

Market Insights & Planning Highlights

Q2-2023



MARKET OUTLOOK

Using Market Cycles to Forecast Winning Sectors



by Robert Koscik

If there is one certainty about the market, it's that it will **always** be prognosticating the future. If an investor is looking for a definitive confirmation of where we are *today*, the market has already moved on to where they believe it will be headed *tomorrow*. This is why it's critical to understand that when economic and market cycles rotate, history tells us that short-term winners in sectors and styles will do the same. It is on the investor to determine where the next steps are in those cycles.

The chart on the next page is a fairly simplistic guide to history's winners and losers during different cycles. It is by no means a guide to batting .1000 (which neither Tony Gwynn nor I have ever done), but it certainly dovetails with my strong belief in where the market is headed next. As we have discussed for two years now, I had never been as sure about the next market cycle as I was going into 2022. The resultant defensive strategy paid off by limiting losses during a period that rivalled 2008 for the worst stock/bond performance in half a century.












The only difference between the actions I took then and now is that the pre-2022 call was based on the state of the market; My call today, and in most instances, is a call on the prevailing economic/market cycle...

Inside This Issue

	page
The American Retirement	4
Estate Planning Mistakes	8
Misunderstood Fixed Annuities	11
Getting to Know ChatGPT	13
Did You Know?	15

MARKET OUTLOOK

Using Market Cycles to Forecast Winning Sectors (continued)

	Early cycle Rebounds	Mid cycle Peaks	Late cycle Moderates	Recession cycle Contracts
 Financials	+			
 Real Estate	++			--
 Consumer Discretionary	++	-	--	
 Information Technology	+	+	--	--
 Industrials	++			--
 Materials	+	--	++	
 Consumer Staples			++	++
 Health Care	--		++	++
 Energy	--		++	
 Communication Services		+		-
 Utilities	--	-	+	++
	Economically sensitive sectors may tend to outperform, while more defensive sectors have tended to underperform.	Making marginal portfolio allocation changes to manage drawdown risk with sectors may enhance risk-adjusted returns during this cycle.	Defensive and inflation-resistant sectors tend to perform better, while more cyclical sectors underperform.	Since performance is generally negative in recessions, investors should focus on the most defensive, historically stable sectors.

Source: Fidelity

It's clear that Federal Reserve Chairman Jerome Powell has one mandate right now: to tame the beast of runaway inflation. He has to be looking at the same simple math that I am. The country is staring at a budget that carries more than \$30 Trillion in debt. If high inflation persists, and the average coupon we have to pay on treasuries is 5%, that equates to the first \$1.5 Trillion in government expense every year goes to the country's debt holders. Such a situation is unsustainable. If you want a preview of the consequences, look to the social program cuts that have led to street riots in France. Thankfully, it appears that Powell does have the resolve to make lowering wage inflation his top priority. If he succeeds, we are very likely to experience some level of a recession, however you wish to define. It certainly will be a slower economy. That said, we are in the chart's late cycle and its resulting lower interest rates, lower income, and (without going into detail) great political strife. All that aside, let's talk about what could perform well.

MARKET OUTLOOK

Using Market Cycles to Forecast Winning Sectors (continued)

The #1 factor I look at before economic conditions is valuations. The #1 rule always will be buy low and sell high. As I bring these two together, expect to see us overweighting Gold, Defense stocks, longer dated Gov't Bonds, and Healthcare. What doesn't perform well during projected period is Consumer Discretionary. What am I eliminating because of valuations? That would be Utilities and Consumer Staples. They may perform well because they historically do well during periods of lower interest rates and slower growth, but the valuations just can't allow me to go to an overweight.

Health Care, Utilities, and Staples are consistent outperformers			
Sector Returns Around Final Tightening Cycle Hike			
S&P 500 Sectors	126-Days Prior	126-Days After	252-Days After
Health Care	1.1	11.3	19.2
Utilities	1.7	10.2	18.5
Industrials	4.2	7.9	15.0
Consumer Staples	1.9	14.9	13.9
Communication Services	-3.8	10.3	12.7
Energy	1.4	7.6	11.7
Financials	-3.9	13.0	11.5
Materials	-0.9	8.0	4.6
Consumer Discretionary	-4.8	13.0	4.4
Information Technology	-0.3	3.4	-2.6
Cyclical Growth Median	-3.8	10.3	4.4
Cyclical Value Median	0.2	7.9	11.6
Defensive Median	1.7	11.3	18.5

Median returns for each sector. Real Estate excluded due to lack of history.

Source: Ned Davis Research

Open to Questions

As always, I look forward to sharing these observations and overarching strategies in greater detail at our future meetings.

If you have any immediate questions or concerns, feel free to reach out. I'll be happy to discuss.

RETIREMENT PLANNING

The American Retirement...By The Numbers



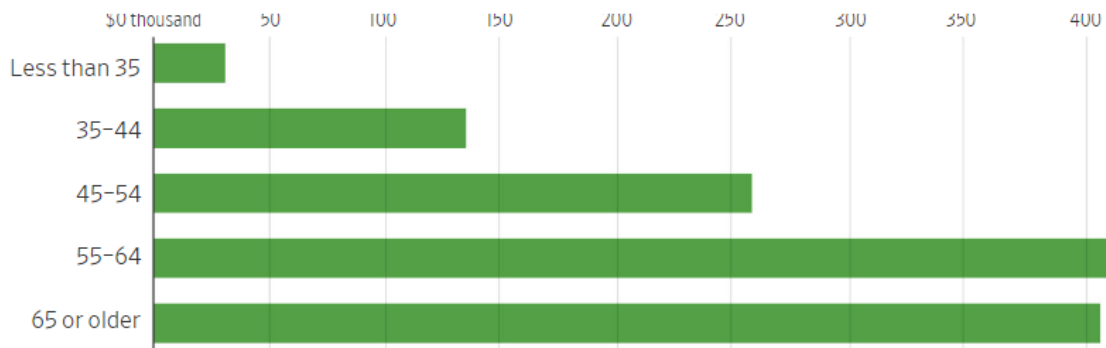
by Matt Ringle

Most everyone does their best to set aside money to fulfill their post-working life dreams, but what exactly does retirement look like for the average worker? With a growing number of Americans moving closer to the magic age everyday, let's take a hard look at the numbers.

First, we'll explore the landscape of personal savings. Where and how much does the average American save? As many people would guess, most household retirement savings happen within workplace retirement plans.

According to Empower Retirement, more than 70% of individuals have access to a workplace retirement plan and there is an estimated \$6.3 Trillion invested in them. The average household balance in retirement-type accounts (meaning IRAs, 401(k)s etc., for those 65 and older) is \$407,581. Furthermore, 11.6% of Americans have a balance in retirement-type accounts of over \$1M.

Average household retirement savings account balance, by age



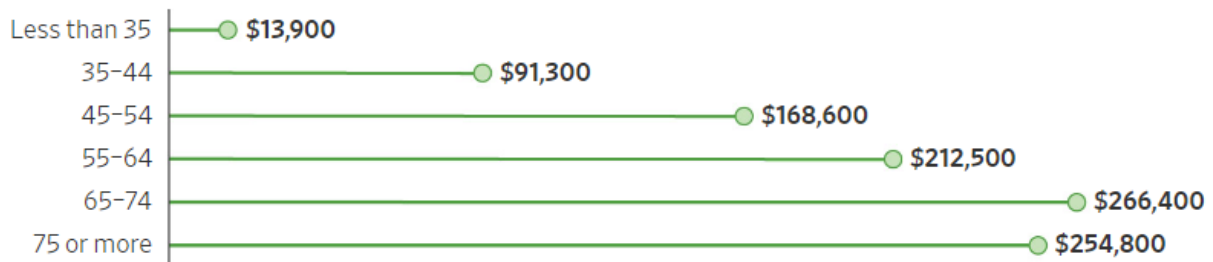
Note: Estimates of 401(k), IRA, Keogh and other defined contribution account balances based on 2019 data
Source: Employee Benefit Research Institute

RETIREMENT PLANNING

The American Retirement...By The Numbers (continued)

Not only do retirement account balances increase with age, so too does total net worth. Net worth is derived by adding up your total assets minus any outstanding debts. According to the Federal Reserve, individuals 65 to 74 have a median net worth of \$266,400 and an average net worth of over \$1.217M. Seniors 75 or older have a median net worth of \$254,800 and an average net worth of \$977,600.

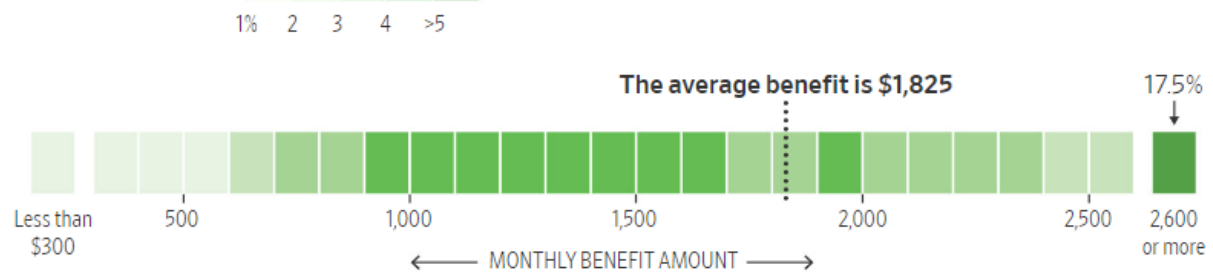
Median household net worth by age



Source: Federal Reserve

Now let's change gears and talk about the breakdown of individual retirement income and their expenses. Even given the above statistics in regard to account balances and individual savings, the largest portion of retiree income comes from Social Security. In fact, SSI comprises 90% or more of the average American's retirement income, and nearly 90% of Americans 65+ received benefits as of 2022.

Percent distribution



Source: Social Security Administration

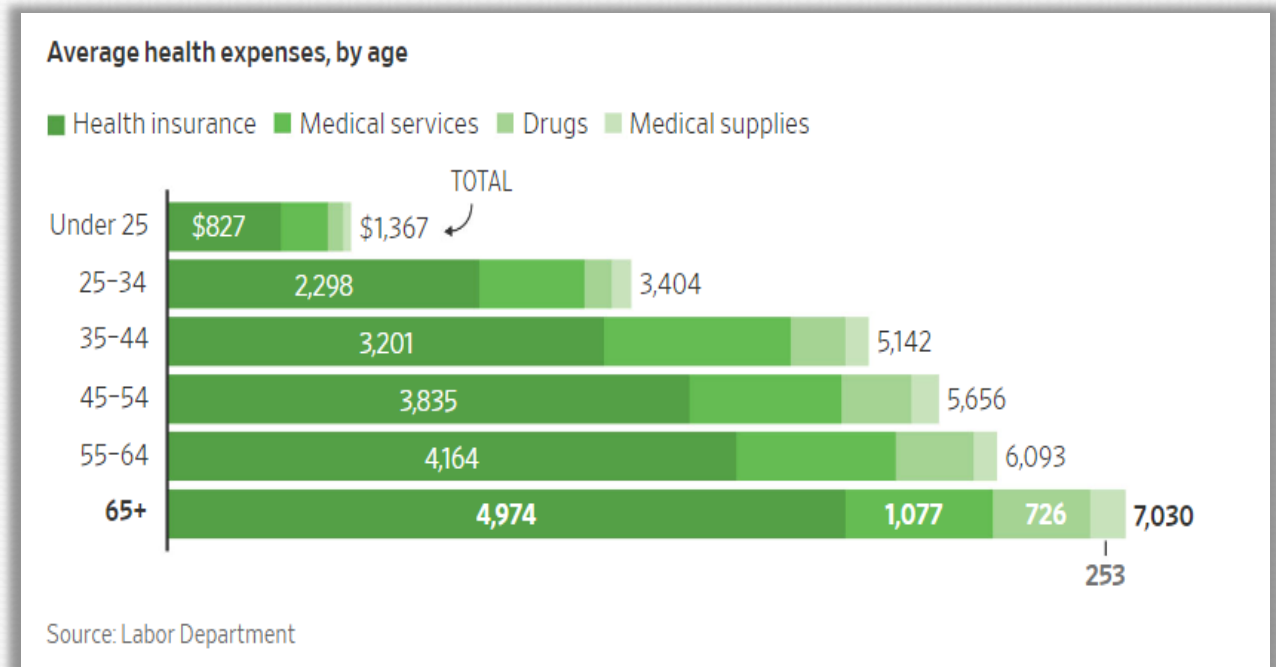
RETIREMENT PLANNING

The American Retirement...By The Numbers (continued)

What about expenses? Where do most retirees spend their hard-earned savings? Experts state that over 50% or more of retiree expenditures come from three main categories: housing, transportation and healthcare.

More specifically, the average retiree household pays an average of \$17,472 per year (\$1,456 per month) on housing expenses, representing almost 35% of annual expenditures alone. The average retiree household spends \$10,742 (\$895 a month) when it comes to transportation costs. Finally, according to the Bureau of Labor Statistics, households headed by people 65 or older spend an average of \$7,030 a year on healthcare.

Below is a further breakdown of how those medical expenses add up...

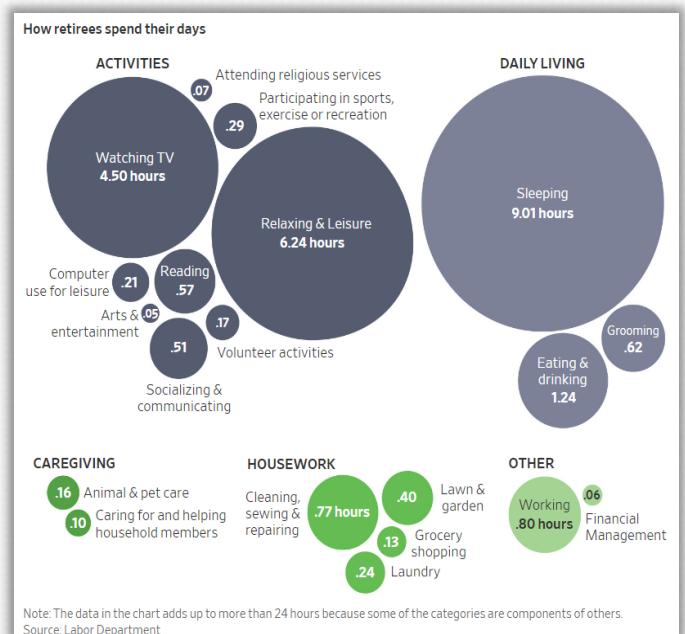


RETIREMENT PLANNING

The American Retirement...By The Numbers (continued)

Our final statistic is one that not many people think of when discussing retirement. Many of our clients in younger demographics have a goal of retiring as soon as possible. However, this idea slowly fades as those same clients move through their careers. As they approach retirement, many still like the idea of maintaining some form of work in order to keep busy and mentally stimulated. But when compared to average Americans, we see something contrary: a marked decrease in activity.

On average, Americans ages 65 and older spent more time watching television in 2021 than a decade ago. They also spent more time relaxing and engaged in leisure activities, according to the U.S. Bureau of Labor Statistics American Time Use Survey. Older adults spent less time socializing, volunteering and attending religious services in 2021, compared with 2011. At right is a breakdown of how American's have recorded spending their time in retirement.



Compare & Contrast

Retirement is a milestone we all strive to reach. We work hard, we save and we plan. Having a better picture of what the average American retirement looks like, allows for personal comparison. Have you saved enough? What will expenses look like? How will you spend your time when work is no longer your main daily activity? All of these questions are great for reflection, but there is no reason to ponder them alone. We at DLAK go above and beyond when it comes to planning for your retirement and securing your future. We look forward to meeting with you soon.

ESTATE PLANNING

Avoid These Five Common Estate Planning Mistakes



by Brett Roth

It goes without saying that everyone should have an estate plan. Whether you write out a simple will or work with a probate specialist to create a detailed trust, the more care you put into your plans, the better the outcome will be for your heirs.

But if you overlook an important step or make a misstep, all your planning could be undone. You could instead saddle your next of kin with a challenging and headache-inducing estate. Below are the most common mistakes.

1. Failing to prepare for incapacity

The main reason we create wills and trusts is because we know that we will someday die. We want our survivors to know how to distribute our property and other assets. But what happens if we become incapacitated? Will our loved ones know how we want our things handled?

It is easy to forget that events other than death can deprive us of our decision-making ability. A well-thought-out estate plan should also address these types of events. It should identify the people authorized to make important decisions on your behalf – regarding finances, health care and other critical matters – and include powers of attorney to enable them to do so. Once you are unconscious or afflicted with dementia, it will be too late. Make a list of decision-makers now, communicate your wishes, and create the necessary powers of attorney.

2. Not including funeral and burial wishes

If you had the foresight and means to purchase a burial plot and make funeral plans, state as much in your estate documents. Don't leave it to your children to search. If you have not made such plans, write your wishes into your will or trust. Failure to do this will leave your family with a lot to work out after your death.

ESTATE PLANNING

Avoid These Five Common Estate Planning Mistakes (cont.)

Don't assume your executor will be the one making these decisions. Delegate a point person who will oversee the funeral and burial arrangements and make sure that person understands your wishes. If you fail to spell out your directives prior to death, it may become an issue to be resolved in probate court – which could significantly delay your being laid to rest. The laws governing burial vary by state. Educate yourself about them and take steps now to prevent interfamilial contention.



3. Not considering tax implications of transferring property

Death and taxes may be inevitable, but taxes following death are not. As generous as it may seem to gift property to your heirs during your lifetime, it is usually smarter – and far more generous – to delay the transfer until you're gone.

When you convey the deed to property to your next of kin before you die, they may face a hefty tax bill when they sell that property. This is because the basis for that dwelling will be tagged to the date on which you made your purchase, not the date when you made your gift. This could thus leave your heirs scrambling to pay a huge sum that would have been averted had they been granted the deed after your death.

4. Not naming back-ups for decision-makers

The best of plans can go awry when tragedy strikes. If you and your spouse perish in the same accident, fire or natural disaster, you'd better have made provision for a secondary beneficiary. Have a contingency plan to address such unforeseen occurrences and name alternative beneficiaries.

Name backups for your executor and other decision-makers. If they cannot fulfill their obligations – because of death, incapacity or other circumstance – a court will name substitutes unless you've already planned for these contingencies. Take care of this early and handle it thoughtfully. It is much easier to prepare for the unknown while you are still of healthy body and sound mind.

ESTATE PLANNING

Avoid These Five Common Estate Planning Mistakes (cont.)



5. Not keeping track of beneficiary designations

How an estate is divided among beneficiaries can seem straightforward, but it can be complicated. Imagine, for example, an individual who wishes to convey equal shares to all of his children. The will may actually state that each child gets a set percentage.

If, however, one child has been added as a beneficiary on death to a bank account in an oversight or other capacity, the child will be the sole beneficiary of the account, regardless of the will.

Therefore, in addition to enumerating the beneficiaries and their respective shares, you must also communicate a directive to your bank that sets forth the interests in your account after your death. If you fail to do this, the bank's rules will override anything you're written in your will as to that account — leaving your total estate passing in percentages different from those expressed in your will.

Here to help

At DLAK, we will always strive to help our clients understand these potential pitfalls. While we are not estate planning professionals, we are happy to share the best available information on a topic that goes hand-in-hand with your investment and retirement strategies.

If you have any questions, feel free to call or bring them up at our next meeting.



INVESTMENT STRATEGIES

Mr. Misunderstood: Fixed Annuities



by Jason Phipps

At DLAK, if appropriate, we have been recommending using fixed annuities as part of your bond portfolio for years. In 2022, this strategy was of particular benefit to our clients and a big reason why, when appropriate, we are still recommending them in 2023.

But with so much information out there (some of it advising against fixed annuities), let's focus specifically on the Multi-Year Guaranteed Annuity, often referred to as an MYGA annuity...

Simply designed, an MYGA offers a guaranteed rate for a specified number of years. As of this writing, several insurance companies are offering a five-year annuity that pays 5% or more annually to the owner. After five years, the owner can leave the money in the annuity or move it to a new investment. That future decision would be based on the rate environment in five years and the financial needs of the client.

Items to Consider

Each annuity has its own unique surrender charge schedule, which dictates how much money can be withdrawn each year without incurring early withdrawal penalties. These charges can be quite punitive, so you should not put money in an annuity if you will need to draw more than the penalty free amount allowed. This is the very reason that we only use part of the bond portfolio to fund fixed annuities.

You might say "Jason, this sounds confusing. Is it worth the trouble?" Well, I agree that fixed accounts can be confusing and frankly they create more work for us. Currently, the five-year bond is paying 3.6%. As mentioned, a five-year fixed annuity is paying 5% or more. If we buy treasuries in your account, your yield of 3.6% is reduced by our management fee. But with a fixed annuity, don't pay our management fee. The rate is your gross return and your net return.

INVESTMENT STRATEGIES

Mr. Misunderstood: Fixed Annuities (continued)

How do Bonds Lose Value?

We've written before on how bad the bond market was in 2022. What we haven't done is explain how bonds lose value when interest rates rise. If you bought a ten-year treasury bond on December 31st 2021, your rate would have been about 1.51% (depending on time of day). If you bought that bond one year later, the rate would have been about 3.87%. If you invested \$100,000 at 1.51%, you would make \$1,510 per year in interest. Over ten years, you would make \$15,100 in interest. Fast forward a year, at the end of 2022 that same \$100,000 investment would pay you \$3,870 a year in interest or \$38,700 over the next ten years. Would you pay \$100,000 for a bond that is going to make you \$15,100 in interest when you could buy another bond paying \$38,700? No one would, and that's how bonds lose value. When you buy a bond, you're buying future cash flows of the bond; This illustration is not exact because I want the concept to be easily understood. In this scenario, the bond purchased at the end of 2021 is worth about \$76,400, a loss of 23.6%.

The Right Reasons

We'll continue to recommend fixed annuities as long as they provide value for clients. We know that many of our peers aren't doing this, but we think it's for the wrong reasons. Annuities require more work operationally and they are generally less profitable for the advisory firm. Our commitment will always be to building portfolios that help you achieve your financial goals.

*Investing in the bond market is subject to certain risks including market, interest rate, issuer, credit and inflation risk.

TECHNOLOGY TRENDS

Getting to Know ChatGPT



If you follow the news, you've probably heard quite a bit about how Artificial Intelligence (A.I.) is becoming a bigger part of our lives each day.

One such A.I. extension is ChatGPT, the language processing technology that is revolutionizing multiple industries. There's perhaps no better way to describe it than by having ChatGPT tell us about itself. Here's what it shared:

by Kevin Thompson

"I'm based on a language processing technology called GPT-3.5, which allows me to understand natural language commands and generate human-like responses. I've been trained on a massive dataset of diverse texts, which includes books, articles, and other written materials, allowing me to answer questions and generate text on a wide range of topics.

I don't have personal preferences or opinions of my own since I was designed to provide factual and neutral responses. I'm constantly learning from the interactions I have with users, which helps me improve my performance and better understand how to provide helpful and accurate responses. Overall, my primary goal is to assist and help users in whatever way I can, whether that's providing information, advice, or simply engaging in a conversation."

As an AI language model, I can be used in a variety of ways. Here are some of the best uses of me:

- *Language translation: I can translate text from one language to another, which can be useful for people who need to communicate with others who speak different languages.*



TECHNOLOGY TRENDS

Getting to Know ChatGPT (continued)

- *Customer support: I can provide customer support through chatbots, answering frequently asked questions and helping customers with their issues.*
- *Education: I can provide information on a wide range of topics, such as science, history, and literature, which can be useful for students and teachers.*
- *Personal productivity: I can help people organize their schedules, make to-do lists, and set reminders, which can help increase productivity.*
- *Overall, my versatility and ability to understand and generate human-like language make me a useful tool for a wide range of applications, whether that's providing information, generating content, or assisting with various tasks."*



Here to Stay

With A.I. well on its way, it's only a matter of time before it will be seamlessly integrated into our day-to-day lives. ChatGPT is one of the many resources available that can process loads of data, have real time conversations, verify data, and build upon existing interactions. The data that ChatGPT pulls from is only current as 2021, but this is something that you can sink your teeth into now while getting ready for A.I. to be released that will be current on all information.

There's a plethora of services that this iteration of ChatGPT can help with on a day-to-day basis. Have some fun and explore with this newest breakthrough in technology.



NEWS TO USE

Did You Know?

Labor is Softening

According to the US March Workforce Report, the level of hiring in the US declined 6.5% in February versus March. It's the tenth monthly decline in a row and represents the largest month-over-month decline since April 2020. Confidence in finding and holding a job also declined to the lowest level since 2021. [SOURCE: LINKEDIN]



The Yield Curve is at a 41-Year Low

After Fed Reserve Chair Powell suggested that interest rates may have to rise more than expected, the 2s10s yield curve (spread in the yields between the 2-Year and 10-Year Treasuries) dropped to its most negative (inverted) levels since September 1981. Since 1977, the only period where the yield curve was as much or more inverted was in a two-year stretch from October 1979 to September 1981. (SOURCE: BESPOKE)

S&P 500 Stock Dividends are Rising

Total dividends paid for S&P 500 stocks increased 10.2% in Q4 2022, the largest year-over-year Q4 increase since 2018. While the S&P 500's dividend yield is well below Treasury yields, unlike bond coupon payments, dividends tend to rise over time. An investment in the S&P 500 ten years ago had a dividend yield of 2.19%. Through 3/1/23, the yield on the original investment has increased to 4.69% with capital appreciation of 169%. (SOURCE: BESPOKE)

Amazon Takes a Big Bite of its Sellers

Thinking about selling on Amazon? It's going to cost you. Over half of revenues from third-party sellers on Amazon go directly back to...Amazon! Amazon charges sellers up to 15% of sales in referral fees, 20-35% in fulfillment fees, while advertising expenses on the site account for up to 15% of a seller's total revenues.

NEWS TO USE

Did You Know? (continued)

Inflation is Easing

For the first time since March 2021, the February year-over-year readings of the US Consumer Price Index and Producer Price Index fell to 6% or less. This slowing inflation data comes as both the CRB Commodity Index and WTI Crude Oil fell to 52-week lows and Import Prices declined at the fastest pace (-1.1%) since September 2020. (SOURCE: BESPOKE)

Home Remodeling Pays

Of 34 remodeling projects, below are those with the highest average cost recovered.

- Garage door replacement: 100%
- Wood window replacement: 95%
- Screened-in porch addition: 93%
- Fiber cement siding replacement: 93%
- Vinyl siding replacement: 91%
- Vinyl window replacement: 90%

(SOURCE: KIPLINGER'S)



401(k) Accounts Won't Miss 2022

In 2022, the average 401(k) balance dropped 23%, according to Fidelity Investments.

Fast Food is Breaking the Bank

The grocery store isn't the only place where consumers have been experiencing sticker shock. Fast food chains have seen an average price hike of a whopping 12.9%. That's the average overall menu increase at five popular fast food chains, according to price comparison website Pricelisto.com, which analyzed data from September 2021 to October 2022. Burger King's Chicken Fries rose 16%, the largest increase for a single item. Maybe eating at home isn't so bad after all!

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