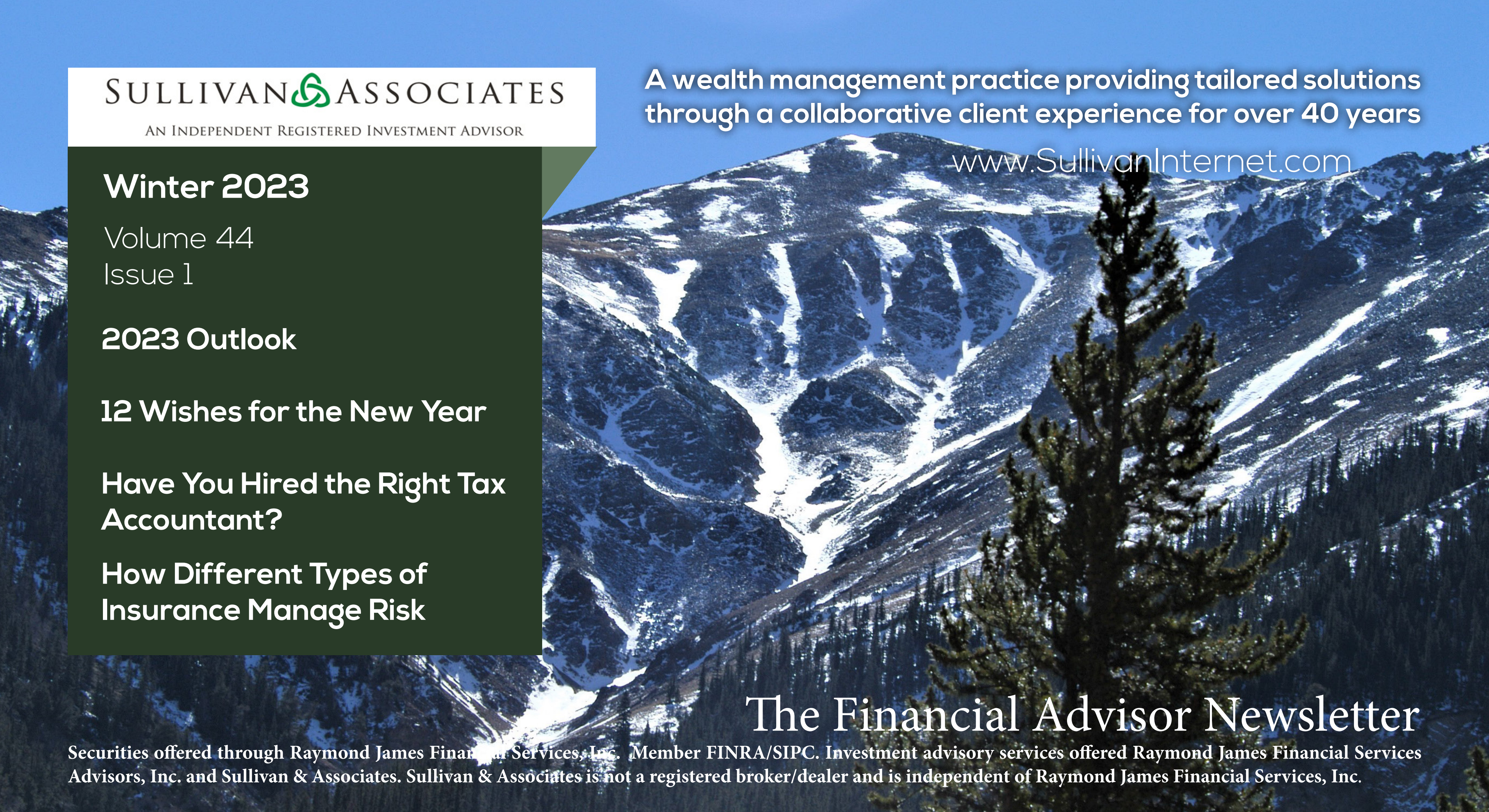

SULLIVAN & ASSOCIATES

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The Financial Advisor Newsletter

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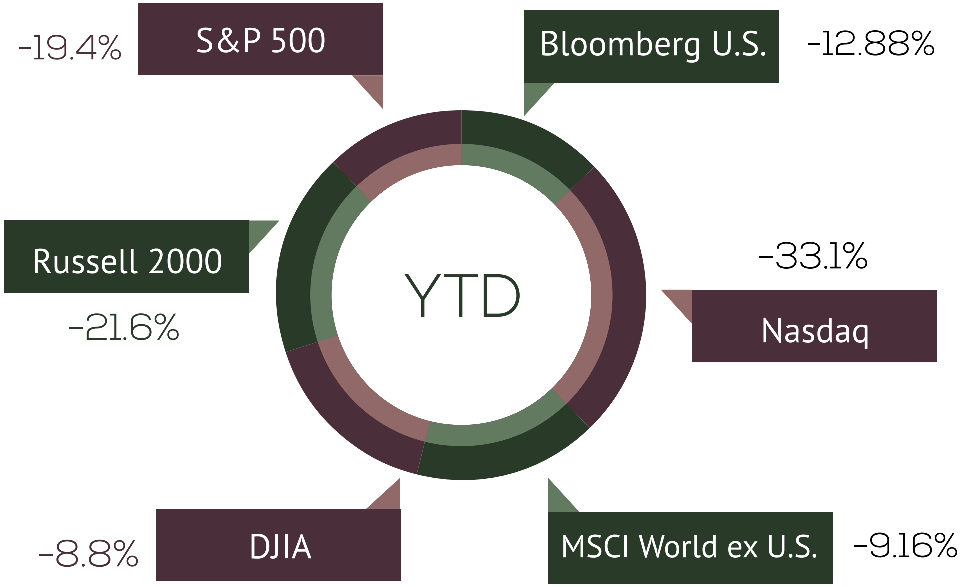
Front cover photo taken by Patrick L. Sullivan

ECONOMIC **SNAPSHOT**



Source: WSJ, 12/31/2022 & FactSet, 12/30/2022. Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will effect actual investment performance. Individual investor results will vary. Past performance does not guarantee future results. The Dow Jones Industrial Average (DJIA), commonly known as “The Dow,” is an index representing the stocks of 30 companies maintained and reviewed by the editors of the Wall Street Journal. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Nasdaq composite is an unmanaged index of securities traded on the Nasdaq system. (The Dow Jones Global ex US is a stock market index measuring equity securities traded globally in 64 countries, excluding the U.S.). The Bloomberg US Aggregate Bond Index is a benchmark index composed of US securities in Treasury, Government-related, Corporate, and Securitized sectors. The Russell 2000 index measures the performance of the 2000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

KEVIN'S **VIEW**

2023 OUTLOOK

In 1989, Billy Joel released the song "We Didn't Start the Fire," which chronicled various events over the previous 40 years. From pop culture to politics to economics the song touched on many various aspects of our world. The last year saw a brutal combination of market shocks from disparate aspects of the world, that could probably provide enough material for a worthy successor to this song, even without the pop culture events! As we flip our calendars to 2023, most investors will cheer for the passing of 2022. It was a rough year that saw weakness in almost every asset class. Instead of chronicling what we all just experienced we will instead look forward and discuss our outlook for 2023.

The Economy

Inflation and the response to it will continue to drive overall economic activity in 2023. We believe inflation has likely peaked for the time being as the last two readings of it were both lower than expected. There is always a chance it may come back in the later part of the year, but that remains unlikely. To be clear, we do not think that prices will suddenly reverse course and things will get cheaper. Instead, the rate of price increases will continue to slow as the massive monetary tightening the Federal Reserve has enacted continues to work its way through the economy.

Speaking of the Federal Reserve, they will likely continue their upward pressure on interest rates for at least the first quarter. However, it should be at a lower rate than we saw in the previous year. They may exercise other tools to slow the economy and curtail inflation, such as quantitative tightening[1] . We are of the belief that until the Federal Reserve perceives a meaningful weakness in employment it will continue to slow the economy.

We expect to see economic conditions (including employment) deteriorate during the first half of the year. However, we believe there is a good likelihood of things improving into the second half.

1 Quantitative tightening is an action by a central bank (e.g., the Federal Reserve) to remove liquidity from the economy with the goal of slowing economic activity.

The highest compliment we can receive is when you let your families and friends know about us.
Referrals Welcome!

The Capital Markets

In 2023 we expect to see continued volatility in both the stock and bond markets, or as we collectively refer to them, the capital markets. Between interest rate moves, geopolitical uncertainty, and the turning of the business cycle, the first half of the year may be rough. We expect things to settle down towards the middle of the year and, despite economic weakness, the markets to improve into the end of the year.

Geopolitics

Two major long-term trends will continue to affect the world in 2023. The first is continued deglobalization as countries continue to try to limit their dependence on other countries to produce goods. Our current system of global trade began after World War II and then went into overdrive with the fall of communism at the end of the Cold War. It will not be unraveled overnight, but we expect to see some significant changes coming in 2023.

The other major trend is one of demographics. In most countries, there are going to be many more 'retirees' than working-age adults. This is something we have never seen in history, and it calls into question many of the assumptions we've worked under for years. We are lucky here in the United States as a combination of immigration and birth rates have mitigated this somewhat. However, for most of Europe and a fair bit of Asia, this will be a dominant factor going forward. We expect to see countries increasingly trying to address this imbalance in 2023 and beyond.

Conclusion

So, what are investors to do this year given the potential upheaval we may see? A lot will depend on where you are at in your financial journey. For those closer to or in retirement, we will focus on having the appropriate level of liquidity to ideally meet your short-term needs with the acknowledgment that some of your assets are still invested for the long term. For those with longer time horizons, we remain focused on those goals, and we believe that flexibility remains key.

Thank you for your continued confidence and trust. We look forward to working with you this year! □

DID YOU KNOW?

New RMD Rules for 2023

The age for Required Minimum Distributions (RMDs) from retirement accounts changed to 73 on 01/01/2023.The RMD age will remain at 73 for a decade before changing to age 75 in 2033.

Retirement Plan Contributions Limits	2022	2023
401(k)/403(b)/457 Elective Deferrals	$20,500	$22,500
Catch-Up Contribution Limit	$6,500	$7,500
SIMPLE Employee Deferrals	$14,000	$15,500
SIMPLE Catch-Up Deferral	$3,000	$3,500
Traditional/Roth IRA Contribution Limit	$6,000	$6,500

WINTER 2022 MARKET CLOSURES

Monday, February 21: Presidents Day

12 WISHES FOR THE NEW YEAR

1
Here's to one year of peace
we desperately need.
No wars or
shutdowns—we'll
continue to plead.

2
Out with the old, in with
the new—2 million jobs,
make it come true!

3
Core inflation at 3% would
liven up the festivities
and prevent the Fed from
more tightening activities.

4
Gas prices staying below $4?
We think there's a chance;
consumers at the pump may
start to dance.

5
Five golden rings to ring in
the new year,
and gold's lower price is
something to cheer!

6
Let's hope bonds and equities
both make some gains,
easing the 60/40 portfolio
investor's pains.

7
Mortgage rates well below
7%—buyers would love
to see,
and the housing market
would shout with glee.

8
Dividend growth of 8% sure
would be great,
giving income investors
something to celebrate.

9
Hoping the Fed has nine
doves to boast,
investors would give rate
hikes a goodbye toast.

10
Cheers to the 10-year yield
not moving higher
and less volatility than
we've seen in months prior.

11
All 11 S&P 500 sectors part
of the positive parade,
making for a broad-based
bull market that
doesn't fade.

12
The NASDAQ reaching
12,000 is cause for
celebration,
with Tech no longer harmed
by rate hikes and inflation.

HAVE YOU HIRED THE RIGHT TAX ACCOUNTANT?

FIVE SIGNS YOU'VE CHOSEN THE RIGHT ACCOUNTANT; TWO SIGNS THAT SUGGEST PROCEEDING WITH CAUTION.

Not everyone needs a professional in their corner come tax season. For some, tax software might do, perhaps followed by a professional review. For those contending with master limited partnerships, complicated business structures, income from multiple states, major life transitions, or other prickly tax scenarios, a strategic, knowledgeable numbers-pro may be valuable when it comes to preparing and filing your personal or business taxes.

Here are a few signs that you've found the right professional and two that may indicate it's time to reevaluate. These aren't hard-and-fast rules, merely guidelines. Don't forget that our office has relationships with accounting professionals and can let you know what to expect.

1. They have good ideas before you do.
Your accountant should be proactively leading the tax strategy conversation and collaborating closely with your other professional advisors. Just expect those in-depth discussions to happen before or a bit after the hectic 13 or so weeks that comprise tax season. They're only human.

2. The shoe fits.
Your accountant should have experience in your particular situation and be capable of thoroughly researching rarer issues. Do you invest in private companies? Your accountant should be familiar with K-1s, and notoriously tardy reporting documents for partnerships that often demand specific expertise and amendments or extensions beyond normal tax-filing deadlines. Do you work in a particular industry or run your own business? Do you deal with foreign affairs or global investing? Experience is vital in these complex arenas. It helps, too, if your values align with the person who will know every detail of your financial life.

3. They're in the know.
Your accountant should have their fingers on the pulse and ear to the ground. The laws surrounding personal and business deductions change frequently, so an accountant should be well-versed in ways to help you legally maximize your return (e.g., bunching charitable contributions in order to exceed the $24,000 standard deduction for married couples filing jointly). Expect your accountant to be up to speed on regulatory changes as well as current tax laws, and to keep you informed in the language you understand.

Raymond James and its advisors do not offer tax advice. You should discuss any tax matters with the appropriate professional. All expressions of opinion reflect the judgment of Raymond James & Associates, Inc., and are subject to change.

4. Their reputation precedes them.
You'll likely want to work with someone who has been vetted and recommended by people you know well and trust. Consider an accountant who is part of a professional organization (e.g., the AICPA) with continuing education standards and qualifications or has certifications in the type of service you need.

5. They're accountable for what they say and do.
Your accountant should be responsive, responsible, trustworthy, and transparent. They don't have to be an expert in everything but should be able to research an issue and get back to you as needed. Prompt, honest communication paired with a proposed solution is what you're looking for. This is a relationship that should last, so it's important to build on a strong foundation.

Proceed with caution if:

1. They have their head in the sand.
They do not have secure systems in place to keep the practice going in case of emergency or to protect your private information.

2. They're an artful dodger.
If you're working with an accountant who suggests something that sounds more like dodging taxes rather than minimizing them, look elsewhere. You don't want to be on the wrong side of the law or the ledger. □

Sources: inc.com; entrepreneur.com; investopedia.com; irs.gov; accountingweb.co.uk

HOW DIFFERENT TYPES OF INSURANCE HELP MANAGE RISK

FIND THE RIGHT MIX OF COVERAGE TO LIVE WITH CONFIDENCE.

Let's face it, life involves risk. That's why risk management is a crucial part of a long-term financial plan. When it comes to investments, we're talking diversification and asset allocation. When it comes to your family, health, property and income, we're talking insurance. But what kind of coverage do you really need? Take a deeper look at four useful types of policies.

<u>Life Insurance</u>

Perception: It's just for people with dependents.

Reality: It can be used as a flexible planning tool that provides liquidity, and survivor benefits that are not generally considered taxable income. Though term life insurance is designed to replace the income of a breadwinner if the unthinkable happens, what's called a "permanent" policy has an investment component that can potentially be helpful for things such as keeping the family business functioning or paying estate taxes after death.

<u>Disability Insurance</u>

Perception: The risk of long-term disability is too minimal to worry about.

Reality: Sadly, more than 25% of 20-year-old workers will become disabled before reaching retirement age, the Social Security Administration estimates. If you're out of work for an extended period, the lost income can easily reach six figures or more. Even if your profession isn't strenuous, you may not be in the clear – cancer is the second-leading cause of claims, according to insurer Sun Life Financial.

What about that government safety net? Workers who pay into the system are eligible to apply for Social Security disability insurance, but the average benefit in December 2019 was only $1,258 per month. Considering all of this, it's best to get a professional opinion about whether you can afford the consequences of going without this type of coverage.

Long-Term Care Insurance

Perception: Coverage isn't needed – doesn't Medicare pay for that?

Reality: Help with the tasks of daily living, like care provided in a nursing home, isn't covered by Medicare. Such aid is a common necessity. Seven out of 10 people turning 65 currently can expect to use some form of long-term care, according to the U.S. Department of Health and Human Services, though only one out of 10 has planned ahead to pay for it.

Securing this type of policy allows you control over the situation, making sure your future needs will be met without creating an undue burden for your loved ones. Though coverage can be expensive, there are federal and state tax breaks available for qualified plans.

Umbrella Insurance

Perception: Only people who are very wealthy need it.

Reality: If you often entertain at your home, own a dog, have a teenage driver in your household or ride Jet Skis in your spare time, you might want to prepare for a rainy day. This basically is an extra layer of liability coverage above the limits on your home, auto and other policies – protection just in case you or a family member causes harm to someone else. For example, if your dog attacks a visitor and your home insurance covers up to $300,000 of liability, then you're on the hook for anything above that amount if the injured party sues. If you don't have the money, your wages could be garnished.

Time For A Fresh Perspective

Facing risk isn't easy, but the protection you can gain for yourself and your loved ones can make it all worth it. That's why you should review your insurance needs once every year and after each big milestone in life. You can always call our office to coordinate with other professionals in determining the proper policies and coverage for you. □

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