STRATA FINANCIAL GROUP | LLC

MONTHLY NEWSLETTER

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February 2023

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Market Overview

Written by Strata Financial Group, LLC

What a great start to the year after a disastrous 2022. Per Morningstar, the tech-heavy NASDAQ led the way in January, ending the month up a whopping 10.72%, its best start to a year since 2001. The small-cap Russell 2000 followed closely behind, up 9.75% for the month, and the S&P and Dow gained 6.28% and 2.93%, respectively. International stocks actually had a strong start to the year too, with the MSCI ex US index up 8.11% in January.

While it's nice to finally see some green in the YTD column, there's a lot that still needs to be sorted out before the market chooses a direction. The Fed is expected to continue raising interest rates a couple more times this year, and as of last month, inflation was still at 6.45% (per the Bureau of Labor Statistics). The January inflation report is set to be released on February 14th.

Unemployment is another key factor the Fed is monitoring out of the corner of their eye as they continue to increase rates. As of December, the unemployment rate is at a historically low 3.5% per the Bureau of Labor Statistics. The Fed is okay with unemployment increasing to around 4%. To them, this represents "maximum employment" that aligns with a "healthy" target inflation rate of 2%.

So those are the two targets for the Fed: 2% inflation and 4% unemployment. Right now, the Fed is solely focusing on bringing down inflation by increasing interest rates. But if the unemployment rate starts to creep up towards that 4% target, the Fed may be forced to halt the rate increases and possibly start cutting interest rates if they want to avoid a recession.

Until then, expect some more volatility in the markets, at least through the first half of 2023. We may not be out of the woods quite yet, but each day we're getting closer and closer to that much sought-after Fed pivot.

Market Indices

Source: Morningstar
Percent annualized total return rates as of 1/31/2023

Index	YTD	1 Year	3 Year	5 Year	10 Year	15 Year
MSCI ACWI	7.17%	-7.99%	6.83%	5.53%	8.24%	5.93%
MSCI ex US	8.11%	-5.72%	3.64%	1.36%	4.20%	2.74%
S&P 500	6.28%	-8.22%	9.88%	9.54%	12.68%	9.70%
NASDAQ	10.72%	-17.95%	9.04%	10.34%	15.14%	12.26%
DJIA	2.93%	-0.92%	8.68%	7.77%	11.98%	9.52%
Russell 2000	9.75%	-3.38%	7.51%	5.54%	9.36%	8.34%
Barclays US Bond	3.08%	-8.36%	-2.35%	0.86%	1.43%	2.75%

Indices cannot be invested in directly, are unmanaged, and do not incur management fees, costs, and expenses.
Past performance is not a guarantee of future results.

Index Descriptions

Global (including US)

International

500 largest US stocks

Tech-weighted US index

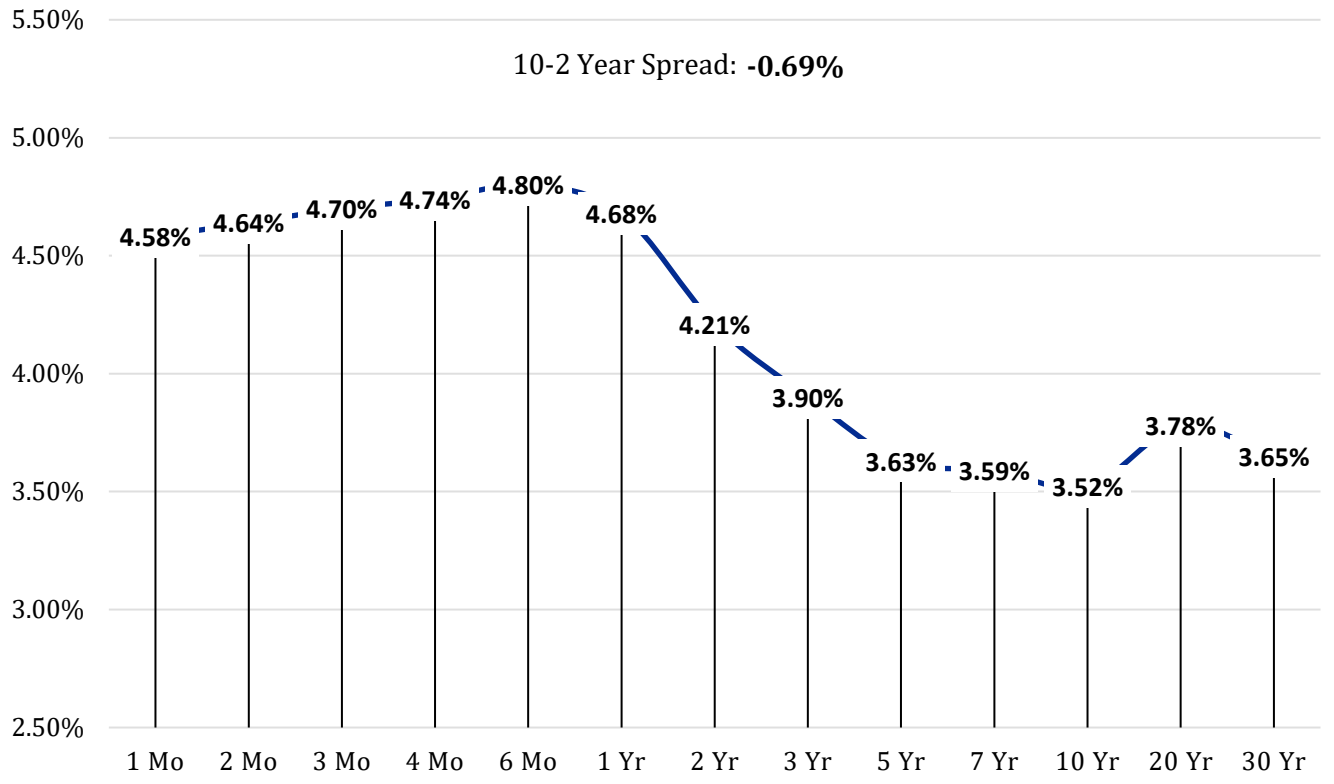
30 large blue-chip US stocks

US small cap stocks

US intermediate BBB+ bonds

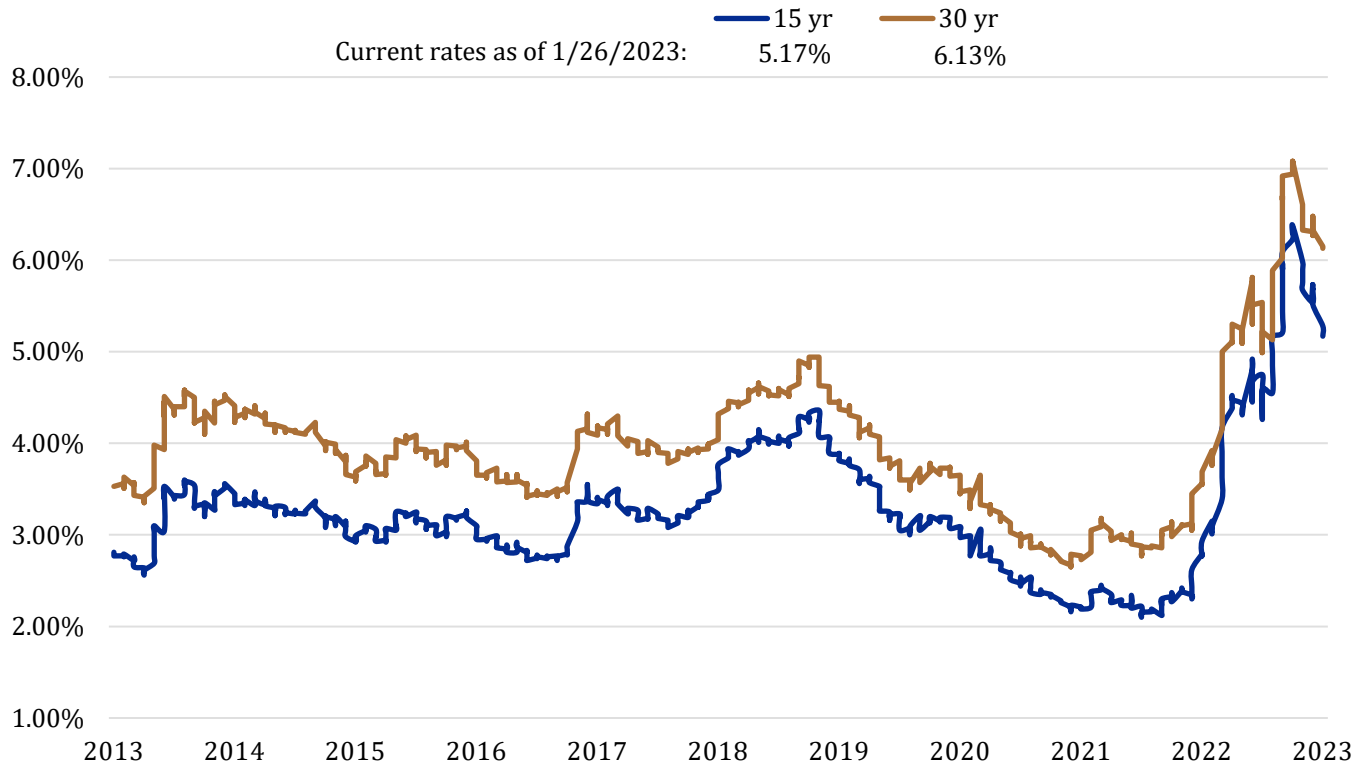
Treasury Yield Curve

Source: U.S. Department of the Treasury
Rates as of 1/31/2023



Mortgage Rates

Source: Freddie Mac
10-Year rolling weekly rates



Featured Article

Secure 2.0 Law Offers Roth Conversion for Unused 529 Savings

1/4/2023 – Kenneth Corbin (Click here for the link to the article online)

As the advisor community welcomed the passage of a major retirement overhaul bill at the end of 2022, much of the focus was on changes aimed at giving savers more flexibility in how they plan for retirement and encouraging more businesses to offer workplace savings plans.

But the Secure 2.0 Act also included a provision that could make it easier to preserve the tax-advantaged status of unused funds in 529 plans intended for college tuition, presenting a significant opportunity for advisors to help clients avoid a tax trap.

The new law stipulates that savers can roll over up to $35,000 of money held in long-term qualified tuition programs into a Roth IRA, essentially converting college savings into retirement savings without taking a tax hit.

"This represents a great planning opportunity to jump-start a Roth IRA for a young person who has excess funds in a 529 plan," says Matthew Masterson, chief planning officer at CI RegentAtlantic Private Wealth.

Withdrawals from 529 plans for nonqualified expenses are subject to federal and state taxes on the earnings, as well as an additional 10% penalty.

In general, that doesn't change under the 529 provision of the new law, which takes effect Jan. 1, 2024. But the law does open up a new avenue for the intended beneficiary to make use of the funds without incurring a penalty for a nonqualified withdrawal.

"Prior to this, the options were to pay the penalty and income tax on earnings within the 529 or change the beneficiary to someone else in the family that might be able to use the funds," such as a sibling or grandchildren, Masterson says. "Now, this introduces another option that can directly benefit the originally intended beneficiary and provide a funding option for the Roth, which is an excellent retirement vehicle."

The new rule could have the ancillary benefit of encouraging higher savings rates for college, suggests Ed Smith, a senior tax and estate planner with Janney Montgomery Scott.

"I think it's big mainly because I think a lot of people had not put as much into 529s as they could," Smith says, citing the concern among some savers that unused funds could only be accessed by paying a penalty. "I would certainly think it would be a deterrent to wanting to overfund it, let's put it that way."

The new rule carries several limitations. The 529 plan has to have been in place for 15 years before it is eligible for a rollover to a Roth IRA, and contributions and earnings from the past five years are ineligible.

In addition to the $35,000 aggregate limit for rollovers, 529 participants wishing to take advantage of the new provisions are still subject to the annual contribution caps for Roth IRAs, which are set at $6,500 in 2023.

Given that one recent study put the average total cost of college at more than $35,000 a year, that cap would leave the lion's share of a fully funded 529 subject to the withdrawal penalties.

"Ideally, individuals would be able to roll over any leftover funds, regardless of balance size—however, $35,000 is a great start and reasonable amount," says Kristen Carlisle, general manager of Betterment at Work.

On the other hand, the 529 rollover provisions aren't bound by the income limitations associated with Roth IRAs, so even high earners with excess tuition savings can participate in a tax-advantaged savings account.

"One other great thing about this rule is income limits do not apply," Masterson says. "So if someone has 529 funds in their name but is now out of school and earns too much to contribute to a Roth, this is now an option for them to fund a Roth annually."

Strata News

❗ e-Delivery Reminder ❗

If you have not yet been set up with e-Delivery through eQuipt, you should have received an email last week with instructions on how to enroll. If you are already enrolled, you can disregard.

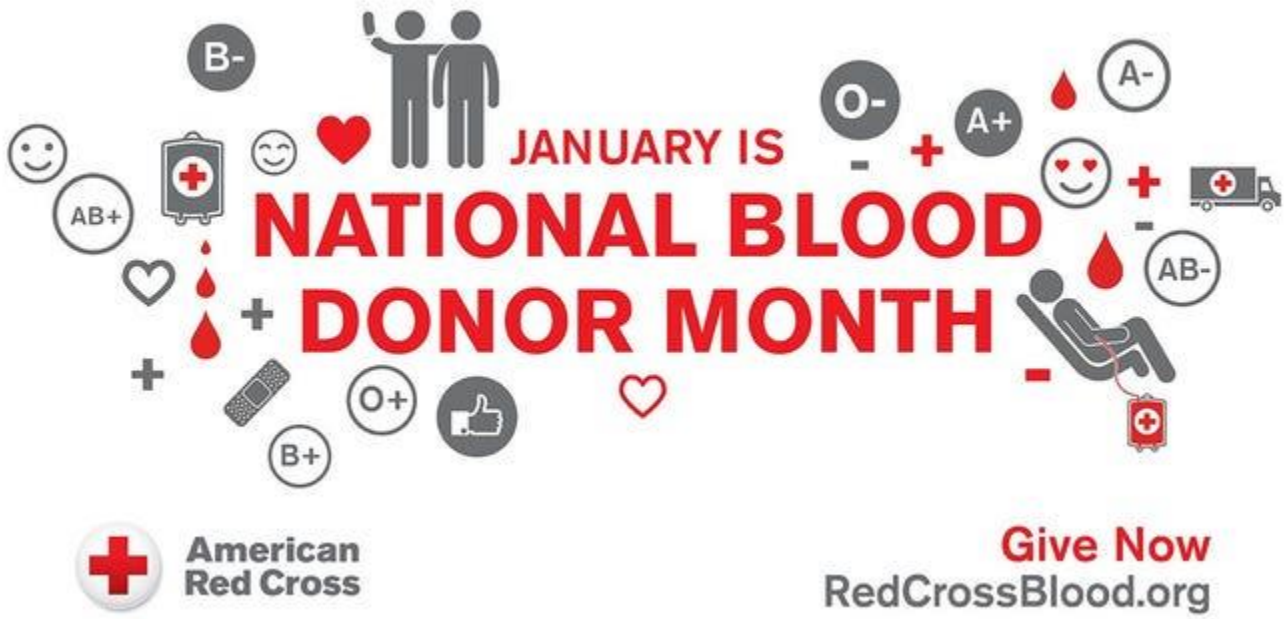
If you are currently NOT enrolled, you will be charged $1.50 for every paper trade confirmation that is mailed to you, and your advisor will be charged $1.50 for every paper prospectus that is mailed out. So make sure you are signed up for e-Delivery for at least **trade confirmations** and **prospectuses** to avoid these fees.

You can log into eQuipt to update your delivery preferences, or you can reach out to our office and we can send you a one-click email to enroll.

Please be sure to let us know if you have any questions or need any assistance. Thank you!

Community Service

Over 50 years ago, President Richard Nixon designated January as National Blood Donor Month. It's an important month for blood donations because seasonal demand is high in the winter and donations usually take a dip around the holidays due to inclement weather and sickness. Currently, there is a national blood shortage. According to Angel Montes, Donor Services Executive for the Red Cross Northwest Region, "Every two seconds, someone in the United States needs blood." Mitch and Kyle answered the call and donated in January. If you would like to donate, you can go to https://www.redcrossblood.org/give.html/find-drive to find a drive near you!



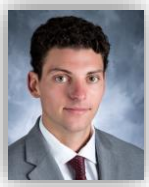
The Strata Team

Anthony Campagni, CFP®
Managing Partner & Financial Advisor
(614) 798-8666 Ext. 120
apc@stratafinancial.com

Ronald Jurczynski, CPA, PFS
Managing Partner & Financial Advisor
(440) 934-3222 Ext. 118
rjurczynski@stratafinancial.com

Mitchell Romeo, CPWA®, CPFA®
Managing Partner & Financial Advisor
(440) 934-3222 Ext. 115
mromeo@stratafinancial.com

Kyle Hancharick
Financial Advisor
(440) 934-3222 Ext. 117
khancharick@stratafinancial.com



Dominic Elmo
Wealth Management Operations Associate
(614) 798-8666 Ext. 119
delmo@stratafinancial.com

Emily Dohnenko
Business Operations Manager & Advisor Assistant
(440) 934-3222 Ext. 114
edohnenko@stratafinancial.com

Shayla Svetgoff
Wealth Management Administrative Associate
(440) 934-3222 Ext. 111
ssvetgoff@stratafinancial.com

Our Offices

CLEVELAND
5058 Waterford Drive
Sheffield Village, OH 44035
Phone: (440) 934-3222
Fax: (440) 934-3223

COLUMBUS
6195 Emerald Pkwy, One North
Dublin, OH 43016
Phone: (614) 798-8666
Fax: (614) 798-1382

Office of Supervisory Jurisdiction
Harrington Asset Management, Inc.
6195 Emerald Pkwy, One North
Dublin, OH 43016
Phone: (614) 798-1345
Fax: (614) 798-1382

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