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AG Financial

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Wall Street Never Saw The 2021 Market Surge Coming

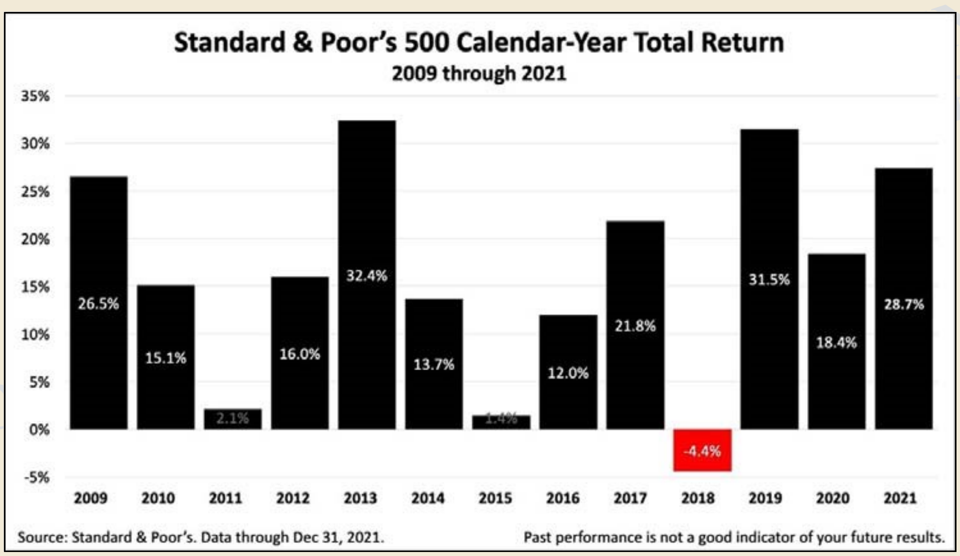
In 2021, the Standard & Poor's 500 stock index, with dividends reinvested, returned an astonishing 28.7%! Who could have predicted it? Who could have predicted that, despite the second year of a pandemic, stocks would soar for a third straight year and rack up nearly three times their annual average return? Not Wall Street's best minds!

2021 marked another year in which Wall Street's biggest firms and their best strategists failed to predict the stock market.

On December 21, 2020, *Barron's* published an article in which the venerable financial magazine asked 10 leading Wall Street strategists to predict the closing price of the S&P 500 on December 31, 2021. The mean forecast of the 10 strategists quoted by *Barron's* called for the S&P 500 to close 2021 at 4040, which would have amounted to about an 8% gain. The strategists' consensus forecast of 4040 was not even close to the actual closing price of the S&P 500 of 4712 on December 31, 2021!

This chart shows that the consensus forecast by Wall Street's best and brightest strategists selected by *Barron's* have been consistently wrong since 2008, and their prediction for 2021 was completely off-base! The chart shows the results of predictions made by leading strategists quoted every December in *Barron's* since December 2007. It was compiled by Fritz Meyer, an independent economist.

If Wall Street's top strategists' forecasts had been accurate, the black dots would all fall right on the red line representing the S&P 500. However, their predictions were often way out of line with what



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Why Professional Financial Advice Has Grown More Important

At almost any moment, investor sentiment almost always is capable of swinging stock prices 10%, up or down. Eventually, however, fundamental economics bend market sentiment closer to reality, away from emotional swings. Economic conditions lately are surprisingly strong.

Economists surveyed by *The Wall Street Journal* in early January predicted U.S. gross domestic product growth of 5.8% for the fourth quarter of 2021. In a big surprise, it came in at 6.9%, and the surge helped propel the growth rate for all of 2021 to 5.7% – the highest since 1984!

With economists underestimating the strength of the U.S. economy at the end of 2021, it's likely their forecasts for the first quarter of 2022 are also low. This could set up a positive surprise in the first half of 2022.

Meanwhile, changes in tax laws make personal advice on tax-sensitive investment strategies more important. Roth IRA conversion, for instance, is going to make a lot of sense for many individuals in 2022. In addition, the exemption from gift and estate tax is scheduled to be slashed in half to $6.5 million January 1, 2026. Multimillion dollar estates need to plan for this now.

The speed of change in the world has accelerated due to the internet. Consequently, advice from a financial planning professional has grown more important.

New IRS Rules Make It Much Easier To Retire Early

Newly released rules in IRS Notice 2022-6 sharply hike distribution amounts permitted from qualified plans before age 59½.

The rules, which were released in January 2022, will allow many more individuals to take substantially equal periodic payments (SEPPs) from their IRAs or 401(k)s in their 50s. With The Great Resignation under way, this is one of the most important personal financial planning strategies of 2022.

The new rules put a 5% floor on the maximum interest rate that may be used to calculate payments from an IRA or 401(k) using substantially equal periodic payments (SEPPs). For the past decade, the maximum rate was much lower.

Since the early 1980s, powerful tax advantages are accorded IRA, 401(k), and 403(b) under Federal law. While rules on federally qualified accounts encourage retirement saving and investing of Americans, they impose a 10% penalty on withdrawals before age 59½. The new rules spelled out in IRS Notice 2022-6 update 20-year-old IRS rules.

Notice 2022-6 addresses a complex part of the Internal Revenue Code, Section 72(t), which specifies a formula for calculating the maximum amount you may withdraw penalty-free annually in SEPPs. It's largely based on your age. Without getting into the technicalities, the net effect is that Notice 2022-6 will allow individuals under the age of 59½ to take much larger payments from federally qualified retirement plan accounts penalty-free.

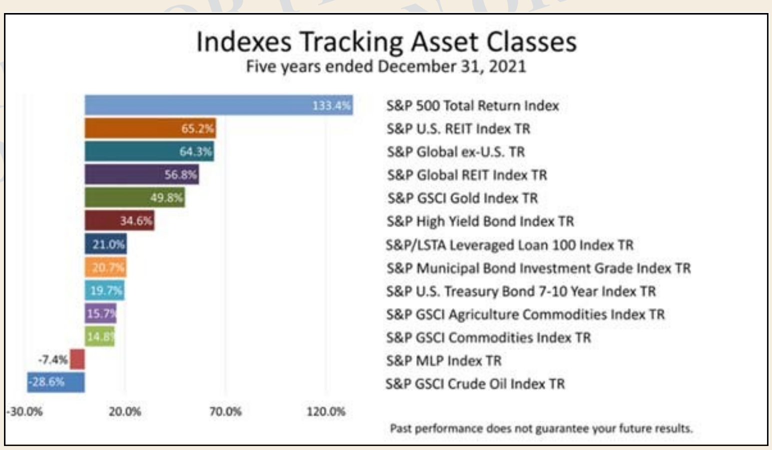
The timing of the rule change is lousy. More Americans have left the workforce than had been expected before the pandemic in the pandemic-inspired Great Resignation. The shift is widely believed to be caused largely by individuals in their 60s deciding to retire. As a result, the participation rate of Americans aged 16 to 65 in the labor force has declined more than expected. At a time when the supply of workers is forcing employers to offer higher wages, Notice 2022-6 will give more older workers reason to retire.

If you have diligently invested by maximizing contributions to a federally qualified retirement plan, you may be able to retire earlier than you expected – if that's what you want. ●

Make This Financial Resolution For 2022

The U.S. stock market's 133% five-year return dominated this diverse group of 13 securities investments. None of the other asset classes came even close to the total return of the Standard & Poor's 500 stock index.

With another year passing, the financial media is naturally talking a lot about the spectacular returns on stocks and real estate, and there's a smattering of coverage about the big losers – investments in energy and commodities. The coverage will get talked about at business luncheons, cocktail parties, and investment seminars. We suggest resolving not to get caught up in the talk in 2022.



The spectacular returns of stocks are causing speculation – not just speculation in risky investments but speculation in the media that the stock market is in for a lackluster year in 2022 or even a loss. For example, *The Wall Street Journal's*, January 3, 2022, print edition, led with a story entitled, "Stocks Confront Rockier Course In 2022." Similarly, *The New York*

Pre-Retirees: Here's How To Catch Up On Retirement Saving

If you're a pre-retiree who needs to catch up on retirement saving, or if you don't need the income from a portion of your IRA or 401(k) accounts and want to leave them to your children, here are important details for planning your future and leaving a legacy to your family: 2022 limits on contributions to federally qualified defined contribution retirement plans.

DC Basics. Defined Contribution (DC) plans are accorded tax advantages by the U.S. Government to encourage Americans to save and invest for retirement. Federally qualified retirement plans include a variety of employer-sponsored 401(k), 403(b), SEP IRA plans, as well as individually sponsored IRAs, SIMPLE IRAs, and Roth IRAs.

In the 1980s, as the U.S. grew more prosperous and litigious, corporations sought to shift responsibility of retirement planning from company-sponsored pension plans to individuals. Instead of guaranteeing workers a pension, DC plans enabled companies to shift the responsibility of retirement planning to individuals. The U.S. system has been adapted by other major economies and is a model for the world, but new rules and regulation continue to refine and improve the American retirement saving system.

Investments in DC plans grow tax deferred, based on a promise from the Federal Government. You do not pay tax on the capital appreciation or dividends earned on investments in DC plans until you take withdrawals from your account. Essentially, the accounts grow tax-free until you start taking withdrawals. Planning properly enables many individuals to take withdrawals from a DC plan account only after retirement, when you are likely to be in a lower income tax bracket.

2022 Limits. The overall limit on contributions to DC plans in 2022 is $61,000. That's up $3,000 from 2021. For baby boomers in the workforce trying to a create a larger nest egg, DC plans may provide a way to accelerate savings in federally qualified retirement accounts.

Here's what changed in 2022:

- You can contribute up to $20,500 to a 401(k) plan now, $1000 more than in 2021.
- The contribution limit on SIMPLE IRAs is $500 higher than in 2021, rising to $14,000 in 2022.

Maximizing contributions to DC plans is a fundamental of financial planning for architects, engineers, physicians, lawyers, dentists, and other professionals and business owners, not only because it allows tax-advantaged growth but also because of professional liability.

An LLC or corporate entity does not limit a professional's exposure. But federally qualified DC plans do protect those assets from creditors, including lawsuit judgments resulting from a malpractice lawsuit. The protection from liability lawsuits and other creditors generally begins a year after you make a contribution to the plan. So, it is best to make DC plan contributions as early in the year as is feasible.

Maximizing contributions to a federally qualified retirement plan for a far-off retirement is hard behaviorally. We can coach you on this. ●

2022 Defined Contribution (DC) Plan Limits

IRA / ROTH IRA CONTRIBUTION LIMIT	$ 6,000
IRA / ROTH IRA "CATCH UP"	$ 1,000
401k ELECTIVE DEFERRAL	$ 20,500
401k ELECTIVE DEFERRAL "CATCH UP"	$ 6,500
SIMPLE IRA CONTRIBUTION LIMIT	$ 14,000
SIMPLE IRA "CATCH UP"	$ 3,000
SEP IRA EMPLOYEE PERCENTAGE MATCH LIMIT	25%
SEP IRA SELF-EMPLOYED PERCENTAGE MATCH LIMIT	20%
OVERALL LIMIT ON DC PLAN CONTRIBUTIONS	$ 61,000

Source: Advisors4Advisors, Jan 13, 2022

Times, led its business section on Jan. 1, 2022, with the headline," The Big Uneasy." "Shares soared as interest rates stayed low and stimulus programs helped the economy," The Times reported. "But expected changes could make investors wary."

We suggest ignoring the speculation. The stock market is unpredictable. Covid, too, has been unpredictable. Inflation is higher than in decades. Federal Reserve policy just changed from dovish to hawkish on inflation, but interest rates have never been so low in U.S. history.

Despite the unprecedented crosscurrents, the stock market could go much higher in 2022. It also could go down. However, the economy is roaring and there is certainly no sign of a recession on the horizon.

If you rely on our advice, resolve in 2022 not to get caught up in the financial zeitgeist. ●

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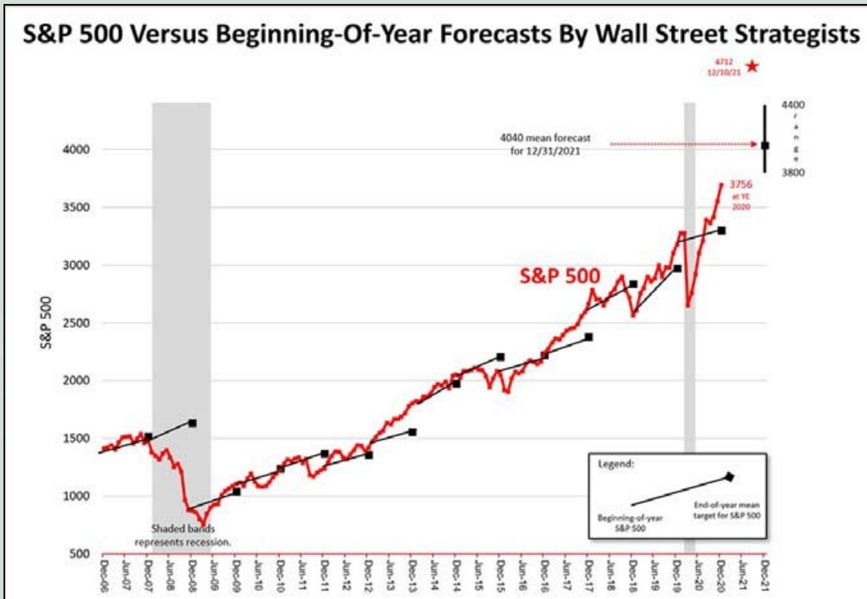
occurred in the market!

Which should serve as a reminder of how the largest brokerages, with help from the financial press, can steer investors in a bad direction. As 2022 begins, we want to remind you to be skeptical of predictions, even if they come from the big-brand brokerage firms and the experts in the financial press.

This article is intended to make clear why we view the financial press skeptically and choose to operate as an independent professional financial advice firm unaffiliated with big-brand Wall Street names. ●



Source: Standard & Poor's, monthly data through December 2020. *Barron's* survey of 10 Wall Street strategists, December 21, 2020. Fritz Meyer, independent economist. Past performance not indicative of future results