EAGLE WEALTH STRATEGIES WINTER 2023

THE EAGLE'S VIEW

Chris Tully, CFP®, RICP®, CIMA®

2022 was a dreary year for financial markets. With consumer sentiment readings hitting their lowest point ever in June, this is hardly news to investors. The year was all about inflation, the Federal Reserve (the Fed), and war. Stock indices hit bear market territory mid-year and bonds recorded their worst calendar year on record. Some sectors within the stock market and some types of bonds fared better than average, but overall, there was little room for hiding in 2022. In may not feel like it, but most of the current damage was done during the first half of the year, with markets relatively range-bound over the past 6 months.

Looking ahead to 2023, many of the headlines remain, but we believe the ending picture will look different. While inflation has moderated, and signs point to further moderation in the coming months, the Fed continues signaling that increases to short-term rates will continue into the new year and will remain higher for longer. Increased market volatility – with frequent rallies and sell-offs – may continue until a moderating inflation trend further develops, and the extent of the subsequent economic damage is known. A clearer picture, unfortunately, is unlikely to appear for months. Luckily, unless you are planning on utilizing the bulk of your investable assets within the next several months, time is on the side of longer-term investors.

The question that has been on everyone's mind – and the question that will dominate the news for the foreseeable future – is whether the economic slowdown will become a recession. Opinions differ widely. In late December, economists participating in a Bloomberg poll said there was a 70 percent chance of recession in 2023. In contrast, economists at a major investment bank say the U.S. will experience a soft landing in 2023. A soft landing occurs when the economy slows and inflation falls without a recession. Near-term recession may be too close to call at this point, though an extended period of slower growth over the coming years seems likely. Per JP Morgan Asset Management's "Investment Outlook for 2023":

"For investors, however, it is important to look beyond the cycle. While a 2023 recession is quite possible, it should be a mild one if it occurs. More importantly, with in-

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Paul J. Tully, CFP®, RICP®

Very few people are sad to see 2022 in the rear-view mirror, at least financially. I'm thrilled it's finally over and it seemed more like a decade than just one year.

Rising inflation and aggressive increases in interest rates by the Federal Reserve trampled prices in stocks (fairly common), bonds (very uncommon) and recently, even declines in housing prices. Very tough medicine after years of "easy" money.

We have read the headlines, "worst stock market since 2008"," 4th worst since 1945", "worst bond market ever", "highest inflation in 40 years" and on and on. Tired of it.

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EAGLE WEALTH STRATEGIES
AN INDEPENDENT PRACTICE

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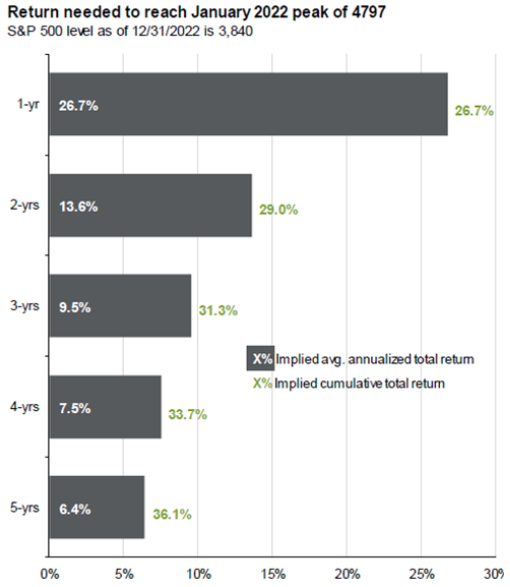
flation continuing to fade and fiscal policy likely on hold, the Fed is likely to end its tightening cycle early in the new year and inflation could begin to ease before the end of 2023. By 2024, the U.S. economy may well be back on a path that looks much like that of the late 2010s – slow growth, low inflation, moderate interest rates and strong corporate margins. While this may not represent an exciting prospect for the average American worker or consumer, it is an environment that could be very positive for financial markets."

In his "2023 Equity Market Outlook", Michael Gibbs, Director of Equity Portfolio & Technical Strategy at Raymond James sees opportunity from current levels, even with the possibility of an economic recession:

"Our base case scenario for year-end 2023 is 4,300 on the S&P 500, which uses $215 in earnings (vs. consensus at ~$230) and does anticipate a mild/moderate recession, we believe the S&P 500 can move higher despite earnings moving lower (base case) as the Fed likely reaches a peak for this tightening cycle. In the near-term, rallies / sell-offs are likely to continue, as it is our belief that the market is unlikely ready to run to new highs until the economic damage is understood (with the S&P 500 likely range bound between 3,700-4,300). However, longer-term, we believe we are nearing the end of the bear market, and if wage inflation moderates, as expected, odds are good a new bull market will develop later in the year (with the average bull market increase 152% off its bottom over the course of nearly 5 years)".

With the S&P 500 ending 2022 at 3,840, a 2023 year-end level of 4,300 would represent an approximate 12% increase for the year. While still far short of the peak we experienced in January of 2022, an increase year-over-year would be a good start. Shorter-term projections such as these can be tricky, so maintaining a longer-term perspective is important. The chart below illustrates what the average annual return would need to be – from December 31st closing price – to re-attain the January 2022 highs of S&P 500:

The percentage shown within the gray bars is the annual average during the specified time period to bring us back to our peak. For example, if the recovery takes another 3 years from this point, stock returns would average 9.5% annually – nearly double digits – over that timeframe.



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Unfortunately, it may not yet be done with us and although the annual forecasts from Wall Street and others are often far off track, this year's consensus seems to be that we may have some continued bumpiness ahead for at least some of 2023. If so, I still believe it will be a somewhat smoother ride than 2022 when we had 122 days where the S&P 500 rose or fell by 1% or more, the most since 1945.

I think it's reasonable that a simple turn of the calendar page does not change the fundamental underpinnings of the investment markets or our economy. The issues that created the angst we experienced in 2022 may be in the later innings and before 2023 is over, the financial skies should be a lot bluer than today.

The one ongoing and to date unaddressed variable is government and personal debt, but that's a topic for another letter. It is, however, the primary cause of our inflation and the resultant chaos.

Our problems aren't going away forever and the recent travails we have experienced are simply a reset point from which we need to make some serious choices about our collective futures.

Now for the good news, or at least the beginning of it. Inflation appears to have peaked several months ago and is slowly improving. The last interest rate hike was less than the prior 4 and likely to be among the last we need to reduce the inflation rate. The long-awaited recession, if it isn't already here, is likely sooner than later and is anticipated to be relatively short and mild.

Although tech stocks took a tremendous beating last year, some big names down as much as 65%, technology progress that will enhance lives and speed medical advances continued its relentless march into the future. Advances are coming that will be transformative and sooner than many expected.

It didn't seem all that long ago that your portable phone, if you could afford one, was bolted into the trunk of your car with an easily breakable antenna drilled into your roof. To show my age a bit, I recall the "car phones" of the 1970s that required a multi-year wait to get one and you couldn't use your phone if another party who you shared access with was in their car using their phone.

Progress has been amazing, and it is accelerating.

I think the years ahead, especially with Covid still very fresh in our minds and in our lives, will provide an environment for what one financial author has call "the great reset" and I agree with that.

People are challenging previously long held beliefs about the role of work and the amount of risk they can stomach (emotionally and financially), and as I have said in numerous letters, we are preparing for a lower rate of return world over the next 10 years than the 10 years that ended in 2021.

At the same time, medical advances in many areas are going to extend lives, especially for people like our clients with both resources and access to top medical care.

For those of us in our 60s and beyond, our investing lives have had 3 stock market declines in the past 25 years approaching 50% (2000, 2008, 2020). That doesn't include 1987, where we had a 22% decline in a single day. A couple of housing busts as well.

We are older, hopefully wiser and a bit more cautious, realizing that unexpected events, called "black swans" in our business, can wreck your financial plans and make recovery challenging, perhaps impossible. Sometimes those mistakes or events got covered over by a very robust stock market.

I provide clients with advice with the philosophy that although I have been in this profession 45 years and have experienced a lot, my clients and their families, friends and associates generally have one shot to get this correct

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Putting this in perspective, during the Great Financial Crisis of 2007-2009, the S&P 500 peaked on October 11th, 2007 at 1,576, bottomed on March 6th, 2009 at 667 and reached a new all-time high of 1,589 on April 10th, 2013. Round-trip, from high to high, this cycle took approximately 5 and half years. That recession was fraught with overleverage and a global financial system on the brink of collapse. Today, while things from an economic standpoint are likely to get worse before they get better, we believe the likelihood of experiencing a contraction equivalent to either of the two prior recessions is low.

While cash and CD rates have increased from the lows of 2020, they are still significantly lower than the 4-year and 5-year "return needed" figures for stocks above. Bonds, similarly, are currently priced at attractive levels we haven't seen in many years. With rates higher and prices lower, on a going forward basis we expect positive performance, plus a renewed hedge if stocks fall to new lows.

At Eagle Wealth Strategies, as we monitor and manage our clients' portfolios, we're focusing on a variety of investment themes as we kick off the new year. Areas of focus include:

1) Stocks – Focus on International / Emerging Markets
2) Stocks – Focus on Quality
3) Stocks – Continue "Value" Focus
4) Stocks – Move more towards "Active" investing
5) Bonds – Reduce Short-Term, move towards Intermediate-Term
6) Bonds – Focus on credit quality

As our Investment Committee meets and makes portfolio adjustments, we'll continue to inform impacted investors of the rationales behind any changes and answer any questions you may have.

As famed investor Benjamin Graham once said, "The investor's chief problem - and his worst enemy - is likely to be himself. In the end, how your investments behave is much less important than how you behave". What the markets may do isn't what keeps us up at night. What clients do in reaction to market movements is. It's unfortunate that we've had to weather the multitude of difficulties over the past several years, but with investing – just as with life – we must play the hand we're dealt. We're not living in the best of times, but we're hardly living in the worst of times either. Volatility can test one's resolve. If you believe as we do, that this too shall pass, and a rebound that produces new highs is inevitable, just as occurred following the Great Financial Crisis – and each of the prior 10 recessions since 1948 – then remaining invested, remaining patient, and remaining focused on the big picture is once again the best course of action.

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and that shot is getting a bit tougher in recent years and may well continue.

It is a reason why we urge clients to have good counsel in accounting and law, reduce taxes where they can, have their legacy plans documented and reviewed, and avoid situations, however attractive, where a bad outcome can derail a lifetime of saving and investing.

Let us make a vow, to ourselves and those for whom we would like to see a great financial future, that we will put our house in order, suggest to those people they get topflight advice and planning, and have the opportunity to experience what will be a continuation of us living in a world of incredible advances.

Financial Planning Update

Jessica L. Ortega, CFP, RICP®
Director of Planning

New for 2023

With each new year comes new limits and thresholds for a variety of tax and planning areas:

- You can now save more for retirement. The maximum you can contribute to an employer-sponsored retirement plan in 2023 is $22,500 per year, or $30,000 if you're 50 or older. The maximum IRA contribution will also be increasing to $6,500, or $7,500 if you're 50 or older. The SIMPLE IRA contribution limit will be increasing to $15,500, or $19,000 if you're 50 or older.
- The annual gifting limit will increase from $16,000 to $17,000 per year per individual.
- Social Security benefits are getting an impressive 8.7% raise – the largest cost-of-living adjustment in decades. Medicare Part B premiums are decreasing by 3%, or $5.20 per month. The standard Part B premium will be $164.90 for 2023.
- If you are working in 2023 but have not yet reached Full Retirement Age for Social Security, you can now earn $21,240 without your benefits being impacted.
- The standard deduction will increase by $1,800 for married couples filing jointly, going up to $27,700. For single filers and married individuals filing separately, the increase will be $900, going up to $13,850.

2022 IRA Contribution Deadline

If you have not contributed to your IRA for 2022, you can still make contributions until Tuesday, April 18, 2023. You'll want to be sure your contribution is reflected on your 2022 tax returns if you're making a deductible IRA contribution in 2023 for 2022, so while the deadline for the deposit is April 18, you'll want to coordinate it with filing your return as well.

Employee Spotlight: "In the Blink of an Eye…"

Steffanie Lerch, CFP, RICP®
Senior Wealth Advisor

20 years has come and gone since I first started at Eagle Wealth Strategies in July of 2002. It almost seems impossible that half of my life has been dedicated to creating and fostering relationships, diving into personal details that ultimately make clients feel more like relatives. In those now 20+ years I have grown both professionally and personally and have made lifelong friends. Here is my brief reflection on those 20 years in the hopes that all of you that I work closely with and those that work closely with others in the office will feel a sense of what it means to belong to the EWS Family.

Many do not know that I walked through the doors of EWS with a "paper" resume (now that makes me feel old) looking for an internship entering my senior year in college. Luck would have it that the day before, Paul received notice that the intern they hired could no longer fill the position and I was welcomed to start immediately. At the risk of sounding like a broken record, the feeling of family and being welcomed with open arms at EWS rings true. The pursuit of education and applying yourself beyond basic expectations is also a theme that was not only encouraged by Paul but continued in our culture today. Speaking of Paul, the ease at which he mentors, guides, and supports you through all facets and challenges in our industry is invaluable. I know I speak for many of our readers of this newsletter but we all look forward to his words of wisdom.

If someone asked me today how I came to be in this field, I am not sure I could answer it. The industry intrigued me at the time but I didn't have a definitive plan yet. If you ask me today, why I stay in this field, though – my answer is simple, the PEOPLE! There are days the regulations, processes and yes, the markets, make you question your sanity. However, the people/clients keep you reeled in. The confidence of my impact on their short- and long-term goals never waivers. We all simply want to be here to help. That is why I jokingly say I am not a "financial advisor"; I am a "professional helper". Clients' needs often go well beyond financial advice, and that is what makes EWS so special because we all share in that common culture. The client is family, plain and simple, and family is always there for each other.

In many cases clients have even been there for me! In my 20 years here, I married my high school sweetheart, Mike, and we welcomed our son Landon in 2011 and daughter Brielle in 2015. The outpouring of love and support from clients during those times was remarkable - unexpected but immensely appreciated. We now reside in Mullica Hill, with Mike teaching at the high school where we met and graduated from and that our kids will one day attend! We are Doberman lovers, sports enthusiasts, and are an official member of the "Duck, Duck, Jeep" gang now which the kids love partaking in.

The next 20+ years remain to be seen for all of us. The fostering of existing and new client relationships will remain at the forefront. If anything like the past 20 years, myself and EWS have exciting things in store. Despite inevitable challenges along the way I'm optimistic that success will prevail, and before you know it I'll be writing 40 years gone IN THE BLINK OF AN EYE.

Medicaid Planning – An Unfamiliar but Important Piece

Steffanie Lerch, CFP, RICP®
Senior Wealth Advisor

The word Medicaid generally has a negative connotation, often associated with minimal assets and subpar nursing homes. In reality, Medicaid planning comes down to two things – asset protection and coordination of care.

Many seek assistance from an attorney for legal advice, deed or housing issues, and trust creation; however, the role of the financial advisor should not be minimized. Consulting with your advisor on issues pertaining to asset transfer, gifting, and asset protection not only help to define the goal, but also to better illustrate the plan, and perhaps most importantly, aid in its execution.

Just this past year we have had several cases where clients had moderate to substantial assets, but they were already in a care facility or expected to be over the next several years as their healthcare needs evolve. Putting together a plan to gift, or what I like to refer to as "shift", assets out of the client's name and into the family or legacy name ultimately provides some protection for those assets. The key is that until that time Medicaid can be applied for (take for example New Jersey, who has a 5-year look-back period from the final gift date) adequate assets need to remain for their care while also taking into consideration the following items:

-Monthly cost of care
-Inflation of care
-Potential income or capital gain taxes
-Current income sources

We work closely with estate and Medicaid planning attorneys to ensure that all angles are looked at comprehensively and a coordinated plan is put in place. Every case is different; there is no cookie cutter approach to Medicaid planning. While there are many variables, the common goal in each case is to shield assets while finding the best level of care, and we can help navigate this alongside you.

Please reach out to me should you have any questions or want to discuss specific situations regarding you or your loved ones.

News at EWS

Paul, Chris, and the entire Tully clan *were decked out in their matching jammies on Christmas morning. Santa didn't pass up this house, that's for sure!*

You're never too old to monkey around! The office celebrated ***Chris'*** *birthday this year with a jungle theme and a gourmet lunch prepared by our own in-house* ***chef and caterer, Steff*** *.*

As usual, we forgot to take many pictures at our EWS holiday dinner – but we did capture this gem, with ***Frank, his wife Jenna, and Ryan*** *hamming it up.*

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