Sowa Financial Group, Inc.

Your Money Matters

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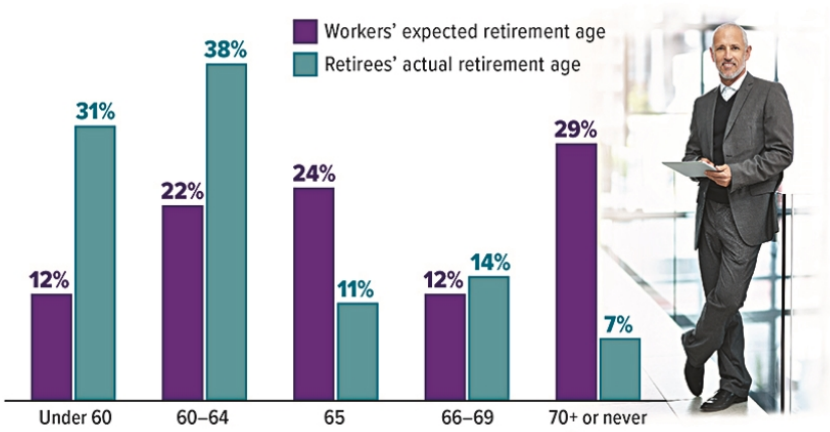
Happy New Year! After a year rife with market volatility, rising prices, and new health risks, I think we can all agree that a hopeful look into the future is what we need right now.

As a firm we have had a year filled with change. We said goodbye to one of our beloved staff members, Kim Thompson, as she set off for retirement, welcomed Cassie Sheridan to the SFG family, as well as Wendy Fiola's beautiful granddaughter, Lacey, and cut the ribbon on our new office on Albion Road in Lincoln. We also congratulated Nathan Beauvais for passing the CIMA® certification, officially earning him the longest nameplate in the office!

Beyond embracing change, we remain grateful for those constants in our lives that give us purpose, the faith and resiliency of our clients. We are honored to be a part of your journey through retirement, and are committed to making 2023 a year of growth and progress for us all.

Retirement Age Expectations vs. Reality

Workers typically plan to retire much later than the actual age reported by retirees. In the 2022 Retirement Confidence Survey, 65% of workers said they expect to retire at age 65 or older (or never retire), whereas 69% of retirees left the workforce before reaching age 65. When choosing a retirement age, it might be wise to consider a contingency plan.



Source: Employee Benefit Research Institute, 2022

Sectors: Overweight, Underweight, or Just Right?

The U.S. stock market had a banner year in 2021, with the S&P 500 index up almost 27%. Unfortunately, stocks turned downward on the second trading day of 2022 and kept sliding into a bear market.[1]

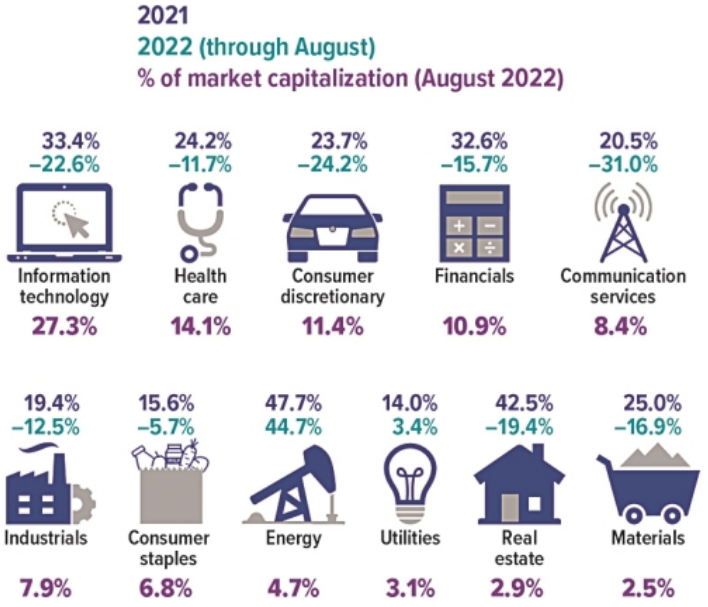
Stocks in the S&P 500 are classified by 11 different business sectors, each of which responds differently to economic conditions. For example, the information technology sector was very strong in 2021, rising by 33.4%. But it turned south in 2022 and dropped by 22.6% through August. On the other hand, the energy sector, driven by high oil prices, was up during both periods (see chart).

Index Weighting

Many broad-based indexes, including the S&P 500, are weighted based on market capitalization — the total value of a company's outstanding stocks. Sectors have different sizes and weighting to begin with, but the weight can change significantly due to performance. The information technology sector, which includes some of America's largest companies, rose from about 20% of S&P 500 capitalization at the end of 2018 to 29% at the end of 2021, increasing its impact on the index when the sector turned downward. The financials sector dropped from 13.3% to 10.7% over the same period, decreasing its impact on the index.[2]

Varied Weight and Performance

Sector gain or loss, with percentage of S&P 500 market capitalization



Source: S&P Dow Jones Indices, 2022 (data as of August 31). The S&P 500 is an unmanaged group of securities considered representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

This means that even if you invest primarily in broad-based funds, you may be more heavily invested (overweight) or less invested (underweight) in a given sector than you realize. If you own more specific funds or individual stocks, your portfolio could be even more overweighted or underweighted.

Some market sectors — such as health care, consumer staples, and utilities — are considered "defensive" and may be good to hold through a bear market or economic recession because businesses in these sectors tend to remain strong regardless of economic conditions. Others — such as information technology and consumer discretionary — may have more growth potential but are more sensitive to economic conditions. Whether it's appropriate to shift sector allocations in the middle of an economic cycle depends on your individual circumstances and long-term goals.

Sector Funds

One way to shift sector weight in your portfolio is by adding one or more sector funds — mutual funds or exchange-traded funds (ETFs) that focus on stocks of companies in a particular industry or sector of the economy. Because these funds are less diversified, they typically carry a higher level of volatility and risk than broad-based funds and should be considered as a complement to a core portfolio of diversified funds rather than a replacement.

Although sector funds offer flexibility in fine-tuning your portfolio, it's important to resist the temptation to chase performance and move assets into "hot" sectors without a more comprehensive strategy. Sector performance is cyclical, and last year's hot sector can easily turn cold, as can be seen in the ups and downs of technology stocks. Also keep in mind that every business cycle is different, and unexpected events can disrupt regular trends.

The return and principal value of all investments, including sector funds, fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) S&P Dow Jones Indices, 2022

2) Siblis Research, 2022

Year-End 2022 Tax Tips

Here are some things to consider as you weigh potential tax moves before the end of the year.

Set Aside Time to Plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

Defer Income to Next Year

Consider opportunities to defer income to 2023, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services in order to postpone payment of tax on the income until next year.

Accelerate Deductions

Look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year (instead of paying them in early 2023) could make a difference on your 2022 return.

Make Deductible Charitable Contributions

If you itemize deductions on your federal income tax return, you can generally deduct charitable contributions, but the deduction is limited to 50% (currently increased to 60% for cash contributions to public charities), 30%, or 20% of your adjusted gross income (AGI), depending on the type of property you give and the type of organization to which you contribute. (Excess amounts can be carried over for up to five years.)

Increase Withholding

If it looks as though you're going to owe federal income tax for the year, consider increasing your withholding on Form W-4 for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is considered as having been paid evenly throughout the year instead of when the dollars are actually taken from your paycheck.

Save More for Retirement

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can help reduce your 2022 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so. For 2022, you can contribute up to $20,500 to a 401(k) plan ($27,000 if you're age 50 or older) and up to $6,000 to traditional and Roth IRAs combined ($7,000 if you're age 50 or older). The window to make 2022 contributions to an employer plan generally closes at the end of the year, while you have until April 18, 2023, to make 2022 IRA contributions. (Roth contributions are not deductible, but qualified Roth distributions are not taxable.)

Take Any Required Distributions

If you are age 72 or older, you generally must take required minimum distributions (RMDs) from your traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required. Annual distributions from inherited retirement accounts are generally required by beneficiaries (as well as under the 10-year rule); there are special rules for spouses.

Weigh Year-End Investment Moves

Though you shouldn't let tax considerations drive your investment decisions, it's worth considering the tax implications of any year-end investment moves. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses above the amount of your gains can be used to offset up to $3,000 of ordinary income ($1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

More to Consider

Here are some other things to consider as part of your year-end tax review.

Consider postponing income and/or accelerating deductions if

- You expect to be in a lower tax bracket next year (perhaps you'll retire next year)
- Your itemized deductions are greater than the standard deduction this year
- You want to delay payment of tax

Consider accelerating income and/or postponing deductions if

- You expect to be in a higher tax bracket next year (perhaps you have a lower income this year)
- The standard deduction is greater than your itemized deductions this year
- You're subject to alternative minimum tax this year and certain deductions are disallowed

The Inflation Experience Is Painful and Personal

Inflation is a sustained increase in prices that reduces the purchasing power of your money over time. According to the Consumer Price Index (CPI), inflation peaked at an annual rate of 9.1% in June 2022, the fastest pace since 1981, before ticking down to 7.7% in October.[1]

The CPI tracks changes in the cost of a market basket of goods and services purchased by consumers. Items are sorted into more than 200 categories and weighted according to their "relative importance," a ratio that represents how consumers divide up their spending, on average. Basic needs such as shelter (33%), food (14%), energy (8%), transportation (8%), and medical care (7%) account for about two-thirds of consumer expenditures. Because the CPI is a comprehensive measure of prices across the U.S. economy, the index also contains many items that an individual consumer may purchase infrequently, or not at all.

Wide variations in spending patterns help explain why some consumers feel the sting of inflation more than others. This means that the extent to which you experience inflation depends a lot on where you live, as well as your age, health, income, family size, and lifestyle. In effect, your personal inflation rate could be significantly higher or lower than the average headline inflation rate captured in the CPI. Consider the following examples.

- In October 2022, the 12-month increase in the cost of shelter was 6.9%.[2] Shelter carries the most weight of any category in the CPI, which made fast-rising home prices and rents a top driver of inflation over the previous year. A first-time homebuyer, or a renter who signs a new lease, is likely to feel the full impact of these hefty price increases. However, a homeowner with a fixed-rate mortgage is generally insulated from these rising costs and might even benefit financially from home-equity gains.
- Gasoline surged 17.5% during the 12 months ended in October 2022.[3] Individuals who rarely drive, possibly because they are retired or work remotely, might have been able to shrug off the price spike. But for drivers with long commutes, filling up the gas tank regularly might have put a sizable dent in their households' finances, in some cases forcing them to cut back on other purchases.
- Food and beverage prices rose 10.9% over the same 12-month period, a trend that clearly affects everyone.[4] But rising food costs tend to put more pressure on the budgets of lower-income households because they spend a greater share of their income on necessities and typically have smaller financial cushions. Plus, shoppers can't easily switch to lower-cost options if they are already relying on them.[5]

1-4) U.S. Bureau of Labor Statistics, 2022

5) Federal Reserve, 2022