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Client Newsletter

WINDGATE
WEALTH MANAGEMENT

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WHAT HAPPENS WHEN STOCKS GO DOWN 25%

It is often said that the stock market is the only store in town where customers run out of the door when prices go down. But the idea that you should be more optimistic as prices fall is much easier said than done. Especially when it feels like the store is on fire.

The backdrop for this difficult environment remains stubbornly high inflation and the Federal Reserve's stated commitment to further increase interest rates. The Fed's aggressive policy is an attempt to bring down inflation by slowing consumer and business spending, with the outcome possibly being a recession. As a result, markets have fallen as low as 25% below their peak this year.

Given the depressed market prices and the Fed's actions, you might assume that companies were struggling to make profits in a deteriorating economy. In fact, this has yet to be true. Company earnings in the S&P 500 have increased this year by about 6%, as consumer spending has remained strong. All the jobs lost since the pandemic have been recovered, and the unemployment rate of 3.5% is the lowest since 1969. The bear market has not been a result of poor company earnings. The reason for the decline has been falling multiples, or the price investors

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are willing to pay for those earnings. Multiples have fallen by 30% in the S&P 500, and by far greater levels for many companies both large and small. Put a different way, the market has been repriced as if a recession is already here.

Eventually we will know in hindsight if the markets have discounted a recession by too little and need further decline, or if there has been an overreaction to a recession that ends up being mild or never arrives. Right now, we can see that something will have to give. Recessions are historically accompanied by an average decline in company earnings of 10-20%. This level of deterioration could likely result in further market declines. At the same time, a recession means higher unemployment, a condition to keep looking out for. It is said that when a neighbor loses their job, it is a recession; when you lose your job, it is a depression. Look around, your neighbor still has their job (and Amazon boxes are still arriving every day). In any event, remember that historically the market will bottom well before a recession is over and before unemployment makes its way through the economy. The market is a leading indicator, as we have been reminded of this year.

Forecasting is difficult, if not impossible. What we can do with certainty is look at similar environments in history to gain a perspective to where we are and where past periods have gone next. You may find some level of comfort in understanding that buying stocks in a bear market historically has resulted in strong returns. It may not be easy but buying things when they are on sale is a winning strategy.

This is the ninth time the S&P 500 Index of large U.S. companies is down 25% or more since 1950. On the right are the forward one, three, five, and ten-year returns down 25% or more in the S&P 500. Every one-year or more period showed positive returns while just one 12-month period was negative.

When the S&P 500 is Down 25% or Worse Since 1950

Peak	Trough	% Decline	+1 Year	+3 Years	+5 Years	+10 Years
12/12/1961	6/26/1962	-28.0%	31.2%	69.2%	94.8%	171.1%
11/29/1968	5/26/1970	-36.1%	32.2%	44.3%	27.9%	97.5%
1/11/1973	10/3/1974	-48.2%	1.4%	23.8%	42.0%	188.4%
11/28/1980	8/12/1982	-27.1%	43.9%	81.2%	238.6%	403.9%
8/25/1987	12/4/1987	-33.5%	14.7%	34.1%	96.8%	387.1%
3/24/2000	10/9/2002	-49.1%	0.2%	1.9%	21.5%	38.3%
10/9/2007	3/9/2009	-56.8%	-6.9%	3.7%	61.2%	209.6%
2/19/2020	3/23/2020	-33.9%	56.4%	???	???	???
1/3/2022	9/30/2022	-25.2%	???	???	???	???
Averages		**-37.6%**	**21.6%**	**36.9%**	**83.3%**	**213.7%**

Data: Ycharts

Here is the same data for the Russell 2000 Index of smaller companies, which this year has fallen 30% for only the seventh time since its inception in 1979. Smaller companies tend to be the leaders in an economic recovery, and you can see the average returns after a large decline are substantial.

When the Russell 2000 is Down 30% or Worse Since 1979

Peak	Trough	% Decline	+1 Year	+3 Years	+5 Years	+10 Years
8/21/1987	12/7/1987	-38.8%	27.2%	7.0%	85.8%	337.5%
10/9/1989	10/31/1990	-34.0%	58.6%	130.0%	171.2%	386.3%
4/21/1998	10/8/1998	-36.9%	19.1%	15.8%	43.3%	112.0%
3/9/2000	10/9/2002	-46.1%	-9.3%	47.0%	90.7%	81.2%
7/13/2007	3/9/2009	-59.9%	6.5%	43.8%	119.6%	222.9%
2/20/2020	3/23/2020	-40.9%	94.8%	???	???	???
11/8/2021	9/30/2022	-31.9%	???	???	???	???
Averages		**-41.2%**	**32.8%**	**48.7%**	**102.1%**	**228.0%**

Data: Ycharts

A common and natural response to the above data is a listing of all the risks that exist today: high inflation, possible recession, Fed tightening, war, geopolitical risks, unknown black swans, or any other. It is true that these risks are real. However, every single period of decline in the data above had its own risks and narrative about why the future could not possibly get any better. And yet those recoveries shown in the tables were real.

The stock market does not fall 25-30% very often. In previous times when it has, long term investors who stuck with their investments or were able to buy more were richly rewarded. Past performance does not guarantee future results.

The average bear market during a recession lasts 13 months, with the current bear starting in January. Given the depths and duration of the selloff, it seems likely that the downturn is closer to its end than to its beginning. Things certainly could get worse in the near term. We just cannot predict how much worse, and to what level the risk of recession has already been priced into the market. Fortunately, we do know that owning stocks after they have fallen 25% or more has historically led to greater wealth, and that every pervious bear market in U.S. history has eventually led to new all-time highs.

DO YOU NEED HELP CONSOLIDATING OLD 401(K) ACCOUNTS?

How many retirement accounts do you have to your name? When was the last time you logged in and made any active decisions regarding your investments? If you have an old 401(k) account that has been dormant, you are potentially losing an opportunity to improve your investment return and simplify your life.

Retirement accounts often represent the largest and most important asset for working professionals. Yet they usually receive the least attention and are the most likely to suffer opportunity cost losses from a "set and forget" strategy.

Further, when you do not give much thought to old 401(k)s, they could cause headaches down the road as you find yourself juggling various investment decisions, fee breakdowns, and rules for each account. Most importantly, you might not be getting the most out of your retirement savings you had worked for.

The good news is that there is a way to streamline the management of your retirement savings and possibly maximize your returns: account consolidation. Here is how it works and why it may be a good option for you.

How to Decide If Consolidating Is for You

How do you know if it is time to consolidate? There are a few things you will want to consider before consolidating multiple retirement accounts .

- What kind of benefits and features do your retirement accounts offer?
- Are there similar investment options in all your accounts?
- What are the fees like on each of your accounts?
- Can you roll over previous plans to a new employer? Or do you need to move to a self-directed IRA?

You will want to do your research to answer these questions before you make any moves. And remember, you do not necessarily need to consolidate everything into one account. You can merge some accounts while keeping others open. What is best for you will depend on your specific situation and goals for retirement.

Benefits of Consolidating Multiple Retirement Plans

When it comes time for retirement, there are several benefits of consolidating multiple plans into one account.

Here are just a few benefits to consider:

- Reduced investment fees: Fewer retirement accounts can also mean fewer fees. Instead of paying fees for each of your account management services, you only need to pay one—meaning more of your money can grow.
- Simpler portfolio rebalancing: When it comes time to rebalance your portfolio, having all your accounts consolidated makes it easier to align your asset allocation with your risk tolerance and return expectations.
- More opportunities to save: You cannot contribute to an old employer-sponsored 401(k). You need to roll over the account to a new 401(k) or a self-directed account so you can continue contributing to that retirement fund.
- Reduced administrative work for you: Fewer accounts means simpler management. You do not need to worry about managing investments and documentation across different platforms. Instead of three different monthly statements, you just have one, while you can see all your investments in one location for more cohesive planning.
- Easier calculations and withdrawals of required minimum distributions: If you have multiple 401(k)s at retirement, you will eventually need to take required minimum distributions (RMDs) from each of those accounts. When juggling multiple accounts, you risk missing a required minimum distribution or risk withdrawing the incorrect total amount, for which the IRS can make you pay a penalty. Having a single account makes RMDs much easier.
- A clear picture of your money: Consolidating your accounts allows you to clearly understand how well your investments are working for you while enabling you to easily manage the account to meet your retirement goals. Retirement plan projections should always include all your funds in a comprehensive approach.
- Opportunity for professional management: Many dormant 401(k) plans are often left in a simple target date retirement fund. While these funds can be beneficial in some circumstances, they are certainly not tailored to your specific situation. A financial advisor

can help provide a disciplined process to build your portfolio. In an intelligently designed portfolio, all the pieces work together on behalf of your goals. It is designed that way deliberately. This fundamental aspect of financial planning can lead to actual results. Vanguard's July 2022 study Advisor Alpha suggests that most clients of financial advisors can earn about 3% more than those without one based on the implementation of a disciplined process.

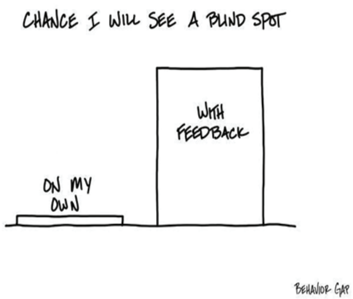
Lastly, one of the biggest benefits of consolidation is saving time. Time is one of your most valuable assets. Having one consolidated account means you will spend less time managing all your accounts and free up more time and energy for doing what you love.

Reasons to Keep Old 401(k) Accounts Where They Are

While simplicity and investment clarity are typically improved by consolidating accounts, there are reasons to keep at least one 401(k) active. If you are utilizing Roth Supercharge or back-door Roth retirement savings strategies, having money in a 401(k) versus an IRA can help you pass the "pro-rata" rule and ensure that those strategies are possible. Second, some 401(k)s have a "still working" provision in their plan that allows you to delay taking RMDs while you are still working. So, if you have a 401(k) at a company where you foresee yourself staying well past retirement age, keeping some assets in that 401(k) account can be an advantage.

> Consolidating your accounts allows you to clearly understand how well your investments are working for you.

INTRODUCING: PROFESSIONALLY MANAGED 401(K) AND 529 ACCOUNTS



We are excited to announce that Windgate Wealth Management can now professionally manage your 401(k) and 529 plan accounts. This new service can translate into higher returns, less stress, and more long-term wealth.

Traditionally, accounts such as 401(k)s, 403(b)s or 529s were not managed by your financial advisor, putting you further behind your financial goals. Advisors could not provide the ongoing management and oversight that is expected and required as a fiduciary due to limitations in technology. Now, technology enables us to view, manage, and trade any held away asset, providing you with the benefits of comprehensive portfolio management and reporting. This allows us to do the job you hired us to do — full, holistic account management and wealth planning — and helps you to rest easy that all your investable assets are being professionally managed.

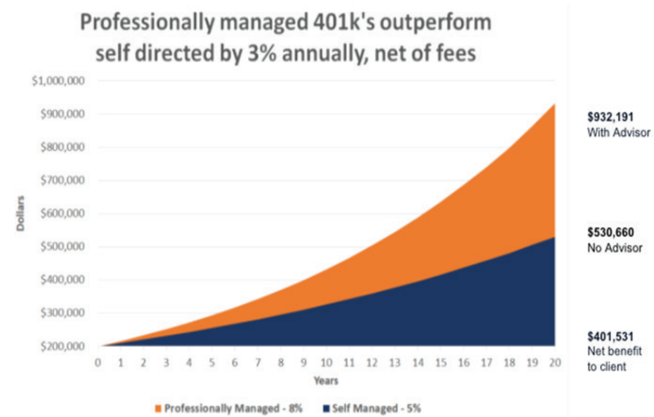
To reiterate: retirement accounts often represent the largest and most important asset for working professionals. Yet they usually receive the least attention and are the most likely to suffer opportunity cost losses from a "set and forget" strategy.

Dormant 401(k)s from previous employers are often best consolidated. On the other hand, you will not want to consolidate your current employer's 401(k). An active 401(k) provides the best tax and savings benefits, especially if you are provided a matching contribution. However, all the challenges related to simplicity, investing, and holistic planning are very present with 401(k) accounts left to be managed on your own.

Our innovative technology platform will allow us to manage your 401(k) the same way we manage your IRA and brokerage accounts. We will be able to proactively monitor and trade these accounts for you with a goal to increase account performance, implement tax strategies, and manage downside risk.

Studies Show Professionally Managed 401(k)s Outperform

Aon Hewitt Studies (May 2014) showed that professionally managed 401(k)s outperform self-directed accounts by 3.32%, net of fees . This can translate into 75% more wealth over 20 years. The stress of managing your own 401(k) account can be eliminated as well. You no longer need to rely on an ad-hoc or dormant approach, but can [rest easy knowing a disciplined process is being implemented to match your portfolio to your goals.]



Retirement accounts often represent the largest and most important asset for working professionals.

How It Works

We can connect with any financial provider holding your 401()k account if you have online access and can log in and trade the account online. The process is as follows:

1. Via our online onboarding, you will be asked to input your username and password you use to log in to your 401(k) account. Windgate Wealth Management will not see or know your credentials, as they will be encrypted.

2. Once connected, Wingate Wealth Management will be able to review your investment fund menu, set appropriate fund allocations, and adjust future contribution allocations on your behalf.

3. As market conditions develop or funds are added/deleted from your plan, Windgate Wealth Management will be able to rebalance investments on an ongoing basis.

4. Linked accounts will be added to your regular quarterly investment statements, along with tracking of net gain and loss activity and individual fund performance.

"Professionally managed 401(k)s outperform self-directed by 3.32% annually, net of fees." - AON Hewitt Studies

RETIRED AND RECEIVING SOCIAL SECURITY? CONGRATS YOU GOT A RAISE!

Retirees got a welcome notice in October that Social Security benefits will be increasing 8.7% next year. It is one expected upside of the inflation that has been causing havoc in financial markets this year, as the cost-of-living adjustment (COLA) is based on inflation data.

Increased Social Security benefits will begin in January 2023 for some seventy million beneficiaries. Official COLA notices will be mailed out to recipients in December. You can always check your individual benefits online here: https://www.ssa.gov/myaccount/. To quickly determine the COLA increase on your own monthly benefit, simply take your monthly amount and multiply it by 8.7% to know what increase you can expect.

As a reminder, even if you have yet to claim Social Security, the increased COLA will be to your benefit. Your Primary Insurance Amount (PIA) used to calculate eventual social security benefits will also be increased by 8.7%.

Overall inflation has impacted interest bearing accounts as well. You can now earn close to 3% interest on cash held in money markets. We are implementing these investments in investor portfolios; if you hold cash in a savings vehicle outside of your Windgate accounts, be sure to check with your institution or ask us for recommendations as you can possibly earn more on your cash. Lastly, many bonds now yield close to 5%, or 150% more than they did at the beginning of the year. Fixed income investors will benefit from this higher interest payment in balanced portfolios.

We have not lived through a period of true inflation since the 1970s. We are currently being reminded of the many downsides of inflation. But there can be some benefits too, and much needed income for retirees is one of them.

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