



KATZ FINANCIAL SERVICES

Retirement, Estate and Insurance Planning Strategies

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2022 – Year In Review

KFS would like to thank all our clients for their confidence and trust. For those clients who have been with us for decades, they know the diligence that we take to keep them out of harm's way during these uncertain times. Since October of 2019, we have upped our game by increasing correspondence through; emails, newsletters, phone conversations, virtual meetings and keeping to our commitment in answering all phone calls within 24 hours.

This year's end letter will touch upon several different topics and I trust that taking the time to read this will provide some additional serenity to you and your family.

Let's start with the current economic situation as I see it. This does not mean you need to agree with me. I am just providing you with a perspective from a Chartered Financial Consultant (ChFC), who has been practicing in the financial services industry directly with clients since 1984, close to four decades. I will address several areas of the economy that I thought could bring some clarity and understanding with some of the dynamics that we are facing at this time.

What we have been experiencing since 2019, in my opinion surpasses prior economic and stock market corrections that I have personally gone through with my clients:

- The “Black Monday Stock Market Crash” of October 19, 1987
- The “Dot.com Bust” of 2000
- The “Financial Crisis” of 2008-2009 and
- The current 2020 “Global Stock Market Crash” brought on by the impact of the coronavirus pandemic

Interest Rates and Inflation – The chair of the Federal Reserve Jerome Powell has been increasing the Bank Prime Loan Rate. He believes that raising rates helps take money out of the economy, reduces demand, and ultimately pulls prices lower to fight against inflation. The prime loan rate represents the credit rate that banks extend to their customers. Increasing this rate has ramifications on consumer and business credit i.e., mortgages, credit cards, auto loans as well as many aspects of the economy. By increasing the prime rate, it becomes costlier to take out and pay back personal and business loans.

Fed raises interest rates half a point to highest level in 15 years Jeff Cox CNBC Dec 15 2022

The Federal Reserve has raised the federal funds rate seven times in 2022 and Powell is planning on more increases in 2023.

2022 Fed Rate Hikes

FOMC Meeting		
Date	Rate Change (bps)	Federal Funds Rate
Dec 14, 2022	0.50%	4.25% to 4.50%
Nov 2, 2022	0.75%	3.75% to 4.00%
Sept 21, 2022	0.75%	3.00% to 3.25%
July 27, 2022	0.75%	2.25% to 2.50%
June 16, 2022	0.75%	1.50% to 1.75%
May 5, 2022	0.50%	0.75% to 1.00%
March 17, 2022	0.25%	0.25% to 0.50%

Federal Funds Rate History 1990 to 2022 Taylor Tepper, Forbes Advisor Staff Dec 14, 2022

This raise in interest rates **could** trigger a recession and a rise in unemployment. The media continues to mention that we may be going into a recession. My question is, are we already in one? Four major characteristics of a recession are:

- Loss of consumer confidence
- An increase in unemployment
- A drop in the stock market and
- A dip in the housing market

In addition, a recession is categorized as two or more consecutive quarters of a negative growth of gross domestic product (GDP). My personal view on the GDP numbers is like how I feel about the Consumer Price Index (CPI) and the calculation method used by The Bureau of Labor Statistics (BLS). Just check out the website that I have referenced in prior writings [Shadowstats.com](https://shadowstats.com).

Whether we are currently in a recession or as the pundits are now saying, we will be entering a recession sometime in early 2023, I want to provide you with some areas that you should consider to protect yourself during a recession.

- 1- We always recommend everyone have a **Cash Emergency Fund**. Normally for working folks 6 month to 2 years and for those in retirement, cash equivalents of 2 to 5 years. Currently, the latter I highly suggest for most
- 2- **Live Within Your Means** this is not a time to make unnecessary purchases and looking at ways to cut back on unnecessary costs would be prudent
- 3- Be honest about **Risk Tolerance** during this current economic cycle. If you have not reevaluated your propensity for risk in the last few years, you may be very disappointed when

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you look at your statements. Those that are utilizing KFS's asset under management format know that we are constantly reallocating investment positions as we seek potential sectors that may provide the earnings commensuration with the risk being taken. At the rare occasions like we are faced with today, I want to share the words of Mark Twain, *"I'm not concerned about the return of my money as I am on the return of my money"*

Social Security Benefits - On a bright note, Senior citizens and other Social Security recipients will start getting a heftier monthly benefit next month due to an 8.7% annual cost of living adjustment aimed at helping them cope with high inflation.

The increase, the largest in more than 40 years, will boost retirees' monthly payments by more than \$140 to an estimated average of \$1,827 for 2023.

The adjustment is the highest that most current beneficiaries have ever seen because it is based on an inflation metric from August through October, which was also around 40-year highs.

Senior citizens will soon get that big hike in their Social Security benefits Tami Luhby, CNN Dec 30, 2022

Real Estate and Mortgage Interest Rates – Home sales declined by 7.7% on a monthly basis in November and sales were down 35.4% year over year, making the tenth straight month of declines. That was the weakest pace since November 2010, except for May 2020, when sales fell sharply during the Covid pandemic.

CNBC Dec 21, 2022 Diana Olick

With increasing mortgage rates homeowners who were thinking of selling are realizing that their new mortgage rate could be twice as high as their current one- and first-time homebuyers are now faced with higher interest payments on a purchase which may cause them to recalculate what their home price point is that they can now afford.

Retirement Programs – Our investment accounts are held either directly with a mutual fund family or within a managed brokerage account which we clear through Fidelity Investments. On the direct side, we have been offering to reevaluate client's investment allocations and updating more frequently their personal financial situations. On the managed brokerage side, we have amended all our accounts within our Investment Policy Statement allowing for a much larger allocation into various fixed positions.

The following are the market performances of the major indexes to give you an idea of how various investment sectors performed in 2022.

Dow Jones Industrials	-8.78%
S&P 500	-19.44%
Nasdaq Composite	-33.10%
iShares Core US Aggregate Bonds	-13.02%

Source: Barron's Mag. Jan. 2, 2023

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What this year has taught us is that there are no set rules in investing especially when we look at the correlations between stocks and bonds. The general rule of investing was that when stocks go down, the bond portion of your portfolio lessens the losses and vice versa but that just was not true this time.

At KFS, we have been utilizing the following sector allocations; Consumer Staples, Energy, Equal Weighted S&P Index, Dividend Producing Stocks, Commodities and Short-Term Treasury Notes (3-4 months in durations and creating a laddering approach). We will continue to reallocate these and other holdings as we see potentially favorable risk to reward opportunities. Of course, we need to make it clear, **we are not and have not guaranteed any type of investment results and that past performance is no guarantee of future returns.**

I would like to address a theme that we applied to our technology investment positions very early in this pandemic, The FAANG stocks. Facebook now called (META), Amazon (AMZN), Apple (AAPL), Alphabet (GOOGL) and Netflix (NFLX). These 5 stocks now go by the name MAMAA. Meta, Apple, Microsoft, Amazon, and Alphabet. Since March 1, 2009 these 6 stocks made up 21% of the S&P 500 and 40% of the Nasdaq 100 overall gains.

STOCK	TOT. RETURN SINCE MAR 1, 2009	JAN 1, 2022 THRU DEC 30, 2022
META	307%	-64.91%
AMZN	877%	-50.35%
AAPL	578%	-27.57%
NFLX	1,530%	-51.70%
GOOGL	638%	-39.84%
MSFT	729%	-29.87%

The Motley Fool Investing in FAANG or MAMAA stocks Adam Levy Jul 21, 2022
Morningstar paid subscription, Year End Returns Dec, 30, 2022

The following topics are to provide you with some additional advanced planning techniques to help leverage your monies, provide peace of mind, and potentially save you thousands of dollars in taxes.

- 1) **ANNUITIES** - With many of our investment clients, we have been utilizing several different types of annuities to assist in either protecting principal, reducing asset management costs, or guaranteeing lifetime income through various riders with some of the programs. Annuities, can be confusing but at KFS we understand the different products and provisions available to create programs that meet your goals and objectives. Whether it be for growth, accumulation or utilizing retirement distribution strategies to ensure that you will never run out of money.
- 2) **CHARITABLE DONATIONS** - For clients over the age of 70 ½, even though required minimum distributions now start at 72 they may want to consider making qualified charitable distributions. This is a donation that you make directly from your retirement account to an eligible charity. We are finding that clients who are taking their RMD's could also be hitting

new Modified Adjusted Gross Income (MAGI) amounts and these increases could move them up to the next tax bracket which could bring on higher costs for their Part B Medicare premiums and Part D Medicare drug plans. In addition to these two potential tax savings, you could also lower your Provisional Income which is a calculation that is made to determine what amount of your social security will be subject to taxes. For many philanthropic clients, this little adjustment in how you go about making charitable contributions could save you on taxes.

- 3) **REDESIGNING CURENT PLANS** - During these past several years, we have been reviewing client's existing life insurance policies and finding that their needs for the coverage has changed. With our expertise in designing policies, we are solving clients' needs that they had no idea the strategies that we utilize were even available. We are providing peace of mind to folks by leveraging stagnant accounts to be left as a legacy and creating solutions for potential home health, assisted or nursing home care needs all with tax free dollars and many times enhancing their legacies too.
- 4) **BENEFICIARY DESIGNATIONS** - Beneficiary Designations for both IRA's and Life Insurance take precedence over a will as far as who receives them. If you name a beneficiary on your IRA or Life Insurance form and a different person in your will, the person named on your IRA or Life Insurance policy forms will be the recipients. Interestingly, most people know exactly where their wills are located but they have no clue about who their beneficiaries are for certain. Let's set up a time for a review and potential update of these designations.

Cindy, Gregg and I would again like to thank you for being a part of our lives and trusting us with such an important part of yours. We will continue to do all that we can to assist and guide you.

JEFFREY A. KATZ

Jan. 3, 2023