February 2023 newsletter

Exercise your financial muscles to get financially fit

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"Those who work their land will have abundant food, but those who chase fantasies have no sense." This ancient advice from Proverbs illustrates the importance of financial fitness.

What is financial fitness? Well, we are all familiar with the term physical fitness. If pressed for a definition, we might define it in terms of our own ideas and circumstances.

When it comes to an explanation of financial fitness, the same applies. A lot may simply depend on the season you are in. Financial fitness might mean something different to someone who is single versus a couple with young kids, an empty-nester or a retiree.

Even within those demographics, one's perception could be colored by personal circumstances. Are you saddled with debt, debt-free, renting or a homeowner?

There are many ways to get ahold of your finances; you can increase earnings, lower spending, start saving more (short-term and longer-term) and implement debt management. For many, earnings are difficult to influence in the short-term. For most, tackling the spending side of the equation will yield the quickest results. Below we consider six principles that will help you get into financially fit shape wherever you find yourself in life.

6 principles for financial fitness

"An investment in knowledge pays the best interest."—Benjamin Franklin

1. Set goals.

If you don't have concrete financial goals, both shorter term and longer term, reaching some kind of level of financial fitness becomes much more problematic. Simply put, you don't have a destination. You are financially adrift. As George Harrison has noted, "If you don't know where you're going, any road will take you there."

Short-term goals you might consider: Establishing three to six months of cash in an emergency fund, saving for a down payment on a home or auto, or saving for a vacation. Long-term goals: college savings for your kids and saving for retirement—at least 10% plus a company match.

2. Do you know what 'buckets' your income lands in?

How do you spend your income? If you aren't tracking expenditures, you won't have a holistic picture.

You might be surprised at how much you spend on eating out, on entertainment, and even on a daily habit of barista-prepared lattes. Unnecessary spending can be diverted into savings or paying off debt, especially high-rate credit cards. Make timely payments. This will not only prevent you from accruing needless fees, but it will raise your credit score.

Once credit cards are paid off, channel the excess funds into savings. When you accomplish shorter-term goals, reward yourself. It need not be extravagant, but accomplishments should be celebrated.

Finally, you will struggle to follow a strategy that is too draconian. Trim frivolous spending but leave some room for fun and hobbies.

3. Your lifestyle shouldn't exceed your income.

If it does, you are burning through savings or taking on debt, and your stress level will reflect it.

Excessive spending is not a path that leads to financial fitness. You want financial space in your life. You want 'money at the end of the month,' not 'month at the end of your money.' A budget is your blueprint that helps achieve this goal.

Don't let this be you:

"Give me chastity and continence, but not yet."—Augustine of Hippo

4. Invest wisely.

Among various factors, your financial goals, both shorter and longer term, will greatly influence the proper mix of investments. A diversified portfolio that crosses the spectrum can reduce risk and enhance your return over the long run.

"Don't look for the needle in the haystack. Just buy the haystack!" advises John Bogle, founder of Vanguard. In other words, diversify!

Your financial professional is there to assist you with that. Their recommendations are tailored to your financial goals and your unique circumstances.

We avoid get-rich-quick schemes, which are usually nothing more than schemes minus the riches. Accumulation of wealth over a longer period is our goal. We believe it should be yours, too.

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas." says Paul Samuelson, the first American to win the Nobel prize in economics.

5. Enjoy your retirement.

Many enter retirement after accumulating wealth over decades. They have learned how to save. For some, suddenly relying on that savings rather than earning income from labor seems like a daunting leap, one they may be ill-prepared to make. It doesn't have to be that way.

While your tolerance for risk (losing money) may change, your financial professional might recommend that you build a portfolio that allows for a degree of growth. They may also counsel a withdrawal rate from your retirement accounts of, say 4%–5%.

These are broad-based guidelines and will differ from person to person, but it's an outline that arms you with knowledge and enhances your financial fitness.

Here's another lesson from Proverbs: "Take a lesson from the ants. Learn from their ways and become wise! Though they have no ruler to make them work, they labor hard all summer, gathering food for the winter."

6. Protect your assets.

Do you have life insurance, health insurance, and personal liability insurance? Do you have a will and estate plan? Who are your beneficiaries? What happens if you become disabled? Do you have a trusted professional to handle your affairs?

If you own your home without a mortgage, do you have homeowners' insurance? Surprise, not all do. If you rent, renters' insurance is cheap. It's a must-have item.

Absorbing the fundamentals—the foundation for success

Those who fail to put sound principles into practice are like those who build their homes on sand. The rains come and the winds blow, and financial misfortune overtakes them.

Wisdom encourages us to build our homes on a solid financial foundation. Though the rains come and the winds blow (and they will), the house and foundation are designed to withstand the financial storms.

Every situation is unique. You may have mastered the fundamentals, and only need to apply the principles I highlighted selectively, plugging small holes and shoring up your finances. Or a more aggressive approach might be in order. Focus on one theme at a time. Some may apply. Others may not.

Having said all that, I never want to give the impression that you are all alone on a financial lifeboat. Your financial professional is always there to assist.

A cautious, upbeat start to 2023

There was no shortage of gloom as the new year began. The Federal Reserve was signaling higher interest rates, and its aggressive campaign, started last year, to rein in inflation has been threatening to throw the economy into a profit-killing recession.

While investor sentiment is far from euphoric right now, 2023 is off to a strong start. What's behind the move?

Key Index Returns

	MTD%/YTD%
Dow Jones Industrial Average	2.8
NASDAQ Composite	10.7
S&P 500 Index	6.2
Russell 2000 Index	9.7
MSCI World ex-USA*	8.1
MSCI Emerging Markets*	7.9
Bloomberg US Aggregate Bond TR USD	3.1

Source: Wall Street Journal, MSCI.com, Bloomberg
MTD/YTD returns: December 30, 2022–January 31, 2023
*in US dollars

Last year, the Fed hiked its key lending rate, the fed funds rate, by 75 basis points (bp, 1 bp—0.01%) in four consecutive moves.

Mix in a 50 bp increase in December and 25 bp increase back in March, and we experienced the most aggressive tightening cycle in over 40 years—1,000 bp in 6 months (St. Louis Federal Reserve) at the end of 1980. Ronald Reagan had not yet been inaugurated.

While the Federal Reserve is not yet signaling a halt to rate hikes and commentary suggests it could hold rates at a high plateau this year (what analysts have been calling 'higher for longer'), the pace of rate increases is set to slow from last year's nearly unprecedented level.

But are investors front-running the Fed? Or are they too optimistic about rates? Fed officials pushed back aggressively last year on a 2022 pivot.

Today, investors believe we may see at least one rate cut by the end of the year. Previously, that had not been in the Fed's game plan, but Fed Chief Powell seemed less wedded to pushing rates above 5% at the February 1 press conference.

While Powell isn't declaring victory on inflation and he isn't ready to hint at a turnaround, he was more open to the recent moderation in inflation. The initial reaction was positive.

Looking ahead, a significant rise in the jobless rate would probably force the Fed to cut rates, but a drop in corporate profits could negate any benefits from falling rates.

How the Fed responds will be heavily influenced by how the economic outlook unfolds.

An opaque crystal ball

From 1970 through 2021, the January return on the S&P 500 Index exceeded 5% 10 times (St. Louis Federal Reserve data). Excluding reinvested dividends, the S&P 500 finished the year higher nine times. The 90% 'win ratio' beats the average since 1970 of 74%.

During the 10 years when January advanced by 5% or more, the S&P 500 averaged a return of 21.5%. Its best annual return was 31.6% in 1975, which followed the difficult 1973–74 bear market. Its only loss was 6.2% in 2018.

There are those who attempt to glean insights from expected market returns based on where we are in a political cycle. Such exercises are interesting, but let's stress that each economic cycle has its own peculiarities that may override these barometers.

We know that past performance is not a guarantee of future results. Ultimately, the economic fundamentals will play a big role as the year unfolds.

I trust you've found this review to be educational and helpful.

If you have any questions or would like to discuss any matters, please feel free to give me or any of my team members a call.

As always, I'm honored and humbled that you have given me the opportunity to serve as your financial professional.

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The return and principal value of stocks fluctuate with changes in market conditions. Shares when sold may be worth more or less than their original cost.

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Mutual funds are sold only by prospectus. Investors should consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained directly from the company or from your financial professional. The prospectus should be read carefully before investing or sending money.

The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index.

The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Russell 2000 Index includes 2000 small-cap U.S. equity names and is used to measure the activity of the U.S. small-cap equity market.

The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. The MSCI World Index represents 23 developed market countries.

The MSCI Emerging Markets Index is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging market equities.

The Bloomberg Barclays US Aggregate Bond Index, or the Agg, is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States. Investors frequently use the index as a stand-in for measuring the performance of the US bond market.

The hypothetical investment results are for illustrative purposes only and should not be deemed a representation of past or future results. Actual investment results may be more or less than those shown. This does not represent any specific product or service.

A diversified portfolio does not assure a profit or protect against loss in a declining market.

The return and principal value of stocks fluctuate with changes in market conditions. Shares when sold may be worth more or less than their original cost.

The return and principal value of bonds fluctuate with changes in market conditions. If bonds are not held to maturity, they may be worth more or less than their original value.

Distributions from traditional IRAs and employer sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59½, may be subject to an additional 10% IRS tax penalty. A Roth IRA offers tax free withdrawals on taxable contributions. To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must be in place for at least five tax years, and the distribution must take place after age 59½ or due to death, disability, or a first time home purchase (up to a $10,000 lifetime maximum). Depending on state law, Roth IRA distributions may be subject to state taxes.

Before rolling over your retirement account, consider all available options, which include remaining with your current retirement plan, rolling over into a new employer's plan or IRA, or cashing out the account value. When deciding between an employer-sponsored plan and IRA, there may be important differences to consider—such as range of investment options, fees and expenses, availability of services, and distribution rules (including differences in applicable taxes and penalties). Depending on your plan's investment options, in some cases, the investment management fees associated with your plan's investment options may be lower than similar investment options offered outside the plan.