JEMMA | FINANCIAL WISDOM

SUMMER 2022

SUMMER PLANS

With summer heating up, so are many Americans' vacation plans. It's been over two years since the pandemic began, and many families are eager to reschedule canceled trips or plan a getaway. In fact, Friday, July 1, 2022, was the most popular air travel day since Thanksgiving 2021.[1]

A reprieve from closely following the markets may be ideal given the volatility lately. In this edition of our Newsletter, we discuss the stock and bond markets over the first half of 2022 and consider the silver lining in these volatile times with some smart actions to potentially take when prices decline.

Enjoy the sunshine and warm weather that summer brings. Know your Jemma Financial Advisor is always here to keep your financial journey on track.

MARKET UPDATE

(Performance as of June 30, 2022)

	1 YR	3 YR*	5 YR*
Dow Jones	-9.05%	7.24%	9.98%
S&P 500	-10.62	10.60	11.31
Nasdaq	-23.43	12.18	13.47

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

INVESTMENT CORNER

SHORT-TERM MARKET DECLINE PRESENTS OPPORTUNITY

Following a strong bull market in 2021 where the S&P 500 Index of the largest 500 companies rose over 28%, stocks had the worst first half of the year in over 50 years. The S&P 500 fell 20% in the first six months of 2022. Stock prices were impacted by multiple macro headwinds including the Russian attack on Ukraine, a rising interest rate environment, the highest inflation in 40 years, recession fears, and continued supply chain issues.

In a rising rate environment, fixed income investments experienced losses as well. The Bloomberg Aggregate Bond Index, a proxy for the bond market, declined 10% in the first six months of the year. Many Treasury Indices also experienced their worst period since the early 1970s.[2]

After more than a decade in an ultra-low interest rate environment, the Federal Reserve has begun raising interest rates. In the first half of 2022, the Fed hiked rates three times to fight inflation. Its latest increase of 75 basis points in June 2022 was the largest rate hike since 1994. In the same week, the average 30-year mortgage rate climbed to 5.78%, the highest since 2008.

In a turbulent market with falling stock prices, negative sentiment can override positive company fundamentals. Here is one example of the current disconnect between prices and earnings of companies: 77% of S&P 500 companies exceeded Wall Street's consensus estimates in the first quarter of 2022—yet the stock prices of 80% of companies over the first half of the year were in negative territory.

Sentiment has also caused many investors to compare this period to the Financial Crisis of 2008. We believe the macroeconomic environment is very different.

CONSIDER THE FOLLOWING:

Jobs abound. The unemployment rate in October 2009 hit 10%. Throughout 2022, the unemployment rate has maintained record low levels of below 4%.[3]

Housing market remains strong. In 2008, U.S. home prices fell by nearly 10% with foreclosures and short sales flooding the market. Today, the sales price of an existing home has risen nearly 15% from April 2021 to April 2022, with record low inventory of houses on the market.[4]

Banking institutions are fundamentally sound. Between 2009 and 2011, there were nearly 400 bank closures. By comparison, from January 2021 to February 2022, no banks have failed.[5]

Many publicly traded companies are financially solid, with strong balance sheets and ample free cash flow, and products and services that are needed by consumers. During the Financial Crisis, many banks and the auto industry had to be financially supported by the Treasury Department's Troubled Assets Relief Program (TARP) bailout.

KEEP HISTORY IN MIND

While no one knows how the stock and bond markets will unfold over the coming months, keep history in mind.

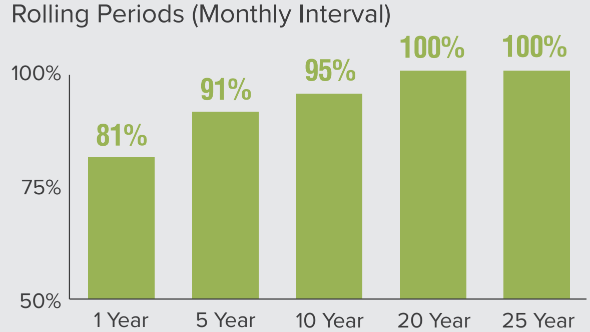
1 Bear markets happen but they tend to be short-lived. A bear market in U.S. stocks, which is defined by a decline of over 20%, is a normal occurrence. However, they tend to be shorter than a bull market (defined as a market with gains of more than 20%). In fact, the average length of a bear market has been 344 days, or approximately 11 months, compared to 1,102 days, or about three years, for the average length of a bull market.[6]

2 Let time be on your side. We believe the best way to view today's market is with a long-term perspective. Investment portfolios are constructed with the expectation that there will be times when prices fall. Yet, when you take into consideration that you may not need that money for several years, or decades, that money can stay invested and benefit from the probability of positive returns.

In any given 1-year rolling period since 1970, approximately 80% of the time stocks have experienced positive returns. Yet, odds of a positive return increase the longer you remain invested. In fact, looking at 10-year rolling returns since 1970, 95% of the time stock returns have been positive. The longer you stay invested, the greater the likelihood that positive returns will follow.

% OF POSITIVE RETURNS

Rolling Periods (Monthly Interval)



Source: Morningstar, from 1/1/1970 to 5/31/2022.

3 Market volatility often presents a buying opportunity. Strong performance has historically followed market downturns. Looking at the previous five times when the market has declined 15% or more in the first half of the year, positive performance resulted. In fact, the S&P 500 rose an average of nearly 24% in the second half of the year all five times.[7]

REEVALUATE YOUR LONG-TERM FINANCIAL PLAN

Rather than hastily make decisions based on short-term market noise, revisit your long-term financial plan. Have your investment objectives changed? Have there been life events over the past year that would trigger a change in your long-term plan, such as a birth of a child, a marriage or divorce, or new job? Your Jemma Financial Advisor can help you make any necessary adjustments to your portfolio based on these events.

SMART MONEY DECISIONS

WHEN MARKETS DECLINE

Many investors wonder what actions they could take when the market is down—but many only think of getting out of the market during a decline. While it may be difficult to see a decline in your account balance, in the short run, there are some actions to consider during this time that could put your money to work at potentially attractive prices. It could also be an opportunity to reach your long-term financial goals faster.

GOAL: LOWER 2022 TAX BILL

If you have losing positions in your portfolio, you may want to consider tax-loss harvesting in a taxable investment account. A tax-loss harvesting strategy involves selling a security at a loss to offset the amount of realized capital gains tax due on another security. Not only can you potentially offset your gains, you can also use any excess loss to offset $3,000 of ordinary income in the current or future year. For example, if you purchased $10,000 in a mutual fund in 2020 and it's worth $8,000 today, you could sell the position to realize a $2,000 loss. Then you could offset realized capital gains in the portfolio and reduce your Federal tax bill for 2022. Sometimes it's tax smart to realize a loss and reinvest the proceeds in another investment and still have substantially the same portfolio allocation.

GOAL: SAVE FOR RETIREMENT

If you haven't yet made your 2022 contribution to your Roth or Traditional IRA, now may be an opportune time to put that money to work given the market's decline. With the annual contribution limit of $6,000, or $7,000 if you're age 50 or older, you could invest the entire amount at once or set up an automatic withdrawal from a checking or savings account to invest a specific amount on a monthly or quarterly basis.

GOAL: INVEST FOR FUTURE HEALTH-CARE EXPENSES

Health-care expenses will likely climb in retirement, and the market decline may be an opportune time to set aside money today at attractive prices to help pay for these future expenses with a health savings account (HSA). An HSA is a savings account that can be used for out-of-pocket medical, dental and vision expenses. For those with a high-deductible health plan, an HSA can be a powerful savings tool offering triple tax-free benefits: Contributions are made on a pretax or tax-deductible basis, savings grow tax free over time, and withdrawals for eligible medical expenses are tax free. In 2022, you can contribute up to $3,650; families can contribute up to $7,300 and an additional $1,000 for those 55 years old or older.

Depending on your situation, your Jemma Financial Advisor can help determine the best course of action to take while markets are at lower levels, whether it's harvesting a tax loss, saving for retirement or setting aside money for health-care expenses. Your future self may thank you.

ROTH IRA CONVERSIONS

A SMART TAX MOVE IN 2022?

With the market decline in both stocks and bonds this year, many investment account balances are likely lower. During this period, consider a timely tax-smart move: an individual retirement account (IRA) conversion.

Roth IRAs have become an increasingly attractive investment vehicle, primarily because contributions and earnings can be withdrawn free from Federal income taxes. Yet many investors have Traditional IRAs. With a Traditional IRA, contributions are tax-advantaged and deducted from current year income. However, when you withdraw the money in retirement, you pay taxes on that contribution and any earnings and capital appreciation accumulated throughout the years.

By converting a Traditional IRA to a Roth IRA, you pay taxes on the balance now. When the market rebounds and the value of your portfolio recovers, you will be able to enjoy those gains and future appreciation in your Roth IRA account without having to incur Federal taxes when you withdraw the money in retirement.

Keep in mind that since you have to pay income tax on the amount you convert, you need to have enough money to pay that tax bill. If the conversion would result in a large hit to your wallet, you can consider a partial conversion instead of a full conversion to reduce the overall impact.

BENEFITS OF A ROTH IRA CONVERSION

Tax-free growth and withdrawals. When withdrawals from a Roth IRA are taken after 59 ½, they are free from Federal income taxes as long as the account has been open for five years or longer. You can also withdraw money penalty-free for a first-time home purchase or college expenses.

No required minimum distributions (RMDs). There is no requirement to withdraw money like there is with a Traditional IRA. Therefore, you can leave assets in the Roth IRA longer for tax-free growth potential for your heirs.

No age limit. As long as you have earned income below certain limitations, you can contribute up to $6,000 in 2022. Those age 50 or older can contribution an extra $1,000 each year.

An Individual Retirement Account is an important part of your overall financial plan. Want to understand more about the important differences between a Roth and Traditional IRA? Talk to your Jemma Financial Advisor to learn what's best for you.

DID YOU KNOW?

36.8 MILLION households owned a **TRADITIONAL IRA** with assets totaling $10 trillion.

25 MILLION households owned a **ROTH IRA** totaling $1 trillion.

Source: Investment Company Institute, "2021 Investment Company Fact Book." Data as of 2020.

[1]TSA checkpoint travel numbers, Transportation Security Administration, 7/3/22. [2]"Bond Holders Look to Recession for Salvation After Vicious Half," Bloomberg.com, 7/2/22. [3]U.S. Bureau of Labor Statistics. [4]National Association of Realtors. [5] "Bank Failures in Brief," Federal Deposit Insurance Corporation. [6]"Stock Market Briefing: S&P 500 Bull & Bear Market Tables," Yardeni Research, 6/3/22. [7]"The Dow just booked its worst first half since 1962. What history says about the path ahead," Marketwatch, 7/2/22.

Past performance is no guarantee of future results.

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