2023 1st Quarter Financial & Investment Management General Commentary

Commentary Background

This commentary is to give some understanding of the economy, markets and some ideas for planning opportunities. We are here to be a resource for the benefit of our clients, so if you have any questions or would like to discuss any of the material in greater detail, please give us a call.

FINANCIAL PLANNING

HAVING A CLEAR INVESTMENT PHILOSOPHY

A clear investment philosophy is essential to pursuing long-term financial success. And while investment strategy is important, it's nothing more than a part of an investment philosophy. Strategies can evolve as life changes, but philosophies are the core beliefs, principles, and practices that guide your decision-making. In times of market uncertainty like today, a philosophy may enable you to control your emotions, shut out the noise, and bring your focus back to your long-term goals.

Too often, we see people want to focus on the short-term outcomes by their decisions when it has little impact on their long-term strategy. For example, a sudden drop in the market in reaction to an adverse economic condition can be concerning, but in time it may be nothing more than a minor blip. An investment philosophy can remind you of that. It can also remind you that short-term results are random and fleeting, meaning you have no control over them.

Instead, an investment philosophy can keep you focused on the process. If mistakes are made, you'll have a system for uncovering and learning from them. No panic or second-guessing, just a clear assessment of where you are and where you want to be, and whether your current strategy has the potential to get you there. If the strategy doesn't work, you adjust.

An investment philosophy doesn't need to be elaborate. You can keep it short and simple while still expressing your core belief. Take Warren Buffett's investment philosophy for example, which is just one sentence:

"Buy wonderful businesses at a fair price with the intention of holding them forever."

While some people may not grasp the meaning of Buffett's investment philosophy, all that matters is that he does.

It requires understanding the markets and familiarity with investment principles and practices to create a philosophy, but it also requires a deep understanding of your own values, beliefs about money, and comfort level with risk over a long period of time.

Our investment philosophy is to build a stable portfolio of increasing dividend paying stocks to provide cash flow to our clients for retirement or as needed without having to sell the underlying securities

which are delivering these dividends. As such we are less concerned about the near-term market value of the stocks and at the same time avoiding on a current basis the tax effects of such sales.

If you would like more information on our investment philosophy or more information, please contact us.

PERSONAL FINANCIAL MISTAKES TO AVOID

Many clients tend not to plan their spending as wisely as they could, common example is not paying their credit card balances monthly, making minimum payments on bills or missing payment deadlines. Many are rooted in a failure to adhere to basic financial guidance. Here are tips for some of the more common mistakes we see.

Not Setting Realistic Financial Goals

In finances and life, deliberate action and specific goals are considered essential to achieving anything. Whether it's paying off debts, retiring when and how you want, or helping your child pursue higher education, long-term goals usually need a clear, definable action plan with several smaller action steps to guide you along the way.

Not Saving for Emergencies

Life happens. Water heaters break, cars stop running, and people lose their jobs. Unexpected expenses like these are believed to be one of the biggest reasons people spiral into debt. Consider building an emergency fund into your budget so if something happens, you're better prepared.

Not Monitoring Your Credit

Credit often plays a role in several points in your life - buying a house or car, financing a business, etc. Your financial life is shaped by your credit score, which can change daily. A change in either direction may translate to hundreds or thousands of dollars in savings or costs. But one of the biggest reasons to monitor your credit is the ever-growing threat of identity theft and fraud. Try to make credit monitoring an integral part of your financial management.

Focusing on Quality of Life over Lifestyle

Your lifestyle is based on your choices and is often influenced by external factors and personal beliefs about what might make you happy. Quality of life is much more subjective; it measures happiness and the enjoyment you derive from life. While lifestyle choices can lead to a better quality of life, choices like buying a house you can't afford, or over-consumption at the expense of your savings, can lead to a quality-of-life decline. By focusing on your quality of life and what matters to you, you may experience more things that make you happy, some of which might not cost a thing.

Remaining Financially Illiterate

No matter how simple our financial lives seem, several forces may impact our futures. From an ever-expanding tax code, to a growing number of financial products to choose, to new banking and credit rules, it's important to stay informed, so you are better equipped when making financial decisions. Consider contacting your financial advisor on any financial matter you don't understand.

What Does Wealth Mean to You

In our client meetings, the term "wealth" is often tossed around somewhat loosely. We talk about building wealth, managing wealth, enhancing wealth, and preserving wealth as if the concepts are universally understood. But what exactly is wealth? It's such a vague term that every person has a slightly different meaning. That's why we need to start with some deep introspection about what having wealth really means.

The Risk of More

When the idea of wealth turns into the pursuit of "more", there usually isn't a destination. Happiness is often only fleeting because any sense of satisfaction is only temporary and often replaced by a desire for the next thing. Failure to appreciate what we have may only increase the "risk of more," with possibly no guarantee of increased happiness.

Some people that consider themselves wealthy see money as a tool to help them pursue what matters to them. Their life narrative isn't about having more money, but about having enough to live the way they want. There's even evidence to suggest that people are happier when they purchase experiences instead of things.

Wealth as a Destination

Many people, even ambitious ones, struggle to clearly define their vision of a good life. In some cases, this leads them to follow any path, often chosen impulsively based on current needs and the actions of others around them. Imagine what could happen if someone suddenly received a large windfall, but had no ambitions or purpose. Do you think they would use it toward something they cherish, or spend it carelessly?

Taking some time to create clarity around your vision of the future especially retirement may help you define your purpose. Try to spend some time thinking about how you view wealth, and how that belief impacts your approach to your goals. When you have clarity around your purpose, you may have an easier time developing a financial strategy that could help you grow and preserve your wealth so you can lead the life you want for yourself.

And if you need help defining wealth and creating an actionable plan to help you pursue your goals, consider talking to a financial professional. Some clients want a certain lifestyle other want to be financially independent from having to work. We can help you turn your definition of wealth into a strategy that aims to bring you closer to your ideal lifestyle.

Ten Things You Should Do for Estate Planning

1. Have estate planning documents in place including a will, power of attorney, trusts can be a part of your estate plan, health care directive or in Georgia the Advanced Health care directive.
2. Make a list of financial accounts and assets.
3. Confirm beneficiary designations.
4. Review wishes with the proper fiduciaries, have a discussion with your attorney, financial advisor, executor or trustee.
5. Make sure all assets are properly titled.
6. Consider the needs and situation of heirs, don't just name beneficiaries without considering their needs and situations. For example, you may need a trust to make sure your niece doesn't spend her inheritance recklessly.
7. Consider incapacity – have a durable power of attorney.
8. Remove assets from the estate for potential tax savings, meet with your accountant or tax professional to ensure the proper transfer of gifts and inheritances, and get guidance on the best ways to save on taxes.
9. Consider gifting techniques.
10. Review and update the estate plan periodically, no less than every three to five years especially if you have a significant life circumstance change.

Long-Term Care Insurance Quandary: Keep Paying or Let It Go?

As long-term care insurance premiums go up, many policyholders are struggling with what to do. Accept higher premiums, reduce benefits, let the policy lapse or take a payout? Here is a good overview of the issue.

A Health Savings Account is a terrific tool for covering future medical costs—and avoiding taxes

Do you have health insurance through work, or a nongovernment policy you bought yourself? If so, you might have access to a great retirement account you're not aware of.

It's called a health savings account (HSA).

It's a hidden gem, since many people who have HSAs don't understand their full long-term potential. Here's how HSAs usually work:

Each paycheck, you put some pretax dollars into an HSA—just as you might with its better-known cousin, the health care flexible spending account (FSA). You can pull money tax-free from either an HSA or FSA to pay for health care, as long as the cash is for approved medical expenses such as doctor visits and prescriptions. However, you may be better off delaying withdrawals until after you're retired, thanks to two features of HSAs not shared by FSAs: One, an HSA can hold thousands of unused dollars for years until you need them. And two, money in the account can be invested, giving it a chance to grow tax-free over time.

So, when used for qualified medical expenses, HSAs offer a unique triple tax-free advantage for long-term investing: no taxes on contributions, earnings or withdrawals. Not even a 401(k) or IRA can match that. Which can make HSAs a great way to save.

College Planning: A New, Welcome Development for 529 Savers

A question that comes up often is this one:

What happens if money is left in a 529 account after the beneficiary graduates from college? Or what if the beneficiary never goes to college?

There are lots of things parents can do in this situation including moving the money to a sibling's 529 account or some other beneficiary and using up to $10,000 to pay off student loans.

Thanks to Congress, however, there will now be another option. At the end of 2022, Congress passed a spending package that included an amendment to the Internal Revenue Code that will allow 529 money for the beneficiary to be rolled over into a Roth IRA for that individual.

529 to Roth IRA details

Here is what you need to know about this change:

1. The expanded use for a 529 will take effect beginning on Jan. 1, 2024.
2. There is a lifetime cap of $35,000 on the amount that can be rolled over from any 529 accounts in an individual's name to a Roth in the individual's name. You would not be able to move that much money all at once because it will be treated as a Roth contribution that is subject to yearly limits. Currently, the maximum yearly Roth donation is $6,500 and $7,500 for those over 50 years of age.
3. Rolling over 529 money into a Roth will only avoid penalties and taxes if the account has existed for at least 15 years. It appears that changing beneficiaries would restart that 15-year clock.
4. Owners would not be able to roll over any 529 money that was contributed within the past five years and that would include the earnings.

Bipartisan Group of Senators Mulls Raising Social Security Age

A newly formed bipartisan group of senators are meeting to quietly discuss solutions for shoring up Social Security, including gradually raising the retirement age to 70, according to the global news network Semafor.

The potential creation of a new sovereign wealth fund to help finance Social Security—which could minimize new taxes and reduce benefits—appears to be arousing interest from both parties

In Most Cities, Homes Still Sell Faster Than Before the Pandemic

The typical U.S. home sold in February had spent 67 days on the market. For all the upheaval in housing, that's still 20 days faster than in the years right before the pandemic, according to data released in early March by Realtor.com.

The firm's study found that in 35 of the country's 50 biggest metro areas, homes were selling faster in February this year than they did on average in the same month during the 2017-2019 period. That's despite the cooling in housing markets from the peak of the pandemic boom, and the significant increase in inventory from last year's record lows.

Areas With A Decrease In Days On The Market Vs. Pre-Pandemic

Metro Areas	Days On The Market	Days On The Market Pre-Pandemic
Atlanta-Sandy Springs-Alpharetta, GA	51.5	62.8
Charlotte-Concord-Gastonia, NC-SC	56.5	71.8
Miami-Fort Lauderdale-Pompano Beach, FL	69.0	88.8
Columbus, OH	42.0	70.7
Boston-Cambridge-Newton, MA-NH	38.0	67.2

Source: Realtor.com

In Hartford, Conn., for example the typical home sold last month was on the market for just 40 days, compared with 91 days on average for February sales in the three years through 2019. Other regions where the sale period is shorter include Boston and Miami.

Still, in some of the hottest housing markets the supply of homes for sale is rising quickly enough to elongate the sales period compared with pre-pandemic levels. Areas such as Las Vegas, Phoenix and Austin are seeing homes sit on the market longer.

"The number of homes for sale on the market is up significantly from a year ago," says Danielle Hale, chief economist for Realtor.com. "With a smaller pool of buyers today and more competition from other homes on the market, home sellers will likely need to adjust their price expectations in the market this spring."

Client Alerts

Please provide your **2022 tax return** as soon as it is filed if you are a full-service client. We will provide a written report on our observations and considerations for tax year 2023.

We are making use of our **financial planning analytics** dashboard for all full-service clients who have an active financial plan. This allows us to continuously review your plan for insights and opportunities.

To participate a client's plan must have at least 80% of their household assets linked. Linked is defined as assets that have been electronically linked to our planning platform. We accomplish this in a couple of ways. If you have at least 80% of your household investment assets at Fidelity then you are automatically participating since we can of course link those assets and map them to your plan. If you have less than 80% of your investment assets held at Fidelity than we need to use our aggregation tool to simply read and post those assets to the platform so they can be mapped to your financial plan. This is a read-only feature. Nothing can be transferred or moved. It's a simple process using bank level encryption.

Contact us if you wish this level of planning sensitivity and request account aggregation. We'll help you with the one-time setup.

PORTFOLIO MANAGEMENT

2023′s Market Performance and the Economy

After a brutal 2022, stocks and bonds posted gains during the first quarter of 2023. It was a back-and-forth, back-again ride along the way as the banking crisis turned expectations for Federal Reserve policy upside down. The markets in the first quarter of 2023 were tossed back and forth, first by data showing inflation stuck at uncomfortably high levels and a red-hot job market, which led to expectations of still more Federal Reserve rate hikes. That story got turned on its head with the collapse of Silicon Valley Bank and concerns about a credit crunch as the first quarter headed into its final days.

Investors had been warned that something in the markets or economy might break as a result of the Fed’s interest-rate hikes, and the banking crisis was the first big crack. Now, investors and the Fed are watching and waiting to see how much of an impact it really has on the economy. But at the very least, with the Fed thinking that it doesn’t have to raise rates as high as it did just a few weeks ago, a friendlier interest-rate outlook has provided some support for the stock market.

It was a quarter of reversals within the markets as investors rotated back into beaten-up stocks of tech giants, leading to huge price gains on many of the same names that inflicted huge losses on investors’ portfolios last year. Growth stocks more broadly staged a rebound, while value and dividend-paying stocks slumped. In the bond market, investors flocked to safety in Treasuries and away from riskier debt.

Even with the stock indexes up, it was not a broad-based rally. Similar to 2021, only a handful of the larger tech companies drove the more well-known equity indexes. The S&P 500 which is cap weighted meaning it has higher weightings of larger stocks, was up 7.50% for the quarter. The S&P equal weighted portfolio where all the stocks in the index are weighted the same, was only up 2.93%. It was the companies like Apple (up over 23%), Microsoft (up over 21%) and Alphabet (up over 16%) that drove the index higher. Further, the S&P Mid Cap index was up only 3.81% for the quarter and the S&P Small Cap Index was up only 2.57%

On a broad level:

- At the sector level, tech stocks had their best quarter since the second quarter of 2020, as measured by the Morningstar US Technology Index. Meanwhile, energy stocks ended first-quarter 2023 down 5.0% for their first quarter in the red since second-quarter 2022.
- Volatility in the bond market remains at twice its long-term levels for the fourth quarter in a row.
- Within the bond market, investors sought the safety of U.S. Treasuries while shunning bonds with lower credit ratings.
- The Fed raised its benchmark federal-funds rate twice in the first quarter, each time by 0.25 percentage point. The funds rate finished the quarter at a range of 4.75%-5.00%, its highest since 2007.
- The yield on the two-year U.S. Treasury reached a high of 5.05% on March 8, only to plummet to a low of 3.76% on March 24. The days following March 8 brought the steepest three-day decline in the two-year Treasury yield since the stock market crash of 1987.
- At its steepest point during first-quarter 2023, the yield curve became the most inverted it had been since 1981.
- Crude-oil prices dipped to $66.74 per barrel on March 17, their lowest level since November 2021. Oil prices ended the first quarter at $75.67 per barrel.

- Gold rose on fears of weakening on US currency.

During the first quarter, stocks were stuck in the range they've been trapped in for over six months, suggesting investors see little difference in the outlook for the economy or corporate profits despite the banking crisis. But bond yields have been falling fast, highlighting concerns about the growing potential for a recession.

The Market

The first quarter of this year started with a bang. The S&P 500 was up 6.28% in January and if you followed the financial press there was a tremendous amount of optimism about the future. Then February hit us with reality. February saw the S&P 500 return -2.44%. March saw a return to positive returns, up 3.67%. Optimism followed by reality followed by optimism! So, which is it? Did we see the correction last year? Is there more to come, we'll see? This is what makes markets, the uncertainty of the future requires us to make judgments and those judgments are far from perfect. So, let's look at where we are.

These are our concerns:

1. The economy - We are concerned about the fragility of the economy. We worry that the economy may not be as strong as many "Bulls" suggest.
2. The price level of domestic securities - We use the price to sales ratio because sales cannot be manipulated the way earnings can. We have data going back 120 years. Today, the price-to-sales ratio of the S&P 500 is in the top 5% of all periods. So, stocks are not just expensive, they are very expensive.
3. Today we have full employment, but we wonder for how long. Several tech companies are laying off significant numbers of employees. We are even seeing industrial companies following suit. McDonalds just announced they were shutting down their corporate offices for a few days to determine layoffs. All of this makes us wonder for how long we will have full employment.
4. Inflation is high and rising and the Fed is not happy about that. All of us see it in our everyday lives, go look at the price of eggs. The Fed has raised rates more than they originally thought they would need to, and we wonder if the end is in sight. While we are seeing rising inflation slow, it is still above the FED mandate.
5. Corporate earnings look great, but we worry what happens if the unemployment level rises or if inflation continues to be a problem or if the economy slows down. Based on differences between the Producer Price Index and the Consumer Price Index, it seems clear corporations are eating some of the price inflation which will reduce corporate earnings.

So, this is a list of concerns, and we do not have the answers today. We might find out there was nothing to worry about, but to us it sure does not feel that way.

So, with these concerns, why do we keep hearing "Bullish" views that the market will continue on its pre 2022 trajectory? Our view is that it is human nature. People generally are optimistic, sometimes blindly optimistic. When stocks start to decline, investors do not believe. Rather, they think this is temporary. As stocks continue to decline; investors get more realistic and simultaneously get scared.

That is what happened in the early 2000s and that is the phenomenon today. After last year, January of this year was a welcome relief and our tendency toward optimism impacted our view. True, February slowed us down a bit but March saw a return to optimism. So, where are we now and will our cautionary position or the optimism of many others prevail?

It is definitely too early to tell. The direction of the market seems to be remaining in a trading range with a downward trend line. While the first quarter was positive, 1 quarter does not make a trend. So far, the February high did not push above the highs of August 2022 and the April high so far has not pushed through the high of February.

Below is that chart of the S&P 500 for the last 12 month. You can see the trend lines marking the trading range remain negative. While it is possible a new trend line could be forming should the market continue to rise above the February high, but the concerns listed early make that difficult, therefore, we expect to remain in a trading range.

There have been two long periods of declines in stock prices over the last 60 years, and each of them lasted for a decade. The first period was 1965-1974 which saw a total return of 1.23% per year and had several large declines within the decade. The second was the decade of the 2000s which saw a total return of -0.95% per year over the decade but also saw two major bear market periods, 2000-2002 and 2008.

Last year, we saw the decline of -18.1% in the S&P 500, and we believe was the start of a decline like these other periods, but we will need to see how the next few years evolves. The history of general and lengthy stock market declines are that they are not linear. Markets do not just go straight down and then head straight back up, and there is no reason to believe this market decline we are in will be any different. You need to remember that during the decline in stock prices that followed the Depression of 1929, there were three periods of stock advances of over 75%. All of these were accompanied by analysts expressing relief that the decline in stock prices was finally over and the future looked rosy, only to be followed by markets making new lows. So, what will this quarter be, a reprise in a bear market or the beginning of another bull market? We would urge caution. Even in the unlikely event that all our concerns turn out to be just worries, that everything turns out fine, we still have the biggest worry that all investors should have and that is that stock prices relative to their history are very high. As we state above, the P/S is in the top 5% of P/S history, and that does not suggest high future returns.

For the quarter, The MS EAFE international index was up 8.5% and the MS Emerging markets index was up 4.0% for the quarter. Stocks within the international and emerging markets appear to be more fairly valued and may be a better investment, however, international and emerging markets comes with a higher risk and additional issues such as currency exchange. Because of this, we would be hesitant to dramatically overweighting international and emerging markets and is not something we would recommend to our clients, then what do we do? The quick answer is you need a domestic equity strategy that will get you more consistent rates of return, and it will be no surprise to anyone that the long-term strategy that accomplishes that is a growing dividend strategy.

1. It tends to produces a higher return long-term than the index
2. It tends to reduces the down capture of the index.
3. It tends to underperform in straight up markets, especially those where the market gets to extreme valuations. However, during these periods, dividend strategies solve the investment return needs of almost all clients.
4. It tends to produces returns in flat markets that solve the investment return needs of almost all clients.

This is why we use our dividend strategy.

Summary Statement

We have presented in this General Commentary an overview and roadmap for investing and managing your portfolio in the near future, but portfolios are constructed for the long-term and aligned with your Personal Financial Plan or longer-term objectives. They are designed to provide stable, consistent returns over time but will not completely eliminate risk and short-term bouts of volatility. Our focus is to navigate the market landscape by actively managing our portfolios in a manner that enables our clients to realize their financial objectives.

Based on modeling, we believe combining high and growing dividend yielding strategies with active management and alternative assets will create a culmination of positively contributing and optimized portfolio performance. Alternative investment portfolios will replace bonds in providing a positive return over time, minimizing the interest rate sensitivity. Liquid and illiquid portfolios with high cash flows will produce consistent growth and income for clients needing it, and good diversification and attractive returns
for all investors, regardless of income needs. We are confident about the future because these new investment solutions will provide clients with attractive returns without increasing the risk in the overall portfolio.

Below are the returns for index categories making up the broader markets. Morningstar sourced these mutual fund returns. Returns beyond one year are annualized.

ST. JOHN & ASSOCIATES
INTEGRATED FINANCIAL SERVICES

	1st Qtr. 2023	1 Year Average	5 Year Average Return	10 Year Average
S&P 500 Growth	9.63	-15.33	11.90	13.62
S&P 500 Value	5.17	-0.16	9.47	10.17
S&P Mid-Cap 400 Growth	5.04	-6.41	6.78	9.67
S&P Mid-Cap 400 Value	2.51	-4.02	8.17	9.59
S&P Small-Cap 600 Growth	2.14	-10.91	6.05	10.12
S&P Small-Cap 600 Value	3.05	-6.81	6.30	9.45
DJIA	0.93	-1.98	9.01	11.15
S&P 500	7.50	-7.73	11.19	12.24
S&P 500 Equal Weighted	2.93	-6.31	9.96	11.40
S&P Mid-Cap 400	3.81	-5.12	7.67	9.80
S&P Small-Cap 600	2.57	-8.82	6.30	9.87
Russell 1000	7.46	-8.39	10.87	12.01
Russell 2000	2.74	-11.61	4.71	8.04
Russell 3000	7.18	-8.58	10.45	11.73
MSCI EAFE	8.47	-1.38	3.52	5.00
MSCI EAFE Large Growth	11.41	-1.35	6.10	6.37
MSCI EAFE Large Value	5.99	0.79	2.07	3.60
MSCI Emerging Mkt	3.96	-10.70	-0.91	2.00
MSCI World	7.73	-7.02	8.01	8.85
MSCI US IMI Gold	6.84	-31.61	8.09	3.47
DJ Real Estate	1.57	-18.70	5.64	5.96
Bloomberg Commodities	-5.36	-12.49	5.36	-1.72
Bloomberg Agg US Bond	2.96	-4.78	0.91	1.36
Bloomberg Agg US Interim	2.39	-2.79	1.00	1.22
Fidelity Money Market	1.05	2.56	0.87	0.79