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3rd Quarter Newsletter October 21, 2022

Dow Jones Ind Avg	28,725.51	S&P 500	3,585.62	NASDAQ	10,575.62
2022 (YTD)	-19.72%	2022 (YTD)	-23.88%	2022 (YTD)	-31.99%
3rd Quarter	-6.17%	3rd Quarter	-4.89%	3rd Quarter	-3.91%

The Economy

Recent economic statistics have continued to indicate an economy confronting diminished growth prospects and persistently high inflation. When President Biden took office in January of 2020, the annual Consumer Price Index (CPI) - inflation was 1.4 percent; now, for September, the rate is 8.2 percent. Not only is the Federal Reserve (Fed) having to address its own missteps, it must also address the inflationary pressures stemming from two years of excessive federal government spending. The Fed's primary error was to maintain an "easy money" policy, which was initiated to reinvigorate the economy after the COVID- induced economic slump. By allowing interest rates to remain artificially low for a protracted period, their policies distorted economic incentives resulting in unsupportable rises in the stock and real estate markets. The net result was a significant increase in the wealth effect, which provided consumers the psychological release to spend more freely. When this increased spending was combined with the supply chain disruptions triggered by the COVID shutdown (more demand: less supply), it sparked a surge in inflation. At first, the Fed and the Biden Administration tried to minimize the problem by describing it as "transitory". When it became clear inflation was intensifying, the Fed was forced to admit its error and initiate more aggressive action. This past spring, the Fed announced their new, more determined policy of increasing interest rates until the economy slows enough to relieve the inflationary pressures. It is expected the higher interest rates will result in the increased likelihood of a recession.

Both the stock and bond markets have been punished this year because of these factors, investors are trying to determine what comes next. While the Fed has been attempting to restore stability, the Congress has been working at cross- purposes by continuing to pass large, unwarranted spending bills, which increase demand, increase inflation, and increase the nation's debt. At the same time, it makes the Fed's task even more difficult. It will be interesting to see what impact, if any, these issues have on the up-coming mid-term elections. Finally, the outlook for the economy over the next twelve months is far from rosy. At best, nominal growth might reach the low single digits. Adjusted for inflation, returns would be negative. The bears, however, are projecting negative returns. This means many consumers will need to budget even more carefully.

Investments

Equities remain under pressure as soaring inflation continues to force the Fed to continue raise interest rates. The brunt of this bear market has impacted high growth companies such as technology and the broad NASDAQ the most, but few sectors are unscathed. Energy stocks have outperformed, and pharmaceuticals have shown relatively good performance to date.

Over the last decade of favorable monetary policies and low inflation, the idea of buying stocks on the dips was a proven investment strategy for investors accumulating wealth. This strategy has not worked well in 2022, as market dips haven't been compelling against the macro environment of higher inflation and tightening monetary policy. Although numerous stocks are down 40-60 percent from their lofty highs at year-end, it doesn't necessarily mean they are inexpensive today.

The monthly two-year Treasury Note recently came in at 4.25%, and 6-month Treasuries now yield 4.5%. We are investing heavily in these short-term instruments because of the yield, safety of principal, liquidity, and ability to reinvest at higher rates. At these levels, some investors are more comfortable in risk-free bonds than venturing into stocks.

As third quarter corporate earnings are released, investors will be keying on management's outlook to gauge future growth. At some juncture we will see a turnaround when inflation shows sustainable signs of ebbing; or if ever the Ukraine war were to conclude, we could see a significant move to the upside. We still believe in purchasing quality growth stocks at a reasonable price. Discerning the right price when earnings are generally softening and whether a recession occurs in 2023 is an investor's quandary.

Year-End Planning

This is a good time to start thinking about year-end gifting and charitable contributions as it aligns with your estate planning. A review of your portfolio is advisable to see if any tax harvesting would benefit taxes you may owe. Capital gains and losses may be netted, if capital losses exceed your capital gains up to $3000 of those losses may be deducted against your income and the remainder carried forward. You should always check with your accountant or tax advisor before making any decisions.

It's that time of year to review your Medicare plan's Annual Notice of Change. Some things to consider: plans change every year and benefits can be added or taken away, if you switch from Medigap to Medicare Advantage and you want to go back to a Medigap plan you'll usually have to answer health questions and pass underwriting (coverage is not guaranteed). If you switch out of a Medigap plan that is no longer offered you will not be able to enroll back into it. Remember Medigap plans and Medicare Advantage plans work very differently so review carefully.

Required minimum distributions (RMDs) are still mandated this year and must be done by December 31st. If you turned 72 this year, you have until April 1, 2023. This may not be the best option since you will need to take 2 RMDs in 2023. Missed RMDs are penalized at 50% of any amount not withdrawn that should have been. The amount of your RMD can be found towards the end of your financial institution's statement where your IRA is held. This is also a good time to review the beneficiaries on your accounts, making sure they are designed to the correct individual, charity or estate planning vehicle, such as a Trust. Any beneficiary designation on an account will override your Will or Trust making it even more important to check all your estate planning documents periodically to make sure they align.

With stocks down 25% so far this year and many portfolios significantly lower in value it would be a good time to consider doing a ROTH IRA conversion this year with all or a portion of your IRA. The amount of the conversion will be considered income to you and will be taxed, so before you make any ROTH IRA conversions you should speak with your tax professional and discuss the impact this will have on your taxes.

We hope you enjoyed our new collaboration format for our quarterly newsletter. Stay safe and healthy while enjoying the holiday season and all the joy it brings! Lenk Ladner Investment Solutions – John, Geoff and Carie