

Market Insights & Planning Highlights

Q1-2022

MARKET OUTLOOK



On Crystal Balls, Market Calls, and the Beta Play



by Robert Kosciak

If you've followed my thoughts in newsletters and commentaries over the past six months, you know that I felt the market was in need of a change in strategy. While it's too early to drop the mike, take a bow, or merely crack a smile at being right, DLAK's call that any indication of a change in Fed policy to stop, if not reverse QE, would cause high valued stocks to plummet and money to shift to defensive names, to date, has been on the mark. . In fact, I had spoken not just for months but for a few *years* that valuations and metrics were being stretched to the point that something had to give. But throughout that period, all sorts of new stimulus just kept on fueling the market's upward surge. (So much for free markets, but we'll leave that for another day.)

The tipping point for me was the inflation dynamic. No crystal ball was needed to see that the right thing to do for market stability was to turn the stimulus spigot to the off position. The shortest recession in history was over, and two Fed mandates were essentially confirming a strategy change was due. Those Fed mandates are **full employment** and **price stability**. When you have more job openings than people looking for a job, everyone who wants a job has one.

As pertains to price stability, you don't need to have a hawkish bone in your body to realize that inflation has made its way to the stickiest part, and that's wage inflation.

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MARKET OUTLOOK

On Crystal Balls, Market Calls, and the Beta Play [cont.]

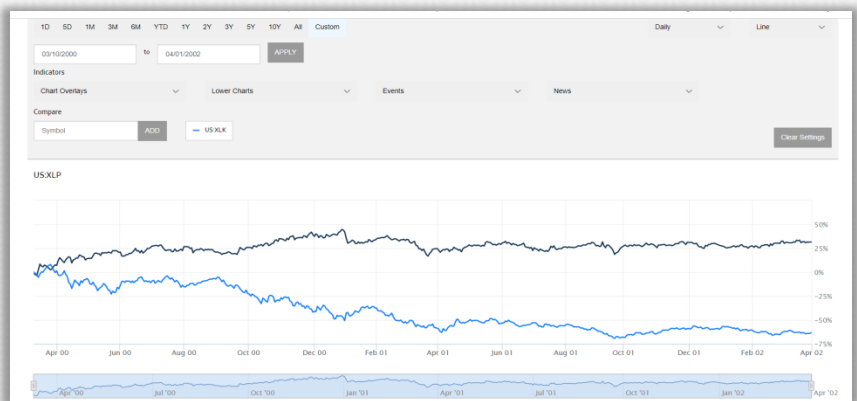
Making a Market Call

Bear in mind that I feel it should be a rare event for any advisor to make a directional market call. 98% of the time there is no trend that's glaring enough to permit trust in any one person's prediction. But in this most recent case as described above, I felt strongly that we could indeed make a call without a crystal ball. Instead, history would be our guide in managing through this period. This brings us to a discussion of **High Beta** versus **Low Beta** stocks and how to play them during unique market moments. I spoke to this in the recent video commentary sent to clients, but the compelling historical data warrants closer examination here.

What is Beta?

Beta is a measure of volatility. You can use many securities or indexes as a point of reference but the S&P is the most common. If a mutual fund or ETF has a beta of 1 it exhibits the same directional volatility as the S&P 500. You now also have High Beta and Low Beta segments of the marketplace. For example, let's say Semiconductor stocks (historically high beta) had a beta of 1.5. That would mean the segment has a propensity to be 50% more volatile than the S&P. On the flip side, let's say Consumer Staples stocks have a beta of .88. That would mean they would not be expected go up as much as the S&P during bull markets and down less during bear markets. To illustrate the prophetic nature of that last statement, see the below chart.

During a two-year period of 2000-2002, just as the internet bubble was bursting, we saw Tech stocks (blue line) losing a lot of their investor money, while we saw Consumer staples (black line) making a lot of money for their investors.



MARKET OUTLOOK

On Crystal Balls, Market Calls, and the Beta Play [cont.]

Playing Beta

Here's how playing beta works during a significant market downturn. There are many Investment Managers who oversee literally trillions of investment dollars that have a mandate on allocation. While they may have some flexibility on portfolio allocation across investment categories like stocks and bonds, that flexibility is limited. So their best way to elicit outperformance during a volatile period is to limit their exposure to high beta categories and literally take the proceeds of these sales and buy low beta categories. The areas we at DLAK have been focusing on since Q3 2021 are Consumer Staples, Gold, Commodities, HealthCare, and covered calls. Many clients might ask “why not Utilities?” as it’s perhaps the most well-known low beta sector. My simple answer: I just don’t like the current valuations.

There are two parts to the beta play: when to put it on and when to reverse it. If the market does trade much lower than today, many segments can be treated like the baby with the bath water – providing a high beta opportunity. Stay tuned to this topic, as we at DLAK will continue to share insights in future communications and face-to-face meetings.



ESTATE PLANNING

Must a Deceased Spouse's Debts Be Paid?



by Matt Ringle

Losing a spouse is a painful and confusing time. Among the many challenges that may arise during mourning is what to do about any outstanding debts of the deceased. Are you responsible for them? It all depends on the type of debt. Below is a list of debt types and how they are treated...

- **Credit Cards and Car Loans:** The estate is responsible for paying these debts unless there is no money in the estate. In that instance it is written off by the lender.
- **Student Loans:** Federal student loans are forgiven.
- **Mortgages:** Are never forgiven.

According to Marc Zimmerman, a Trust and Estate Planning Attorney, "If the surviving spouse inherits certain assets from the deceased spouse through beneficiary designations or joint account ownership, and the estate assets are insufficient to satisfy the creditor claims, the creditors could attempt to make claims against those assets that pass directly to the surviving spouse outside of the probate estate." That being said, you may be responsible for certain types of debts. For example, if the debt is jointly owned or you have co-signed a loan, you are obligated to continue to pay this debt. Some states also require you to pay off any medical bills that your spouse incurred before their death.

It is also essential to understand the laws of your state so that you know where you stand concerning all debts, as some community property states hold you responsible for the debt even if it is not in your name. Community property laws make both spouses equally liable for debts incurred after marriage. There are currently nine community-property states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin.

Finally, your credit score would not be hurt by any of your spouse's outstanding loans that you are not required to repay. However, if the debt is jointly owned or you have co-signed a loan, you are obligated to continue to pay this debt.

TAX MATTERS

“Where Are My 1099s?” Be Patient



by Jenny Cyrus

An important reminder: If you have a taxable brokerage account, do not rush into filing your taxes. It is possible to receive amended 1099s for Interest and Dividends after you receive your first copy of the document.

There will sometimes be a mutual fund or ETF that restates or amends their tax reporting for any number of reasons. Since that information will impact your tax return, you don't want to file early, only to have to go back and pay for an amended return.



Wait For It

To be on the safe side, waiting until March 15th to file could prove beneficial should any amendments be generated. Meanwhile, don't get overly concerned if you do not receive your 1099s prior to February 15th. They will surely arrive.

LIFE MANAGEMENT

Spend Money to Buy Time - by Donald Ennis



by Donald Ennis

We all remember being young and just starting out. Learning the value of a dollar and the work it took to earn it was an important lesson. When we would dine out with friends or maybe just go out to buy something nice, we thought about that purchase differently. We would weigh in our heads the amount of time we would have to work to make the money needed to buy what we desired. We would think “Is this sweatshirt really worth five hours of labor?” Well, most anyone reading this article is likely past that stage of life. You probably splurge on dessert without a second thought. As we get older what most people are concerned with is their time... the often acknowledged key to happiness. As the saying goes, money can't buy you happiness. But what money can do is buy you more free time to pursue joy.

The Measure of Happiness

A recent study published in the Proceedings of the National Academy of Sciences reports that when people spend money on time-saving services such as a house cleaner, lawn care or grocery delivery, it can actually make them feel happier. The study surveyed 6,000 people across a wide range of income brackets in the U.S., Canada, and Europe. Respondents completed questions on whether they spent money each month to increase their free time by paying someone else to complete unenjoyable tasks, and if so, how much they spent. In addition, the respondents were asked to rank their own level of happiness on a 10-point scale of life satisfaction. What the researchers found was that people who spent money to buy time reported being almost one full point higher on the 10-point ladder, compared to people who did not use money to buy time.

A separate 2010 study suggested that as an individual's income increases, their wellbeing increases at a slower and slower rate. And after income surpasses about \$75,000 per year, the data suggests, wellbeing stops increasing altogether.



RETIREMENT PLANNING

New Retirement Plan Contribution Limits

For those of you looking to take maximum advantage of your tax-deferred savings this year, below are the 2022 IRS contribution limits and how they compare to 2020.

Plan Type	2021 Max	2022 Max
401(k)/403(b)/457 Deferrals	\$19,500	\$20,500
401(k)/403(b)/457 Catch-Up (50+)	\$6,500	\$6,500
401(k)/SEP IRA Dollar Allocation	\$58,000	\$61,000
401(k)/SEP IRA Compensation	\$290,000	\$305,000
SIMPLE IRA Deferrals	\$13,500	\$14,000
SIMPLE IRA Catch-Up (50+)	\$3,000	\$3,000
IRA/Roth IRA	\$6,000	\$6,000
IRA/Roth IRA Catch-Up (50+)	\$1,000	\$1,000
Roth IRA Income Phase-Out (Single)	\$125K to \$140K	\$129K to \$144K
Roth IRA Income Phase-Out (Joint)	\$198K to \$208K	\$204K to \$214K

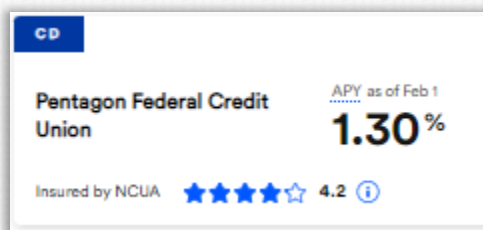
Additionally, the estate and gift tax exemption for 2022 is \$12.06MM per individual, up from \$11.7MM in 2021. That means an individual could leave \$12.06MM to heirs and pay no federal estate or gift tax, while a married couple could shield \$24.12MM.

PERSONAL SAVINGS

Why Fixed Annuities Pay More Than CDs – by Rob Kosciak

There are many different strategies when it comes to the bond component of one's portfolio. There is the strategy of buying bond funds, buying corporate or government individual bonds, buying CDs at a bank, buying fixed annuities, and many more. Here at DLAK a heavy emphasis is placed on Fixed Annuities. As of 1/12/22, the gross and net contractual annual interest crediting rate on 5-year fixed annuities sold by DLAK has averaged 2.88% since 1/1/15. Of course, each individual contract varies based on current offerings and the interest rate environment at the time. The gross and net return are the same if held to maturity.

Fixed-rate annuities act much like bank certificates of deposit but usually pay much higher rates than CDs of the same term. For comparison, the best five-year CD rate according to bankrate.com was 1.3% annually as of 2/2/2022. →



The Critical Distinction

Why is there such a difference if both act similarly? Well, the main difference is that banks make their money mostly on loans. For example, they do mortgages, commercial loans, personal loans, auto loans, etc. With interest rates at historical lows, banks aren't receiving much interest from these loans. Additionally, banks have significant overhead costs and loan defaults. With those overhead costs, loan defaults, and interest rates at historical lows, there is not a lot left over to pass on to the CD buyers.

Fixed annuities, on the other hand, are backed by the insurance company's general account. Within the account they can invest in a mix of corporate and government bonds, stocks, mortgages, real estate and policy loans. These investments are often longer-term and can offer higher returns than bank loans, and thus fixed annuities can pay out these significantly higher interest rates. CDs are insured by The Federal Deposit Insurance Corp. (FDIC) and the National Credit Union Administration (NCUA) up to \$250,000 per depositor. Fixed annuities are backed by the strength and claims paying ability of the issuing insurance company.



TECHNOLOGY

Ven-who? What is That Millennial Saying? – by Donald Ennis

Picture this. You're having lunch with an old friend who you haven't seen for a while. You're catching up, sharing stories, and reminiscing about the good old days. Then the bill comes. Your friend says, "Do you mind paying and I'll Venmo you my share?" *Ven-what? What does that even mean?*

Although you may not have run into that scenario, you may have indeed heard the word Venmo or Cashapp being used by one of your kids, or even a grandchild. So what is it? Well for many millennials and younger generations, gone are the days of paying back a friend for lunch with cash or writing them a check as a birthday gift. Now, with just the touch of a button on your phone, you can instantly send money to your family and friends.



Many Providers to Choose From

Apps like Venmo and Cashapp have made this possible. These apps are known as “peer-to-peer” payment systems. Once you set up your account with a credit card or bank account, you're ready to transact with anyone else on the platform. Venmo and Cashapp are two of the most popular ones, but PayPal and Zelle offer the service too.

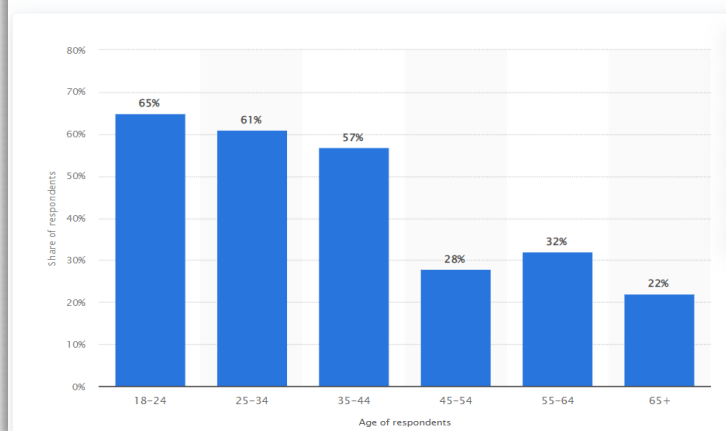
TECHNOLOGY

Ven-who? What is That Millennial Saying? [continued]

Growing in Popularity

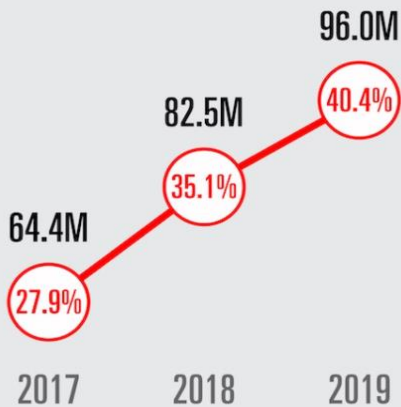
According to Statista, 65% of US adults ages 18-24 were already using peer-to-peer payments apps in 2018 (a percentage that is likely much higher in 2022). Meanwhile, less than 1/3 of adults age 45+ were using the app during the same period.

Use of P2P payments in the United States in 2018, by age



How Many Mobile Phone P2P Payment Users Are There in the US?

millions and % of mobile phone users



Note: ages 18+; mobile phone users who have made at least one peer-to-peer (P2P) transaction via a mobile phone in the past month; a mobile P2P payment is a transfer of funds from one individual to another individual using a mobile phone; includes transactions made via mobile browser or applications developed by non-bank providers like Venmo, Square Cash, Google Wallet and Facebook Messenger and transactions made via mobile banking websites and applications developed by banks; excludes cross-border transactions
Source: eMarketer, May 2018



The Way of the Future

In 2019, 40.4% of mobile phone users in the United States used peer-to-peer payment apps. In 2018 that number was only 35%.

It's increasingly clear to see that these apps are becoming the way of the future for U.S. adults and more specifically the younger generation. Now when you hear the words, "Just Venmo me," or "I'll Cashapp you," you will know what that Millennial is saying!

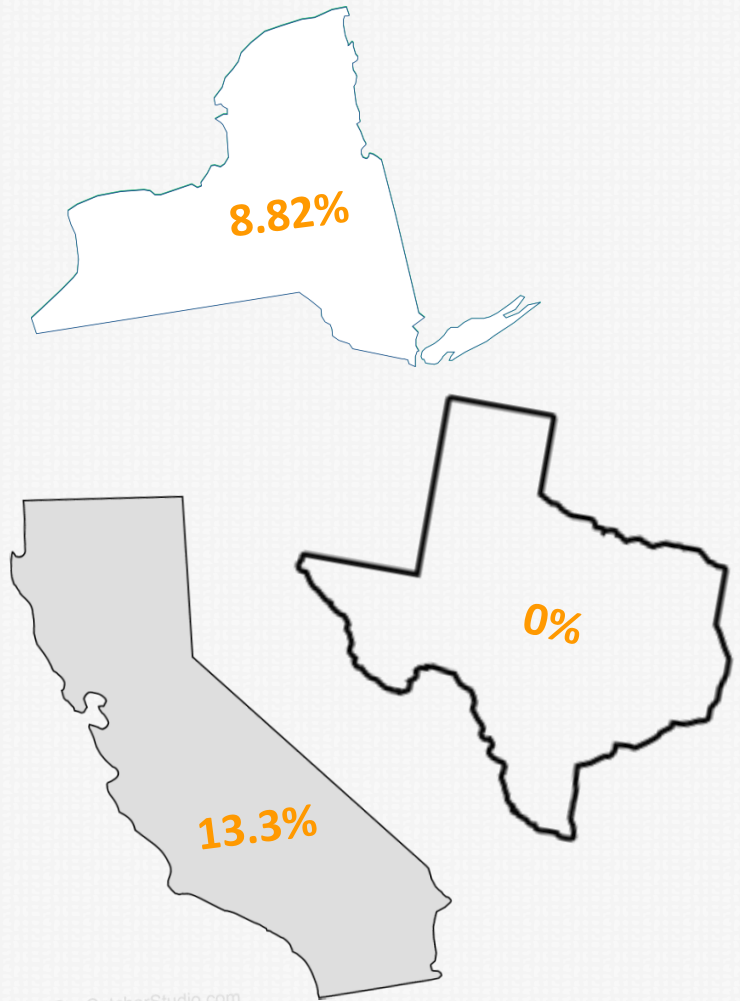


TAX MATTERS

State Capital Gains Tax Rates

Did you know that many, but not all, states impose state-level capital gains in addition to federal capital gains taxes? Below is a short list of selected states and their respective rates for 2021.

- California – 13.30%
- New Jersey – 10.75%
- New York – 8.82%
- South Carolina – 7.0%
- North Carolina – 5.25%
- Kentucky – 5.0%
- Ohio – 4.8%
- Florida - 0%
- Tennessee – 0%
- Texas – 0%



Don't See Yours?

If the state in which you live in is not listed above, please see Appendix A for a link to the full list.

NEWS TO USE

Did You Know?

No Capital Gains Tax at Lower Income Levels

If are a single filer for 2021 and have taxable income of \$40,400 or less, you'll pay 0% on capital gains. If you file Married Jointly with taxable income of \$80,800 or less, you'll also pay 0%.



Currency is Going Digital

Just 8% of the world's currency exists as physical cash. The rest lives only in the digital realm, populating electronic bank accounts around the globe.

Toys 'R' Us Lives On

Although standalone Toys 'R' Us stores are a thing of the past, there's some great news ahead for kids. In 2022, Macy's is partnering with Toys 'R' Us to include in-store branded shops in over 400 Macy's locations. So kids, parents, and grandparents can once again experience the excitement of picking out a toy at a Toys 'R' Us!

Price to Sales Now vs. the Average

A Price-to-Sales ratio is a widely used metric that helps gauge the attractiveness of an investment. The P/S ratio is calculated by taking a company's market capitalization (the number of outstanding shares multiplied by share price) and dividing it by total sales or revenue over the past year. The lower the P/S ratio, the better the investment. You can do the same equation to get the market's P/S ratio. As of 1/31/22 the S&P 500 P/S was 2.97 – nearly double the 2001-2021 average of 1.65!

Banner Year for Home Sales

In 2021 the volume of existing home sales was more than 8.5% higher than any year in the past 15 years! You would have to go all the way back to 2006 to find a higher-volume 12-month period.

NEWS TO USE

Did You Know? [continued]

Don't Overlook Charitable Deductions

Even if you are taking the standard deduction on your 2021 taxes, you can still deduct up to \$300 for charitable cash contributions. For a married couple it is \$600.

Higher Standard Deduction for Seniors

If you are over the age of 65 you get an additional \$1,350 added to your standard deduction in 2021. If you are also unmarried and not a surviving spouse, it's an additional \$1,700. In 2022 those will increase to \$1,400 and \$1,750, respectively.



Power of Attorney...Without an Attorney

Most people don't realize that they can have a Power of Attorney added to their accounts without getting a lawyer involved. All that's required is your signatures on the appropriate form and proper notarization. Things don't always have to be complicated!

RMD Factors Up for 2022

Did you know the 2022 RMD (required minimum distribution) factors have increased from 2021? This means less money is now required to be taken out of IRAs. Please see Appendix B for the full list of RMD factors.

FOR REFERENCE

Appendix

Appendix A

<https://www.realized1031.com/capital-gains-tax-rate>

Appendix B

IRA required minimum distribution (RMD) table

Age of retiree	Distribution period (in years)	Age of retiree	Distribution period (in years)
72	27.4	97	7.8
73	26.5	98	7.3
74	25.5	99	6.8
75	24.6	100	6.4
76	23.7	101	6.0
77	22.9	102	5.6
78	22.0	103	5.2
79	21.1	104	4.9
80	20.2	105	4.6
81	19.4	106	4.3
82	18.5	107	4.1
83	17.7	108	3.9
84	16.8	109	3.7
85	16.0	110	3.5
86	15.2	111	3.4
87	14.4	112	3.3
88	13.7	113	3.1
89	12.9	114	3.0
90	12.2	115	2.9
91	11.5	116	2.8
92	10.8	117	2.7
93	10.1	118	2.5
94	9.5	119	2.3
95	8.9	120 and older	2.0
96	8.4		

Source: Internal Revenue Service (IRS)

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