Financial Insight Quarterly

Your Source for Financial Well-Being

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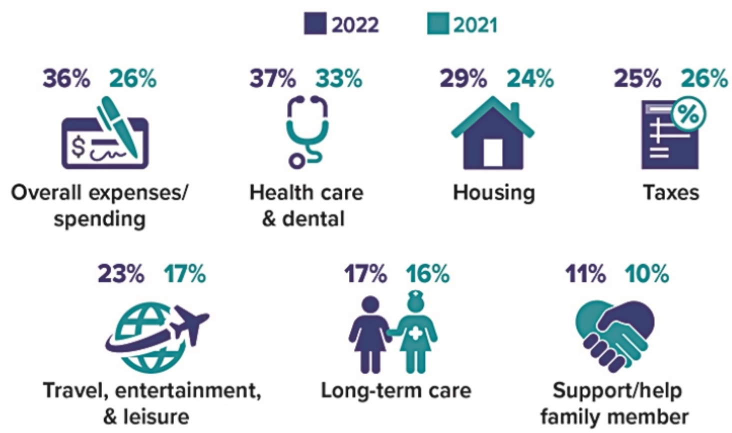
65.4%

Percentage of U.S. adults ages 55 to 64 who were working as of May 2022, nearly the same rate as in February 2020 (65.5%) before the pandemic. The rate dropped during the summer of 2022 due to seasonal variation, but this represents a strong and unexpected rebound for this age group. Many economists expected that near-retirees who left the workforce during the pandemic might choose early retirement.

Source: U.S. Bureau of Labor Statistics, 2022

Spending Higher Than Expected for More Retirees in 2022

Considering high inflation, it's not surprising that the percentage of retirees who said their spending was higher than expected increased in 2022 over 2021. These surveys were conducted in January of each year, so with inflation continuing to run high, it's likely that even more retirees may be experiencing unexpected spending.



Source: Employee Benefit Research Institute, 2022

Sectors: Overweight, Underweight, or Just Right?

The U.S. stock market had a banner year in 2021, with the S&P 500 index up almost 27%. Unfortunately, stocks turned downward on the second trading day of 2022 and kept sliding into a bear market.[1]

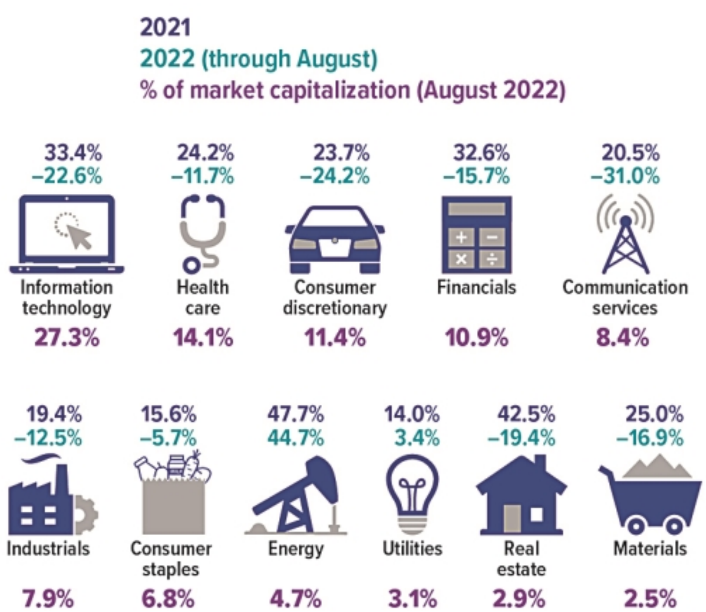
Stocks in the S&P 500 are classified by 11 different business sectors, each of which responds differently to economic conditions. For example, the information technology sector was very strong in 2021, rising by 33.4%. But it turned south in 2022 and dropped by 22.6% through August. On the other hand, the energy sector, driven by high oil prices, was up during both periods (see chart).

Index Weighting

Many broad-based indexes, including the S&P 500, are weighted based on market capitalization — the total value of a company's outstanding stocks. Sectors have different sizes and weighting to begin with, but the weight can change significantly due to performance. The information technology sector, which includes some of America's largest companies, rose from about 20% of S&P 500 capitalization at the end of 2018 to 29% at the end of 2021, increasing its impact on the index when the sector turned downward. The financials sector dropped from 13.3% to 10.7% over the same period, decreasing its impact on the index.[2]

Varied Weight and Performance

Sector gain or loss, with percentage of S&P 500 market capitalization



Source: S&P Dow Jones Indices, 2022 (data as of August 31). The S&P 500 is an unmanaged group of securities considered representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

This means that even if you invest primarily in broad-based funds, you may be more heavily invested (overweight) or less invested (underweight) in a given sector than you realize. If you own more specific funds or individual stocks, your portfolio could be even more overweighted or underweighted.

Some market sectors — such as health care, consumer staples, and utilities — are considered "defensive" and may be good to hold through a bear market or economic recession because businesses in these sectors tend to remain strong regardless of economic conditions. Others — such as information technology and consumer discretionary — may have more growth potential but are more sensitive to economic conditions. Whether it's appropriate to shift sector allocations in the middle of an economic cycle depends on your individual circumstances and long-term goals.

Sector Funds

One way to shift sector weight in your portfolio is by adding one or more sector funds — mutual funds or exchange-traded funds (ETFs) that focus on stocks of companies in a particular industry or sector of the economy. Because these funds are less diversified, they typically carry a higher level of volatility and risk than broad-based funds and should be considered as a complement to a core portfolio of diversified funds rather than a replacement.

Although sector funds offer flexibility in fine-tuning your portfolio, it's important to resist the temptation to chase performance and move assets into "hot" sectors without a more comprehensive strategy. Sector performance is cyclical, and last year's hot sector can easily turn cold, as can be seen in the ups and downs of technology stocks. Also keep in mind that every business cycle is different, and unexpected events can disrupt regular trends.

The return and principal value of all investments, including sector funds, fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) S&P Dow Jones Indices, 2022

2) Siblis Research, 2022

Year-End 2022 Tax Tips

Here are some things to consider as you weigh potential tax moves before the end of the year.

Set Aside Time to Plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

Defer Income to Next Year

Consider opportunities to defer income to 2023, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services in order to postpone payment of tax on the income until next year.

Accelerate Deductions

Look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year (instead of paying them in early 2023) could make a difference on your 2022 return.

Make Deductible Charitable Contributions

If you itemize deductions on your federal income tax return, you can generally deduct charitable contributions, but the deduction is limited to 50% (currently increased to 60% for cash contributions to public charities), 30%, or 20% of your adjusted gross income (AGI), depending on the type of property you give and the type of organization to which you contribute. (Excess amounts can be carried over for up to five years.)

Increase Withholding

If it looks as though you're going to owe federal income tax for the year, consider increasing your withholding on Form W-4 for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is considered as having been paid evenly throughout the year instead of when the dollars are actually taken from your paycheck.

Save More for Retirement

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can help reduce your 2022 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so. For 2022, you can contribute up to $20,500 to a 401(k) plan ($27,000 if you're age 50 or older) and up to $6,000 to traditional and Roth IRAs combined ($7,000 if you're age 50 or older). The window to make 2022 contributions to an employer plan generally closes at the end of the year, while you have until April 18, 2023, to make 2022 IRA contributions. (Roth contributions are not deductible, but qualified Roth distributions are not taxable.)

Take Any Required Distributions

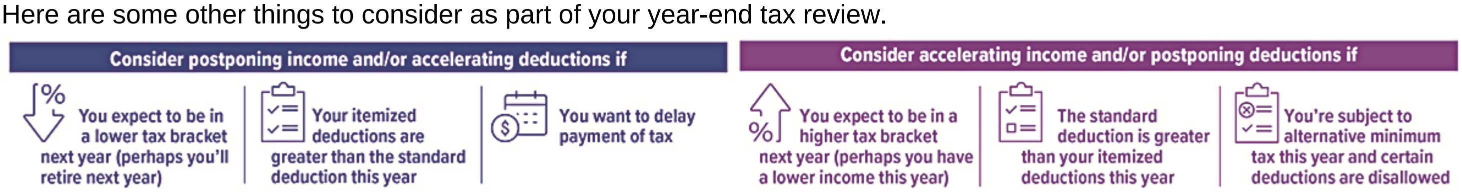
If you are age 72 or older, you generally must take required minimum distributions (RMDs) from your traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required. Annual distributions from inherited retirement accounts are generally required by beneficiaries (as well as under the 10-year rule); there are special rules for spouses.

Weigh Year-End Investment Moves

Though you shouldn't let tax considerations drive your investment decisions, it's worth considering the tax implications of any year-end investment moves. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses above the amount of your gains can be used to offset up to $3,000 of ordinary income ($1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

More to Consider

Here are some other things to consider as part of your year-end tax review.



Is It Time to Buy an Electric Vehicle?

Record-breaking fuel prices may have you thinking about buying an electric vehicle sooner rather than later. All electric vehicles (EVs) or plug-in electric vehicles (PEVs), as they're also called, run on electric energy stored in a rechargeable battery rather than on fuel. Plug-in hybrid electric vehicles (PHEVs) that can run on either type of power are also popular. The market is evolving quickly: 126 additional hybrid and EV models were introduced between 2020 and 2021, and U.S. sales nearly doubled.[1]

Cost and Battery Range

Saving money at the pump and benefiting the environment will generally cost more upfront, in part because of high battery and production costs. Prices are likely to rise in the short term, too, as demand and raw material costs increase. However, maintenance costs may be lower because EVs have fewer moving parts. And the more you drive, the more your energy savings could add up.

Tax credits or incentives may help offset the cost of purchasing a new electric or hybrid vehicle. Starting in 2023, an updated tax credit of up to $7,500 will be available for the purchase of new clean vehicles, including some EVs and PHEVs. There is also a new tax credit of up to $4,000 for some pre-owned EVs purchased from a dealer.

Check on credit availability before you buy, because not all vehicles will qualify, and you may not be eligible to claim the tax credit (income limits apply). Tax credits and other incentives may also be offered at the state or local level. You can find more information about tax credits and incentives at fueleconomy.gov.

A special concern for EV shoppers is battery range. Fortunately, most EVs can easily handle daily driving, with typical driving ranges of 150 to 400 miles on a single charge.[2] Vehicles can charge at home via a standard outlet, but you may opt to pay an electrician to install a high-powered charger to greatly increase charging speed (incentives or rebates may help offset the cost). You'll also want to consider the availability of public charging stations; networks are expanding rapidly, but are still not found everywhere.

Get in Line

Like their gas-powered counterparts, EVs come in many makes and models, including cars, crossovers, sports utility vehicles, and trucks. To find your favorites, read reviews and test drive if possible. Once you're serious about buying, one way to ensure you're in line to purchase the model you want is to get on a manufacturer's waiting list, though there may be a fee. Wait times will likely fall as more manufacturers ramp up production and new models are introduced. So if you decide not to buy an EV now or can't find one in stock, you should have plenty of opportunity to buy one not too far down the road.

1-2) U.S. Department of Energy, 2022