Monthly Newsletter

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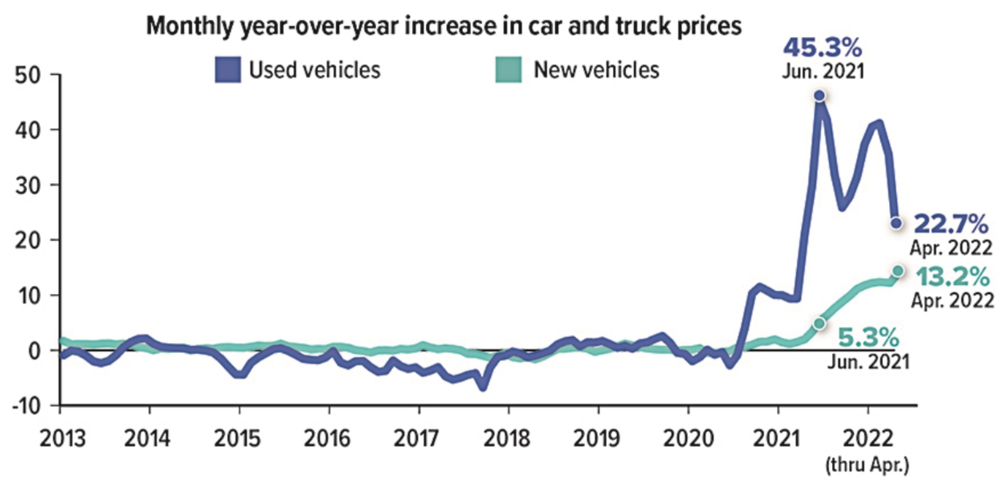
3,337,000

Number of new cars sold in the U.S. in 2021. Sales to consumers accounted for 43.5% of this total, sales to businesses accounted for 54.7%, and sales to the government accounted for 1.8%. The sales total represents a 50% drop from 2016.

Source: U.S. Department of Transportation, 2022

New Vehicle Shortages Drove Up Used Vehicle Prices

Prices for used cars and trucks began to rise at an unprecedented rate in August 2020 after remaining relatively flat since 2013. As new vehicle production was limited by supply-chain issues, demand for used vehicles skyrocketed. By June 2021, prices for used vehicles had grown by 45.3% year over year. After dropping somewhat, they peaked again in March 2022, finally dipping again in April. As new vehicle production accelerates, used car and truck prices could moderate, though the market may not recover quickly.



Source: U.S. Bureau of Labor Statistics, 2022 (Consumer Price Index for All Urban Consumers)

Sectors: Overweight, Underweight, or Just Right?

The U.S. stock market had a banner year in 2021, with the S&P 500 index up almost 27%. Unfortunately, stocks turned downward on the second trading day of 2022 and kept sliding into a bear market.[1]

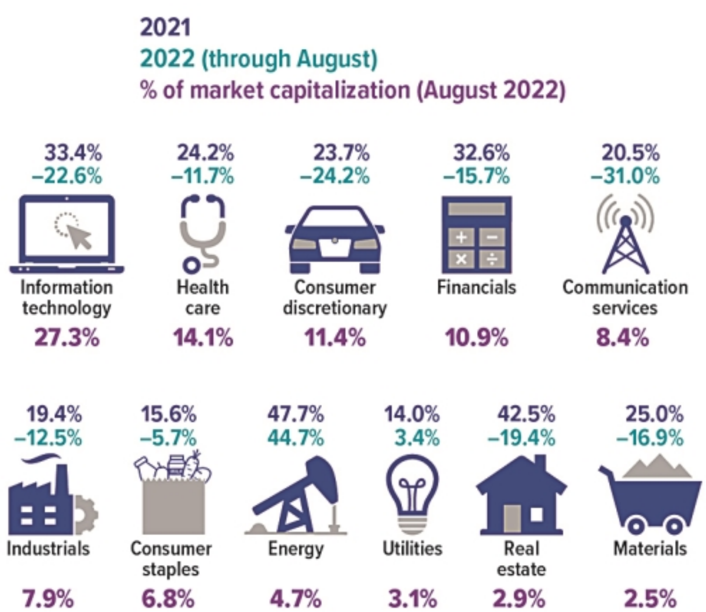
Stocks in the S&P 500 are classified by 11 different business sectors, each of which responds differently to economic conditions. For example, the information technology sector was very strong in 2021, rising by 33.4%. But it turned south in 2022 and dropped by 22.6% through August. On the other hand, the energy sector, driven by high oil prices, was up during both periods (see chart).

Index Weighting

Many broad-based indexes, including the S&P 500, are weighted based on market capitalization — the total value of a company's outstanding stocks. Sectors have different sizes and weighting to begin with, but the weight can change significantly due to performance. The information technology sector, which includes some of America's largest companies, rose from about 20% of S&P 500 capitalization at the end of 2018 to 29% at the end of 2021, increasing its impact on the index when the sector turned downward. The financials sector dropped from 13.3% to 10.7% over the same period, decreasing its impact on the index.[2]

Varied Weight and Performance

Sector gain or loss, with percentage of S&P 500 market capitalization



Source: S&P Dow Jones Indices, 2022 (data as of August 31). The S&P 500 is an unmanaged group of securities considered representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

This means that even if you invest primarily in broad-based funds, you may be more heavily invested (overweight) or less invested (underweight) in a given sector than you realize. If you own more specific funds or individual stocks, your portfolio could be even more overweighted or underweighted.

Some market sectors — such as health care, consumer staples, and utilities — are considered "defensive" and may be good to hold through a bear market or economic recession because businesses in these sectors tend to remain strong regardless of economic conditions. Others — such as information technology and consumer discretionary — may have more growth potential but are more sensitive to economic conditions. Whether it's appropriate to shift sector allocations in the middle of an economic cycle depends on your individual circumstances and long-term goals.

Sector Funds

One way to shift sector weight in your portfolio is by adding one or more sector funds — mutual funds or exchange-traded funds (ETFs) that focus on stocks of companies in a particular industry or sector of the economy. Because these funds are less diversified, they typically carry a higher level of volatility and risk than broad-based funds and should be considered as a complement to a core portfolio of diversified funds rather than a replacement.

Although sector funds offer flexibility in fine-tuning your portfolio, it's important to resist the temptation to chase performance and move assets into "hot" sectors without a more comprehensive strategy. Sector performance is cyclical, and last year's hot sector can easily turn cold, as can be seen in the ups and downs of technology stocks. Also keep in mind that every business cycle is different, and unexpected events can disrupt regular trends.

The return and principal value of all investments, including sector funds, fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

Mutual funds and ETFs are sold by prospectus. Please 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 from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) S&P Dow Jones Indices, 2022

2) Siblis Research, 2022

Year-End 2022 Tax Tips

Here are some things to consider as you weigh potential tax moves before the end of the year.

Set Aside Time to Plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

Defer Income to Next Year

Consider opportunities to defer income to 2023, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services in order to postpone payment of tax on the income until next year.

Accelerate Deductions

Look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year (instead of paying them in early 2023) could make a difference on your 2022 return.

Make Deductible Charitable Contributions

If you itemize deductions on your federal income tax return, you can generally deduct charitable contributions, but the deduction is limited to 50% (currently increased to 60% for cash contributions to public charities), 30%, or 20% of your adjusted gross income (AGI), depending on the type of property you give and the type of organization to which you contribute. (Excess amounts can be carried over for up to five years.)

Increase Withholding

If it looks as though you're going to owe federal income tax for the year, consider increasing your withholding on Form W-4 for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is considered as having been paid evenly throughout the year instead of when the dollars are actually taken from your paycheck.

Save More for Retirement

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can help reduce your 2022 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so. For 2022, you can contribute up to $20,500 to a 401(k) plan ($27,000 if you're age 50 or older) and up to $6,000 to traditional and Roth IRAs combined ($7,000 if you're age 50 or older). The window to make 2022 contributions to an employer plan generally closes at the end of the year, while you have until April 18, 2023, to make 2022 IRA contributions. (Roth contributions are not deductible, but qualified Roth distributions are not taxable.)

Take Any Required Distributions

If you are age 72 or older, you generally must take required minimum distributions (RMDs) from your traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required. Annual distributions from inherited retirement accounts are generally required by beneficiaries (as well as under the 10-year rule); there are special rules for spouses.

Weigh Year-End Investment Moves

Though you shouldn't let tax considerations drive your investment decisions, it's worth considering the tax implications of any year-end investment moves. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses above the amount of your gains can be used to offset up to $3,000 of ordinary income ($1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

More to Consider

Here are some other things to consider as part of your year-end tax review.

Consider postponing income and/or accelerating deductions if

- You expect to be in a lower tax bracket next year (perhaps you'll retire next year)
- Your itemized deductions are greater than the standard deduction this year
- You want to delay payment of tax

Consider accelerating income and/or postponing deductions if

- You expect to be in a higher tax bracket next year (perhaps you have a lower income this year)
- The standard deduction is greater than your itemized deductions this year
- You're subject to alternative minimum tax this year and certain deductions are disallowed

Four Tips for Keeping Heating Costs Down This Winter

With the prices for gas, oil, and electricity continuing to soar across the country, consumers are facing another winter of high heating bills. According to the National Energy Assistance Directors' Association, the average cost of home heating is estimated to increase by 17.2% this season.[1] Here are some tips to help you keep your heating costs down.

Have your heating system serviced. Make sure that your heating system is working properly by having it serviced by a professional every year. In addition, keep your furnace filter, air registers/vents, baseboard heaters, and/or radiators clean and free of dust and debris in order to ensure that your heating system is operating at maximum efficiency.

Keep the heat in. To prevent heat from escaping your home, inspect windows and doors for air leaks and apply weather stripping, caulking, and/or spray foam around drafty areas. Make sure that all areas of your home are properly insulated, especially attics, basements, crawl spaces, and outside walls. If you have a fireplace, keep the damper closed when it's not in use and refrain from using it on extremely cold nights. Leave window curtains, shades, and blinds open during the day to allow sunlight in to warm your home, and close them at night to retain the heat inside your home.

Turn down your thermostat. Turning down your thermostat even just a few degrees can help you save on your heating bills. According to the Department of Energy, during winter months you should set your thermostat to 68 degrees when you are at home and awake and set it lower when you go to sleep at night or are away from home. To make it easier, you can install a programmable thermostat that allows you to preprogram your heat to a lower temperature at certain times of the day. For optimum temperature control, there are also smart thermostats that allow you to remotely control the temperature in your home directly from a smart phone or computer.

Schedule a home energy assessment. A home energy assessment is conducted by a home energy professional and usually involves a room-by-room examination of your home and past utility bills. A professional energy assessment provides detailed tips on how you can heat your home more efficiently and save money on your energy bills. Some utility companies will cover the cost of a professional energy assessment or offer discounts. Contact your utility company or visit energy.gov for more information.

1) National Energy Assistance Directors' Association, 2022

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