THE

SEDORIC GROUP

of Steward Partners

2022

ANNUAL OUTLOOK

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LOOKING BACK ON 2021

2021 was another banner year for many areas of the marketplace and balance sheets, although the largest gains were concentrated in a small number of companies, mostly U.S.-based and technology related.

The TINA effect (There Is No Alternative) was in full display as investors chased returns within real estate, private equity, cryptocurrency, NFTs, and traditional equity markets. Stimulative monetary policy from the Fed and Central Banks combined with supportive fiscal policy again fueled speculative price distortions in ways we don't have much history to compare against.

In general, households within all income brackets appear to be in better financial shape than in 2019, and debt payments as a percentage of disposable income are at their lowest level in over 40 years. Wage growth has resumed its upward trend, picking up where it left off at the end of 2019, but a historically tight labor market appears to be accelerating this trend in a way that has some policymakers concerned. Rising labor costs amongst a host of other variables, the least of which is a mountain of global debt, accumulated over the past 14 years in efforts to stave off deflation, has finally led to a resurgence of inflation. Originally viewed as "transitory" by the Fed, components of this inflationary resurgence appear more permanent, leading some to believe the era of easy money—and as a result, easy returns—may be nearing its end.

During the back half of the year, this seemingly impenetrable bull market began showing chinks in its armor. With the prospect of more permanent and higher inflation on the horizon, and therefore, higher interest rates to come, cash and other conservative investments are now generating negative real rates of return to the likes of which we haven't seen since the 1970s. Whether this market has crested or is merely digesting the past 18 months of frenzied appreciation depends on who wins the ongoing tug of war between inflationary and deflationary forces. It's a question trillions of dollars await an answer to.

LOOKING BACK ON 2021

Against this challenging backdrop, we, as your fiduciaries, made several portfolio related changes in 2021:

- We reduced U.S. treasury bonds and more traditional bond strategies in favor of inflation-related strategies like high-yield and multi-sector bond funds to hedge rising rates and the potential permanence of higher inflation.
- We reduced emerging market equities and pure foreign equities in favor of global dividend-paying positions. These global strategies have the latitude to invest wherever they see fit and are not limited by where a company may be domiciled.
- We continue to integrate ESG related positions because of the importance of ESG criteria both for society and from an investment perspective.

Lastly, we encouraged many of you to realize sizable gains within U.S. growth and/or any other overweight positions. As you can probably tell, we believe we're in the latter days of a long and historical bull market, and it's only prudent to realize gains from positions that have performed exceptionally well over the past decade, especially while tax rates remain low.

Asset class returns

GTM | U.S. | 61

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2007 - 2021 Ann.	2007 - 2021 Vol.
EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Large Cap 10.6%	REITs 23.2%
Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Small Cap 8.7%	EM Equity 22.9%
DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	REITs 7.5%	Small Cap 22.5%
Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	High Yield 6.6%	Comdty. 19.1%
Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.4%	Asset Alloc. 5.7%	DM Equity 18.9%
Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	EM Equity 4.8%	Large Cap 16.9%
Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	DM Equity 4.1%	High Yield 12.2%
High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	Fixed Income 4.1%	Asset Alloc. 11.7%
Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	Cash 0.8%	Fixed Income 3.3%
REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	Comdty. -2.6%	Cash 0.7%

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg US Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2006 to 12/31/2021. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of December 31, 2021.

J.P.Morgan ASSET MANAGEMENT

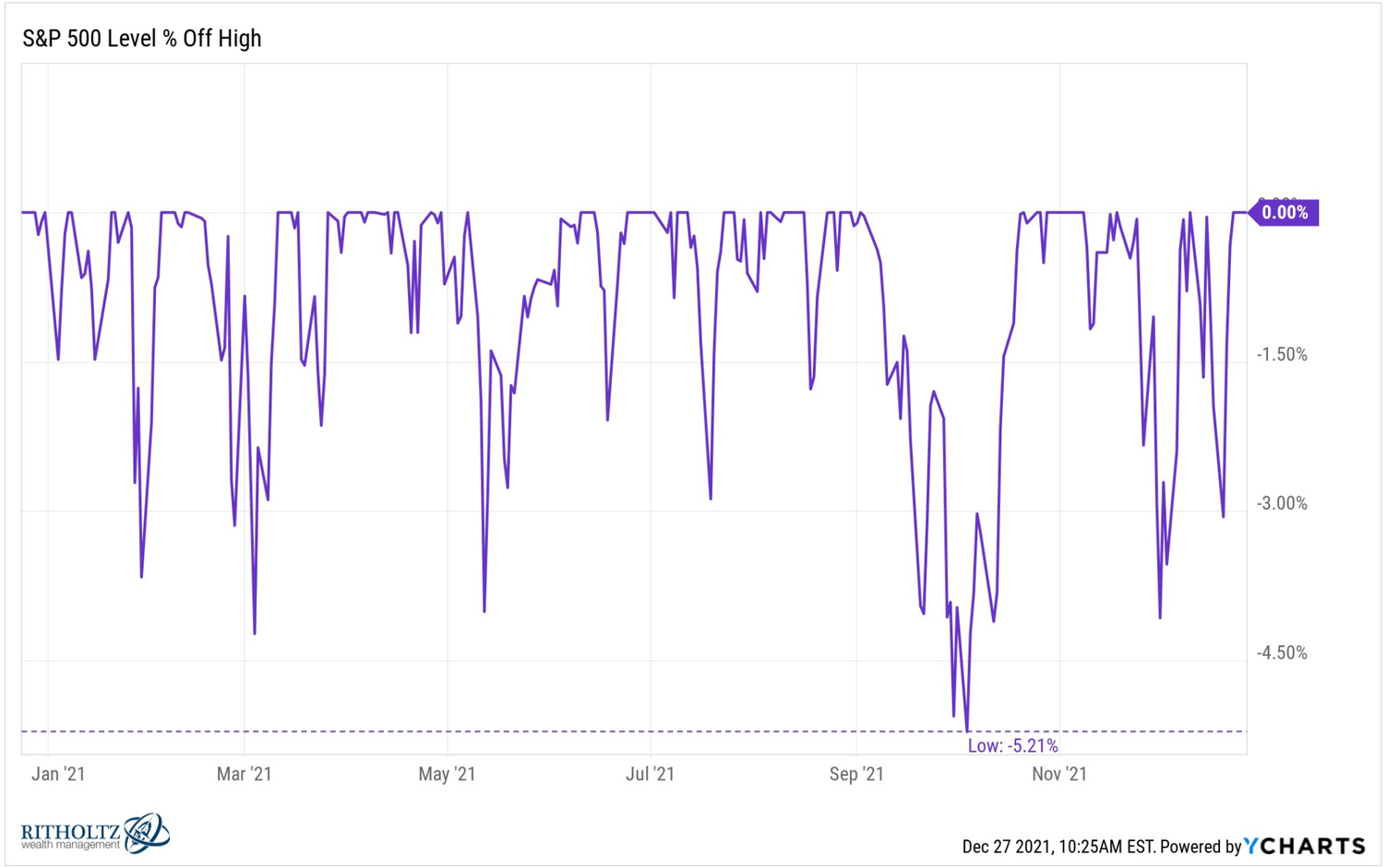
SOURCE: https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets

The quilt chart is always a humbling sight for the near-term forecaster, and a strong reminder as to why diversification is so important.

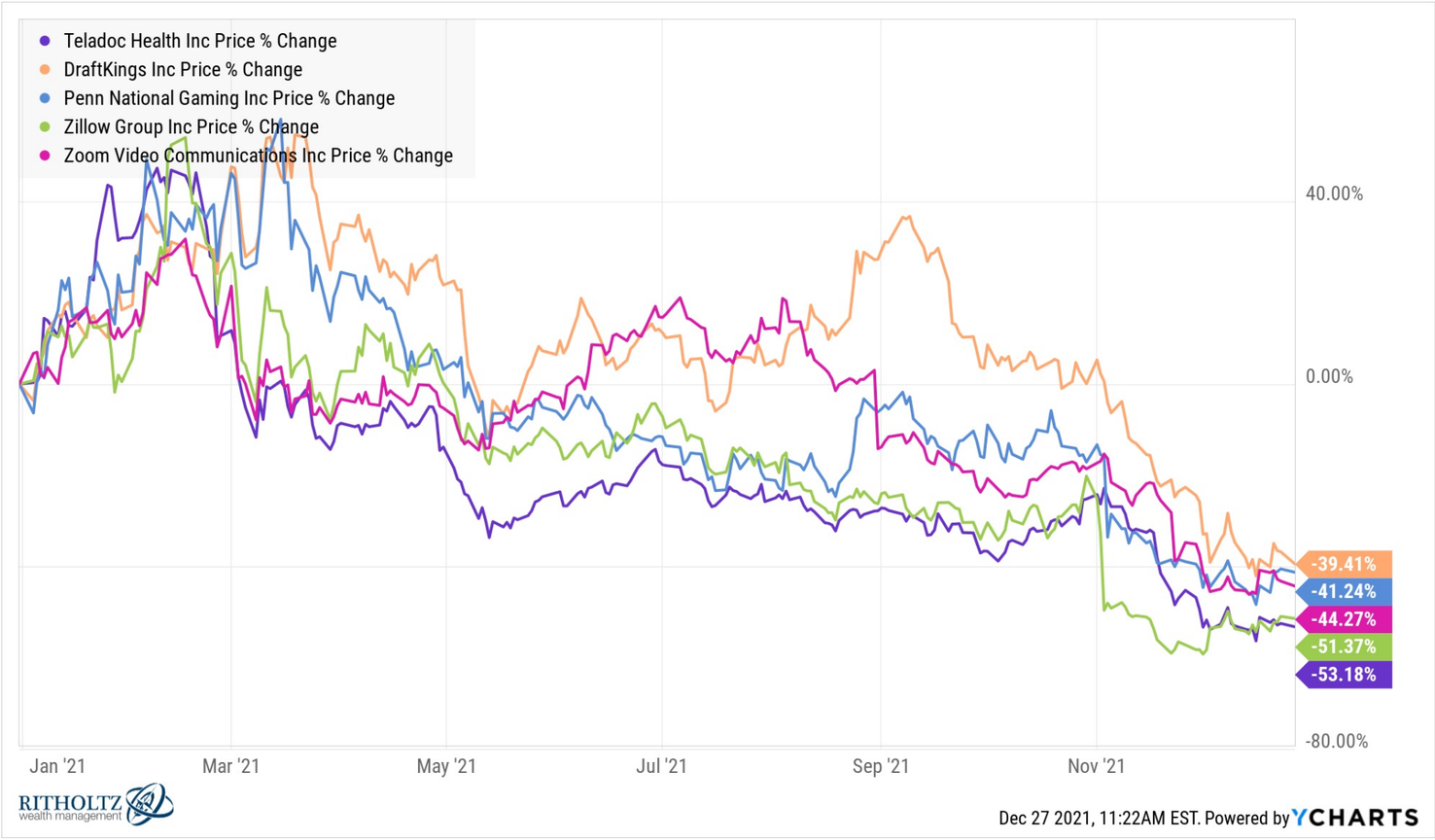
- 2021 was another banner year for U.S. equities and areas of the marketplace that benefited from the reopening of the economy (e.g., REITS and Commodities).
- From 2020 to 2021, REITs went from last to first, and emerging markets from second to last.
- Fun Fact: From the end of 2019 through the end of 2021, the S&P 500 was up about 30%, but when you extract the FAANG's (Facebook, Apple, Amazon, Netflix, and Google), the index is flat (Jeff Gundlach).

Historically low volatility last year...

- In 2021, the largest correction experienced by the S&P 500 was a **marginal 5.2%. That's the ninth lowest** drawdown in 94 years.



SOURCE: https://awealthofcommonsense.com/2021/12/my-favorite-charts-of-2021/



SOURCE: https://awealthofcommonsense.com/2021/12/my-favorite-charts-of-2021

But weaknesses beneath the surface have started to show.

- Teladoc, DraftKings, Penn National Gaming, Zillow, and Zoom were up 139%, 335%, 238%, 183%, and 396% respectively in 2020. They were all down between 40% and 55% in 2021.
- PayPal, another leader in 2020, was up 111%, but since the end of 2020 is now down 42% (or 57% from its high).

Welcome back Kotter: Real returns on conservative investments are reminiscent of the '70s.

- The resurgence of inflation in the second half of 2021 has pushed real returns in many areas of the fixed income market into negative territory.
- As a result, undisciplined investors are deviating from their advised risk tolerance and parting with bonds in favor of historically expensive equities. A dangerous combo.

Interest rates and inflation

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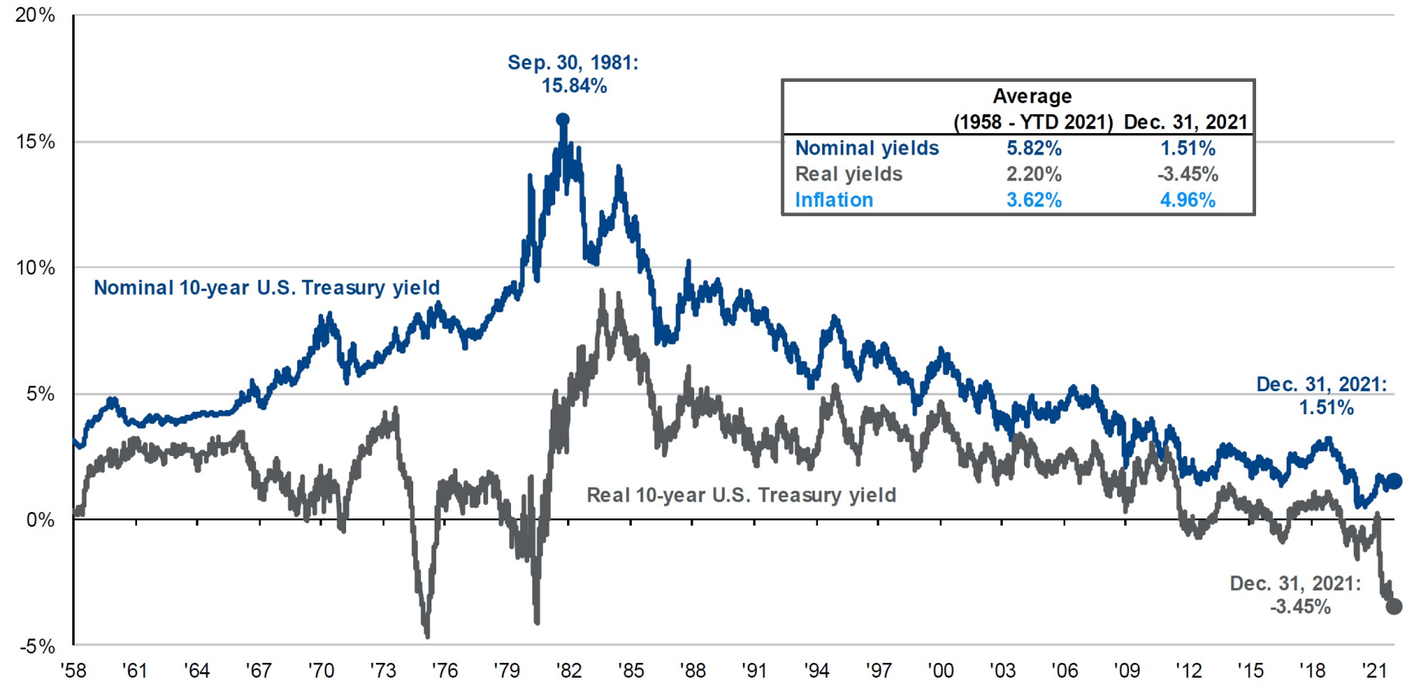
Nominal and real U.S. 10-year Treasury yields

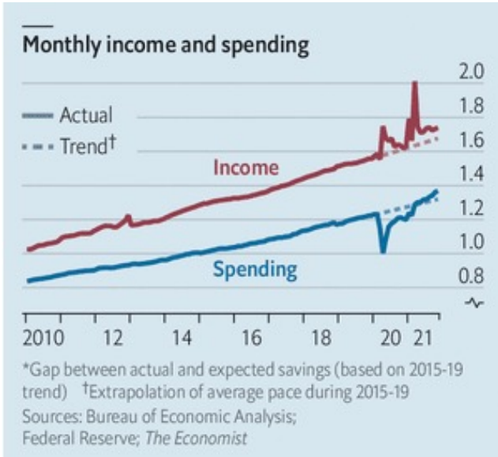


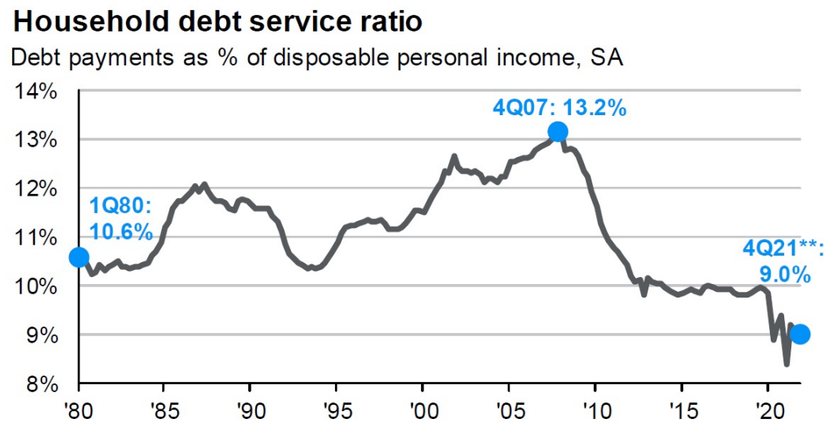
	Average (1958 - YTD 2021)	Dec. 31, 2021
Nominal yields	5.82%	1.51%
Real yields	2.20%	-3.45%
Inflation	3.62%	4.96%

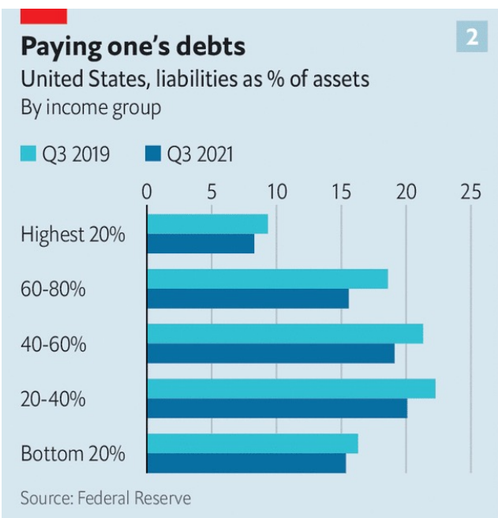
Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month. For the current month, we use the prior month's core CPI figures until the latest data is available.
Guide to the Markets – U.S. Data are as of December 31, 2021.

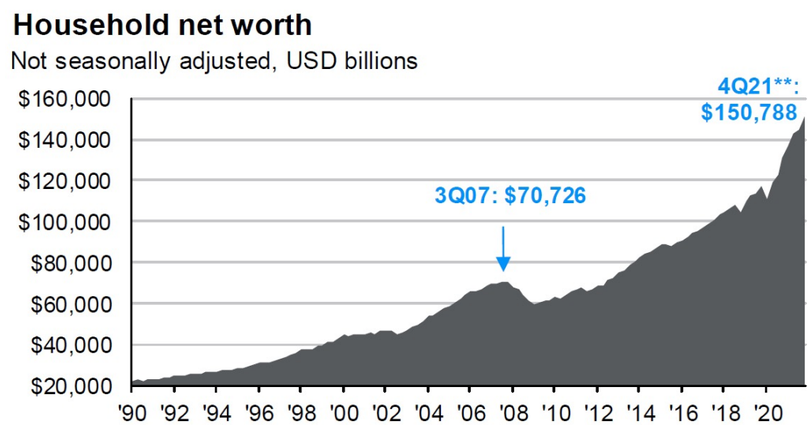
J.P.Morgan
ASSET MANAGEMENT

SOURCE: https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/









The Economist

SOURCE: https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/

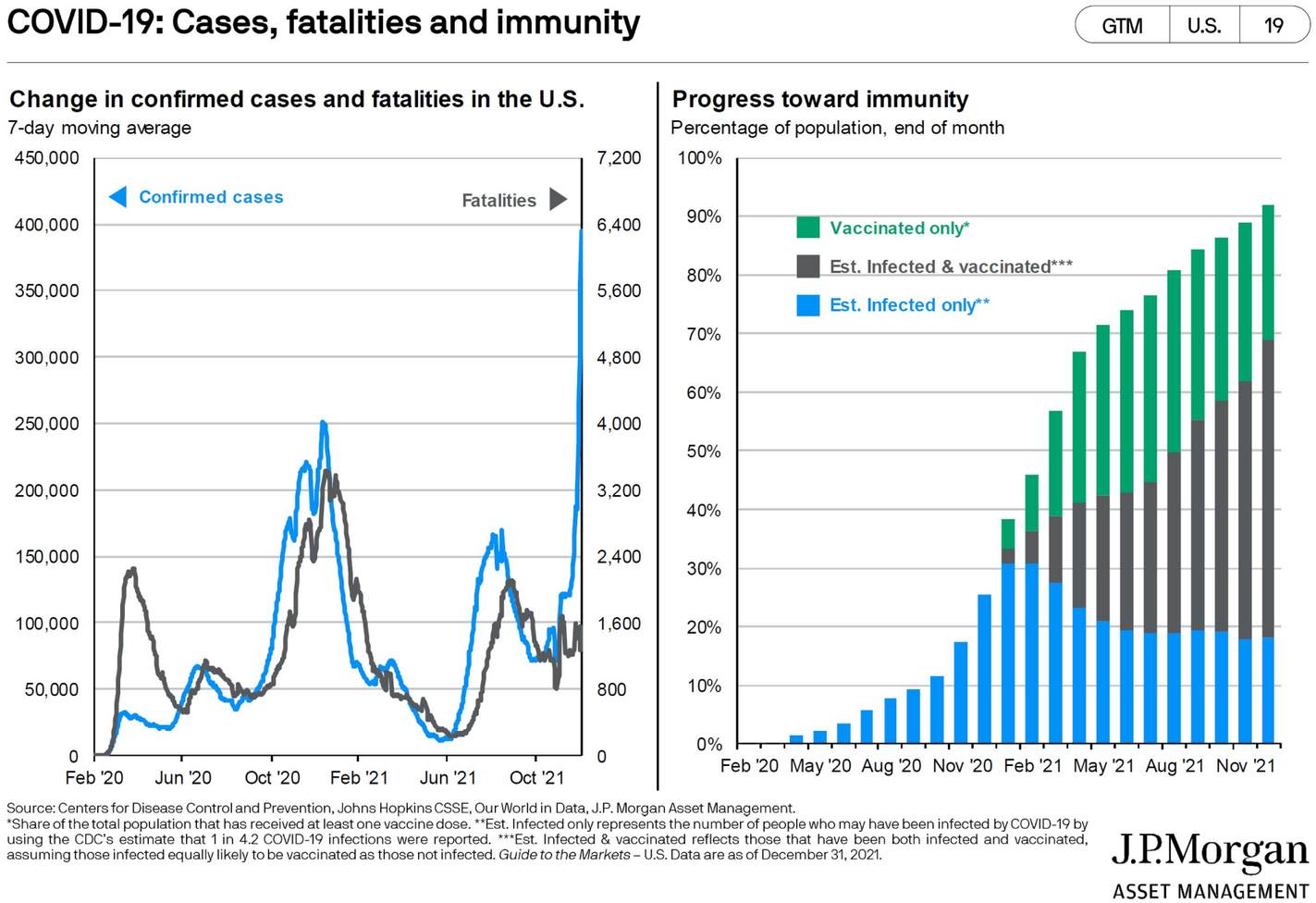
Feeling Flush: Despite rising inflation, the consumer is in a better financial position to absorb higher prices.

- As consumers look beyond Omicron and recalibrate their own cash flows, it's important to recognize the financial health of households.
- Housing prices may be egregious, but debt as a percentage of income is near generational lows.
- Combine this with the recent melt-up in net worth (at least on paper), and **consumers are feeling flush** in ways we haven't seen in a long time.

2021 was the year of "I quit, and I'm not coming back!"

- For the first time in a long time, employees appear to have leverage over employers.
- The great resignation of 2021 may be a foundational year for a forever different labor market.
- Before the pandemic, 1 out of every 67 job openings were remote; now, it's 1 out of every 7.
- **Our new normal will look different than 2019, and with change comes opportunity: new fields, evolving business models, and new investment opportunities.**

SOURCE: www.economist.com/finance-and-economics/evidence-for-the-great-resignation-is-thin-on-the-ground/21806659



SOURCE: https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/

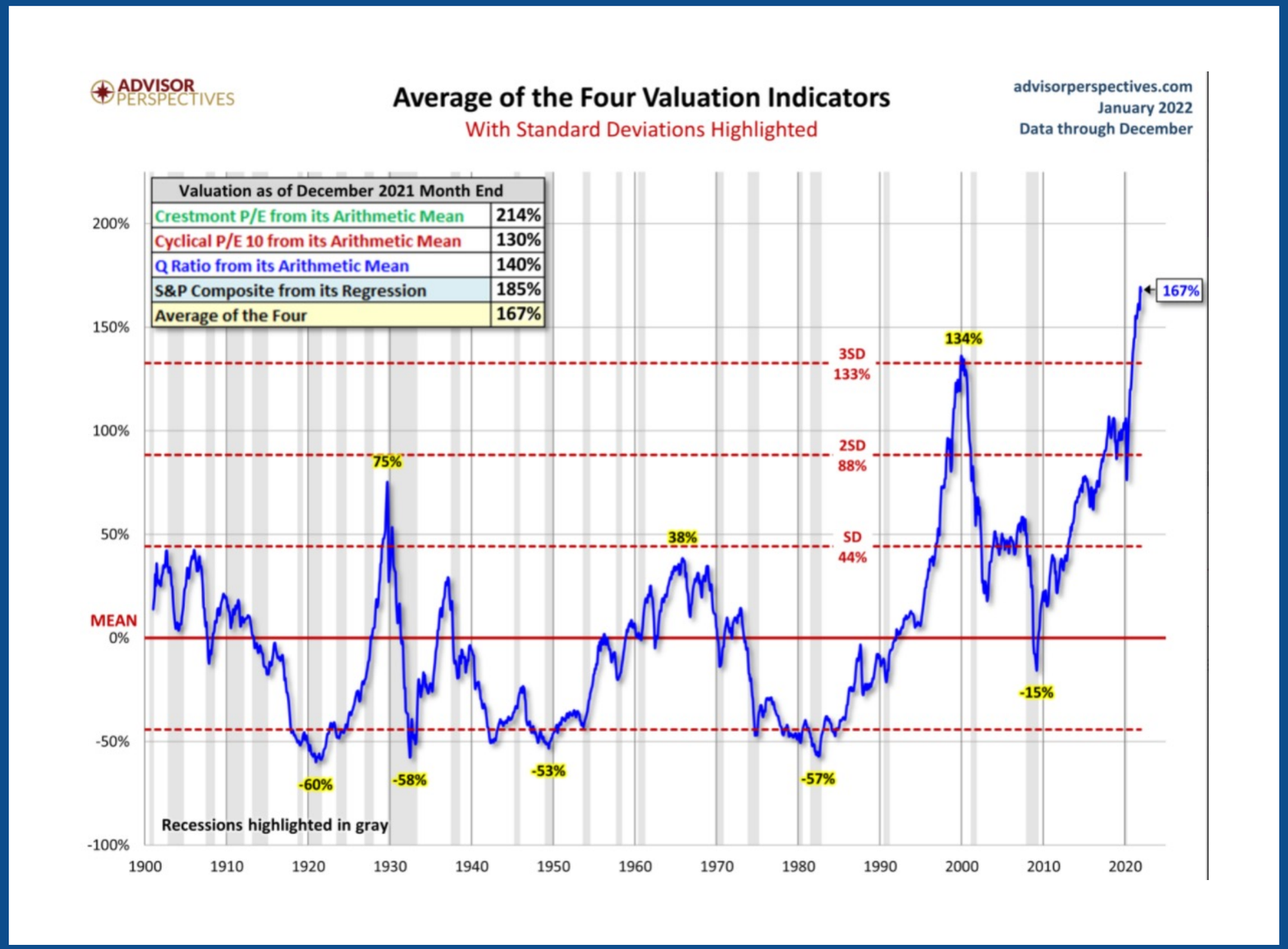
Some good news on the COVID front:

- The rapid spread of the less deadly Omicron variant may have accelerated our push towards immunity.
- The push towards immunity combined with the development of antiviral treatments brings us that much closer to our new normal.

IMPORTANT THEMES AS WE LOOK AHEAD

There are too many parallels between today's markets and speculative eras of the past for us to ignore.

- Eras of dynamic innovation can be very exciting, but that excitement has historically led to the overpricing of companies, reminiscent of the tech bubble of the late '90s.
- The resurgence of inflation has trillions of dollars in search of the ability to foresee the future and where inflation will settle 12-24 months from now.
- Inflation and interest rates are arguably the most important macro factors when it comes to determining fair valuation of stock prices.
- The riskiest end of the U.S. stock market has started to deflate. Many names that benefited from the COVID trade have seen sizeable declines in recent months. This is common as bull markets mature/crest.
- Muted capital market assumptions prevail. Low interest rates coupled with elevated equity valuations equate to a lower return, yet more volatile, world for investors. As a result, it's hard to conjure up a more difficult environment for retirees—especially those who seek to maintain a more conservative balance sheet.
- Mid-term election years are historically volatile, and it's expected this year will be no exception.
- State and local government pension return assumptions still project historically average returns. Taxpayers need to be aware should actual returns fall short.

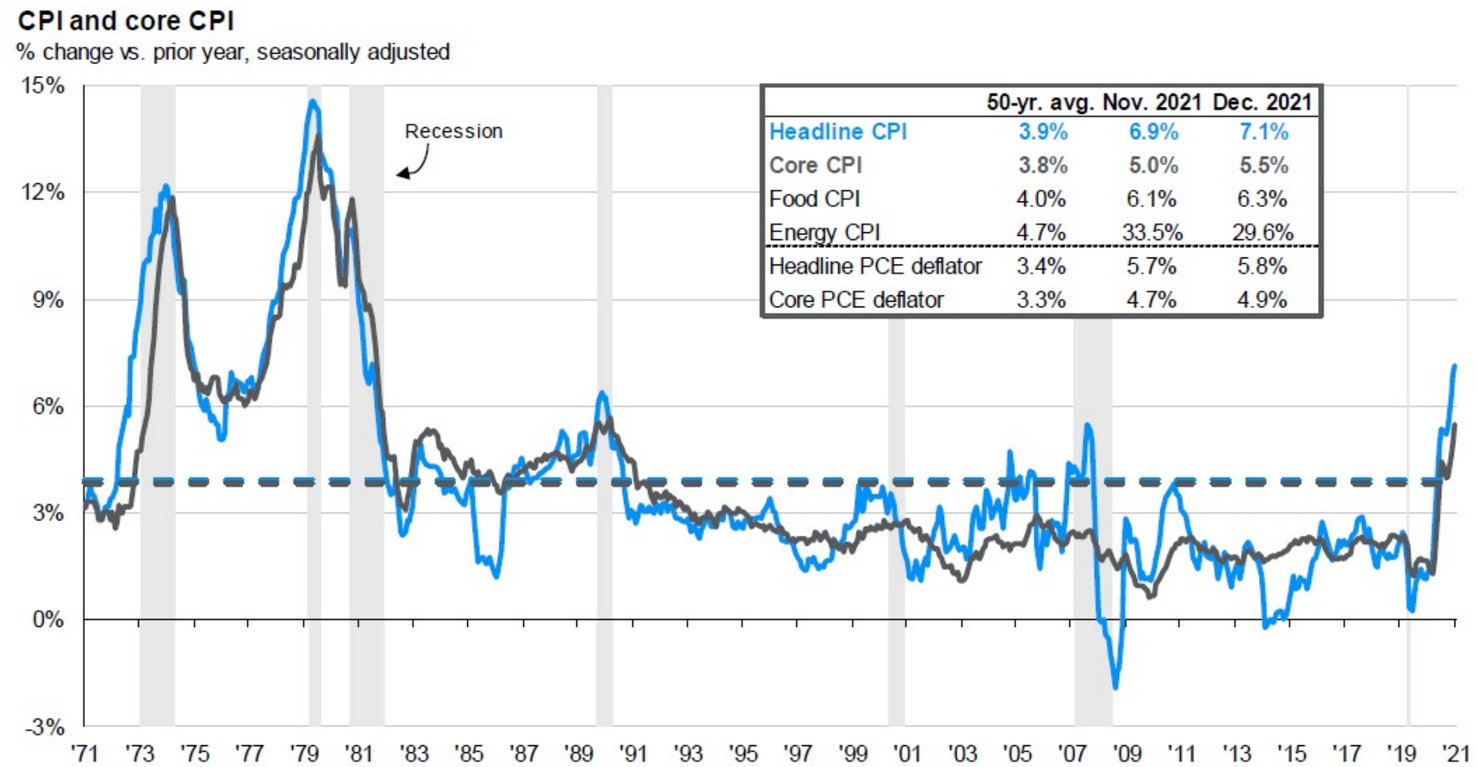


U.S. equity valuations coming into 2022 were extreme.

- When we look at the U.S. stock market as a whole, it remains **phenomenally expensive** according to most valuation metrics.

Where inflation settles is the question trillions of dollars are in search of an answer for.

- **Capital Group: High inflation should persist longer than expected.**
- Inflation levels should remain elevated through late 2022, fueled by labor shortages and broken supply chains. “Consumer prices will eventually return to normal, but that process may take longer than Fed officials are expecting,” says Capital Group fixed income portfolio manager Ritchie Tuazon.



	50-yr. avg.	Nov. 2021	Dec. 2021
Headline CPI	3.9%	6.9%	7.1%
Core CPI	3.8%	5.0%	5.5%
Food CPI	4.0%	6.1%	6.3%
Energy CPI	4.7%	33.5%	29.6%
Headline PCE deflator	3.4%	5.7%	5.8%
Core PCE deflator	3.3%	4.7%	4.9%

Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
Guide to the Markets – U.S. Data are as of January 31, 2022.

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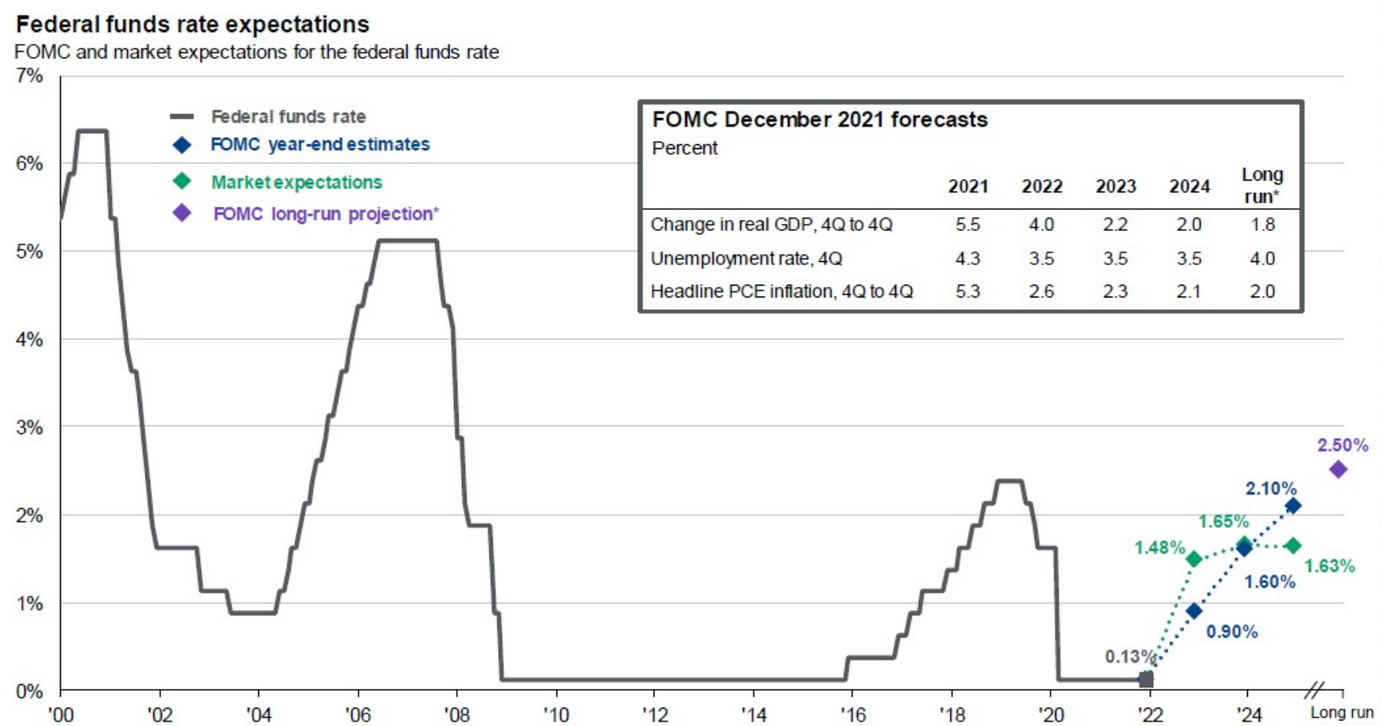

FOMC December 2021 forecasts
Percent

	2021	2022	2023	2024	Long run*
Change in real GDP, 4Q to 4Q	5.5	4.0	2.2	2.0	1.8
Unemployment rate, 4Q	4.3	3.5	3.5	3.5	4.0
Headline PCE inflation, 4Q to 4Q	5.3	2.6	2.3	2.1	2.0

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of the USD Overnight Index Forward Swap rates. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
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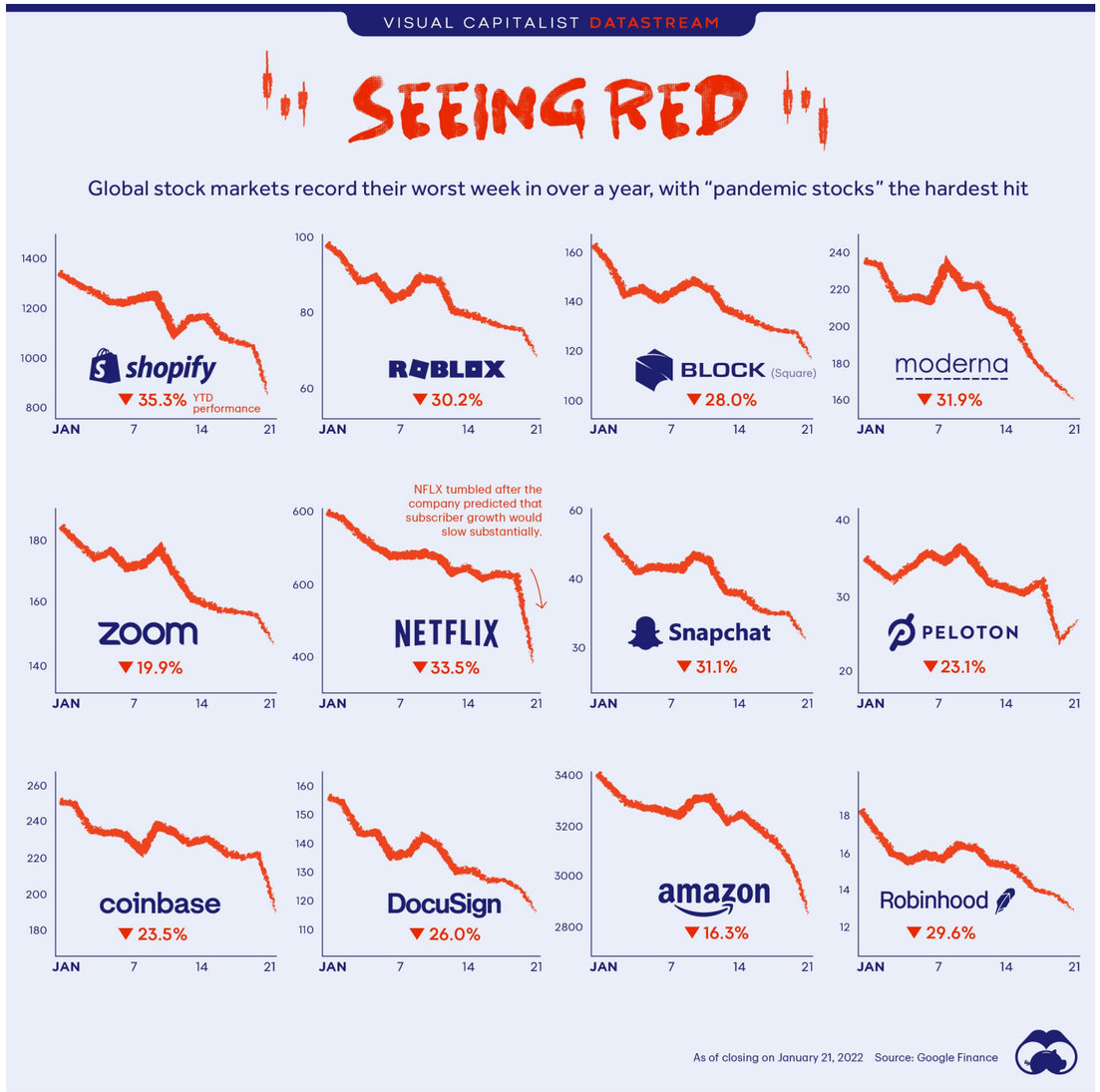
Depending on the number of rate hikes, there is the potential for an inverted yield curve…

- An inverted yield curve is when short-term rates are higher than long-term rates.
- An inverted yield curve has preceded 8 of the past 10 recessions dating back to 1962.
- This last occurred in the spring of 2019 and was one of the reasons we made defensive moves within portfolios going into 2020.
- As of right now, the market doesn't appear to agree with the Fed's rate hike projections, suggesting slower growth than equity valuations reflect.

The prospect of higher interest rates is starting to spook markets.

- Historically, when bull markets roll over, crest, or peak, the first segment of the market to give back gains are the growth/highflyers that helped push markets into expensive territory.
- For investors, this often leads to a rotation away from growth and into value.



SOURCE: https://www.visualcapitalist.com/seeing-red-is-the-heydey-of-pandemic-stocks-over/

Price returns are in U.S. dollars based on data from January 3, 2022, to January 21, 2022.

Company	Year-to-Date Price Return
Shopify	-35.3%
Roblox	-30.2%
Block	-28.0%
Moderna	-31.9%
Zoom	-19.9%
Netflix	-33.5%
Snapchat	-31.1%
Peloton	-23.1%
Coinbase	-23.5%
DocuSign	-26.0%
Amazon	-16.3%
Robinhood	-29.6%

SOURCE: https://www.visualcapitalist.com/seeing-red-is-the-heydey-of-pandemic-stocks-over/

Growth/Techy pandemic stocks were hit hard during the first three weeks of 2022.

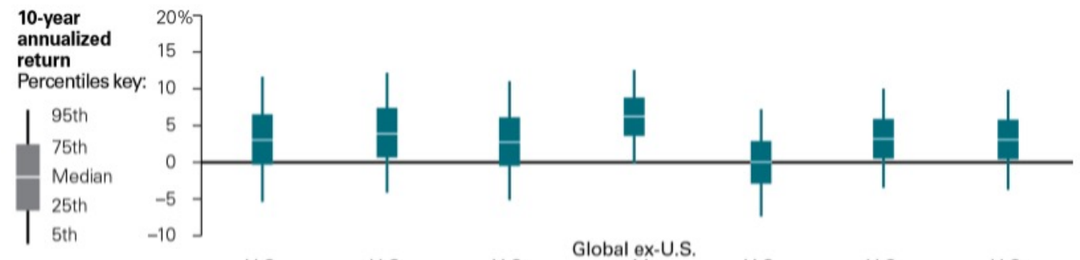
- Last year, we cautioned everyone about the risk of looking in the rearview mirror and how great companies don't always equate to great investments.
- Bull market for innovation, but how much of this innovation is already priced into stock prices?

Historically rich equity valuations with low/rising interest rates equal muted expected returns.

- Foreign equities, both developed and emerging markets, are priced to deliver attractive returns over the coming decade, but with slightly more volatility than their U.S. counterpart.
- We still see relative value within U.S. value, which has lagged U.S. growth for the majority of the past five years.
- Companies with growing dividends are especially attractive due to the benefit of compounding. **Dividends have a history of making up the majority of returns during low return decades.**
- Within the world of fixed income, low interest rates equal lower returns, and we may be in the early innings of this cycle.

Low expected returns for global equities, but opportunities exist

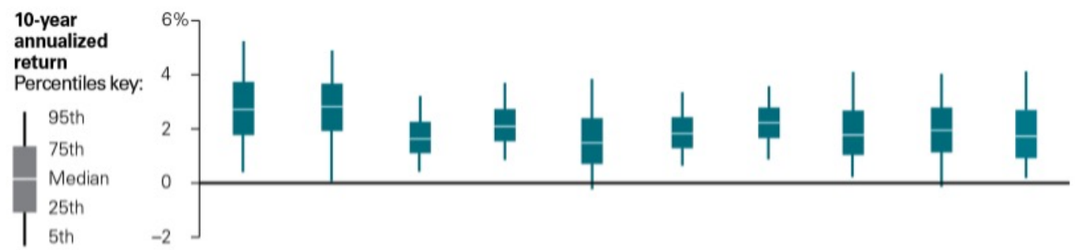
Equity market 10-year outlook: Setting reasonable expectations



	U.S. small-cap	U.S. value	U.S. REITs	Global ex-U.S. equities (unhedged)	U.S. growth	U.S. equity	U.S. large-cap
Median return	**3.2%**	**4.1%**	**2.9%**	**6.2%**	**0.1%**	**3.3%**	**3.2%**
Median volatility	22.5%	19.2%	19.1%	18.4%	17.5%	16.7%	16.3%

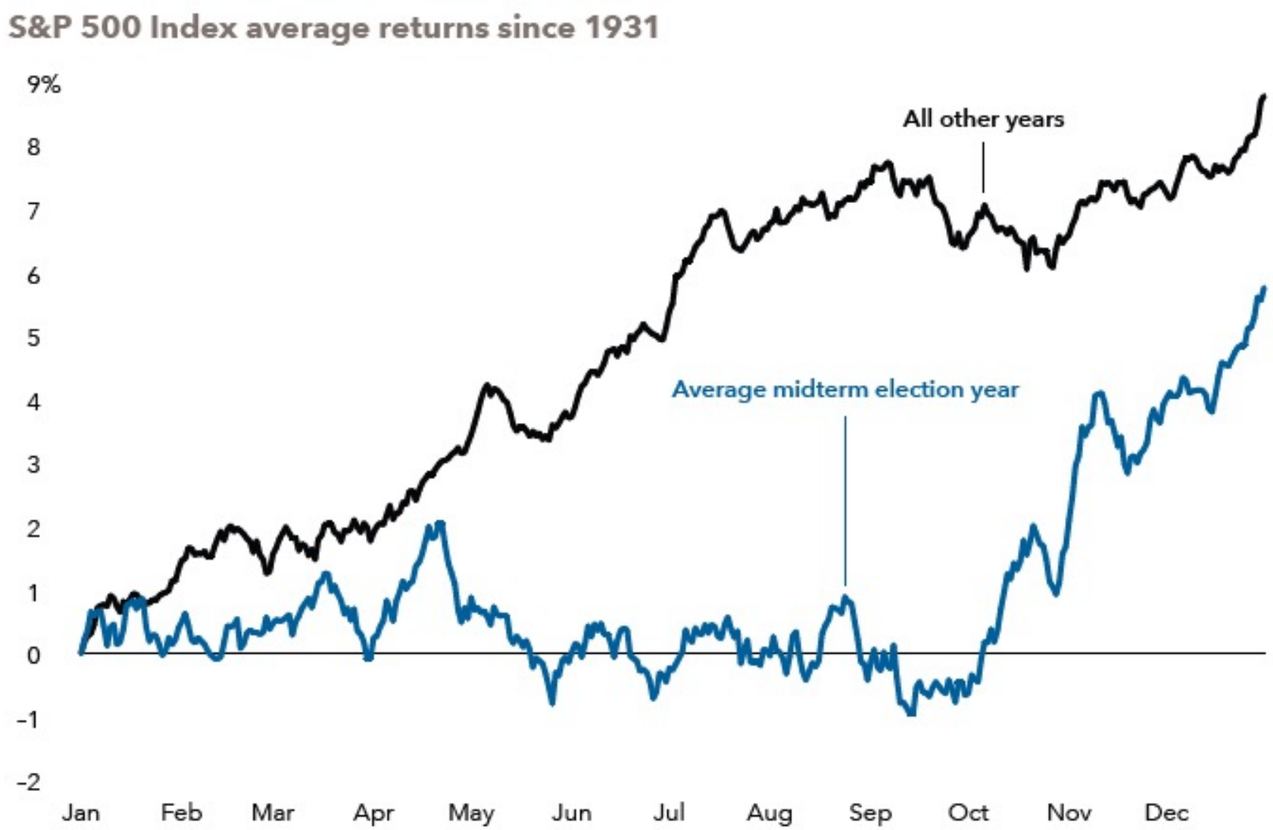
Valuation expansion has chipped away at investors' sources of extra yield

Higher rates have pushed expected fixed income returns higher



	U.S. high-yield corporate bonds	Emerging sovereign bonds	U.S. Treasury bonds	U.S. credit bonds	U.S. intermediate TIPS	U.S. bonds	U.S. MBS	Global ex-U.S. bonds (hedged)	U.S. inflation	U.S. cash
Median return	**2.7%**	**2.8%**	**1.7%**	**2.1%**	**1.5%**	**1.9%**	**2.2%**	**1.8%**	**2.0%**	**1.7%**
Median volatility	10.4%	10.1%	4.7%	4.7%	4.6%	4.6%	4.1%	3.8%	2.3%	1.2%

NOTES: The forecast corresponds to the distribution of 10,000 VCMM simulations for 10-year annualized nominal returns in USD for asset classes highlighted here. Median volatility is the 50th percentile of an asset class's distribution of annualized standard deviation of returns. Asset class returns do not take into account management fees and expenses, nor do they reflect the effect of taxes. Returns do reflect reinvestment of dividends and capital gains. Indexes are unmanaged; therefore, direct investment is not possible. U.S. inflation is the 10-year average of year-over-year U.S. headline CPI.
SOURCE: Vanguard calculations, as of September 30, 2021.



SOURCE: Capital Group, RIMES, Standard & Poor's. The chart shows the average trajectory of equity returns throughout midterm election years compared to non-midterm election years. Each point on the lines represents the average year-to-date return as of that particular month and day, and is calculated using daily price returns from 1/1/31–11/30/21.

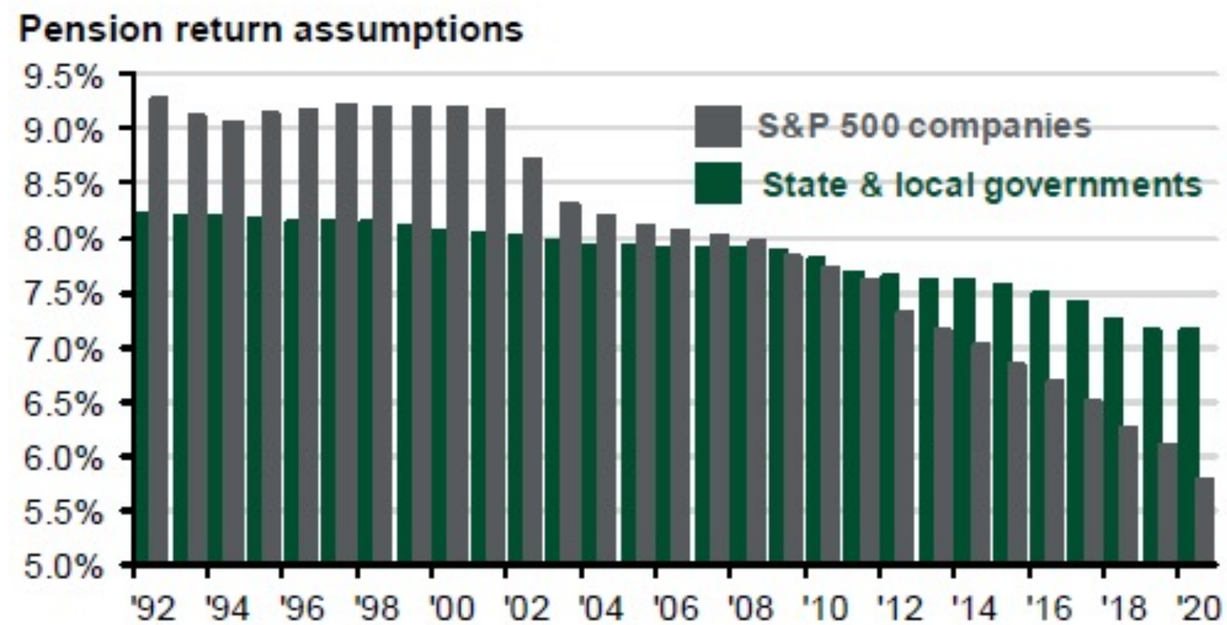
Midterm election years are notorious for uncertainty.

- An analysis of more than 90 years of equity returns reveals that stocks tend to have lower average returns and higher volatility for the first several months of midterm election years.
- Once polls/outcomes become predictable, this trend has a history of reversing.
- Remember, these are averages, and political uncertainty often has a short-term effect. **Prudent investors would be wise to look past the noise.**

Longer term: Do state and local pensions know something the world doesn't, or are they betting on the taxpayer to bail them out?

- While most of the world appears to have reduced projected returns and repriced expectations to account for low interest rates and historically rich stock valuations, public pensions have resisted doing so.
- The Norwegian sovereign wealth fund (the world's largest) recently warned that investors face years of low returns as the surge in inflation becomes more permanent.
- AQR Capital Management, a well-respected global investment firm, estimates a classic balanced portfolio of 60/40 would return just 2% after inflation over the next 5-10 years, versus the 5% it's enjoyed over the past century.*
- By reducing projected returns, pensions are obligated to make higher contributions. This is often controversial because no one can agree on who foots the bill.

*** SOURCE:** www.ft.com/content/10fc6f3f-1f45-4cdd-a176-bb4a9d9afa0c

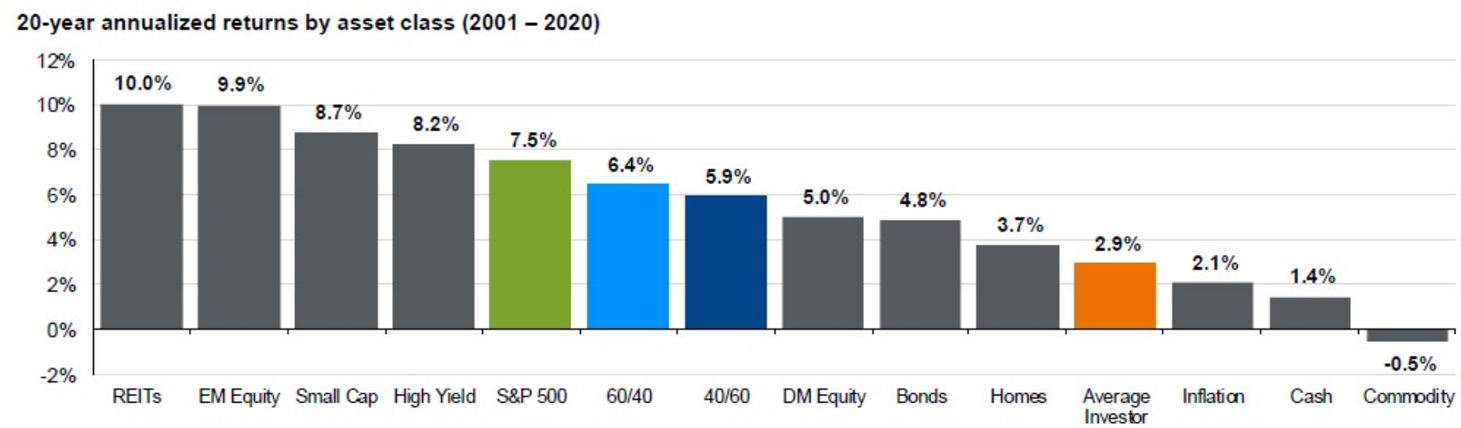


12/31/2021 for Fortune 1000 pension plans. Pension return assumptions based on all available and reported data from S&P 500 Index companies and are as of 12/31/2019. State and local pension return assumptions are weighted by plan size. Pension assets, liabilities and funded status based on Milliman 100 companies reporting pension data as of December 2021. All information is shown for illustrative purposes only.
Guide to the Markets – U.S. Data are as of January 31, 2022.

SOURCE: https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets

ACTIONABLE ITEMS FOR THE YEAR(S) AHEAD

Maintain balance and discipline.



Source: Bloomberg, FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Bottom) Dalbar Inc, MSCI, NAREIT, Russell.
Indices used are as follows: REITs: NAREIT Equity REIT Index, Small Cap: Russell 2000, EM Equity: MSCI EM, DM Equity: MSCI EAFE, Commodity: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Bonds: Bloomberg U.S. Aggregate Index, Homes: median sale price of existing single-family homes, Cash: Bloomberg 1-3m Treasury, Inflation: CPI. 60/40: A balanced portfolio with 60% invested in S&P 500 Index and 40% invested in high-quality U.S. fixed income, represented by the Bloomberg U.S. Aggregate Index. The portfolio is rebalanced annually. Average asset allocation investor return is based on an analysis by Dalbar Inc., which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.
Guide to the Markets – U.S. Data are as of December 31, 2021.

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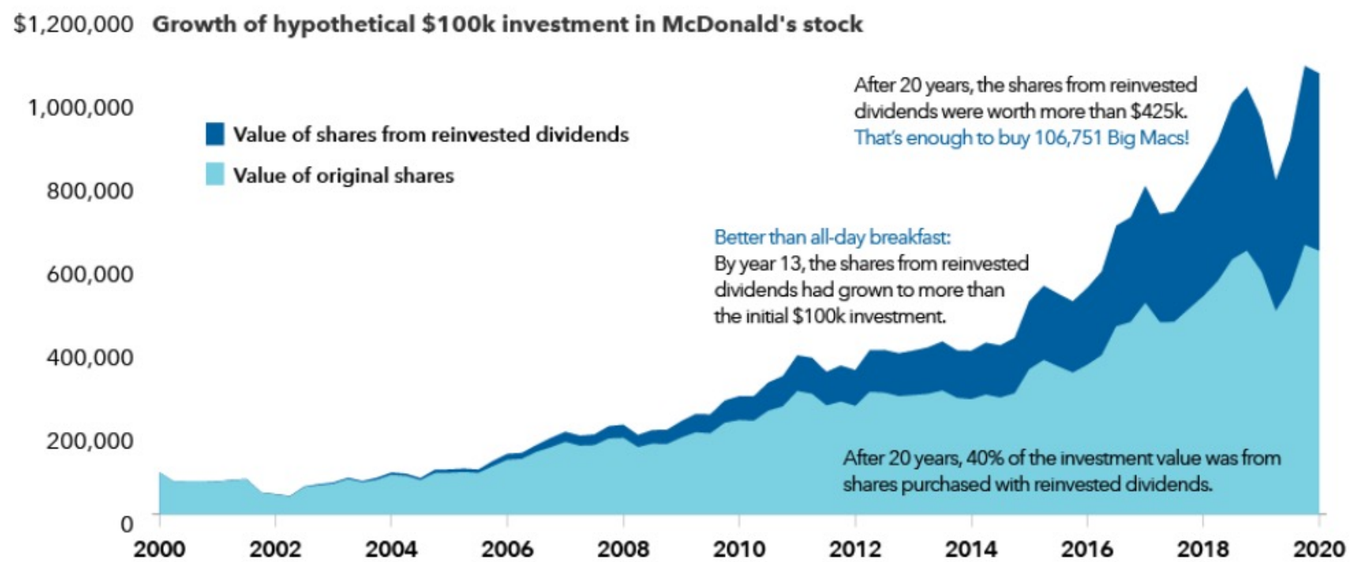
- Maintaining balance and discipline throughout market cycles may sound easy, but it's very hard to do for the average investor.
- While it's easy to understand the importance of balance and discipline, it's often emotionally difficult to sell/trim some of the market's top performers even when it's the prudent course of action.

The power of compounding dividends is often underappreciated and underreported.

- Given current U.S. equity valuations and should we experience a decade of lower returns (or even a lost decade reminiscent of the 2000s), one of the most effective strategies to employ is dividend reinvestment.
- These strategies take time and rarely make for exciting conversation at cocktail parties.
- **Overseas markets look especially attractive from this perspective because they yield nearly twice as much income as U.S. equities.**

Reinvested dividends: Better than breakfast all day



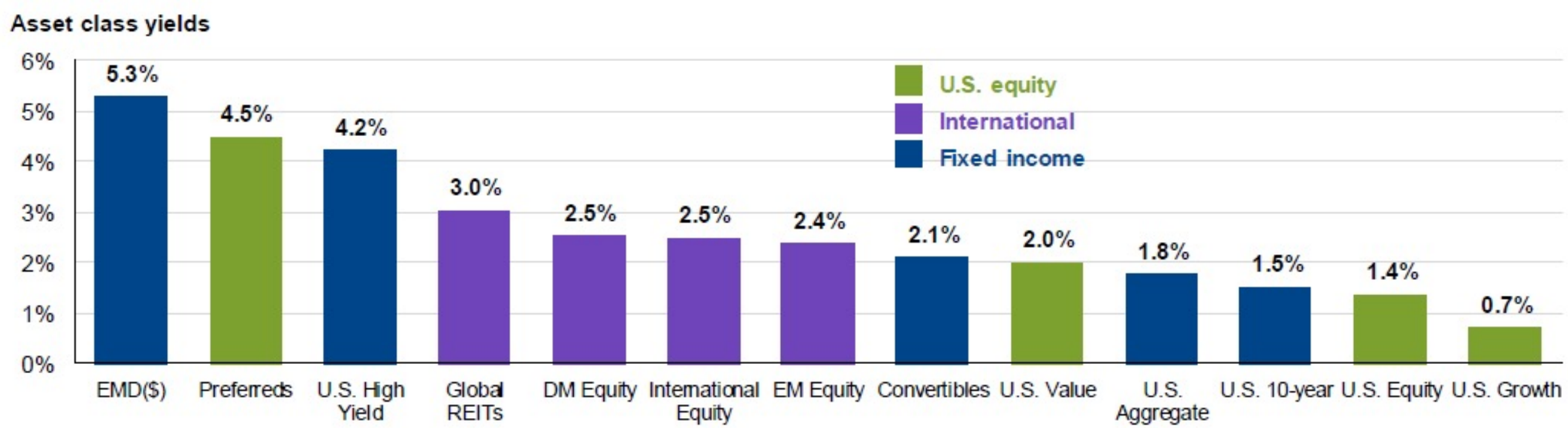
	2000	2005	2010	2015	2020	20-year growth (%)
Total investment value ($)	100,000	107,389	283,165	511,192	1,057,057	957.1
Value of shares from reinvesting dividends ($)	-	8,212	57,400	163,722	425,940	62,865.0
Share count	2,941	3,185	3,689	4,327	4,926	67.5
Dividends paid ($)	-	2,092	8,178	14,585	24,448	3,514.1

Sources: Capital Group, FactSet. Growth rate calculations for value of shares from reinvested dividends and dividends paid use the first year's dividends payment ($676) as a starting value. This information should not be considered a recommendation to purchase or sell a particular security and is provided for illustrative purposes only.

SOURCE: www.capitalgroup.com/advisor/insights/articles/dividend-growth-special-sauce-long-term-investing.html

Foreign equities and overseas bonds will be needed for income/yield.

- For pre-retirees and savers, foreign markets show relative value as compared to the richly priced developed markets.
- This, combined with the potential for compounding dividends, could be a very attractive strategy for long-term investors.



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management; (Top) Ibbotson; (Bottom) BAML, Bloomberg, Federal Reserve, FTSE, J.P. Morgan, MSCI, NCREIF, Russell. Dividend vs. capital appreciation returns are through 12/31/2021. Yields are most current. Preferreds: BAML Hybrid Preferred Securities; U.S. High Yield: Bloomberg US Corporate High Yield; Global REITs: FTSE NAREIT Global REITs; U.S. Aggregate: Bloomberg US Aggregate; EMD($): J.P. Morgan EMBIG Diversified; Convertibles: Bloomberg U.S. Convertibles Composite; International Equity: MSCI AC World ex-U.S.; EM Equity: MSCI Emerging Markets; DM Equity: MSCI EAFE; U.S. Equity: S&P 500; U.S. Growth: Russell 1000 Growth; U.S. Value: Russell 1000 Value; U.S. 10-year: Tullett Prebon. Positive yield does not imply positive return.
Guide to the Markets – U.S. Data are as of December 31, 2021.

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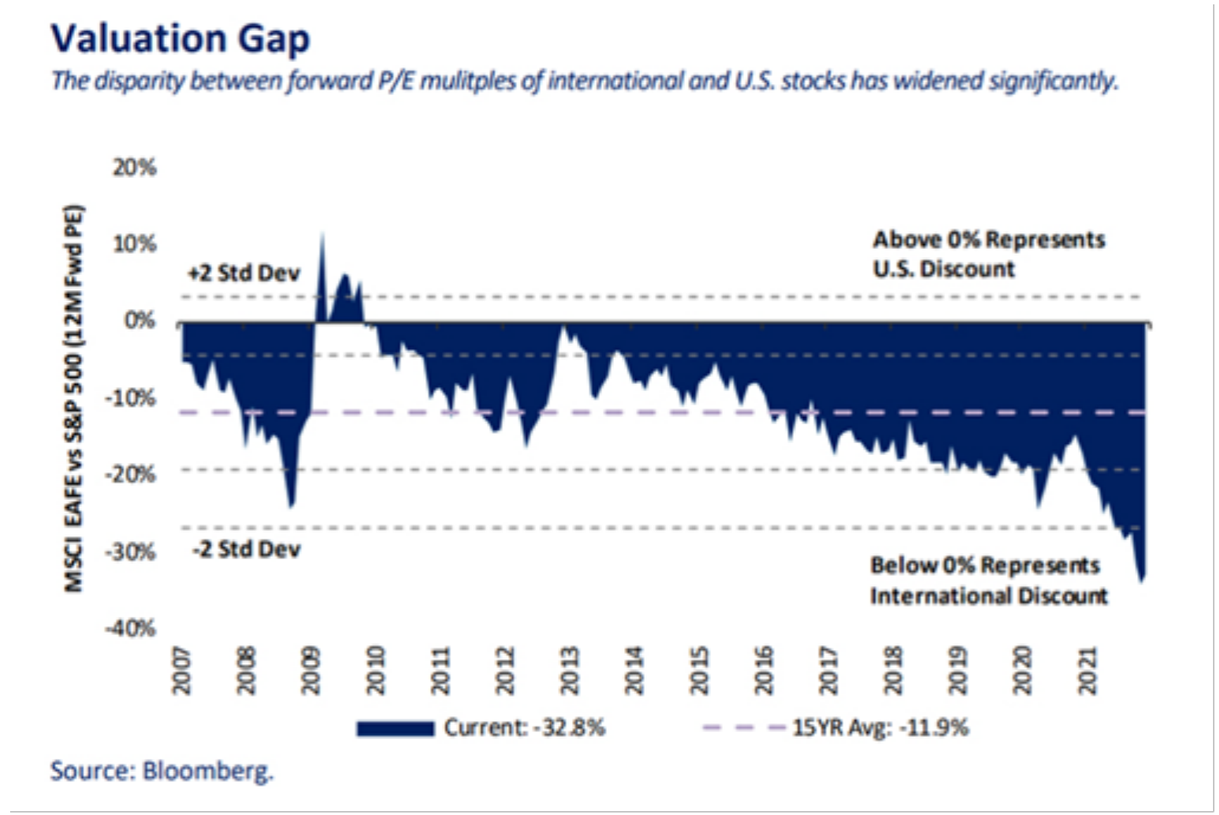
Foreign equities may be a relative bargain.

- It would be easy to dismiss the relative value of foreign equities given how U.S. equities have outperformed for the past 14 years, but that would be a mistake for multiple reasons.



SOURCE: www.oppenheimer.com/news-media/2022/insights/fed-pivot-inflation-to-color-2022-markets-print.aspx

	Tax treatment of expected returns	Taxable	Tax-deferred	Tax-exempt
Tax-free municipal securities and municipal mutual funds	Exempt	✔	✓	✓
Equity securities held long-term for growth	Taxed at long-term capital gain rates	✔	✓	✓
Equity index funds/ETFs (other than REITs)		✔	✓	✓
Tax-managed mutual funds and managed accounts		✔	✓	✓
Real estate investment trusts (REITs)	Generally, 80% of income taxed at ordinary rates; 20% tax-exempt	✓	✔	✔
High-turnover stock mutual funds that deliver effectively all returns as short-term capital gains	Taxed at ordinary income rates	✓	✔	✔
Fully taxable bonds and bond funds (i.e., corporates)		✓	✔	✔

✔ More appropriate ✓ Appropriate ✓ Less appropriate

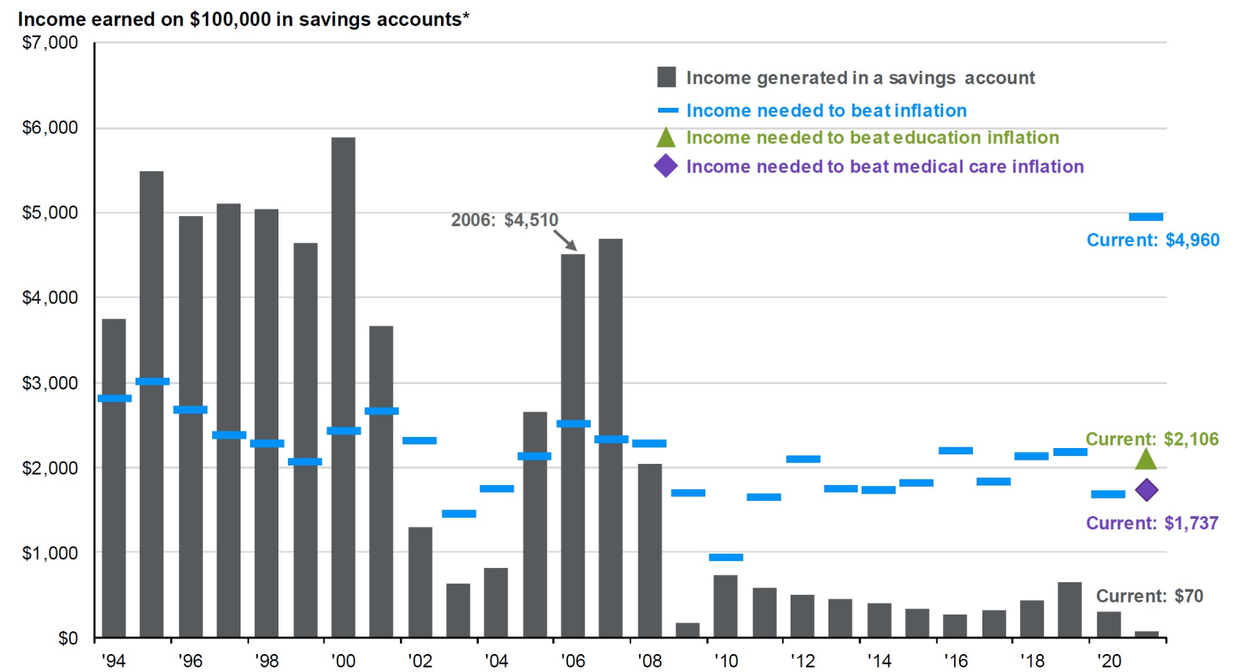
SOURCE: www.fidelity.com/viewpoints/investing-ideas/asset-location-lower-taxes

Asset location.

- In pursuit of higher net returns and greater yield, proper execution of asset location will be increasingly important as returns moderate and should tax rates rise.
- 2020 and 2021 provided a textbook example of how material savings can be realized by means of volatile markets.
- If you create proper tax flexibility by funding pre-tax, Roth and post-tax accounts you can locate specific investments within the most appropriate type of account in a way you can financially benefit, by reducing taxes in the future.
- By locating the most aggressive growth-oriented strategies within taxable accounts, we realized losses through swaps in March and April 2020, and carried forward those realized losses to help offset realized gains in 2021.
- For example, $200k of realized losses in 2020 offset $200k of realized gains in 2021 that would have otherwise been subject to 23.8% in taxes. That equates to tax savings of $47,600.

What to do with excess cash.

- Cash balances are an important component of a healthy and strong balance sheet and in our opinion emergency funds should always be held in cash.
- Excess cash intended for future investment opportunities or cash meant to fund longer-term goals (e.g., healthcare costs) should be invested in a way that's more likely to keep pace with the rising cost of those goals.
- Municipal bonds may be a conservative solution for those who wish to remain conservative, but also have a fighting chance of keeping up with inflation.



Source: Bankrate.com, BLS, FactSet, Federal Reserve System, J.P. Morgan Asset Management,
*Savings account is based on the national average annual percentage rate (APR) on money market accounts from Bankrate.com from 2010 onward. Prior to 2010, money market yield is based on taxable money market funds return data from the Federal Reserve. Annual income is for illustrative purposes and is calculated based on the average money market yield during each year and $100,000 invested. Current inflation is based on November 2021 Core CPI, education inflation and medical care inflation. Current savings account is based on the December 2021 national average annual percentage rate (APR) on money market accounts. Past performance is not indicative of comparable future results.
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BENEFITS OF CONVERTING TO ROTH

A Roth conversion is taking the pre-tax dollars in your retirement account — whether that be a qualified plan sponsored by your employer or a traditional IRA — and paying tax on these amounts currently while leaving such funds in a tax free account (i.e., a Roth account).

The earnings after the conversion grow tax-free indefinitely.

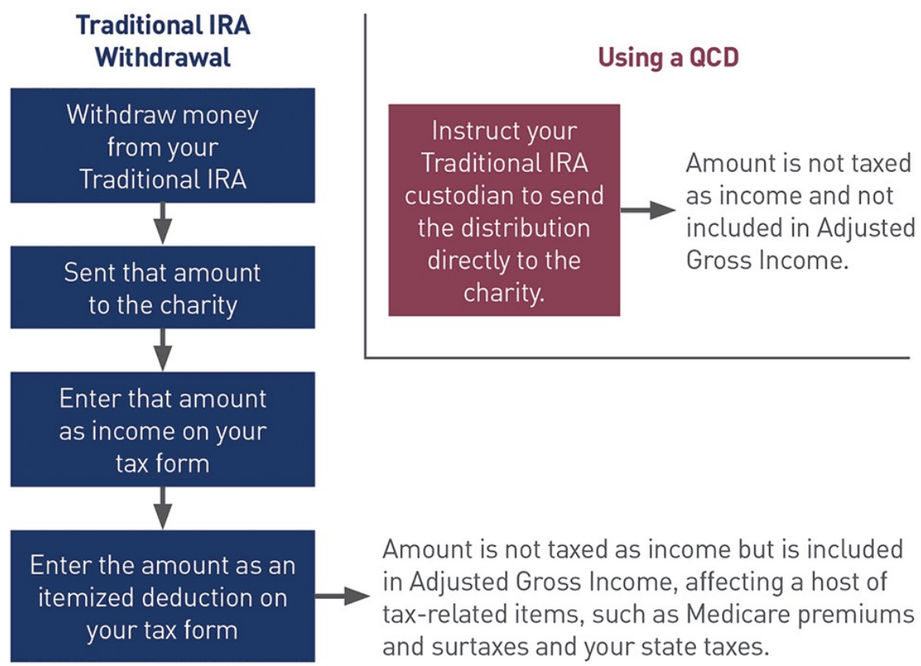
There is no income limit applicable to individuals to do a Roth conversion.

You will avoid your lifetime RMDs if in a Roth IRA.

No limit to the amount of money that can be converted.

How a Donor-Advised Fund Works

QCD Versus Traditional IRA Withdrawal



Source: PNC

Tax efficiency and charitable planning.

- We spend more time these days communicating with tax counsel and estate attorneys than ever before.
- Roth conversions continue to be a very attractive tax saving and/or estate planning strategy for many pre-retirees, early retirees, and even some older retirees.
- Donor Advised Funds are an ideal solution for those charitably inclined that have low-cost basis stock positions and/or more stock exposure within their portfolio than intended.
- Qualified Charitable Distributions provide a tax-efficient way of reducing taxable income while fulfilling philanthropic goals.

Every generation faces unique and unprecedented circumstances and today's set of headwinds and opportunities are no exception. No matter the conditions, we feel prepared for what lies ahead, and you should too. None of the themes we've outlined are a surprise. We're thrilled with the culture, expertise, and caliber of the professionals we associate with, and how our independent collective advocacy will help us remain in front of your evolving goals and lifestyles. We look forward to the obstacles and opportunities of 2022 and beyond.

Tom Sedoric
Partner, Executive Managing Director
Wealth Manager

D. Casey Snyder, CFP®
Partner, Senior Vice President
Wealth Manager

Erika Luczynski, CFP®
Partner, Vice President
Senior Wealth Management Associate

Brittany Long
Partner, Vice President
Senior Registered Client Administrative Manager

Jack Dougherty
Partner, Vice President
Registered Client Administrative Manager

(new team photo coming this spring)

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