

Performance Dashboard as of December 31, 2022 Source: DFA Returns Web							
Index:	MSCI ACWI	S&P 500	Russell 2000	MSCI EAFE	MSCI EM	Barclays Global Agg. (Hedged)	Gold
Q4 2022:	+9.96%	+7.56%	+6.23%	+17.40%	+9.79%	+1.18%	+9.84%
YTD 2022:	-18.00%	-18.11%	-20.44%	-14.01%	-19.74%	-9.76%	-2.28%

Market Rundown:

Last year will be a memorable one for investors, although most would just as soon forget it. Rising geopolitical tensions, spiking inflation, and unprecedented policy tightening by global central banks kept volatility levels elevated across financial markets. Stocks and bonds had a concurrent negative year for the [first time in 45 years](#). It was an anti-goldilocks scenario where the last decade's

"just right" mixture of low inflation, steady economic growth, and quantitative easing (QE) was turned on its head. As we set out into 2023, the economic outlook is a bit of a mixed bag. On the plus side, after consecutive negative quarters to start the year, 3rd quarter U.S. GDP rose above expectations climbing +3.2%. Recent payroll data from the [ADP jobs report](#) came in well above estimates signaling the labor market is still on solid footing. Moreover, the rate of inflation is in a downtrend and [some respected minds](#) believe it could fall significantly below the consensus +4% level forecasted by mid-2023. Painting a less rosy picture are leading economic indicators, such as new building permits and new manufacturing orders. The [Leading Economic Index \(LEI\)](#), which is a composite of 10 leading indicators from the broad economy, has an impressive track record for predicting recessions when its 6-month trend turns negative. The LEI has declined for eight straight months, signaling a high chance of a near-term economic recession.



A looming recession is menacing but it is important to remember that financial markets are forward-looking. A quick review of the performance dashboard at the top of this page attests to the fact that assets across the board have already been repriced lower to reflect the rising risk of recession. Asset prices could still fall further, but in our view, these declines have created opportunities for investment with better prospects than at the beginning of 2022. This is particularly true for bonds which tend to perform best in times of declining economic growth and inflation. Bond prices fell more than 10% last year primarily due to rising rates, but bond yields more than doubled which portends improving future returns.



As a result of falling asset prices and rising interest rates, for the first time in a decade, a balanced portfolio can be assembled yielding 5-6% using a combination of investment-grade bonds, blue-chip dividend-paying stocks, and cash flow-generating real estate. For a retiree seeking a 6-7% annual return to make their financial plan work, this is a hugely positive development as income is more dependable than capital gains each year.

Those with longer time horizons that are still saving should view the decline in asset prices as a gift. Every dollar invested now is buying you more assets than it did one year ago. Please do not be the investor that runs out of the asset store when everything is on sale. The best thing you can do is stay disciplined and keep dollar cost averaging to capitalize on this opportunity.

Stocks for the Long Run:

In my view, the book Stocks for the Long Run by Wharton Professor Emeritus of Finance Jeremy Siegel is the definitive resource on the history of the stock market. First published in 1994, a new edition is coming out this year. [Check out](#) this excerpt from a recent interview with Professor Siegel discussing what to expect from the new edition:



Jeremy Schwartz: *There is a lot of new material in your book, but is the central premise in 2022 still stocks for the long run?*

Jeremy Siegel: *It's interesting because the first edition, which came out in May 1994, used data through the end of 1992. The long-term real return (net of inflation, from investing in stocks) 1802 onward was 6.7% in real terms. I updated it till June of this year and it's 6.7% real — exactly the same over the last 30 years, despite the financial crisis, COVID, and so forth. It's remarkably durable. We also know returns from investing in stocks are remarkably volatile in the short run. But the durability of the equity premium (or the excess return above a risk-free rate) is quite remarkable.*

The steadiness of the long-term equity premium really is remarkable. The initial dataset from 1802-1992 began during the presidency of Thomas Jefferson and included major events such as the Civil War, WWI, the Great Depression, WWII, the 1970's stagflation, and the list goes on. Professor Siegel's subsequent thirty-year dataset from 1992-2022 encompasses events such as the tech bubble, 9/11, the Financial Crisis, and Covid. Despite all this, the long-term equity premium remained intact.

This premium is a reward earned by investors that can withstand short-term volatility. While history shows this premium has been enduring, it also reveals on average there is a bear market decline of over -20% about every four years. Attempting to avoid these declines by "timing" the market will most likely fail, and many investors fall prey to this mistake. Legendary investor Peter Lynch managed the Fidelity Magellan Fund from 1977-1990 delivering an astonishing +29% annual return during that period. Fidelity conducted a study of the fund after Lynch retired and discovered the average investor in the fund lost money over that same timeframe. Investors would pile into the

fund in good times, adding more as performance climbed. When a downturn would occur (9 declines for the fund of over -10% or more during Lynch's tenure), investors would sell in a panic.

In an interview with Fidelity, [Lynch had this to say](#): "In the stock market, the most important organ is the stomach. It's not the brain." He went on, "It's a question of what's your tolerance for pain. There will still be declines. It might be tomorrow. It might be a year from now. Who knows when it's going to happen? The question is: Are you ready – do you have the stomach for this? Most people do really well because they just hang in there. Long term, the stock market's a very good place to be. But I could toss a coin now. Is it going to be lower two years from now? Higher? I don't know. But more people have lost money waiting for corrections and anticipating corrections than in actual corrections. I mean, trying to predict market highs and lows is not productive."

The biggest risk to your money over the long term is inflation eroding your purchasing power. [For example](#), it would take \$7 today to match the buying power of \$1 in 1972. Investing in stocks is a good way to protect purchasing power over time. Stocks averaged +6.7% annually above inflation over 220 years - a return that would nearly double your purchasing power each decade for every dollar invested. If you diligently invest over time, stay disciplined, and stick with your plan, you will likely be rewarded.

SECURE 2.0 Act:

By: Rick Hurley

In addition to most of the limits rising on all thing's financial contributions, the SECURE 2.0 Act was signed into law on Dec 29th, 2022. We have attached the new 2023 "Key Financial Data" to this email for your convenience. The SECURE 2.0 Act has almost 100 new provisions, but I have summarized some of the interesting and pertinent ones below.

-The new **Required Minimum Distribution (RMD)** age has been moved back to 73 starting this year. In 10 years from now it will move up again to age 75.

- **Emergency Expense Distributions**, starting in 2024 you will be able to take an "emergency" \$1,000 from your retirement accounts to cover any unforeseen expenses. You can only take it once during the year and it will not be subject to the additional 10% penalty. If you are not able to pay it back within a certain period, you will not be able to do another one for three years.

- **Higher catch-up limits**, starting in 2025, if you are 60-63 you get even higher catch-up limits. \$10,000 or 50% more than the regular catch-up amount. This will be indexed for inflation. Starting in 2024, all catch-up provisions for workers with wages over \$145,000 during the previous year will have to be deposited into a ROTH account.

-An optional provision is for the employer to allow participants the option of **receiving matching contributions on a Roth basis**, effective immediately.

-The Department of Labor will create a "**Lost and Found**" searchable database to help people find retirement money they have lost track of.

We feel like most of these provisions are good for you and overall planning. The RMD age moving back is a big win if the tax brackets do not change. We remain committed to exploring Roth conversion options for clients where it makes sense. In addition, everyone needs to be asking about the employer matching Roth contributions. If you are under the 24% Federal tax bracket, we still recommend your contributions are sent to Roth and now you have the option for your match to also be sent to Roth as well.

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