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Celebrating 35 Years in 2023




Kick-Off Newsletter

"Cautious Optimism"

January 6, 2023

"Despite rampant pessimism, many of the problems that haunted the economy and markets in 2022 could be at least partially resolved in 2023. A new year, like a new baby, deserves to be greeted with optimism"[141].
–Dr. David Kelly, Economist and Chief Global Strategist, J.P. Morgan Asset Management

2022 Year in Review

We began the year with Vladimir Putin's invasion of Ukraine with the ensuing humanitarian, food, and energy crisis that this War forced on the global community[83]. We ended the year with the death of Pope Emeritus Benedict XVI[129]. In 2022 Queen Elizabeth II died at the age of 96 as Britain's the longest reigning monarch after 70 years on the British throne[129]. In the U.S. during 2022 we experienced 40-year high inflation and a series of Fed rate hikes with subsequent declines in U.S. stocks, international equities, and fixed income securities[74]. Last year marked NASA's successful completion of the Double Asteroid Redirection Test as part of their objective to defend earth against potential asteroid or comet hazards[138][126]. Additionally, NASA revealed the James Webb Space Telescope providing spectacular pictures from far off in space[123]. In 2022, we sadly lost soccer icon Pele´, hockey star Guy Lafleur, basketball star Bob Lanier, football coaches Dan Reeves and Mike Leach, and football greats Franco Harris and Len Dawson[129].

In 2022 the U.S. faced extreme weather challenges: a Christmas blizzard that brought below average temperatures and record snowfall to most of the country including below zero temperatures throughout the Midwest; a draught and record heat wave in the West, Southwest, Great Plains, and East Coast; wildfires in Colorado; historic flooding in Kentucky; and the rath of Hurricane Ian in southwest Florida[132]. In 2022 the Covid-19 Pandemic that tragically took 6M lives worldwide including 1M in the U.S., finally left the pandemic phase with U.S. travel returning to pre-Covid levels[132]. The U.S. Supreme Court overturned Roe vs Wade leaving abortion legalization to each state[132]. The year also included the Winter Olympics in Beijing, Argentina winning an exciting World Cup in soccer, Finland and Sweden applying for NATO membership, baby food shortages due to supply chain delays, and tragically, a gunman in Uvalde, Texas murdering 19 students and two teachers at an elementary school[132].

In December the U.S. Energy Department announced a breakthrough in Nuclear fusion whereby the energy released was greater that the energy it took to produce[45][126]. The goal of the U.S. when the program began in 2009 was to create nuclear clean power, free from radioactive waste, as a source for clean energy and for use with military assets[49][4][144]. Nuclear fusion is created by heating two small hydrogen atoms to 100 million degrees Celsius so that they combine, thus producing energy, but without nuclear waste[45][49]. By contrast, today's nuclear power plants as well as military assets run on nuclear fission, a process of splitting a large uranium nucleus into two radioactive fragments thus creating energy, but with the biproduct of long-lasting radioactive waste(45)(49). Realistically, it may take several decades to get this breakthrough into an economically viable clean energy source; however, in 2022 the U.S. provided the first breakthrough worldwide with this process(49)(45)(144).

Actors, Sindey Poitier, Bob Saget, William Hurt, Ray Liotta, James Caan, Anne Heche, and Kristie Alley, lost their lives last year(129). Additionally, we lost musicians Meat Loaf, Naomi Judd, Jim Seals, Olivia Newton-John, Loretta Lynn, and Christine McVie, as well as comedians, Louie Anderson, Gilbert Gottfried, and Gallagher(129). Filmmaker and producer, Ivan Reitman, author, David McCullough, as well as, former secretary of state, Madeleine Albright, senator Orrin Hatch, Japanese prime minister, Shinzo Abe, President Donald Trump's former wife, Ivana Trump, Dodger's broadcaster, Vin Scully, Soviet Leader, Mikhail Gorbachev, former CNN chief anchor, Bernard Shaw, and television news icon, Barbara Walters, all died in 2022(129). Incidentally, I had the privilege of hearing David McCullough and Bernard Shaw each give speeches at events I've attended over the years; they were both informative and interesting by providing historical prospective and insight you just don't experience every day. Now, on to 2023…

"When everything seems to be going against you, remember that the airplane takes off against the wind, not with it." *-Henry Ford*

Economy

Economists and market analysists are all over the map with their predictions for where the U.S. economy and markets will go in 2023; ranging from a boom with the Biden Administration's green energy initiatives, to recession from Fed rate hikes coupled with massive government spending, and everywhere in between(86). The range of forward-looking analysis on the 2023 economy and markets is the widest since 2007(15). We believe it will be somewhere in between the forecast extremes, a "plow-horse"; a term coined by economist Brian Wesbury, referring to below average growth with potential for a mild recession during the year(130)(116)(97). Further, we believe the U.S. economy will look better a year from now, but during the next few months we may experience choppy waters as the U.S. economy continues to slow, driven by Fed rate hikes, potentially compressing corporate profits and further slowing of the housing market(74)(116)(130). Consumer spending for services should continue with prices continuing to increase, but we see consumer spending on goods declining with corresponding prices coming down as we head into 2023(130).

Prosperity is more likely with low inflation and low unemployment, the Fed' two stated monetary goals, but high inflation has prompted the Fed to raise rates aggressively which may have the unavoidable consequence of increasing unemployment(70)(38). Inflation hits Americans unevenly as those that are on tight budgets are affected much more than those whose budget can absorb the shock(16)(30)(10). Unfortunately, monetary and fiscal policy decisions to increase the U.S. money supply and continued deficit spending resulted in overstimulating the economy during the pandemic period of 2020 and 2021 that resulted in stimulated demand that has continued despite higher prices(21)(70)(144)(76)(97)(46). The Federal Reserve, although late to acknowledge and act on inflationary pressures for all of 2021, began in 2022 to combat inflation through a series of aggressive rate hikes(70)(97)(60). These rate hikes are designed to slow the economy through higher borrowing costs with the objective to bring inflation back down to the Fed's 2% target(70)(86)(38). Deficit spending by the government under the unproven guise of Modern Monetary Theory may now be discredited because deficits may now be proven inflationary(144)(76)(46)(23).

Inflation likely peaked in June 2022 at 9.1% and is slowly declining as evidenced by the CPI reading of 7.1% in Nov 2022 with supply chains continuing to ease and gasoline prices declining(141)(137)(37)(36). However, we continue to see inflation present in grocery prices and apartment rental rates. Although inflation appears to have peaked and may be on the decline, we expect it may persist and take a few years to get back down to the Fed's target(74)(130). If inflation continues to recede and economic growth becomes a concern, it may give the Fed room to pause with rate hikes during the first

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half of 2022 as some Fed officials have signaled it may soon be time for a pause[52][137][74][88][58]. The trap the Fed may fall into would be overtightening by only viewing backward data, since it may take several months for each rate hike to fully come through the economy, with the possible negative impact of higher unemployment and declining retail sales[74][40][32]. The Fed has indicated it will moderate the pace of rate increases in 2023 but remains committed to fighting inflation by increasing and keeping rates higher, longer[84][99][52]. Keep in mind, this is the same Fed that just one year ago was forecasting 4% GDP Growth, PCE inflation of 2.6%, and three possible 25 basis point hikes for 2022[100][58][41]. However, the Fed was off in its predictions, estimated GDP growth will be 0.5% for 2022, which would be the slowest calendar year since World War II where there was not a recession, with actual PCE inflation of 5.6%, and the equivalent of seventeen 25 basis point hikes[100][116]. PCE Inflation is the Fed's preferred measure of inflation, is considered more accurate, and historically a lower percentage than the Consumer Price Index (CPI) headline number[146].

The U.S. is an economy that is growing slowly but with signs that recession may be on the horizon for 2023[116][88][97][54]. Vanguard expects growth in the economy of 0.25-0.50% for 2023, whereas First Trust expects a decline of 0.5% for the economy in 2023[100][88]. However, market valuations after repricing in 2022 may be more appealing, and although economic conditions are deteriorating and volatility remains, markets may begin to pivot if the Fed pauses in first half of 2023[63][89][87]. Vanguard and First Trust believe the S&P 500 index price is currently near fair value based on forward looking earnings estimates and current available treasury yields[87][97]. There is divergence among market strategists and analysts as to whether we have reached a bottom in our equity markets[33]. Some argue that we have reached a bottom because their research indicates inflation peaks coincide with market bottoms; others contend that their research indicates market bottoms take place during a recession which has not yet occurred, so the market bottom is yet to come[137][33][19]. Market strategists and analysts continue to debate if the market is currently pricing in the possibly that corporate earnings estimates may still be too high based on the economy slowing further, or whether since most are predicting an economic slowdown, should it not already be priced into the market[130][86][53][33][19].

Several of the European countries may already be in recession with inflation, energy shortages, and the War in Ukraine, with the rest of the global economies possibly headed in that direction[74]. Although the US economy is stronger than most economies at present, inflation and higher interest rates may drive the U.S. into a recession during 2023[74][88][54]. Recessions historically have been signaled when short-term treasuries have a higher yield than longer term treasury bonds, the so-called inverted yield curve, as we have at present in the U.S.[137][142]. Additional signals that a recession may be on the horizon are decreased consumer confidence, rising unemployment, Fed tightening, falling stock prices, decreased corporate earnings, and a slowdown in the housing market[142]. However, although most of these barometers point to a possible recession in 2023, it may be expected to be mild and of a short duration due to the financial health of consumers and the overall low unemployment rate at present[137][86][19].

Although we expect unemployment to increase somewhat in 2023, companies may retain workers during a slowdown so that when business picks back up, they will not have trouble finding personnel[144][88]. Additionally, pandemic supply bottlenecks that drove price increases in many sectors are largely being resolved, geopolitical risks, and the continuing trend of passing costs off to customers may underestimate the consumers' resolve to spend[74].

Recessions are healthy, normal, and expected from time to time during an economic cycle as they set the stage for recovery and growth[74]. Additionally, equities historically recover prior to the end of a recession providing some of the strongest gains during the recession as investors begin to look forward to what is to come[74]. Plus, research indicates that recessions historically do not last long compared the economic growth period they are giving reprieve from[74].

The average cost of a new car in 2022 was $46k, with 13.7 million new autos sold, although that was the lowest total since 2011, and down 8% from 2021, due in part to supply chain delays and low used car inventories[143]. Incidentally, 15% of new car buyers in 2022 had a $1,000 or more car payment[143]. Travel and event attendance got back to pre-pandemic levels during 2022 as evidenced by Taylor Swift's selling of 2 million concert tickets in a single day, or the FIFA World Cup in Qatar attracting the largest attendance in tournament history[144].

Oil prices and subsequently gasoline and diesel fuel prices increased last year due to supply constraints from U.S. fossil fuel policy and regulatory hurdles, as well as, and the Russian invasion of Ukraine and the ensuing consequences[14][120]. However, oil prices have now receded because of decreased global demand due to slowing economies[144]. Germany is reconsidering their decision to shut down nuclear power plant facilities due to their reliance on Russian natural gas that may now be cut off or rationed[144]. France is the lone exception in Europe facing an energy crisis as it produces 70% of electric energy using nuclear power[144].

There has been a five-fold increase in international trade as a percentage of Global GDP since the 1950s creating a global supply chain for a wide variety and volume of goods[86][117]. Globalism has had the effect of getting things faster, cheaper, and better, which was made possible since World War II by U.S. Policy and Navy protection, enabling a vast number of countries to interact in an American led trade system that provided security for trade in energy, goods, and food[117]. Although global supply chains recovered steadily from pandemic related shutdowns and bottlenecks during 2022, geopolitical tensions and pandemic related supply chain disruptions are forcing companies and countries to create redundancies that may include strategic regional alliances to potentially limit future disruptions[86][74][117]. Reversing globalization to a more reconfigured regional structure will require investment in machinery, plants, and infrastructure, coupled with the continued transition to renewable energy and energy security, may provide unique opportunities[86][74][117][18][119]. We see some early signs with the U.S. moving to improve semiconductor technology, recognizing this capability is essential, with passage of the CHIPS and Science Act paving the way for manufacturers to build plants in the U.S.[144].

Home prices benefited handsomely from 2020 to 2021, fueled by dovish monetary policy's low interest environment, rising 40% according to the national Case-Shiller home price index during that period[135]. However, since June 2022 the same index shows a decline of 2.5% for home prices in the U.S. with the largest declines in San Francisco, Seattle, Phoenix and Las Vegas[135][35][20]. Economist Brian Wesbury believes we could see an overall decline of existing home prices of 5-10% from the peak last year but nothing like the 25% drop we experienced during the housing crisis of 2007 to 2011[136]. The case for a smaller decline in home prices can be made as the inventory of used homes is low, unlike the housing crisis of 2007-2011, and expected to remain so with existing homeowners locked into historically low rates and reluctant to sell[136][35]. Additionally, most U.S. homes have a cushion of home equity as to opposed to being underwater as we experienced in 2008, plus the mortgage market has been redesigned since 2008 to help prevent the financial shock that could occur with falling prices such as better underwriting and valuation regulation[35]. Home buyers have two challenges; a continued low inventory of homes to choose from, and higher interest rates that may necessitate the buyer purchase a lower priced home than anticipated or face a higher mortgage payment[136][9][110]. The price to build a new home has escalated with labor and material cost increases but the U.S. has underbuilt during the last decade and new home construction may be robust once the U.S. economy recovers from the Fed rate induced slowdown or recession currently being imposed to thwart inflation[136]. Existing home sales down 7.7% in November, the 10th straight month of declines and are off 35.4% from a year ago November, but off 15.3% from the prior year[67].

U.S. Treasury Secretary, Janet Yellen argues in a recent WSJ opinion piece that President Biden has the economy back on track after a global pandemic coupled with the War in Ukraine that had provided three years of economic disruptions to the U.S. and the global economy[44]. She claims the Biden Administration's dual goals of getting the economy back and to invest for the future are well under way with the American Rescue Plan coupled with the vaccination campaign creating the fastest pace of job creation in history[44]. Further, the Biden Administration is committed to fighting inflation by expanding supply and providing cost relief to families[44]. Her evidence is that the supply-demand imbalances are now easing in many sectors of the economy with freight shipping rates falling and wait times at U.S. ports decreasing[44]. Further, the Biden Administration has been committed to reducing gas prices by releasing 180 million barrels of oil from the U.S. Strategic Petroleum Reserve which helped to reduce gasoline prices by $1.50 per gallon from the high in mid-year 2022[44]. She points out that the Inflation Reduction Act provides subsidies for millions of Americans for energy, health-insurance, and prescription drug prices[44]. She further boasts that the U.S. unemployment rate is near a 50-year low, household balance sheets remain healthy, consumer spending is robust, and credit card delinquencies are low[44]. Lastly, she cites the Biden Administration's investments in infrastructure, clean energy, battery technology, and American semiconductor manufacturing that will provide continuing and sustainable U.S. growth[44].

However, a December WSJ survey finds two-thirds believe the U.S. economy is headed in the wrong direction, with more than half believing we will go into recession despite the easing of gas prices and overall inflation beginning to decline[50].

China

The global economic outlook is plagued with uncertainty as central banks battle high inflation, weaker growth, and the potential for recession in the face of geopolitical tensions and energy challenges[84]. The Russia-Ukraine War has accelerated inflation and geopolitical conflict, especially between China and the U.S., and the U.S. and Russia[63]. Keep in mind there is no secret that Chinese chemical companies are likely fueling our Fentanyl Crisis by providing the precursors for Fentanyl which are then funneled through our southern boarder[25]. The Chinese Communist Party believes it will overtake the U.S. and become the world's number one economic superpower, and so did the Japan Center for Economic Research (JCER) when it predicted that China would overtake the U.S. as the world's largest economy by 2035, later revising it sooner to 2029[29]. However, the JCER has recently revised that forecast; the JCER now believes the U.S. will retain its economic superpower status into the foreseeable future due to President Xi Jinping's authoritarian policies, bullying of global partners, intellectual property theft, and the consequential global reaction to them, as well as a projected China-U.S. decoupling that prevents the sharing of advanced technologies needed for artificial intelligence and semiconductor manufacturing[29]. China's zero-COVID policy, which locked people in their home if the virus was detected in their area, has been relaxed after protests, a slowing economy, and dwindling revenues[6][104][59][55][56][4]. However, Covid is now rampant and going from bad to worse as China had not fully vaccinated a large part of their vulnerable population and their country has little natural immunity from prior Covid breakouts with all the lockdowns[104][84][144][3][122].

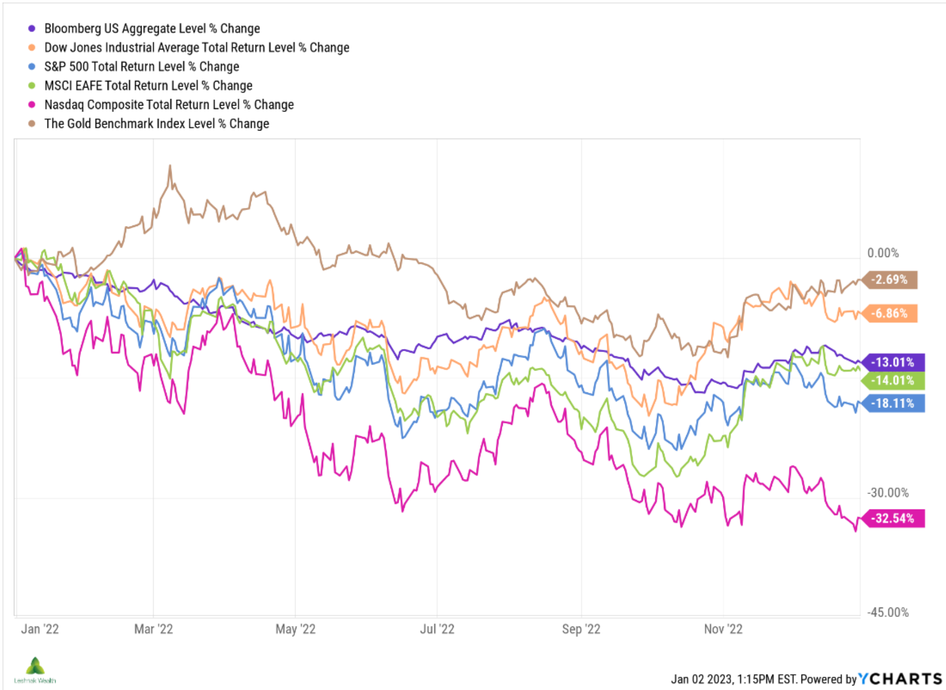
The Biden Administration's National Security Strategy, released in October 2022, pointed out Beijing's militarization of the South China Sea, support for Russia's War in Ukraine, efforts to intimidate Taiwan, and its theft of intellectual property as threats to U.S. interests thus creating a divide between China and the U.S., but neither country is expected to sever ties completely for economic reasons[83]. An additional concern for the U.S. is a possible shortage of key materials such as lithium, cobalt, and nickel since China is important producer of or controls production of these materials if U.S.-China relations do not improve[144].

"Credit is like oxygen. When either is abundant, its presence goes unnoticed.
When either is missing, that's all that is noticed." *- Warren Buffett*

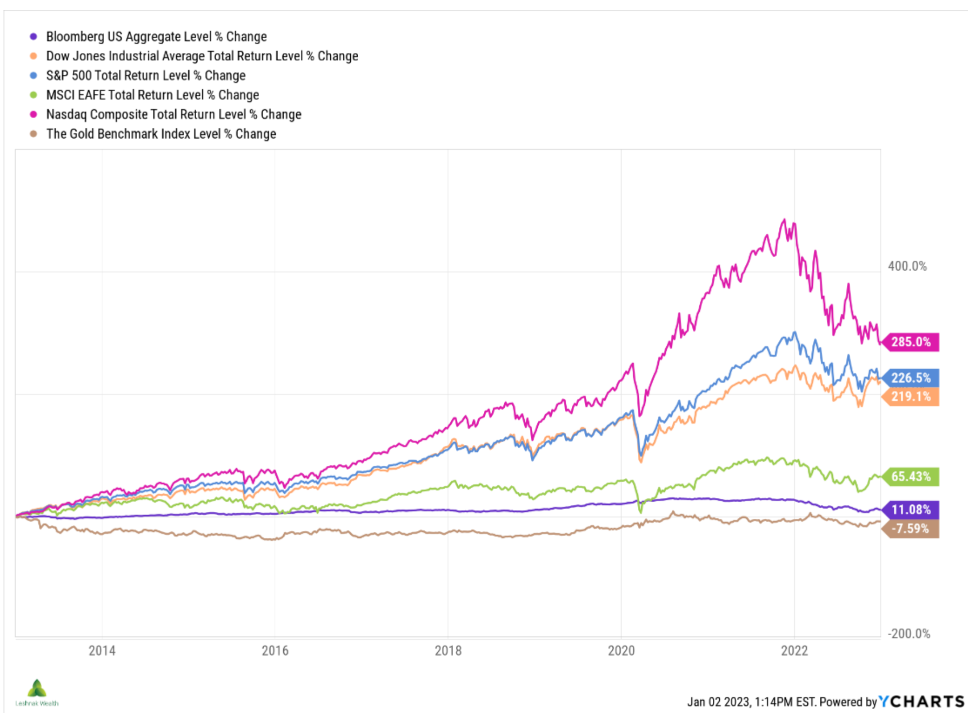
Markets

Bonds declined in 2022 in response to aggressive Fed rate hikes, marking 2022 one of the worse bond years on record[74]. It had been 45 years since stocks and bonds both declined in the same year as they had in 2022[74]. However, the silver lining with the Fed rate hikes may be that investors can now lock in yields at attractive rates not seen in several years[86]. The S&P 500 index fell in seven of the 12 months in 2022, finishing down more than 18% including dividends reinvested logging the worst year since 2008[119]. The Dow Jones Industrial Average finished up the year down 7%, the NASDAQ Index finished down 33%, and the international index, MSCI EAFE, finished the year down 14%, with all returns including dividends reinvested[125]. The Bloomberg Aggregate Bond Index finished down 13% and the Gold Benchmark

Index fell 3% during 2022. Gold was disappointing verses historical returns in an inflationary environment possibly due to higher interest on short-term bank or treasury holdings(144). All indexes are illustrated below in the 2002 1-year YCharts graphic below. Incidentally every major market sector fell this year except for the energy sector(128).



However, it is important to retain perspective when investing with a long-term strategy. The chart below depicts the same indexes as above in the one year chart, with a ten-year view. While past performance is not necessarily indicative of future performance, it does provide prospective over a longer period of time, verses the one-year snap shot above.



"Making good decisions and sticking with them for a long time is a recipe for investment success. Short-term indicators may create an illusion that timing the market is simple. It is not. Anything can happen in the stock market."
-James R. Derrick, Jr., CFA®

Secure Act 2.0

President Biden signed into law, as part of the budget reconciliation package at the end of 2022, the bipartisan Secure Act 2.0 which was designed to build off Secure Act 1.0 to continue to strengthen Americans' readiness for retirement[133][1]. The biggest change within the legislation affects when retirees need to begin taking required minimum distributions (RMDs); if you were born in 1950 or earlier, RMDs begin at age 72, if you were born between 1951-1959, RMDs begin at age 73, and if you were born 1n 1960 or later, RMDs begin at age 75[134][1]. Beginning in 2024, RMDs are no longer required from Roth 401k accounts as they are now, plus employer matching contributions may be directed into the Roth 401k accounts where previously they had to go into the pre-tax traditional 401k account[134][133][1]. In 2025, catch-up contributions for employees aged 60-63 will be increasing to $10,000 from the current $7,500 for 401(k)s plus it will be indexed each year thereafter for inflation[133][1]. One caveat to note with this increased 401(k) catch-up contribution is that if your AGI was greater the $145k, the catch-up contribution must be made to the after-tax Roth 401(k) account[133]. IRA catch up contributions for those age 50 and older is currently $1,000 per year but will now be indexed for inflation each year beginning in 2024[133][1].

Qualified charitable distributions (QCDs), IRA distributions directly to a qualified charity for those over age 70 ½, just got better with Secure Act 2.0 [61][133]. QCDs are an effective way to give to charity and reduce your overall tax bill at the same time, especially for those who must take RMDs. Many taxpayers who give to charity receive no tax benefits as they do not itemize deductions and instead utilize the stand deduction; however, QCDs allow a taxpayer to give directly to charity without paying income tax on the funds withdrawn[61]. QCDs are limited to $100,000 per person, per year and now the new Secure Act 2.0 allows taxpayers to give up to $50,000 of the $100,000 limit to their own charitable remainder unitrust/annuity trust, or charitable gift annuity thereby providing not only the tax deduction for the eventual charitable gift, but an income stream for themselves[61].

For young savers, the Secure Act 2.0 provides 401(k) and 403(b) automatic enrollment and automatic portability[133]. Additionally, an emergency savings Roth account can be set-up within a 401(k)/403(b) for up to a $2,500 contribution per year with four penalty and tax-free withdrawals[133]. Beginning in 2024, employers will be able to match employee student loan payments with matching contributions to the employee's retirement account[133]. Lastly, unused 529 account balances after 15 years can be rolled over to the beneficiary's Roth IRA subject to the annual contribution limit and a lifetime maximum of $35,000 per beneficiary[133]. One final note on 529 plans, The FAFSA Simplification Act of 2020 overhauls the Free Application for Federal Student Aid (FAFSA) in the 2024-2025 school year whereby the student will not be asked how much they will receive from non-parental sources[80]. Currently, grandparents or other non-parent family members who save money for their loved one's college may reduce their financial aid eligibility by half of what they contribute; however, the rule change will disregard this potential reduction in Federal Student Aid[80].

The State of Our Nation in Numbers

The U.S. has approximately 334M citizens as of 2022, up roughly 53M from the year 2000, when citizens totaled 281M[127]. However, despite the increase in population since 2000 the U.S. workforce has decreased 2M, from 160M in 2000 to 158M workers today, consisting of 132M full-time and 26M part-time[127]. Part of the explanation for the decrease in our workforce can be explained by the 57M retirees aged 65 and older we have today, versus the 38M we had in 2000, an increase of 27M[127]. The U.S. has roughly 63M receiving Medicare coverage, 84M on Medicaid, and 9M disabled [127]. Further, the U.S. has 43M people on food stamps, 42M citizens living below the Federal poverty line, which is defined as $27.5K for a family of 4 in 2022, and 23M millionaires[127]. A quick snapshot of these numbers reveals our country has roughly 47% working full or part-time, 17% retired, 19% on Medicare, 25% on Medicaid, 3% disabled, 13%

receiving food stamps, 7% millionaires, and 13% living in poverty. Medicaid and food stamp eligibility had been expanded through the Families First Coronavirus Response Act to provide more benefits with decreased eligibility thresholds and no work requirements[31]. The result has been 20 million more Medicaid recipients since the pandemic began with the government spending double the pre-pandemic level for food-stamps[31]. However, pre-pandemic eligibility thresholds and work requirements for Medicaid are set to go back into effect in 2023[12].

Our U.S. National Debt stands at $31.4T, up sharply from $5.7T in 2000, with an annual budget of $6T and tax revenues of $4.7T, leaving a deficit of $1.3T that is projected to be added to the National Debt[127]. The annual budget covers three spending areas; discretionary spending, interest on the debt, and funding for Social Security, Medicare, veterans' benefits, and other spending required by law[5][2][24]. The $1.65T Omnibus Spending Bill that just passed Congress and signed into law by President Biden is for the discretionary spending portion of our National Budget which provides spending for our military, aid to Ukraine, social programs, medical insurance, natural disasters, childcare, incentives for retirement, and a host of special earmarks[5][2][24][147].

In 2022, U.S. tax revenues were generated from income tax receipts of $2.6T, payroll taxes of $1.5T, corporate taxes at $433B, and trade tariffs levied totaling $73B[127]. The largest budgetary items in the Federal Budget are Medicare and Medicaid at $1.5T, Social Security at $1.2T, defense at $774B, and interest on the National Debt at $514B[127]. A quick analysis depicts a country that is spending 28% more than it has coming in with tax revenues, thus increasing our National Debt further. As interest rates rise on the current debt, plus an increase in the National Debt because of the deficit spending, the annual interest expense on the National Debt may be expected to increase and become a larger portion of our National Annual Budget as we move forward. After weathering the housing crisis in 2009 and the COVID-19 crisis of 2020-2021, the inevitable question that should come to mind with our National Debt currently at $31T and projected deficit spending annually, will the U.S. we be ready for the next crisis and in a position to remain the world's strongest economy and reserve currency of choice around the world?[23].

The U.S. is a productive nation with Gross Domestic Product (GDP) of $26T which is the market value of all final goods and services produced and provided within the U.S. in a year[127]. Although the U.S. is not the largest country in the world by landmass or population, the U.S. GDP is 24% of World GDP according to YCharts as of end of 2021[128][145]. However, our Federal Debt to GDP ratio currently stands at 121.5%; this is considered an important ratio in assessing the financial health of a country, specifically the country's ability to re-pay and make timely payments on national debt in the future[135]. This is important for a developed country, but it is vital for the U.S. due as a global economic force and the U.S. dollar's role as the global reserve currency[135]. Although the U.S. is the largest economy in the world, we also have one of the highest debt to GDP ratios according to research at World Economics[145].

The average U.S. citizen has $427K in assets that include bank deposits, real estate, stocks and bonds, retirement plans, life insurance, and pension funds[127]. The medium wage income for those employed is $36K, and by comparison the medium income was $32K in 2000[127]. The medium home value for those who own homes is $489K, up from $161K in 2000[127]. The average liquid bank savings per U.S. citizen is $5K with the average debt per citizen at $72K including mortgage, credit cards, student loans, auto loans, and other revolving and non-revolving credit[127]. Incidentally, the average student loan per student is $39K and the average credit card balance per card holder is $7K[127].

"We are confident despite the market volatility experienced in 2022 that your portfolios are positioned to best achieve your long-term goals and that your wealth plan remains on track." *–Bob Leshnak*

LW GamePlan

The LW Portfolio Models are constructed globally with core equity positions in small, medium, and large cap equities, each straddled by momentum-based and value-based investment positions. We believe adding momentum-based investment positions using technical analysis offers the opportunity to allow current market trends to play out while also providing the flexibility to potentially reduce exposure when market trends retreat. We also believe adding value-based positions puts us in the position of the "turtle", in the proverbial tortoise verses the hare scenario, over the long-term with equities. Value-based investment generally involves buying securities whose shares appear underpriced by a form of fundamental analysis. Additionally, we believe that by combining value and momentum strategies across diverse markets and asset classes may result in significantly higher risk-adjusted rates of returns based on the academic research conducted[139][140]. Lastly, we prescribe dividend yield from all our equity investment positions so that no matter what markets are doing day to day, we have dividends continuously coming into the portfolio.

Our fixed income blueprint for the portfolio consists of allocations to core domestic, foreign core, strategic investment grade, inflation protected, and high yield bonds. Overall, we evaluate investment positions in seven asset classes including domestic equities, foreign developed stocks, foreign emerging market equities, domestic bonds, foreign bonds, cash equivalents, and alternative assets such as real estate, infrastructure, commodities for inclusion within our overall asset allocations. How much of each asset class, if any, we hold in these asset classes is based on your unique risk tolerance, financial resources and personal goals and objectives.

We strive to be offensively positioned while remaining defensively minded with our portfolio construction and periodic adjustments. Simply put, we adopt an investment strategy, embrace it with confidence, and endure the inevitable ups and downs in the markets.

"Truth is ever to be found in the Simplicity, and not in the multiplicity and confusion of things"
—Isaac Newton

Overall, we evaluate investment positions in seven asset classes including domestic equities, foreign developed stocks, foreign emerging market equities, domestic bonds, foreign bonds, cash equivalents, and alternative assets, such as commodities, real estate, natural resources, market neutral, long-short equity/credit, and private equity for inclusion within our overall asset allocation. How much of each asset class (if any) we hold in these asset classes is based on each client's unique risk tolerance, resources, income, timeframe, goals, and objectives.
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Our Leshnak Wealth Portfolio Models are not immune to declines in global markets as we do not have a crystal ball nor do any of the market analysts and forecasters. Our belief is that our LW Portfolio Model construction is diversified for potential resilience in any environment and may put us in a position to take advantage of market mispricing during such market gyrations. We do not modify overall asset class allocation due to market corrections unless a fundamental change in the underlying outlook for the domestic or global economy has significantly diminished or brightened verses our expectations. As the ancient Buddhist proverb states "If we are facing in the right direction, all we have to do is keep on walking". Pullbacks can be expected to last relatively shorter periods on average compared to the bull markets they take reprieve from, as the greed present turns to fear and shakes out those investors who are not fundamentally based in their convictions.

As your financial fiduciary, the Leshnak Wealth team cares deeply about your financial well-being and will monitor for rebalancing opportunities that may add value to your portfolio, or to be defensive as conditions might warrant. We know that as your advisor, the trust you bestow upon us is built and maintained on three pillars; doing what we say we will do, assisting with planning for and achieving your financial independence, and providing unbiased advice with your best interest at the forefront. As always, please call with questions or if you wish to discuss your specific portfolio or Wealth Plan in greater detail.

–Bob Leshnak, January 6, 2023

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