JEMMA | FINANCIAL WISDOM

SPRING 2022

Spring is the season of new beginnings. As the weather warms and the days get longer, we have more daylight hours to tackle household and yard projects. Take this time to also conduct a financial "spring cleaning" to get financially organized, to help get on the right track for financial success and improve your well-being.

In this edition of our Newsletter, we discuss the stock market and economy over the first quarter, saving for a child's college education, staying the course in volatile markets, and the importance of a Health Savings Account (HSA).

At Jemma Financial, we remain committed to helping you develop a financial plan customized for your unique situation and making necessary adjustments along the way as life changes.

MARKET UPDATE

(Performance as of March 31, 2022)

	1 Year	3 Year*	5 Year*
Dow Jones	7.11%	12.57%	13.40%
S&P 500	15.65	18.92	15.99
Nasdaq	8.06	23.57	20.31

**Average annual return. Past performance is no guarantee of future results. Source: Morningstar.*

INVESTMENT CORNER

VOLATILE START TO THE YEAR

The market, as measured by the S&P 500 Index, had a volatile start to 2022 with macro factors primarily driving returns. Investors were impacted by the Omicron variant of COVID-19, the Russian invasion of Ukraine, rising inflation, supply chain issues and the Federal Reserve's interest rate stance. These factors led stocks to slide into correction territory in February where the S&P 500 fell more than 10% from its January 3rd record close.[1] However, after two consecutive months of negative performance, the Index rebounded in March, rising 3.7%.

The long-awaited increase in interest rates has materialized to counter surging inflation. In February, U.S. inflation rose at an annual rate of 7.9%, the highest level in nearly 40 years. In response, the Federal Reserve increased the fed funds rate by 0.25%, the first hike since 2018, and signaled six more rate increases in 2022.

As a result of these factors, the stock market suffered its worst quarterly performance since March 2020 when the pandemic first began. The S&P 500 declined 4.9%, the Dow Jones Industrial Average fell 4.6% and the Nasdaq lost 9.1% for the quarter. During the three-month period, the S&P 500 outperformed the tech-heavy Nasdaq by over 4 percentage points, the greatest margin since 2006.[2]

In the first quarter, value stocks generally outperformed growth stocks. With a quarterly decline of approximately 0.1%, the large cap Russell 1000 Value Index outperformed the Russell 1000 Growth Index by more than 8 percentage points, which is the value index's strongest outperformance over the growth index since the early 2000s. Likewise, the small cap Russell 2000 Value Index declined 2.4% over the quarter, outperforming the Russell 2000 Growth Index by more than 10 percentage points.[3]

International stocks also stumbled. The MSCI World Equity Index, a broad global equity index that represents non-U.S. based large and mid-cap companies, declined nearly 6%.

The bond market experienced its worst quarter in 40 years due to fears of continued elevated inflation and expected higher interest rates. The Bloomberg U.S. Aggregate Bond Index, a broad-based fixed-income index, declined approximately 6% for the quarter. Yields on both short- and long-term bonds rose to their highest level in years. Over the quarter, the U.S. Treasury two-year note rose to 2.28% from 0.73% at the close of 2021 and the yield on the 10-year Treasury rose to 2.32% from 1.5%.[4]

Rising interest rates are also making a house purchase more expensive as mortgage rates rise. The average rate on a 30-year fixed-rate mortgage with conforming loan balances ($647,200 or less) increased to 4.90% for loans with a 20% down payment.[5] One year ago, the rate was 3.36%. Higher rates could slow demand and temper home prices, which have been climbing over the past few years. However, relative to history, mortgage rates are still low. For example, in the early 1980s, the 30-year mortgage rate hit nearly 19%.

Pullbacks are Surprisingly Common—and Short Term

While volatile markets can cause apprehension, markets often experience a pullback during the year while still posting positive returns over the full year. From 2002 to 2021, an intra-year decline of at least 10% occurred in 10 out of 20 years. Yet stocks were higher in most years, with positive returns in all but three years, and the average annual gain was about 7%[6] — even though the time frame included the Tech bubble, the Iraqi War, the Financial Crisis, and the COVID pandemic.

Solid U.S. Job Growth

Despite a bumpy start to the markets, U.S. job growth remained solid with the unemployment rate falling more than expected to 3.6% in March.[7] The labor force participation rate increased for the third straight month to 62.4%, which is still slightly lower than the long-term average of 62.9%.[8] As the pandemic restrictions ease, rebounds in leisure and hospitality and business sectors continued to deliver a strong March 2022 jobs report.[9] Also, new applications for U.S. unemployment benefits fell to 166,000 in April 2022, which is the lowest level since November 1968.[10]

In 2021, American companies had their most profitable year since 1950 as profits relative to 2020 climbed 35% driven by strong consumer demand.[11]

Investing in Volatile Markets

The first quarter of 2022 was an unusual market period where macro and geopolitical events dominated investor sentiment. Markets will change based on economic conditions but maintaining a diversified portfolio that includes domestic and international equities of various sizes as well as broad-based fixed income can help weather negative periods and build wealth over time.

When investing, it is important to focus on your long-term goals, especially in more volatile market periods. Even though stocks may fall during any short time frame, they historically tend to reward patient, long-term investors.

HEALTH SAVINGS ACCOUNT

A TAX-ADVANTAGED TOOL FOR YOUR MEDICAL EXPENSES

Looking for a powerful financial tool when paying for current or future healthcare expenses? Consider a Health Savings Account (HSA), which is available to those in a high-deductible health plan (HDHP).

Three benefits of an HSA account:

1 **Tax Advantages:** Contributions may reduce gross income and have current tax advantages; investment growth is tax free and withdrawals for qualified medical expenses are tax free as well.*

2 **Unused funds roll over to the next year:** Unlike employer-sponsored Flexible Savings Accounts, funds contributed to an HSA account are always yours. Any unspent money each year is available for future qualified medical expenses and allows the value of the portfolio to grow over time.

3 **Portability:** Funds remain available for future qualified medical expenses regardless of whether you change healthcare plans.

Looking to open or add to your HSA account? Call your Jemma Financial Advisor for more information.

2022 HSA CONTRIBUTION LIMITS

For 2022, an individual can contribute up to $3,650, families can contribute up to $7,300 and an additional $1,000 catch-up contribution can be made for those 55 years old or older.

At age 65 withdrawals for non-qualified expenses can be taken at any time without a penalty. However, withdrawals for non-qualified expenses are subject to ordinary income tax.

STAY THE COURSE
IN VOLATILE TIMES

With the market's volatile start to the year, it's understandable why investors may be concerned. This continued volatility is primarily due to persistent inflationary pressures, higher commodity prices and the recent geopolitical crisis. When it comes to long-term investing, it's often the fear of the unknown that causes individuals to make emotionally based decisions that may have detrimental effects on their portfolio.

Below are **three strategies** that may help when markets get volatile:

The Importance of a Diversified Portfolio

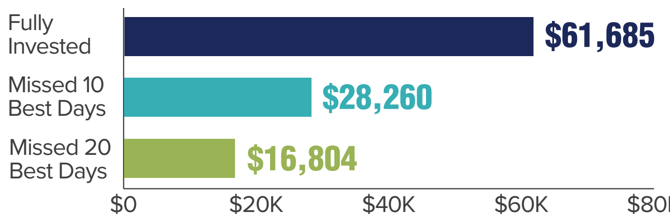
Times of increased market volatility come as an important reminder to maintain a diversified portfolio. This may decrease risk while simultaneously increasing the potential for investment returns. Diversification may reduce the severity of market fluctuations since different asset classes have varying degrees of correlation with each other and, therefore, experience different returns. Holding a variety of asset classes may reduce the likelihood that any one asset class may have a disproportionate adverse effect on an investor's portfolio.

Staying in the Market is More Important Than Timing the Market

Often the key to investment success is to stay invested as the market inevitably rebounds. For example, over the past 20 years, $10,000 invested in the S&P 500 Index has grown to over $60,000. However, if you missed the 10 best days of market performance over that time, your investment would be less than half that amount. And if you missed the 20 best days, your investment return would have been 72% lower.

$10,000 INVESTMENT IN THE S&P 500 INDEX OVER 20 YEARS

1/1/2002 - 12/31/2021



Source: Morningstar. Past performance is not a guarantee of future results.

The Power of Portfolio Rebalancing

Portfolio rebalancing can be a powerful tool for investors. It is a great way for investors to stay true to a particular risk profile and with regular frequency alter their asset allocation, as appropriate, to enable them to stay on track to meet their long-term goals. It is important to review your financial plan and risk tolerance with your Jemma Financial Advisor who will help you determine your target asset allocation, especially if you recently experienced a significant life event such as marriage, a divorce or birth of a child.

KEY TAKEAWAY

Market volatility is a normal occurrence when investing in the stock market. Importantly, having a disciplined approach and staying the course are often the best tactics for long-term success.

If you have questions regarding the recent market volatility, contact your Jemma Financial Advisor.

DID YOU KNOW?

1 out of 5 Americans who left their jobs opted to cash out of their 401(k), a decision which could have negative consequences on their retirement savings.[12]

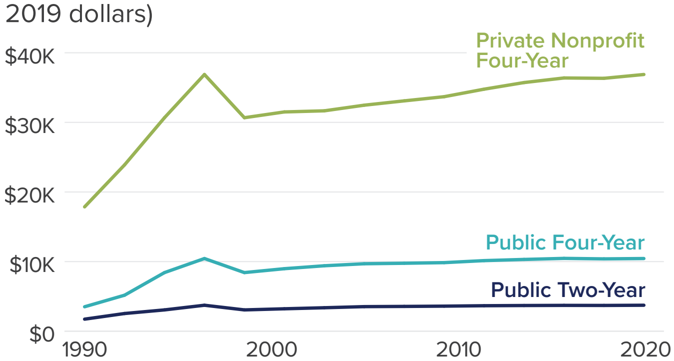
Source: Fidelity

STARTING A YOUNG CHILD'S
COLLEGE FUND

It is never too early to start saving for college. Everyone wants their child to succeed and have the best education possible. However, college is expensive and the costs continue to rise. In fact, college costs have exceeded the inflation rate for the past decade. Assuming an annual increase in tuition and fees of 6%, it could cost over $260,000 to send a child who is now a toddler in 2021 to an in-state, public college for four years. Private college is even more expensive, costing nearly $600,000.[13]

RISING COLLEGE COSTS

Average tuition and fees, adjusted for inflation (data in 2019 dollars)



Source: Trends in College Pricing 2019, CollegeBoard

To help pay for a college education for your child or grandchild, it is important to have a long-term plan and get started as soon as possible. Much like saving early for retirement, setting aside money early in a child's life will enable the compounding of money to take effect. For example, an initial investment of $5,000 compounded annually at 10% will yield $500 after one year. In year two, the growth will equal $550 as the gain in year one is compounded by 10% as well.

How do you get started? Setting up automatic monthly or quarterly deductions into a tax-advantaged investment account is one easy and effective strategy. A few of these options include:

529 Savings Plan

529 accounts encourage saving for future higher education costs while providing tax advantages. Typically, these accounts are sponsored by state governments and many states will allow you to deduct your contributions on your state income tax return. The money can be withdrawn for qualified educational expenses without paying tax on any investment gains.

Coverdell Education Savings Account

Similar to a 529 plan, Coverdell ESAs allow money to grow tax-deferred and withdrawals are tax-free at the federal level (and in many cases the state level) when used for qualified educational expenses and the account holder is less than 30 years old. However, to be able to contribute the full $2,000 a year to a Coverdell, your adjusted gross income cannot exceed $110,000 or $220,000 for a married couple filing a joint return.

Roth IRA

Most people would associate a Roth IRA with retirement, but this account can be an effective vehicle for individuals to invest after-tax dollars while not subjecting appreciation to taxes as long as the appropriate distributions are made. There are pros and cons to this account. A limitation is that other relatives cannot contribute to a Roth IRA like they can in a 529 plan. But with a Roth IRA, if a child decides to not attend college, the funds can be used for retirement.

Seek Help from a Financial Advisor

The earlier parents and/or grandparents start saving, the less a college student may need to borrow. Nearly one out of three American students go into debt to get through college, with the average student loan debt reaching a record high of $38,792 in 2020.[14]

As always, each education designated account has its own particular program rules and tax implications. A knowledgeable Jemma Financial Advisor can provide you with answers and a roadmap on how to navigate college expenses.

1. CNBC, "S&P 500 closes 1.5% higher after sharp reversal, as traders shake off Russia's invasion of Ukraine", February 2022. 2. Wall Street Journal, "Stocks Post Worst Quarter in Two Years Despite Strong Finish", March 2022. 3. Nasdaq, "March, First Quarter 2022 Review and Outlook, April 2022. 4. Morningstar, "13 Charts on the Market's First-Quarter Performance", April 2022. 5. CNBC, "Surging interest rates push mortgage demand down more than 40% from a year ago", April 2022 6. Charles Schwab, "Market Corrections Are More Common Than You Might Think", February 2022 7. CNBC, "Economy added 431,000 jobs in March despite worries over slowing growth", April 2022 8. Y Charts, "US Labor Force Participation Rate", March 2022. 9. CNBC, "Here's where the jobs are — in one chart", April 2022. 10. Wall Street Journal, "U.S. Jobless Claims Fall to 166,000, Lowest Level Since 1968", April 2022. 11. Bloomberg, "Profits Soar as U.S. Corporations Have Best Year Since 1950", March 30, 2022. 12. Fidelity Investments 2022 State of Retirement Planning Study. 13. Investopedia/ College Savings Plans Network, "College Cost Calculator", Jan 2022. Includes tuition, on campus living and additional fees. 14. Investopedia, "Student Loan Debt: 2021 Statistics and Outlook", April 2022.