2022 Midyear Update

It's no doubt that 2022 has presented challenges for most investors. Stocks and bonds have experienced weakness as the Federal Reserve attempts to fight inflation, which they once termed as "transitory" but has proven to be more persistent. After a decade of underinvestment in fossil fuels, and with some help from Russia's invasion of Ukraine, energy prices have spiked along with grocery store staples, automobiles and almost everything else. The Federal Reserve (Fed) seems locked in on fighting inflation and less concerned about asset prices. The Fed is both raising rates and shrinking their balance sheet simultaneously. Recession risk is on the rise and investors wonder "what should I do"?

While not personalized information, the following points are widely applicable and good food for thought. We will refine these recommendations as we see you, but please consider them as good conversation starters.

Here are some actionable steps that are widely useful:

- **Pay down adjustable-rate debt**. Where low-interest, fixed-rate debt can be advantageous in periods of rising rates (earning more after tax on your investments than the rate of interest on your debt) this is not the case for adjustable-rate loans.
- **Confirm that your asset allocation matches the timing of your cashflow needs**. For instance, if you have 529 plans or other college savings vehicles and your son, daughter or grandchild is headed to college in the next 12 to 24 months, consider reducing risk to make sure money is available when needed.
- **Reduce "sequence of returns risk"** by earmarking 3-5 years of living expenses in laddered CDs or treasuries; or consider annuitizing a portion of your essential income.
- Use year to date market weakness to **recognize capital losses in taxable accounts**. Losses are valuable and can be used to offset gains down the road. Carryforward losses do not expire (as of now).
- **Consider Roth conversions** if your tax bracket is expected to increase over time or it happens to be a lower income year for you.
- **Make cash savings work for you** - taking some of the sting out of inflation:
    - **Take advantage of I-bonds** ($10k per person per year) with current adjustable rates at 9.62%. https://www.treasurydirect.gov/indiv/research/indepth/ibonds/res_ibonds_ibuy.htm There are plentiful articles about I-bonds with a simple Google search or ask the GWMG team.
    - **Ladder CDs or Treasuries** – e.g., buy a 3-month, 6-month, 9-month and 12-month maturity in equal amounts and collect over 2% interest, potentially a state tax benefit, all with plenty of opportunity to lock in higher rates should they continue to rise.
- **Consider insurance strategies** that may incorporate guaranteed returns or that offer no downside in return for capped upside participation in the markets.

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- **Review your 401k allocations and be aware of the risks posed by "Target Date" or "Lifecycle" funds.** The assumptions in those funds are based on positive fixed income returns, largely based on the last 40 years of declining interest rates which led to strong fixed income returns. The interest rate environment has changed!
- **Consider the use of "alternative investments"** which seek differentiated returns and tend to do well in periods of elevated stock market volatility, cross-asset volatility, inflation, etc.
- **Plan for your Required Minimum Distributions (RMD)** now to avoid a 50% penalty.
- **Qualified Charitable Distributions (QCD)** are a good way to reduce taxable income and provide for the charity of your choice. Generally, a QCD is an otherwise taxable distribution from an IRA (other than an ongoing SEP or SIMPLE IRA) owned by an individual who is age 70½ or over that is paid directly from the IRA to a qualified charity.
  - Additional information about QCDs can be found here.
  - Please consult your accountant/tax advisor for advice specific to your situation.

While 2022 is certainly presenting its share of challenges for most investors, bear markets and inflationary environments are nothing unusual in the context of market history. Exogenous factors such as the invasion of Ukraine and Covid lockdowns in China are only serving to exacerbate these challenges, but rest assured we at Green Wealth Management have been (and continue to) take appropriate steps to position our clients' portfolios accordingly. Our planning-based approach results in establishing investment strategies that are consistent with each client's time horizon and comfort with risk. While we believe markets are likely to remain unsettled and more volatile until inflation is brought under control, investment markets have a history of successfully weathering such storms and rewarding investors who stay the course. Please reach out to any member of the team with questions or comments.

Sincerely,

Green Wealth Management Group