The
FINANCIAL UPDATE
DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING

Fourth Quarter 2022 NAPFA - Registered Financial Advisor (478) 474-7480

Retirement Realities Are Grim For Many Americans

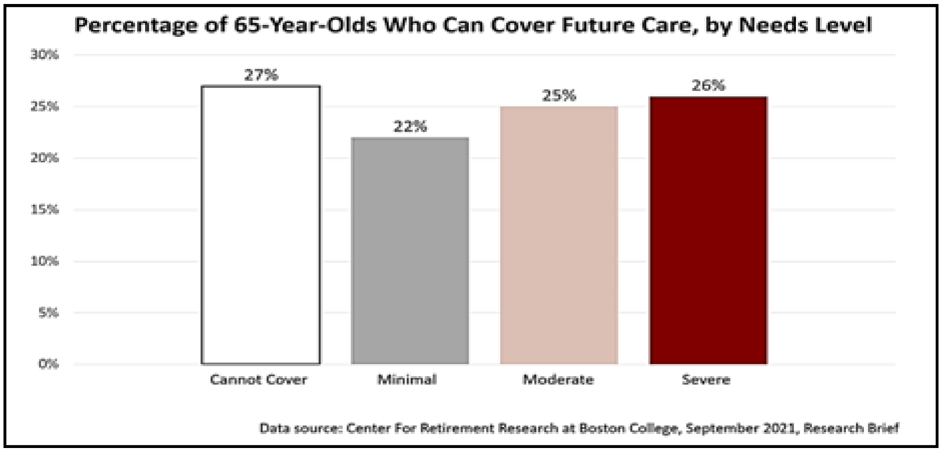
At age 65, only 22% of American retirees possess the family and financial resources to cover high-intensity care for at least three years, and 27% cannot afford any help at all. The remaining half of older adults, if they are stricken by a prolonged health crisis, lie somewhere in between not being able to afford any care and having a long-term safety net.

These are the grim conclusions of The Center for Retirement Research (CRR) at Boston College. Part of a consortium of research groups funded since 2018 by the U.S. Social Security Administration, CRR's research paints a gloomy picture of the retirement struggle most Americans are facing.

In a September 2021 research brief, CRR examined the resources available to 65-year-olds to meet their needs for different long-term services and support. CRR's analysis considered "informal" care from family members, as well as care paid for out of a retiree's pocket, and it categorized older adults by their ability to afford to pay for minimal, moderate, as well as severe care needs.

According to CRR, about a third of America's retirees lack the resources for even minimal care. In addition, only a fifth would be able to afford care for a severe personal health crisis, such as a stroke or chronic disease. The problem is expected to raise enormous social and political issues in the years ahead as baby boomers age. However, even if you have family support and enough money to care for a severe health event requiring long-term care, proper planning requires answering some difficult personal financial questions:

- Can you afford to self-insure in your old age?
- Have you done the financial math to ensure you could pay for a severe-care event through age 85 or 90?



- Have you paid for long-term care insurance that has grown more expensive or now provides lower benefits than it used to?

One of the solutions for managing

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Congratulations to Autumn

We're happy to announce that our Financial Advisor Associate, Autumn Vaughn, is now a CERTIFIED FINANCIAL PLANNER™, having attained the certification issued by the Certified Financial Planner Board of Standards. She has a Bachelor of Science degree in Financial Planning from the University of Georgia and has been with Day & Ennis since graduating in the spring of 2020.

We invite you to visit the "Meet the Team" page on our website to read more about Autumn and our other team members. We now have four members with CFP designations, two with CPA/PFSs, and one who has also been issued a ChFC certificate.

We continually strive to improve the expertise we offer clients at Day & Ennis and congratulate Autumn on her accomplishment.

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Sincerely,
Day & Ennis, LLC

Year-End Tax Planning Reminders

It's time to think about year-end tax planning, and it is especially important this year. 2022 is an unusual year for tax planning. Not only has the stock market been volatile, creating strategic opportunities, but new rules about distributions from IRAs and federally qualified retirement plans (QRPs) – such as 401(k), 403(b) and defined benefit plans – became effective . In addition, the newly-enacted Inflation Reduction Act also has created some new tax incentives and credits that you might want to act on by the end of the year.

Sweeping new rules on distributions

from IRAs and federally qualified retirement plans (QRPs) were released February 23, 2022, and went into effect retroactively on January 1, 2022. The new rules affect required minimum distributions from IRAs, defined contribution plans, defined benefit plans, and annuity contracts. They affect distributions commencing during an employee's lifetime, and at death before the required beginning date for distributions, as well as rollovers and transfers from IRAs and QRPs. This is a complicated area of retirement and estate tax planning. This is an early warning, in case you made some changes in your IRA in 2022, are contemplating making a change, or are unsure about how your beneficiary choices can be optimized to your personal tax situation.

A bear market began on June 13, when the Standard Poor's 500 stock index closed more than -20% lower than its all-time closing high on January 3. By the close of the market on June 16, 2022, the S&P 500 stock price bottomed with a loss of about -23%. Then, a bear market summer rally broke out, cutting losses by about half. In September, however, stocks sharply declined again. The stock market is likely to be volatile for the rest of 2022, as the Federal Reserve continues to raise lending rates and slow down the economy to fight inflation. In periods of sharp ups and downs, it's wise to consider taking a loss or realizing gains on taxable assets.

President Joseph R. Biden, Jr., signed the Inflation Reduction Act into law on August 16, 2022. The new law contains tax breaks that you might

benefit from, including a 10-year extension of rebates for buying an electric car, as well as a 30% clean energy tax credit for homeowners in the form of rebates of up to $14,000 on the purchase of energy efficient water heaters and air conditioning equipment. You may want to consider these tax incentives if you are thinking of adding solar panels to your home or making other energy efficient improvements before the end of the year. The Act, as originally contemplated, would have included other tax changes that did not make their way in the final legislation signed into law. Some of those provisions could yet be adopted before the end of 2022.

It's wise not to wait until December to start thinking about year-end strategic tax moves because some tactics may take time. Please check our financial planning updates to keep apprised as the end of the year approaches. ●

A Timely Reminder of Why You Take Stock Risk

The equity risk premium is an important metric to remember as the bear market that began this year extends into the fourth quarter of 2022. Illustrated on the right is the premium stocks annually-averaged in the 20 years that ended September 30, 2022.

Stocks, as measured by the Standard & Poor's 500, averaged a +9.8% annual return in the 20 years — more than seven times the +1.2% annual return on the risk-free 90-day U.S. Treasury bill in the same 20-year period.

T-bills are considered riskless investments. That's because they're backed by the full faith and credit of the United States Government. In contrast, stock prices fluctuate depending on the economy and investor sentiment and are subject to some pretty wild and unpredictable swings. That's why stocks are considered risky.

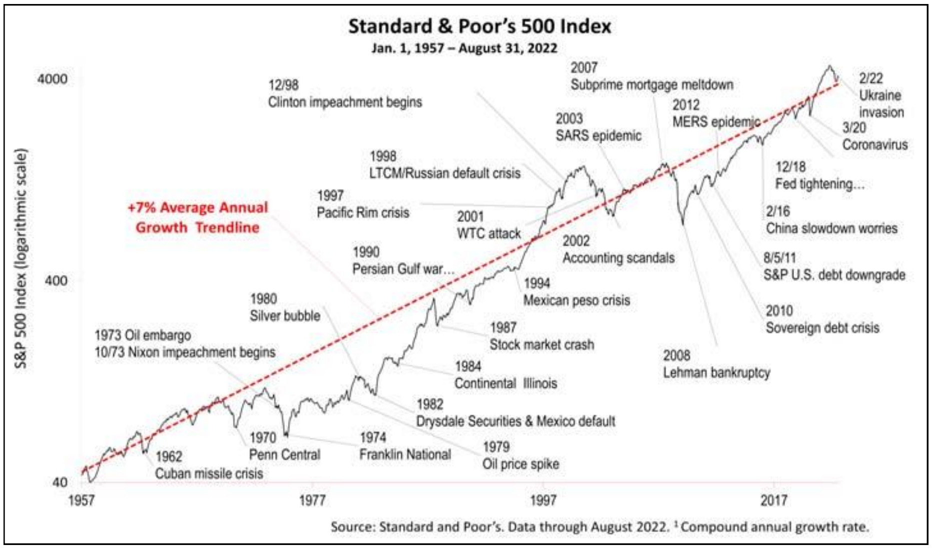
Subtracting the returns on T-bills from the return on stocks, the resulting +8.6% is the premium paid annually for taking the risk of owning U.S. stocks over the 20 years that ended September 30, 2022. In other words, investing in America's 500 largest public companies earned an average of +8.6% more annually than a risk-free investment.

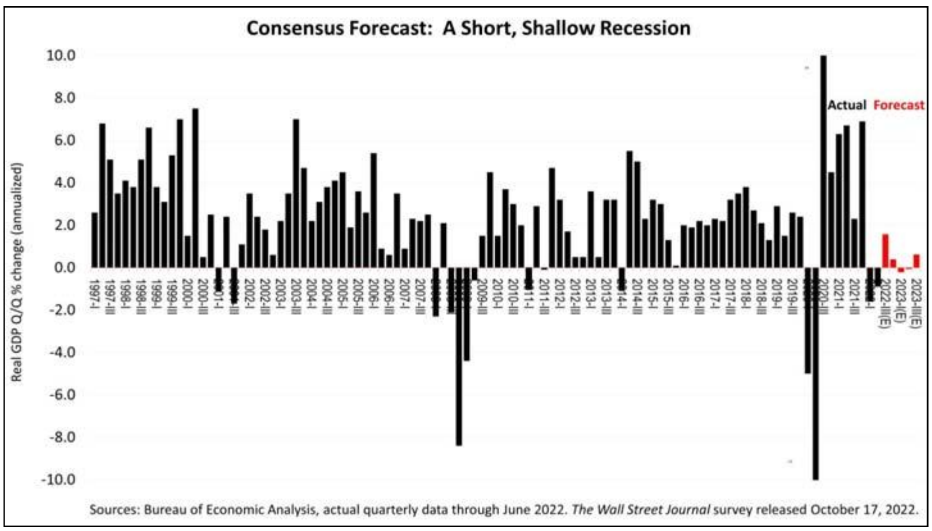
This 20-year period encompassed four frightening bear markets — the tech crash of 2002, the financial crisis of 2008, the COVID downturn of early 2020, and the current bear market.

Past performance is no guarantee of your future results, and that, paradoxically, is precisely why investors are paid a premium for owning stocks.

Yes, stocks are risky- But be glad for it since that is why stocks

Bracing For Recession In A Bear Market





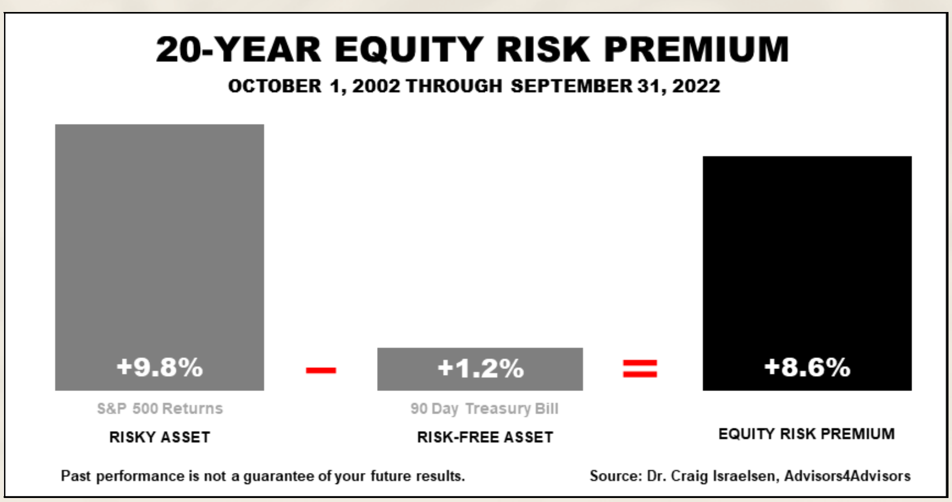
Stocks have been in a bear market since June 13, 2022. The decline began on January 3rd, worsened in February when Russia invaded Ukraine, and sunk deeper after the Federal Reserve in March began an aggressive series of interest rate hikes to fight inflation.

The price of the Standard & Poor's 500 index and historic financial crises since 1957, shown in black in the accompanying chart, is a reminder that the U.S. economy and stock market endured many setbacks and bear markets throughout modern U.S. history. The dotted line in red shows the average annual growth rate on the S&P 500 stock index was 7%, despite the many crises.

In recent months, the S&P 500 index declined from the heights of late 2021. The decline brought the price of the stock index right at its historical trend rate of 7%. This indicates stocks are not overpriced, like they were in the tech-stock bubble, which began in 1997 and peaked in 1999 and 2000. Yet the economy is hobbled by high inflation and the stock market decline is unnerving. How bad do things look to leading economic experts?

According to the latest Wall Street Journal quarterly survey of 60 leading economists, the consensus forecast is for a recession in the first and second quarter of 2023, but the downturn will be short and shallow, and they call for a return to positive growth of six-tenths of 1% in the third quarter. To be clear, more pain is ahead, and stocks may decline further, but the consensus of the leading economists is for growth to return to the economy in the third quarter of 2023, and that's a reminder to investors as we brace for a recession amid a bear market.●

returned +8.6% more annually than U.S.-government-guaranteed investments through multiple bear markets and financial crises of the past 20 years.●



A Framework For Investing For Life

Modern Portfolio Theory, or MPT, is a framework for investing. It provides part of the intellectual underpinning of our firm's approach to managing investments. So, it is important to explain it periodically.

Just as constructing the framework for a home is strategically designed by connecting one piece of wood with another, MPT provides a system for constructing a portfolio based on measurable dimensions of investments – history and quantitative characteristics.

Owning different kinds of investments is less risky than owning only one type of asset, and MPT is a system for diversifying across a wide range of assets based on their statistical characteristics.

Classifying investments based on their distinct characteristics – such as the aggregate value of a company's shares outstanding, profit growth, and share-price variance – imposes a quantitative discipline for selecting combinations of investments based on historical data. Investments revolve around a world that is always changing, however, and not enough statistical history of different kinds of investments exists to make investment predictions about the future with certainty. MPT is a way of managing that uncertainty.

Just as every stud and joist in a home has its own mathematical dimensions, investments have their own unique shape and characteristics. MPT organizes statistics that measure the characteristics of different kinds of investments used to construct a portfolio. It's a way of building a portfolio so that the return you expect over the long run is maximized for a given level of risk.

Just as a home can be built to your personal needs and preferences, so, too, can a portfolio be custom-built to suit your personal risk tolerance specifications. To be clear, cookie cutter portfolios is not what we do.

Each portfolio can be tailored to an investor's preferences.

Economist Harry Markowitz introduced MPT in a 1952 essay. He was awarded a Nobel Memorial Prize in Economic Sciences in 1990. Thus, it took from 1952 to 1990 – 38 years – for Markowitz to be recognized by the Nobel committee. This provides insight into the how long it takes for knowledge to be accepted.

Over the last 70 years, the power of Modern Portfolio Theory has grown to be understood. It is now the framework for investing embraced by most institutional investors worldwide and it is now a foundational element in teaching finance at the world's best colleges and universities.

MPT is a starting point for constructing a quantitatively driven portfolio based on fundamental economics. Just as the laws of physics are relied upon for building a home, fundamental factors of economics are relied upon in constructing a portfolio using MPT. To receive a report on investment performance and current financial economic conditions, please contact us. ●

Retirement Realities Are Grim

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retirement and health care risks is long-term care insurance (LTCI), a relatively new type of insurance. For most of its 50-year history, insurers made overly optimistic assumptions about how many policyholders would keep policies in force, how long policyholders would live, and how many policyholders would need long-term care during their lives, and for how long it would be needed.

Because insurers' assumptions turned out to be wrong so often, many have gone to state insurance regulators to request approval for price increases, as allowed by the policy contracts. Milliman, a national actuarial firm, in March 2022, released results of a voluntary survey of 20 insurers that had asked for rate increases. The survey showed that most rate hike requests received full or partial approval. The average increase approved was 29%, with a range from 5% to more than 60%.

Companies that request a rate increase also provide reduced benefit options, including reduced daily benefits, reduced benefit periods, increased elimination periods, and reduced inflation protection. Only about 11% of policyholders elected a reduced benefit option, the survey showed.

Many insurers also offer a reduced paid-up benefit, with no further premiums due, but fewer than 5% of policyholders elected this option.

The March 2022 survey of long-term care insurer rate increases confirmed that LTCI is fraught with risks to policyholders. Whether you have a received a policy rate increase notice or are considering buying a new policy, we recommend consulting with a professional who understands the risks.

The grim realities many Americans will face in retirement, along with the complexity of long-term care insurance pose challenges to many affluent Americans who worked all their lives but do not have multi-million dollar nest eggs and family members they can rely on for long-term health care.

The earlier you get started on planning your retirement portfolio and retirement income needs, the easier it is likely to be to find solutions and gain peace of mind.●