JEMMA | FINANCIAL WISDOM

FALL 2022

As we enter the fall season, temperatures cool and the leaves of trees turn vibrant shades of yellow, orange and red. We hope you get the opportunity to take some time this fall to enjoy the beauty of the outdoors.

In this edition of our Newsletter, we discuss the stock market and economy, inheriting an Individual Retirement Account (IRA), I Bonds, Spousal IRAs, and 529 College Savings Accounts.

As we start to make plans for the upcoming holiday season, please know that your Jemma Financial Advisor is always here to keep you informed and on the right financial path.

MARKET UPDATE

Performance as of September 30, 2022

	1 YR	3 YR*	5 YR*
Dow Jones	-13.40%	4.36%	7.42%
S&P 500	-15.47	8.16	9.24
Nasdaq	-26.25	10.63	11.25

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

INVESTMENT CORNER

THINK LONG TERM WHEN MARKETS GET VOLATILE

In the third quarter of 2022, market volatility continued resulting in the S&P 500 Index and the Bloomberg US Aggregate Bond Index to decline by 5%.

Out of the 11 S&P 500 sectors, only two increased during the quarter. With a 4% gain, Consumer Discretionary stocks topped the quarterly sector performance. Consumer Discretionary includes goods and services that are considered non-essential by consumers but are desirable if they have extra income to purchase them. Some companies in this sector experiencing strong performance in the quarter include Tesla, Starbucks and Amazon.com, all recording double-digit gains. On the negative side, Communication Services and Real Estate fell the most at approximately 13% and 11%, respectively.

Persistent high inflation and interest rate increases by the Federal Reserve continue to affect investor sentiment and increase market volatility. The inflation rate remains elevated at 8.3% for the 12 months ending in August 2022.[1] In an effort to reduce inflation, on September 21, the Federal Reserve raised interest rates by another 0.75%, bringing the target for the benchmark of the federal funds rate to a range of 3% to 3.25%, its highest level since 2008.[2] For the remainder of 2022, the Fed plans to raise rates two more times.

Despite the continued volatility in stock and bond prices in 2022, there are some bright spots in the market. A few of these include:

- **Consumer sentiment improves.** The Consumer Sentiment Index rose to 58.6 in September, hitting a 5-month high.[3]
- **Job growth remains solid.** U.S. businesses added over 200,000 jobs in September, which exceeded expectations. At 3.5%, the unemployment rate remains low and better than what was forecasted.[4]

THE BULLS AGAINST THE BEARS

During this volatile time, take perspective in historical bull and bear markets: Stocks historically lose an average of 36% in a bear market and gain 121% on average during a bull market.

BULL MARKET	VS	BEAR MARKET
Return: **121%** Duration: **3 Years**		Return: **-36%** Duration: **11 Months**

Source: Yardeni Research

» **Oil prices fell.** Over the quarter, the price of crude oil declined, hitting $77 a barrel at the end of September, easing pressure for consumers filling their cars at the pump.[5] In fact, the average price for a gallon of gasoline declined for 98 consecutive days until September 21, 2022.[6]

We believe much of the volatility in the market has been driven by investor overreaction, where almost any economic data point has the potential to cause a dramatic swing in daily stock prices. For example, since the beginning of 2022 through September 30, 2022, the S&P 500 has had 94 days of daily price changes of 1% or more. There were only 57 such days in all of 2021. In addition, some daily movements have been substantial as there have been 9 daily moves of 3% or more in either direction through September 30, 2022.

Focus on the Long Term

While we do not know when markets will turn, it's important to take a long-term view. Your Jemma Financial Advisor is here to help you remain focused on your investment goals regardless of short-term volatility.

INHERITED IRAS

WHAT TO KNOW IF YOU INHERIT AN IRA

Have you recently become the beneficiary of a deceased person's retirement account such as an Individual Retirement Account (IRA)? The rules for inherited IRAs are complex and can be difficult to understand. Included below are a few key items beneficiaries should become familiar with. Your Jemma Financial Advisor is available to review your personal financial situation and help you understand the rules so you can avoid any tax implications.

Whether it is a Traditional, Roth, SIMPLE or a SEP IRA, after the death of the original owner, the funds from their account will be moved to a newly opened IRA in the beneficiary's name.

For those who inherited a non-spouse IRA after 2019, the rules around required minimum distributions (RMDs) may affect how you withdraw the funds. Specifically, the 2020 SECURE Act eliminated the "stretch" life expectancy distribution rule for most non-spouse inherited IRA beneficiaries. Therefore, keep in mind the following:

THE YEAR OF THE INHERITANCE

Beneficiaries who inherited an IRA **prior to 2020** are grandfathered under the old rule and can still stretch their withdrawals over the course of their own expected lifetime.

Beneficiaries who inherited an IRA **after 2019** must empty their entire account by the end of the 10th year after the death of the original account holder. Any undistributed amount could be subject to a 50% penalty.

WITHDRAWALS

Since withdrawals from an **inherited Traditional IRA** are required, you will not be subject to an early withdrawal penalty even if the beneficiary is younger than age $59\frac{1}{2}$. However, all withdrawals will be taxed as ordinary income regardless of your age.

Withdrawals from an **inherited Roth IRA** are tax-free at any time and earnings are tax-free if the account was open for at least five years before the owner's death.

NOTE: For those who **inherit an IRA from a spouse**, the IRA balance can be transferred to your own account and distributions can be delayed until you turn 72.

If you recently inherited an IRA, your Jemma Financial Advisor can help you understand your options to determine the best course of action.

I BONDS

A POTENTIAL INVESTMENT TOOL TO COMBAT INFLATION

In 1935, the first "baby bond" was created to encourage Americans to save and participate in government financing.[7]

Now, with inflation continuing to be elevated, "I Bonds" have made their way back into headlines as a potential hedge against inflation. Learn more about these bonds to see if they present an opportunity for you.

Q What are I Bonds and how do they earn interest?

Treasury Series I Savings Bonds (also known as I Bonds) are savings bonds that earn interest based on combining a fixed rate and a variable inflation rate. The fixed rate remains the same throughout the life of the bond and the variable inflation rate is set in early May and November based on the Consumer Price Index (CPI) which measures the overall change in prices paid by consumers over a period of time for a basket of goods and services.

Q What is the current interest rate?

The interest rate on an I Bond is 9.62% and applies through October 2022. The new rate, which will be announced in early November, is based on the CPI Index from March through September.

Q Where can I purchase one?

I Bonds can be purchased in two ways – buy them in electronic form on TreasuryDirect.gov or in paper form using your Federal income tax return.

Q Is there a minimum or maximum purchase limit?

The minimum purchase for an electronic version is $25 and $50 for a paper version. The maximum purchase for the electronic version is $10,000 and $5,000 for the paper version for each calendar year.

Q How long can I keep the bond?

I Bonds earn interest for 30 years unless you cash it first. However, you need to hold it for at least one year before cashing it. If you cash the bond before 5 years, you lose the previous 3 months of interest.

Q What are the tax considerations?

The interest that your bond earns is subject to Federal income tax but not state or local income tax. If you use the money for higher education, it could potentially not be subject to Federal income tax.

Q How do I add an I Bond to my investment portfolio?

Each individual needs to create their own account at TreasuryDirect.gov. This account will link to your bank account. Once that is established, the information can be added directly into your Jemma Financial Plan.

Interested in learning more? Your Jemma Financial Advisor can help you determine if an I Bond makes sense for your investment portfolio.

DID YOU KNOW?

Most employees will hold multiple jobs over the course of their working years. In fact, between the ages of 18 to 54, individuals held an average of 12 jobs.[8]

There are many factors to consider when you change jobs or retire—one of which is to decide what to do with your retirement plan savings. Read more about your options when it comes to rolling over your retirement plan.

SPOUSAL IRAS

DOES A SPOUSAL IRA MAKE SENSE FOR YOUR FAMILY?

Generally, contributions to an Individual Retirement Account (IRA) can only be made with earned income.

However, if you or your spouse is not working and wants to save for retirement, a Spousal IRA could provide a solution. This type of IRA eliminates the requirement that you need to have earned income to make contributions. The only caveat is the working spouse's income must equal or exceed the total IRA contributions made on behalf of both spouses.

Spousal IRAs can be set up as either Traditional or Roth IRAs and are subject to the same contribution limits as any other IRA. These accounts are not "co-owned" but rather in the name of and owned by the non-working spouse.

By contributing to a Spousal IRA, you and your spouse can double your retirement savings in a tax-efficient manner.

For tax year 2022, you and your spouse can each contribute $6,000 plus an additional $1,000 catch-up contribution if the account owner is 50 or older.

Spousal IRAs could make sense for your family if:

- One spouse has little to no earned income
- You are married and file your taxes jointly
- You are looking to increase your retirement savings

Speak with your Jemma Financial Advisor to learn more.

2023 Social Security Benefits Will See Highest Increase in More than 40 Years

Social Security and Supplemental Security Income (SSI) benefits for approximately 70 million Americans will increase 8.7% in 2023.[9] This increase in benefits is tied to next year's cost-of-living adjustment (COLA).

529 COLLEGE

SAVINGS ACCOUNTS

529 College Savings Accounts encourage saving for future higher education costs—as long as they are qualified expenses—while providing tax advantages.

Curious about what is a qualified education expense? Here are a few common college expenses that are covered and a few that are not covered:[10]

COVERED

- Tuition and fees
- Books and supplies
- Computer, software and internet access
- Room and board, as long as the student is enrolled at least part-time

NOT COVERED

- Transportation and travel
- Health insurance
- Applications and testing fees
- Extracurricular activity fees

1. U.S. Bureau of Labor Statistics 2. CNBC, "Fed raises rates by another three-quarters of a percentage point, pledges more hikes to fight inflation", September 2022 3. MarketWatch, "U.S. Consumer Sentiment Increased Slightly in September as Inflation Expectations Moderated", September 2022 4. CNBC, "Businesses added 208,000 jobs in September, better than expected, ADP reports" October 2022 5. Morningstar, "Q3 2022 Market Performance in Charts", October 2022 6. AAA, "Downward streak for national average ends", September 2022 7. TreasuryDirect.gov 8. U.S. Bureau of Labor Statistics 9. Social Security Administration 10. Saving For College, "529 Qualified Expenses: What Can You Use 529 Money for?", August 2022