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Tech Sector Turmoil and the Bear Market

During the intensely volatile first 100 trading days of 2022, the stocks of companies in the S&P 500 index delivered their worst performance since 1970.[1] The S&P 500 continued to tumble, and the benchmark index descended into a bear market — typically defined as a sustained drop in stock prices of at least 20% — on June 13, 2022. When the market closed, the S&P 500 had dropped 21.8% from its January 3 peak, and the tech-heavy NASDAQ, already in bear territory, had plunged 32.7% from its November 19, 2021 peak.[2]

Some investors who are nervous about the future and their portfolios seem to have taken a defensive stance by selling riskier assets, including investments in growth-oriented technology stocks.

What's triggering market volatility?

Throughout 2021, U.S. businesses dealt with unpredictable demand shifts and supply shocks related to the pandemic, but near-zero interest rates and trillions of dollars in pandemic relief supported consumer spending, boosted economic growth, and drove record corporate profits. Companies in the S&P 500 posted profits in 2021 that were 70% higher than in 2020 and 33% higher than in 2019, which helped fuel a stock market total return of nearly 29%.[3-4]

But in the first months of 2022, investors began to worry that the anticipated tightening of monetary policies by the Federal Reserve — intended to cool off stubbornly high inflation — would stifle economic growth and cause a recession. Prices began rising in the spring of 2021 due to high demand, supply-chain issues, and a labor shortage that pushed up wages. Inflation picked up speed in the first quarter of 2022 when China's COVID-19 lockdowns impacted the supply of goods, and Russia's invasion of Ukraine sent already high global food and fuel prices through the roof. In May 2022, the Consumer Price Index rose at an annual rate of 8.6%, a 40-year high.[5]

The relentless acceleration of price increases puts pressure on the Federal Open Market Committee (FOMC), which meets on June 14 and 15, to act aggressively to tame inflation. At the beginning of May, the FOMC raised the benchmark federal funds rate by 0.5% (to a range of 0.75%–1.00%). This was the first half-percent increase since May 2000, and Fed projections suggest there will be more to come.[6]

Rising interest rates push bond yields upward, and the opportunity for higher returns from lower-risk bond investments makes higher-risk stock investments less attractive. Moreover, stock investors are buying a portion of a company's future cash flows, which become less valuable in an inflationary environment. Higher borrowing costs can also crimp consumers' spending power and cut into the profits of companies that rely on debt.

The downside of domination

Stocks tracked by the S&P Information Technology Sector Index, which fell 29.2% from a January 3 high, have been hit harder than the S&P 500 as a whole. Plus, like many benchmark indexes, the S&P 500 is weighted by market capitalization (the value of a company's outstanding shares). This gives the largest companies, most of which are in the tech sector, an outsized role in index performance. As of May 31, the information technology sector still accounted for 27.1% of the market cap of the S&P 500, compared with weightings of 14.4% for health care and 11.2% for financials, the next-largest sectors. Apple, Microsoft, Alphabet, and Amazon, respectively, are the four most-valuable companies in the index; Nvidia is ranked ninth and Meta has fallen to number 11.[7]

For the past several years, tech stock gains drove the market to new heights, but when their share values began to plunge, they dragged the broader stock indexes down with them. A *Wall Street Journal* analysis of market data through May 17 found that just eight of the largest U.S. companies — the six previously mentioned, plus Netflix and Tesla (in the consumer discretionary sector) — were responsible for an astounding 46% of the S&P 500's 2022 losses (on a total return basis).[8]

These well-known technology companies have grown into massive multinational businesses that have a major influence on everyday life. Some dominate their respective business spaces — social media, smartphones, online search and advertising, e-commerce, and cloud computing — enough to spark antitrust investigations and calls for stricter regulations in the United States and abroad. They also have plenty of cash on hand, which means they may be in better shape to withstand an economic slowdown than their smaller competitors.[9]

Takeaways for investors

Spreading investments among the 11 sectors of the S&P 500 is a common way to diversify stock holdings. But over time, a stock portfolio that was once diversified can become overconcentrated in a sector that has outperformed the broader market. Tech-sector stocks notched huge total returns of about 50% in 2019, 44% in 2020, and 35% in 2021, so you may want to look closely at the composition of your portfolio and consider rebalancing if you find yourself overexposed to this highly volatile sector. (Rebalancing involves selling some investments in order to buy others. Keep in mind that selling investments in a taxable account could result in a tax liability.)[10]

If you feel shell-shocked after more than five months of market turbulence, try to regain some perspective. Some market analysts view recent price declines as a painful but long overdue repricing of stocks with valuations that had grown excessive, as well as a reality check brought on by waning growth expectations. The forward price-to-earnings (P/E) ratio of companies in the S&P 500 has fallen from 23.3 at the end of 2021 to 17.8 in May 2022, much closer to the 10-year average of 16.9.[11-12]

It could be a while before investors can better assess how the economy and corporate profits will ultimately fare against fast-rising inflation and higher borrowing costs — and the stock market is no fan of uncertainty. Disappointing economic data and company earnings reports could continue to spark volatility in the coming months.

It may not be easy to take troubling headlines in stride, but if you have a sufficiently diversified, all-weather investment strategy, sticking to it is often the wisest course of action. If you panic and flee the market during a downturn, you won't be in a position to benefit from upward swings on its better days. And if you continue investing regularly for a long-term goal such as retirement, a down market may be an opportunity to buy more shares at lower prices.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments seeking a higher return tend to involve greater risk. Diversification is a method used to help manage risk. It does not guarantee a profit or protect against investment loss. The S&P 500 is an unmanaged group of securities that is considered representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary. Dollar-cost averaging does not ensure a profit or prevent a loss. Such plans involve continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases during periods of low and high price levels. However, this can be an effective way for investors to accumulate shares to help meet long-term goals.

1) SIFMA, 2022

2) Yahoo! Finance, 2022

3) *The New York Times* , May 31, 2022

4, 7, 10-11) S&P Dow Jones Indices, 2022

5) U.S. Bureau of Labor Statistics, 2022

6) Federal Reserve, 2022

8) *The Wall Street Journal,* May 19, 2022

9) *The New York Times,* May 20, 2022

12) FactSet, 2022

IRS Releases 2023 Key Numbers for Health Savings Accounts

The IRS has released the 2023 key tax numbers for health savings accounts (HSAs) and high-deductible health plans (HDHPs).

The IRS has released the 2023 contribution limits for health savings accounts (HSAs), as well as the 2023 minimum deductible and maximum out-of-pocket amounts for high-deductible health plans (HDHPs). An HSA is a tax-advantaged account that's paired with an HDHP. An HSA offers several valuable tax benefits:

- You may be able to make pre-tax contributions via payroll deduction through your employer, reducing your current income tax.
- If you make contributions on your own using after-tax dollars, they're deductible from your federal income tax (and perhaps from your state income tax) whether you itemize or not.
- Contributions to your HSA, and any interest or earnings, grow tax deferred.
- Contributions and any earnings you withdraw will be tax-free if used to pay qualified medical expenses.

Here are the key tax numbers for 2022 and 2023.

Health Savings Accounts	**2022**	**2023**
Annual contribution limit		
Self-only coverage	$3,650	$3,850
Family coverage	$7,300	$7,750
High-deductible health plan: self-only coverage		
Annual deductible: minimum	$1,400	$1,500
Annual out-of-pocket expenses required to be paid (other than for premiums) can't exceed	$7,050	$7,500
High-deductible health plan: family coverage		
Annual deductible: minimum	$2,800	$3,000
Annual out-of-pocket expenses required to be paid (other than for premiums) can't exceed	$14,100	$15,000
Catch-up contributions		
Annual catch-up contribution limit for individuals age 55 or older	$1,000	$1,000

Evaluating an Early Retirement Offer

In today's corporate environment, cost cutting, restructuring, and downsizing are the norm, and many employers are offering their employees early retirement packages. But how do you know if the seemingly attractive offer you've received is a good one? By evaluating it carefully to make sure that the offer fits your needs.

What's the severance package?

Most early retirement offers include a severance package that is based on your annual salary and years of service at the company. For example, your employer might offer you one or two weeks' salary (or even a month's salary) for each year of service. Make sure that the severance package will be enough for you to make the transition to the next phase of your life. Also, make sure that you understand the payout options available to you. You may be able to take a lump-sum severance payment and then invest the money to provide income, or use it to meet large expenses. Or, you may be able to take deferred payments over several years to spread out your income tax bill on the money.

How does all of this affect your pension?

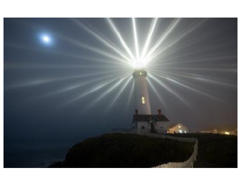
If your employer has a traditional pension plan, the retirement benefits you receive from the plan are based on your age, years of service, and annual salary. You typically must work until your company's normal retirement age (usually 65) to receive the maximum benefits. This means that you may receive smaller benefits if you accept an offer to retire early. The difference between this reduced pension and a full pension could be large, because pension benefits typically accrue faster as you near retirement. However, your employer may provide you with larger pension benefits until you can start collecting Social Security at age 62. Or, your employer might boost your pension benefits by adding years to your age, length of service, or both. These types of pension sweeteners are key features to look for in your employer's offer — especially if a reduced pension won't give you enough income.

Does the offer include health insurance?

Does your employer's early retirement offer include medical coverage for you and your family? If not, look at your other health insurance options, such as COBRA, a private policy, dependent coverage through your spouse's employer-sponsored plan, or an individual health insurance policy through either a state-based or federal health insurance Exchange Marketplace. Because your health-care costs will probably increase as you age, an offer with no medical coverage may not be worth taking if these other options are unavailable or too expensive. Even if the offer does include medical coverage, make sure that you understand and evaluate the coverage. Will you be covered for life, or at least until you're eligible for Medicare? Is the coverage adequate and affordable (some employers may cut benefits or raise premiums for early retirees)? If your employer's coverage doesn't meet your health insurance needs, you may be able to fill the gaps with other insurance.

What other benefits are available?

Some early retirement offers include employer-sponsored life insurance. This can help you meet your life insurance needs, and



the coverage probably won't cost you much (if anything). However, continued employer coverage is usually limited (e.g., one year's coverage equal to your annual salary) or may not be offered at all. This may not be a problem if you already have enough life insurance elsewhere, or if you're financially secure and don't need life insurance. Otherwise, weigh your needs against the cost of buying an individual policy. You may also be able to convert some of your old employer coverage to an individual policy, though your premium will be higher than when you were employed.

In addition, a good early retirement offer may include other perks. Your employer may provide you and other early retirees with financial planning assistance. This can come in handy if you feel overwhelmed by all of the financial issues that early retirement brings. Your employer may also offer job placement assistance to help you find other employment. If you have company stock options, your employer may give you more time to exercise them. Other benefits, such as educational assistance, may also be available. Check with your employer to find out exactly what its offer includes.

Can you afford to retire early?

To decide if you should accept an early retirement offer, you can't just look at the offer itself. You have to consider your total financial picture. Can you afford to retire early? Even if you can, will you still be able to reach all of your retirement goals? These are tough questions that a financial professional should help you sort out, but you can take some basic steps yourself.

Identify your sources of retirement income and the yearly amount you can expect from each source. Then, estimate your annual retirement expenses (don't forget taxes and inflation) and make sure your income will be more than enough to meet them. You may find that you can accept your employer's offer and probably still have the retirement lifestyle you want. But remember, these are only estimates. Build in a comfortable cushion in case your expenses increase, your income drops, or you live longer than expected.

If you don't think you can afford early retirement, it may be better not to accept your employer's offer. The longer you stay in the workforce, the shorter your retirement will be and the less money you'll need to fund it. Working longer may also allow you to build larger savings in your IRAs, retirement plans, and investments. However, if you really want to retire early, making some smart choices may help you overcome the obstacles. Try to lower or eliminate some of your retirement expenses. Consider a more aggressive approach to investing. Take a part-time job for extra income. Finally, think about electing early Social Security benefits at age 62, but remember that your monthly benefit will be smaller if you do this.

What if you can't afford to retire? Finding a new job

You may find yourself having to accept an early retirement offer, even though you can't afford to retire. One way to make up for the difference between what you receive from your early retirement package and your old paycheck is to find a new job, but that doesn't mean that you have to abandon your former line of work for a new career. You can start by finding out if your former employer would hire you as a consultant. Or, you may find that you would like to turn what was once just a hobby into a second career. Then there is always the possibility of finding full-time or part-time employment with a new company.

However, for the employee who has 20 years of service with the same company, the prospect of job hunting may be terrifying. If you have been out of the job market for a long time, you might not feel comfortable or have experience marketing yourself for a new job. Some companies provide career counseling to assist employees in re-entering the workforce. If your company does not provide you with this service, you may want to look into corporate outplacement firms and nonprofit organizations in your area that deal with career transition.

Note: Many early retirement offers contain non-competition agreements or offer monetary inducements on the condition that you agree not to work for a competitor. However, you'll generally be able to work for a new employer and still receive your pension and other retirement plan benefits.

What will happen if you say no?

If you refuse early retirement, you may continue to thrive with your employer. You could earn promotions and salary raises that boost your pension. You could receive a second early retirement offer that's better than the first one. But, you may not be so lucky. Consider whether your position could be eliminated down the road.

If the consequences of saying no are hard to predict, use your best judgment and seek professional advice. But don't take too long. You may have only a short window of time, typically 60 to 90 days, to make your decision.

Housing Options for Older Individuals

As you grow older, your housing needs may change. Maybe you'll get tired of doing yardwork. You might want to retire in sunny Florida or live close to your grandchildren in Illinois. Perhaps you'll need to live in a nursing home or an assisted-living facility. Or, after considering your options, you may even decide to stay where you are. When the time comes to evaluate your housing situation, you'll have numerous options available to you.

There's no place like home

Are you able to take care of your home by yourself? If your answer is no, that doesn't necessarily mean it's time to move. Maybe a family member can help you with chores and shopping. Or perhaps you can hire someone to clean your house, mow your lawn, and help you with personal care. You may want to stay in your home because you have memories of raising your family there. On the other hand, change may be just what you need to get a new perspective on life. To evaluate whether you can continue living in your home or if it's time for you to move, consider the following questions:

- How willing are you to let someone else help you?
- Can you afford to hire help, or will you need to rely on friends, relatives, or volunteers?
- How far do you live from family and/or friends?
- How close do you live to public transportation?
- How easily can you renovate your home to address your physical needs?
- How easily do you adjust to change?
- How easily do you make friends?
- How does your family feel about you moving or about you staying in your own home?
- How does your spouse feel about moving?

Hey kids, Mom and Dad are moving in!

If you are moving in with your child, will you have adequate privacy? Will you be able to move around in your child's home easily? If not, you might ask him or her to install devices that will make your life easier, such as tub or shower grab bars and easy-to-open handles on doors.

You'll also want to consider the emotional consequences of moving in with your child. If you move closer to your child, will you expect him or her to take you shopping or to include you in every social event? Will you feel in the way? Will your child expect you to help with cooking, cleaning, and baby-sitting? Or, will he or she expect you to do little or nothing? How will other members of the family feel? Get these questions out in the open before you consider moving in.

Talk about important financial issues with your child before you agree to move in. This may help avoid conflicts or hurt feelings later. Here are some suggestions to get the conversation flowing:

- Will he or she expect you to contribute money toward household expenses?
- Will you feel guilty if you don't contribute money toward household expenses?
- Will you feel the need to critique his or her spending habits, or are you afraid that he or she will critique yours?
- Can your child afford to remodel his or her home to fit your needs?
- Do you have enough money to support yourself during retirement?
- How do you feel about your child supporting you financially?

Assisted-living options

Assisted-living facilities typically offer rental rooms or apartments, housekeeping services, meals, social activities, and transportation. The primary focus of an assisted-living facility is social, not medical, but some facilities do provide limited medical care. Assisted-living facilities can be state-licensed or unlicensed, and they primarily serve senior citizens who need more help than those who live in independent living communities.

Before entering an assisted-living facility, you should carefully read the contract and tour the facility. Some facilities are large, caring for over a thousand people. Others are small, caring for fewer than five people. Consider whether the facility meets your needs:

- Do you have enough privacy?
- How much personal care is provided?
- What happens if you get sick?
- Can you be asked to leave the facility if your physical or mental health deteriorates?
- Is the facility licensed or unlicensed?
- Who is in charge of health and safety?

Reading the fine print on the contract may save you a lot of time and money later if any conflict over services or care arises. If you find the terms of the contract confusing, ask a family member for help or consult an attorney. Check the financial strength of the company, especially if you're making a long-term commitment.

As for the cost, a wide range of care is available at a wide range of prices. For example, continuing care retirement communities are significantly more expensive than other assisted-living options and usually require an entrance fee above $50,000, in addition to a monthly rental fee. Keep in mind that Medicare probably will not cover your expenses at these facilities, unless those expenses are health-care related and the facility is licensed to provide medical care.

Nursing homes

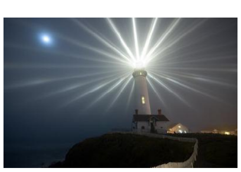
Nursing homes are licensed facilities that offer 24-hour access to medical care. They provide care at three levels: skilled nursing care, intermediate care, and custodial care. Individuals in nursing homes generally cannot live by themselves or without a great deal of assistance.

It is important to note that privacy in a nursing home may be very limited. Although private rooms may be available, rooms more commonly are shared. Depending on the facility selected, a nursing home may be similar to a hospital environment or may have a more residential feel. Some on-site services may include:

- Physical therapy
- Occupational therapy
- Orthopedic rehabilitation
- Speech therapy
- Dialysis treatment
- Respiratory therapy

When you choose a nursing home, pay close attention to the quality of the facility. Visit several facilities in your area, and talk to your family about your needs and wishes regarding nursing home care. In addition, remember that most people don't remain in a nursing home indefinitely. If your physical or mental condition improves, you may be able to return home or move to a different type of facility. Contact your state department of elder services for guidelines on how to evaluate nursing homes.

Nursing homes are expensive. If you need nursing home care in the future, do you know how you will pay for it? Will you use private savings, or will you rely on Medicaid to pay for your care? If you have time to plan, consider purchasing long-term care



insurance to pay for your nursing home care.

What if my income during retirement won't be enough to meet my retirement expenses?

Fortunately, you may have no need to despair. The further you are from retirement, the more time you have to resolve the expected shortfall. Even if you are closing in on retirement, there may be steps you can take to bridge the gap.

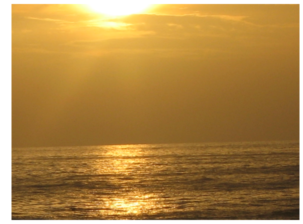
In some cases, the best solution is to cut back current expenses and use that money toward retirement. This will enable you to put more money into your IRA, 401(k), and other retirement savings vehicles. Although you may not think you spend much on dining out and entertainment, such expenses really add up over time. Another way to save a bundle is to look into public colleges where your child can get a quality education for a fraction of what a private college costs.

But you might be unwilling to make such sacrifices. If so, or if you simply can't afford to save any more than you already are, consider the potential benefits of being a bit more aggressive with your investment strategy. Weight your portfolio more heavily toward stocks and growth mutual funds, and less toward fixed-income securities. A more aggressive investment portfolio exposes you to increased risk, but it may also provide a greater return over the long run. The result: a potentially larger nest egg for you to draw on during retirement.[1] *Before investing in a mutual fund, carefully consider its investment objectives, risks, fees, and expenses, which are contained in the prospectus available from the fund. Review the prospectus carefully, including the discussion of fund classes and fees and how they apply to you.*

Another alternative is to lower your planned expenses during retirement by setting more modest goals. Instead of buying that beach mansion on the Riviera, settle for a smaller house a few miles from the ocean. Similarly, instead of taking expensive trips around the world on a regular basis, travel closer to home and less often. The idea of a more frugal retirement lifestyle may not appeal to you, but financial reality may require it.

You can take a variety of other steps to make sure that retirement income will at least keep pace with retirement expenses. Some of the most common: work part-time during retirement or simply put off retiring until you're in a better financial position. Consult your financial planner for further advice.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.



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