To Your Future Prosperity

REFLECTIONS

Client Newsletter

WINDGATE
WEALTH MANAGEMENT

www.windgatewealth.com

Sean Condon CFP®
Financial Planner

JUMP-START YOUR FINANCIAL PLAN FOR 2022

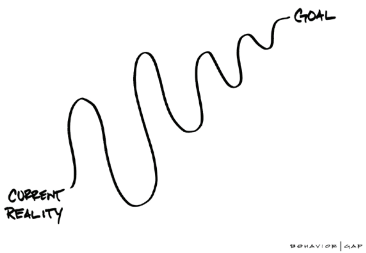
If you are a bit wary of having high hopes for the new year after the intense years of 2020 and 2021, you are not alone. With the ongoing pandemic, economic uncertainty, and a slow road back to "normal," planning for 2022 might feel overwhelming. The good news is that there are actionable steps you can implement to take back control of at least one important area of your life—your finances—and truly make 2022 a fresh start. Here are three ways you can get started today.

1. Get your goals in shape

The first way to jump-start your financial plan is to revisit your financial goals. Do you have a goal for your finances, or are you just crossing your fingers and hoping you have enough for the lifestyle you want?

Specific goals with defined timelines will help to determine the best course of action, including how much risk you can and should take with your money. For instance, if you are looking for a guaranteed source of income, then you will probably want to stick with investments that will provide long-term security. Conversely, if you are looking for

INSIDE THIS ISSUE



substantial growth, then you might want to take on more risk and invest less conservatively. Every dollar in your portfolio should be working toward a specific goal.

Remember that the best goals will be SMART:

- Specific: The more you can identify exactly what you are saving for, the easier it will be to work toward it.
- Measurable: As much as possible, try to identify how much your financial goal will cost. Do the research to figure out what you need to save so that you are able to see tangible progress along the way.
- Attainable: Make sure your goal is realistic and achievable. This might require some self-reflection or reevaluation of your priorities.
- Relevant: Ask yourself which goals align with your core values. Remember that your finite assets will be split amongst your seemingly infinite list of wants. The more you can scale back your list to what is truly relevant, the quicker you will be able to achieve each goal.
- Timely: Identify the timeline for each goal so that you can prioritize which ones need to be addressed first and how much risk you can afford to take.

2. Have your priorities changed during COVID?

Has your life changed significantly since the pandemic began? Collectively we all have been through a challenging break from familiar roles and structures. While individual experiences have been very different, with some much harder than others, we all might say life has become disturbingly different and confusingly like what it was before.

The experience has often been disturbing and disruptive, but it does give us a chance to reassess our priorities, including our finances. Ask yourself, in the past two years:

•How have your priorities of how you want to spend your money shifted?

•How have your priorities of how you want to spend your time shifted?

The answer to these questions should have an impact on your financial plan. After all, the point of financial planning is to understand where you are now financially and where you would like to be, and then follow steps to bridge that gap. If your goals have changed, a good advisor can help give you solutions to make course corrections. This will enable you to spend less time worrying about your money and more time focusing on what is important to you and your family.

3. Reevaluate the Risk in Your Portfolio

As mentioned in Step 1, risk is fundamental to investing. Even "investing" by hiding cash under your mattress involves risk. If inflation is rising, you are losing purchasing power on your assets when you earn nothing. To jump start your financial plan in 2022, be sure to reevaluate the amount of risk you are taking in your overall portfolio.

It is not uncommon for a portfolio to become unbalanced as the market ebbs and flows. What may have started out as a 60/40 allocation between stocks and bonds can easily become a 70/30 or 80/20 allocation, which is a significant difference in risk level. You may also find that you are too heavily concentrated in one type of asset or in one company's stock. If this is the case for you, rebalancing and diversification should be explored.

Though risk is fundamental to investing, it is also crucial that you are not overexposed to unnecessary risks. Take steps to evaluate your risk tolerance, based on your unique financial circumstances, stage of life, and personality, and be sure your investments align.

WHAT SHOULD YOU DO ABOUT INFLATION AND STOCK MARKET VOLATILITY?

After a three-year rally, the S&P entered correction territory (down over 10%) in late January, marking the worst slide since 2020. The selloff has been especially extreme in many previously high-flying tech stocks. Since the selloff, over 70% of stocks in the NASDAQ Index are down more than 20%, and the average stock in the tech-focused index is down 40%.

The Russian invasion of Ukraine furthered the market decline, as we all face the unfortunate reality that our world is not as safe as it often seems. From a purely financial perspective, we know that geopolitical events can impact investments, so we need to prepare for a wide range of outcomes, at least over the shorter term. For historical perspective, below is a table showing market reactions around past geopolitical events.

Even before the Russian invasion, inflation had been causing concerns and may continue to be the key issue for our current market cycle. Because inflation is reaching 40-year highs, it is expected that the Federal Reserve will begin raising interest rates in the spring, which could potentially slow the economy.

Investors are understandably nervous about their investments and their purchasing power. If you are worried about your portfolio, you are not alone. But during stock market volatility, it is important to keep a level head to avoid financial mistakes.

Stocks Usually Take Geopolitical Events In Stride

S&P 500 Index And Geopolitical Events

		S&P 500 Returns		Days	
Market Shock Events	Event Date	One Day	Total Drawdown	Bottom	Recovery
U.S. Pulls Out of Afghanistan	8/30/2021	0.4%	-0.1%	1	3
Iranian General Killed In Airstrike	1/3/2020	-0.7%	-0.7%	1	5
Saudi Aramco Drone Strike	9/14/2019	-0.3%	-4.0%	19	41
North Korea Missile Crisis	7/28/2017	-0.1%	-1.5%	14	36
Bombing of Syria	4/7/2017	-0.1%	-1.2%	7	18
Boston Marathon Bombing	4/15/2013	-2.3%	-3.0%	4	15
London Subway Bombing	7/5/2005	0.9%	0.0%	1	4
Madrid Bombing	3/11/2004	-1.5%	-2.9%	14	20
U.S. Terrorist Attacks	9/11/2001	-4.9%	-11.6%	11	31
Iraq's Invasion of Kuwait	8/2/1990	-1.1%	-16.9%	71	189
Reagan Shooting	3/30/1981	-0.3%	-0.3%	1	2
Yom Kippur War	10/6/1973	0.3%	-0.6%	5	6
Munich Olympics	9/5/1972	-0.3%	-4.3%	42	57
Tet Offensive	1/30/1968	-0.5%	-6.0%	36	65
Six-Day War	6/5/1967	-1.5%	-1.5%	1	2
Gulf of Tonkin Incident	8/2/1964	-0.2%	-2.2%	25	41
Kennedy Assassination	11/22/1963	-2.8%	-2.8%	1	1
Cuban Missile Crisis	10/16/1962	-0.3%	-6.6%	8	18
Suez Crisis	10/29/1956	0.3%	-1.5%	3	4
Hungarian Uprising	10/23/1956	-0.2%	-0.8%	3	4
N. Korean Invades S. Korea	6/25/1950	-5.4%	-12.9%	23	82
Pearl Harbor Attack	12/7/1941	-3.8%	-19.8%	143	307
Average		**-1.1%**	**-4.6%**	**19.7**	**43.2**

Source: LPL Research, S&P Dow Jones Indices, CFRA, 01/24/2021

All indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performance of its predecessor index, the S&P 90.

Market Corrections are Normal

Investors could be forgiven for overreacting to recent stock market volatility. After all, last year was especially calm, with the S&P 500 Index's largest decline just 5% and the market hitting all time highs on 70 separate occasions. That kind of steady, easy climb is an outlier in market history. A market that rises and falls is far more normal, and a good reminder to the underlying truth that there is no return without risk.

Let's put current conditions into perspective. On average, declines of 10% or more happen about once a year, as seen in the table below. Even with significant losses throughout the year, the stock market still has a solid long-term track record. And while past performance does not predict future results, when there has been a correction of 10% or worse, 3 out of every 5 years have ended with a positive return.

Risk is the Trade-off for Return

It is important to understand that risk is nothing new and stock market corrections are perfectly normal. In fact, risk is a necessary trade-off for earning a long term return; it is what makes investing so difficult.

We all know that the future is always uncertain. All the factors above are playing into market movements. The problem is nobody can know for certain the impact these risks will have on the economy. One thing that seems clear is that the period of "free" money provided by zero interest rates is ending. But many questions remain: such as how much will the Fed hike rates, and how will it impact inflation and the economy? The markets are pricing in many unknowns and given daily gyrations they are having a hard time doing it. As investors, we must accept these uncertainties as part of our long-term investment decisions.

A history of declines (1951–December 2020)

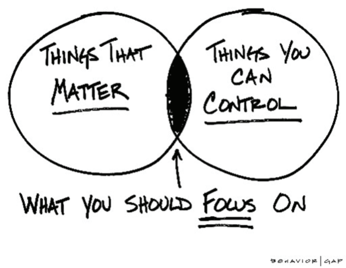
Type of decline	Average frequency*	Average length†	Last occurrence
–5% or more	About 3 times a year	43 days	October 2020
–10% or more	About once a year	110 days	September 2020
–15% or more	About once every 3 years	251 days	March 2020
–20% or more	About once every 6 years	370 days	March 2020

Source: RIMES, Standard & Poor's.

*Assumes 50% recovery rate of lost value.

†Measures market high to market low.

Focus on What You Can Control



Market corrections can take a psychological toll on investors and increase the chances of making a mistake. It also means more opportunity to buy or rebalance at lower prices. If you're saving money on a regular basis, corrections can be a good thing because it means you are buying stocks on sale. If you are in a draw-down phase, you ideally have built a portfolio with an understanding that corrections do happen and can still provide needed income without selling stocks into poor conditions.

It is impossible to know how long this correction may last. We aim to build portfolios that are durable in any market environment and prepare for corrections as part of a financial plan. The media can often make it seem like each negative episode is worse than the one before. Know that in the long-term, volatility does not hurt investors, but selling when the market is down will lock in losses and can destroy a plan.

Remember That Your Portfolio Is Diversified

Fears about inflation, volatility, and market declines are stressful. However, it is important to keep in mind that while the stock market is down, your portfolio is made up of multiple asset classes designed to work together to decrease overall losses. While we cannot predict how the markets will behave in the future, history has proven that over full market cycles, a diversified portfolio can protect investors from something like the "lost decade" where large U.S. stocks failed to provide any return for ten years following the late 1990's bull market.

Review Your 401(k) and Other Accounts

Now is a good time to look at all of your investment accounts, including your 401(k) to make sure it they are well diversified. If you have not rebalanced your other investment accounts in the last year, get in touch with our office. We are able to offer recommendations to minimize potential losses.

INTEREST RATE HIKES AND MICRO-CAP STOCK PERFORMANCE

Michael Corbett

One of the primary duties of the Federal Reserve is to foster economic conditions that achieve price stability. Over the past 12 to 18 months, the Fed has explained that the inflation we have been experiencing is short-term and transitory. They have maintained that price stability will return soon. In November 2021, however, the Fed abandoned the "transitory" statements, acknowledging longer-term inflation in the economy. What factors influence the Fed's decisions and actions? In addition to raising the Fed Funds rate recently, we see several economic indicators that lead to the expectation that the Fed will raise the Fed Funds rate several more times. With the Consumer Price Index and the Producer Price Index reporting the highest increase in more than 30 years, some believe 6 or 7 increases are likely in the next year.

The numbers tell the story, and they appear to be forcing the Fed to head back to their playbook. The question is: How do rising interest rates impact stock prices, particularly micro-cap stocks? In the table below, we assembled the past twelve periods when the Federal Reserve raised the Fed Funds rate. This data comes from the Federal Reserve Economic Data (FRED). As you can see, the average length of time the Fed raised rates was 24 months, with the least time being 6 months and longest being 53 months. We also included the range of increases which include a modest increase of rates from 4.75% to 6.54% in the 1999/2000 period to a drastic increase of 4.61% to 17.61% in the 1977/1980 period.

We then gathered the small company performance from the Duff & Phelps' Ibbotson Annual Yearbook. The performance results are from the month-end date when the Fed raised rates until the month-end when they stopped raising rates. As you can see, small company stocks rose in ten of the twelve periods when the Fed raised rates, and the average gain was more than 25%. There are two notable periods I would like to address. First, the 1972 to 1974 period certainly was a negative period for small company stocks with a 40.61% decline, but that period was also plagued by other social and severe economic factors.

However, the second period of note is 1977 to 1980 which was also affected by several social and economic factors. Although inflation was severe in the late 1970s, the strength of the economy drove the performance of small company stocks to an exceptional gain of nearly 84%. We believe that the current economic situation could be like the second period. While inflation is part of the picture, we expect that the strength of the economy could drive robust performance for small company stocks.

PERIOD FEDERAL RESERVE RAISED FED FUND RATES	FED FUND CHANGE	MICRO-CAP PERFORMANCE DURING RATE HIKE
May 1962-Oct. 1966 (53 months)	2.36%-5.76%	+94.91%
July 1967-Sept. 1969 (26 months)	3.79%-9.15%	+24.29%
March 1971-Sept. 1971 (6 months)	3.71% - 5.55%	-9.03%
Feb. 1972-July 1974 (29 months)	3.30%-12.92%	-40.61%
Jan. 1977-March 1980 (38 months)	4.61%-17.61%	+83.98%
Aug. 1980-July 1981 (11months)	9.03%-19.04%	+36.84%
Feb. 1983-July 1984 (17 months)	8.51%-11.64%	+8.20%
March 1988-March 1989 (12 months)	6.58%-9.85%	+12.94%
Dec. 1993-April 1995 (16 months)	2.96%-6.05%	+14.15%
June 1999-June 2000 (12 months)	4.76%-6.54%	+29.81%
June 2004-July 2006 (25 months)	1.26%-5.24%	+20.41%
Nov. 2015-July 2019 (38 months)	0.24%-2.40%	+29.32%
March 2022-??? (??? months)	0.08%-???	???
Averages (24 months)		+25.43%

Source: Ibbotson 12-31-2021.

Past Performance does not guarantee future results.
The micro-cap universe is composed of stocks making up the fifth quintile (i.e., the ninth and 10th deciles) of the New York Stock Exchange (NYSE).

As you can see, small company stocks rose in ten of the twelve periods when the Fed raised rates, and the average gain was more than 25%.

IRA CONTRIBUTIONS DEADLINE

Don't forget, 2021 contributions for IRAs and Roth IRAs must be made by April 15, 2022. Maximum contributions are $6,000 per individual ($7,000 if you are age 50 or over). Income limits for contributing to Roth IRAs or making deductible contributions to Traditional IRAs are below. Additionally, you can still benefit from tax-deferred growth in a traditional IRA by making non-deductible contributions should your income exceed the limits.

IRA 2021 INCOME LIMIT

Filing Status	Roth IRA Can contribute if your Modified AGI is	TRADITIONAL IRA Can deduct contributions* if your Modified AGI is
Single or Head of Household	<$140,000	<$105,000
Married Filing Jointly	<$208,000	<$125,000
Spousal IRA (Those with spouse who earns no income)	N/A	<$208,000

*If you are not covered by an employer plan, you can deduct 100% of IRA contributions regardless of income.

Source: IRS.gov.

Don't forget, 2021 contributions for IRAs and Roth IRAs must be made by April 15, 2022.

BACK DOOR IRA: HOW IT WORKS

The Backdoor Roth IRA strategy allows those who earn more than the Roth limitations to contribute to a Roth IRA anyway, with one small workaround. While contributing to a Roth IRA is prohibited for high-income earners, anyone can make contributions to a traditional IRA. In addition, anyone who has funds in an IRA can "convert" the assets into a Roth IRA. Put together, high-income earners can sidestep the Roth income limitations by contributing to an IRA and then converting it to a Roth. IRA limits are currently $6000 ($7,000 for those aged 50 and over), and the strategy can be repeated every year. The main obstacle to making a "backdoor" Roth contribution is the pro-rata rule, which can limit the effectiveness of the strategy. The pro-rata rule forces all IRAs to be counted as one account, so a $6,000 Roth conversion will be considered as a partial conversion of all existing IRA assets, not as a standalone transaction. The downside here is the tax benefits are issued on a pro-rata basis, meaning if $6,000 represents 5% of all your combined IRAs, only 5% of the $6,000 can be converted tax-free into a Roth (the remainder will be considered a taxable distribution – not the desired outcome). Note the rule only aggregates IRA accounts, so 401(k) accounts, spouse's accounts, or other Roth accounts are not counted (SIMPLE and SEP IRA assets are included). If all of your retirement assets are currently held in Roth IRA or 401k accounts (i.e. you have no assets in a Traditional IRA) then this pro-rata rule will not apply, and a back door conversion may be a great idea for you.

The Backdoor Roth IRA strategy allows those who earn more than the Roth limitations to contribute to a Roth IRA anyway, with one small workaround.

WINDGATE
WEALTH MANAGEMENT
300 S. WACKER, SUITE 600
CHICAGO, IL 60606
844-377-4963
www.windgatewealth.com

122021