February 2023

Dear Friends and Clients,

Economist and famed value investor Benjamin Graham once said that "the best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a plan and a behavioral discipline that are likely to get you where you want to go." Before we get into a recap of the market's 2022 performance, we want to remind you that we create investment plans with the goal that year-to-year market performance will not dictate your financial success. By remaining disciplined and calm in the face of negative news and performance, you set yourself up to be able to achieve your long-term goals, regardless of market conditions. Our planning tools take into consideration both positive and negative years in the market. We know based on historical data that markets go up and down over time. Years like 2022 are when it is critical to remain steady and not make emotional decisions when it comes to your investments.

Now, on to the markets – 2022 was a rollercoaster year for both stock and bond markets. Following the large market run-up in 2021, markets faced high levels of volatility and growing concerns over inflation and a possible recession. We officially reached a bear market, measured as a 20% decline from peak to trough in equity markets in 2022. The S&P 500 ended the year at -19.4%, the Nasdaq Composite closed at -33.1%, and the Dow Jones Industrial average ended at -8.8%. All three major large cap equity averages experienced their worst year since 2008. Mid Cap Stocks ended -17.3 and Small Cap Stocks ended -20.4%. International markets had a similarly rough year with the MSCI EAFE Index ending the year -16.8% and MSCI Emerging Markets Index down -19.7%. There was not much reprieve in the bond market. Bonds ended 2022 with a return of -13.01% (Bloomberg Barclays U.S. Aggregate Bond Index). (Source: Wells Fargo Investment Institute).

Significant losses in the stock and bond markets may cause investors to question the long-held principle that bonds have a tendency to move in a positive direction when stocks decline. Stocks and bonds rarely fall in the same calendar year, and 2022 was the only exception in the 45-year period dating back to 1977 (Source: Capital Group 2023 Market Outlook). This happened as the Federal Reserve Bank (Fed) aggressively hiked interest rates a total of 7 times in 2022 to combat climbing inflation. While Consumer Price Index rose as high as 9.1% in June, by November we saw that number coming down to 7.1% (Source: Wells Fargo Investment Institute).

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We expect the lowered inflation reports and slowing economic growth concerns will push the Fed to slow down on rate hikes later this year and some market observers predict the Fed could possibly pivot direction and cut rates sometime in 2023.

For long-term investors, we still believe in asset allocation and broadly diversified portfolios. Over the longer term, asset allocation has proven to be a valuable investment tool. To get your own long-term-perspective, take a look at the different asset-class returns over the past 15 years on the attached PDF document, *The Value of Asset Allocation*, one of our favorites. It is also available on our website, www.CaudronMegaryBlackburn.com.

The Wells Fargo Investment Institute predicts a U.S. recession in the first half of 2023 as the base case. The global economy certainly appears to be headed, if not already, in a recession. We have been discussing the potential recession with you for some time and we know that recessions are a normal part of the economic cycle. In fact, it is recessions that set the stage for the next round of growth. Just as stocks declined in 2022, ahead of the recession, we expect stocks to begin to recover ahead of the next economic growth cycle. It is important to note that financial markets historically do not wait for the economy to recover and historically can begin rebounding a full 9 to 12 months in advance of any positive economic data (Source: Wells Fargo Investment Institute). Over the last 60 years, the S&P 500 Index has often had very strong recoveries in the 12 months following a bear market, with an average return of 44.1% (Source: Bloomberg). The key word there is average, and we may not see such strong returns this time or perhaps maybe not at all. And although past performance is no guarantee of future results, we believe it's important to stay the course and focus on long-term goals and potential future gains.

We also want to take this opportunity to highlight some relevant legislative changes that impact many of you. At the end of 2022, Congress passed the Secure Act 2.0, which included some significant changes. We have a detailed piece on our website that covers all of the changes, but we will mention a few of the most impactful changes here too. We saw increased maximums for retirement plan contributions; employees can now contribute $22,500 (plus a $7,500 catch-up contribution for those over 50) to 401(k) plans, 403(b), and governmental 457(b). IRA contribution limits also increased to $6,500 (plus a $1000 catch-up contribution for those over 50). For those already in retirement, the required minimum distribution (RMD) age changed to 73 in 2023 and will change again to 75 in 2033. For those clients turning 72 in 2023 you will not need to take your first RMD until 2024. Beginning in 2025, there is an additional increase in catch-up contributions in 401(k), 403(b), and governmental 457(b) and SIMPLE retirement plans for 60–63 year-olds. There is also a new provision that allows for rollovers from 529 plans to Roth IRAs beginning in 2024.

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These rollovers are subject to a lifetime limit and annual limits, and they require the Roth IRA owner to have earned income at least equal to the amount of the rollover. We are happy review any of these in more detail with clients who may benefit from the new provisions.

One retirement strategy that has been gaining popularity among our clients are Qualified Charitable Distributions (QCDs). QCDs are a unique tax strategy that allow individuals who are at least age 70½ and have Traditional and/or Inherited IRAs to distribute up to $100,000 per year directly from their IRA to a 501(c)(3) nonprofit with no federal income tax consequences. In addition to being a potential tax strategy, QCDs offer investors an opportunity to give back financially to organizations of their choice. It never ceases to amaze us that so many of our clients are charitably inclined and make giving a key part of their financial lives! Since we have seen a rise in QCDs, we have some helpful tips to share to ensure that clients are successful when utilizing them. We recommend adding check writing privileges to your IRA and ensuring that you have the cash available to make the distributions. This allows you to make a distribution directly from your IRA to the charities whenever you want instead of waiting for the distribution request to be processed. We typically recommend all QCDs are completed before November to ensure that distribution is counted for the calendar year. A charity's failure to cash the check by year-end may be their mistake, but it can leave you on the hook for the penalty for a missed distribution.

As usual, this letter is where we announce the winner of our Guess-the-Dow contest. The Dow Jones Industrial Average ended 2022 at 33,147. Our winner for 2022 winner is **Karen P**. Karen will enjoy a meal on us! Please let Lichelle know your 2023 Guess-the-Dow entry by March 31st, at lichelle.yalung1@wellsfargoadvisors.com or 703-739-4540, and you may be the lucky winner of dinner on us while basking in our unqualified admiration for your investment savvy.

In closing, we want you to know that we cherish your trust and your willingness to let us into your lives. We appreciate the opportunity to know and serve you and your family and to develop long-term, often multi-generational, relationships of trust and mutual respect. We will continue to strive to meet your needs at each stage of your life, providing sound financial advice and investment planning tailored to your circumstances. One of our great pleasures is to share your satisfaction and joy when your investment planning helps you achieve important life goals. But, whether you have financial nerves-of-steel or get queasy when markets hiccup, we are ready to provide whatever support you need whenever you need it.

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On behalf of the entire team – Tristan Caudron, Matt Megary, Laurie Blackburn, Ivana McNeill, Jessica Jackson, Lori Polonsky, Melissa Rush, Chalee Ricciardi, Amy Champion, and Lichelle Yalung – thank you for affording us the great pleasure of working with you. We wish you a wonderful 2023, filled with health, happiness, and prosperity.

Yours truly,

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Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

NASDAQ Composite is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

S&P 500 Index is a market capitalization-weighted index composed of 500 widely held common stocks that is generally considered representative of the US stock market. The Index is unmanaged and not available for direct investment.

MSCI EAFE Index (Europe, Australia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The Index consists of the following 21 developed market country indexes: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The Index consists of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey,

Barclays U.S. Aggregate Bond Index is unmanaged and is composed of the Barclays U.S. Government/Credit Index and the Barclays U.S. Mortgage-Backed Securities Index, and includes Treasure issues, agency issues, corporate bond issues, and mortgage-backed securities.

Past performance is not an indication of future results. An index is not managed and is unavailable for direct investment.

Asset Allocation and diversification do not guarantee a profit or protect against losses in a declining market

The prices of small and mid-cap company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different account standards. This may result in greater share price volatility. These risks are heightened in emerging markets.

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