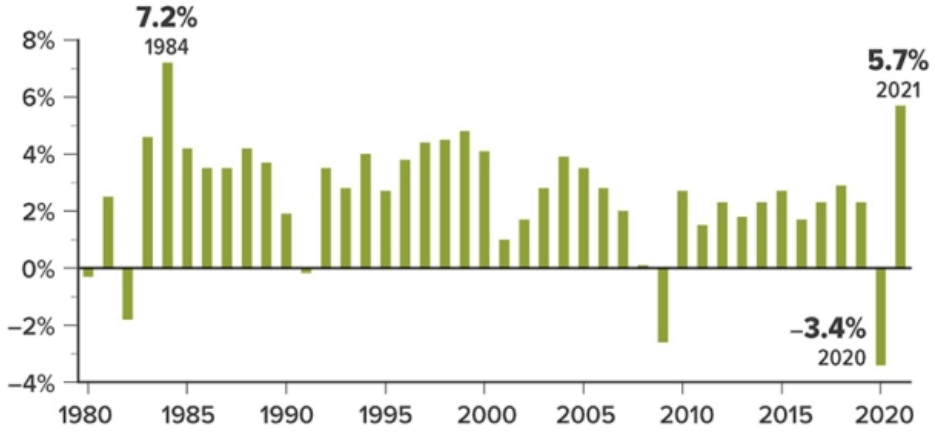
We would like to take a moment to congratulate Kim Thompson on her well earned retirement! Kim has been a beloved member of the Sowa Financial Group family for over 24 years, supporting our advisors and serving our clients with unmatched care and professionalism throughout her tenure. Kim passes the torch to the capable hands of our newest member, Cassie Sheridan, who we are delighted to welcome to the team. We wish Kim the absolute best as she transitions from the office to traveling and spending quality time with her grandchildren, she will be missed!

GDP Growth Highest in 37 Years

In 2021, U.S. real gross domestic product (GDP) — the value of goods and services produced in the United States — grew by 5.7%, the highest annual rate since 1984. This marked a strong recovery from 2020, when GDP dropped by 3.4%. Real GDP is adjusted for inflation to more accurately compare economic output at different periods. Current-dollar GDP, typically used to measure the overall size of the economy, increased by an even more impressive 10.1%.



Source: U.S. Bureau of Economic Analysis, 2022

SFG Q3 Market Update

by Nathan Beauvais, EA, CFP®

We currently find ourselves in an economic environment not seen in nearly 40 years. Not since the late 1970s and early 1980s have we seen inflation this high and interest rates increasing at this rate. At the start of 2022, the S&P 500 was up over 100% since the pandemic low, the fastest doubling ever. The movement in some technology stocks was especially insane: many fell 50-60% during the Corona Crash, went up 4-5x, only to drop 70-90% from those highs all in a matter of 18 months in some cases.

As unprecedented as all that was, it has been the bond market this year that has really posted some of its largest losses ever. So far, the Bloomberg Aggregate Bond Index is down just over 10% this year. That would be by far the worst year since interest rates started their decline in the early 1980s. Interest rates and bond prices have an inverse relationship. Because interest rates are increasing at such a brisk pace, bonds are getting clobbered. This has presented major problems for the classic 60/40 portfolio, with bonds unable to provide any cushion to declining stock prices this time around.

For almost a decade or more, investors have been predicting this bond/stock dilemma. That's because of just how low-interest rates had gotten. They knew that if inflation were to rear its ugly head, our current circumstance could easily materialize. So then why is inflation here anyway? I think you can blame inflation on three things. First, is the fact that the monetary and fiscal stimulus provided during the pandemic was, in hindsight, overkill. The American Rescue Plan Act of 2021 was signed into law on March 11 that year and provided $1.9 trillion in government spending. The unemployment rate sat at 6% that month and would fall to 4.5% by the end of the summer. The economy was already in full recovery mode, but it was hard to know what the future held at that time.

Second, although the supply chains destabilized by Covid-19 have been improving, if we are entering into a world of "deglobalization," this trend may never fully return to what it once was. Thirdly, the war in Ukraine was the proverbial gasoline (no pun intended) on the fire. Russia accounts for 10% of oil and gas exports globally, and a far greater percentage to Europe. Together the two countries also account for 25% of global wheat exports, and Russia is also a major supplier of fertilizer and aluminum.

For the remainder of the year nothing matters to markets more than the monthly Consumer Price Index report, also referred to as "headline inflation." If that increase persists, you can expect the Federal Reserve to keep increasing interest rates, which in turn will continue to put pressure on the prices of assets from stocks to bonds to real estate.

As bad as things seem right now, it is important to remember just how good they have been for the last 10 years. The US stock market is up 280% over the last 10 years, 13% on an annualized basis. And, as always, everything in finance and economics is relative. When you compare the situation in the US with that of Europe things look quite different. For example, at the end of June this year gasoline prices in Europe were as high as $8.66 per gallon. From an energy standpoint, the US is in far better shape than Europe. This is helped by the fact the US is one of the largest oil & gas producers in the world.

Despite its volatile financial markets and political discourse, the US is still the best game in town when it comes to equity markets and capital must flow somewhere. Inflation too will subside, eventually. We have seen some positive signs of that recently: commodity prices have started to come down and big retailers are reporting massive amounts of inventory. While a recession in the near future is a very real possibility, it's far better than a wage/price spiral where inflation gets out of control.

What's Your Retirement Dream Elevator Pitch?

Imagine stepping into an elevator and realizing that you're about to spend the 30-second ride with someone who could make your retirement dreams come true — if only you could explain them before the doors open again. How would you summarize your financial situation, outlook, aspirations, and plans if you had 30 seconds to make an "elevator pitch" about achieving one of your most important goals?

Answering that question — and formulating your own unique retirement dream elevator pitch — could help bring your vision of the future into sharper focus.

What Are Your Goals?

Start with an overview of what you hope to accomplish. That typically includes describing what you want, when you want it, and why. For example, you might say, "My goal involves retiring in 10 years and moving to a different state so I can be closer to family." Or, "In the next 15 years, I need to accumulate enough money to retire from my regular job and open a part-time business that will help sustain my current lifestyle."

If your plans include sharing life with a loved one, make sure you're both on the same page. Rather than assume you have similar ideas about retirement, discuss what you want a future together to look like.

How Much Will It Cost?

To put a price tag on your retirement dream, consider working with a financial professional to calculate how much money you'll need. Making multiple calculations using different variables — such as changing your anticipated retirement date and potential investment growth rate — will help you develop a better understanding of the challenges and opportunities you may encounter.

It's important to remember that plans don't always work out the way we intend. For example, 72% of workers surveyed in 2021 said they expect to continue working for pay during retirement, but only 30% of retirees said they actually did so. And nearly half (46%) of current retirees left the workforce earlier than expected.[1] Understanding the financial implications of an unanticipated change in plans *before it happens* could make it easier to adjust accordingly.

How Will You Do It?

If your calculations indicate you may be facing a retirement savings shortfall, take a fresh look at your spending habits to help find ways to save more money. Make a list of your fixed expenses and then keep track of your discretionary purchases every day for a month. It might be startling to realize how much you routinely spend on non-essential items, but you'll quickly discover exactly where to start applying more financial discipline.

Source: Employee Benefit Research Institute, 2021

Finally, you'll need to manage the funds you earmark for retirement by choosing the types of accounts to use and allocating your money within each account. If you have access to an employer-sponsored retirement account with matching contributions from your employer, you might want to start there and then invest in additional tax-deferred and taxable investments.

Regardless of the types of accounts you choose, your specific investment decisions should reflect your personal tolerance for risk and time frame, while addressing the priorities outlined in your retirement dream elevator pitch. If your retirement outlook changes at any point, take a fresh look at your investment strategy to make sure you're still potentially on course.

All investing involves risk, including the possible loss of principal. There is no guarantee that any investment strategy will be successful. Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. There is no assurance that working with a financial professional will improve investment results.

1) Employee Benefit Research Institute, 2021

The Potential Benefits of Roth IRAs for Children

Most teenagers probably aren't thinking about saving for retirement, buying a home, or even paying for college when they start their first jobs. Yet a first job can present an ideal opportunity to explain how a Roth IRA can become a valuable savings tool in the pursuit of future goals.

Rules of the Roth

Minors can contribute to a Roth IRA as long as they have earned income and a parent (or other adult) opens a custodial account in the child's name. Contributions to a Roth IRA are made on an after-tax basis, which means they can be withdrawn at any time, for any reason, free of taxes and penalties. Earnings grow tax-free, although nonqualified withdrawals of earnings are generally taxed as ordinary income and may incur a 10% early-withdrawal penalty.

A withdrawal is considered qualified if the account is held for at least five years and the distribution is made after age 59½, as a result of the account owner's disability or death, or to purchase a first home (up to a $10,000 lifetime limit). Penalty-free early withdrawals can also be used to pay for qualified higher-education expenses; however, regular income taxes will apply.

In 2022, the Roth IRA contribution limit for those under age 50 is the lesser of $6,000 or 100% of earned income. In other words, if a teenager earns $1,500 this year, his or her annual contribution limit would be $1,500. Other individuals may also contribute directly to a teen's Roth IRA, but the total value of all contributions may not exceed the child's annual earnings or $6,000 (in 2022), whichever is lower. (Note that contributions from others will count against the annual gift tax exclusion amount.)

Roth IRAs offer an opportunity to learn about important concepts that could provide a lifetime of financial benefits.

Lessons for Life

When you open a Roth IRA for a minor, you're giving more than just an investment account; you're offering an opportunity to learn about important concepts that could provide a lifetime of financial benefits. For example, you can help explain the different types of investments, the power of compounding, and the benefits of tax-deferred investing. If you don't feel comfortable explaining such topics, ask your financial professional for suggestions.

The young people in your life will thank you — sooner or later.

For questions about laws governing custodial Roth IRAs, consult your tax or legal professional. There is no assurance that working with a financial professional will improve investment results.