

Sectors: Overweight, Underweight, or Just Right?

The U.S. stock market had a banner year in 2021, with the S&P 500 index up almost 27%. Unfortunately, stocks turned downward on the second trading day of 2022 and kept sliding into a bear market.¹

Stocks in the S&P 500 are classified by 11 different business sectors, each of which responds differently to economic conditions. For example, the information technology sector was very strong in 2021, rising by 33.4%. But it turned south in 2022 and dropped by 22.6% through August. On the other hand, the energy sector, driven by high oil prices, was up during both periods (see chart).

Index Weighting

Many broad-based indexes, including the S&P 500, are weighted based on market capitalization — the total value of a company's outstanding stocks. Sectors have different sizes and weighting to begin with, but the weight can change significantly due to performance. The information technology sector, which includes some of America's largest companies, rose from about 20% of S&P 500 capitalization at the end of 2018

to 29% at the end of 2021, increasing its impact on the index when the sector turned downward. The financial sector dropped from 13.3% to 10.7% over the same period, decreasing its impact on the index.²

This means that even if you invest primarily in broad-based funds, you may be more heavily invested (overweight) or less invested (underweight) in a given sector than you realize. If you own more specific funds or individual stocks, your portfolio could be even more overweighted or underweighted.

Some market sectors — such as health care, consumer staples, and utilities — are considered "defensive" and may be good to hold through a bear market or economic recession because businesses in these sectors tend to remain strong regardless of economic conditions. Others — such as information technology and consumer discretionary — may have more growth potential but are more sensitive to economic conditions. Whether it's appropriate to shift sector allocations in the middle of an economic cycle depends on your individual circumstances and long-term goals.

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Sector Funds

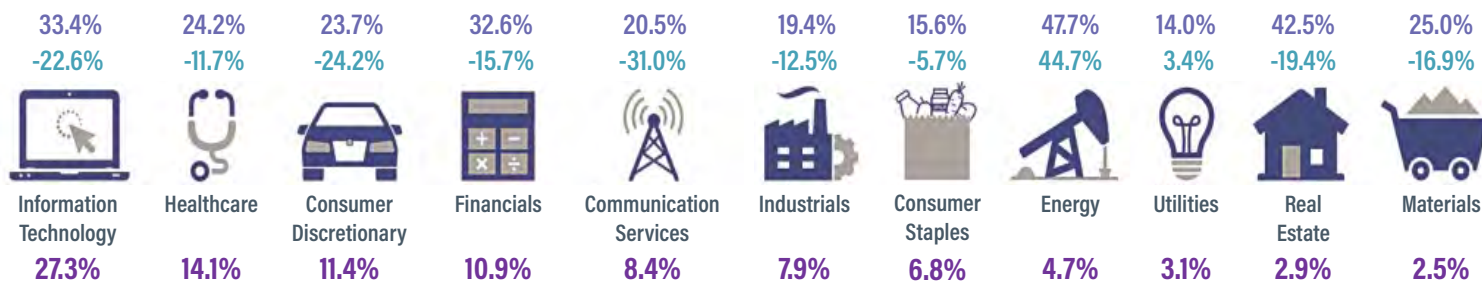
One way to shift sector weight in your portfolio is by adding one or more sector funds — mutual funds or exchange-traded funds (ETFs) that focus on stocks of companies in a particular industry or sector of the economy. Because these funds are less diversified, they typically carry a higher level of volatility and risk than broad-based funds and should be considered as a complement to a core portfolio of diversified funds rather than a replacement.

Although sector funds offer flexibility in fine-tuning your portfolio, it's important to resist

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Varied Weight and Performance

Sector gain or loss, with percentage of S&P 500 market capitalization



Source: S&P Dow Jones Indices, 2022 (data as of August 31). The S&P 500 is an unmanaged group of securities 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.

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the temptation to chase performance and move assets into "hot" sectors without a more comprehensive strategy. Sector performance is cyclical, and last year's hot sector can easily turn cold, as can be seen in the ups and downs of technology stocks. Also keep in mind that every business cycle is different, and unexpected events can disrupt regular trends.

The return and principal value of all investments, including sector funds, fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) S&P Dow Jones Indices, 2022
2) Sibilis Research, 2022



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Is It Time to Buy an Electric Vehicle?

Record-breaking fuel prices may have you thinking about buying an electric vehicle sooner rather than later. All electric vehicles (EVs) or plug-in electric vehicles (PEVs), as they're also called, run on electric energy stored in a rechargeable battery rather than on fuel. Plug-in hybrid electric vehicles (PHEVs) that can run on either type of power are also popular. The market is evolving quickly: 126 additional hybrid and EV models were introduced between 2020 and 2021, and U.S. sales nearly doubled.¹

Cost and Battery Range

Saving money at the pump and benefiting the environment will generally cost more upfront, in part because of high battery and production costs. Prices are likely to rise in the short term, too, as demand and raw material costs increase. However, maintenance costs may be lower because EVs have fewer moving parts. And the more you drive, the more your energy savings could add up.

Tax credits or incentives may help offset the cost of purchasing a new electric or hybrid vehicle. Starting in 2023, an updated tax credit of up to \$7,500 will be available for the purchase of new clean vehicles, including some EVs and PHEVs. There is also a new tax credit of up to \$4,000 for some pre-owned EVs purchased from a dealer.

Check on credit availability before you buy, because not all vehicles will qualify, and you may not be eligible to claim the tax credit (income limits apply). Tax credits and other incentives may also be offered at the state or local level. You can find more information about tax credits and incentives at fuelconomy.gov.

A special concern for EV shoppers is battery range. Fortunately, most EVs can easily handle daily driving, with typical driving ranges of 150 to 400 miles on a single charge.² Vehicles can charge at home via a standard outlet, but you may opt to pay an electrician to install a high-powered charger to greatly increase charging speed (incentives or rebates may help offset the cost). You'll also want to consider the availability of public charging stations; networks are expanding rapidly, but are still not found everywhere.

Get in Line

Like their gas-powered counterparts, EVs come in many makes and models, including cars, crossovers, sports utility vehicles, and trucks. To find your favorites, read reviews and test drive if possible. Once you're serious about buying, one way to ensure you're in line to purchase the model you want is to get on a manufacturer's waiting list, though there may be a fee. Wait times will likely fall as more manufacturers ramp up production and new models are introduced. So if you decide not to buy an EV now or can't find one in stock, you should have plenty of opportunity to buy one not too far down the road.

1-2) U.S. Department of Energy, 2022

Consider a Bond Ladder for Rising Interest Rates

After dropping the benchmark federal funds rate to a range of 0%–0.25% early in the pandemic, the Federal Open Market Committee of the Federal Reserve has begun raising the rate aggressively in response to high inflation and a stronger economy.

Following 0.25% and 0.50% increases in March and May 2022, the Committee implemented successive 0.75% increases at its June and July meetings — the first 0.75% increases since 1994 — to a target range of 2.25%–2.50%. June projections (most recent available) indicate the rate could rise to a range of 3.25%–3.5% by the end of 2022 with an additional one or two 0.25% increases in 2023.¹

Rates and Bond Prices

Raising the federal funds rate places upward pressure on a wide range of interest rates, including the cost of borrowing through bond issues. When interest rates go up, the prices of existing bonds typically fall, because new bonds with higher yields are more attractive. Investors are also less willing to tie up their funds for a long time, so bonds with longer maturity dates are generally more sensitive to rate changes than shorter-dated bonds. Yet shorter-dated bonds usually have lower yields.

Despite the challenges, bonds are a mainstay for conservative investors who may prioritize the preservation of principal over returns, as well as retirees in need of a predictable income stream.

Step by Step

One way to address rising rates is to create a bond ladder, a portfolio of bonds with maturities that are spaced out at regular intervals over a certain number of years. For example, a five-year ladder might have 20% of the bonds mature each year. This strategy puts an investor's money to work systematically, without trying to predict rate changes.

With rates projected to continue rising, it might make sense to create a shorter bond ladder now and a longer ladder when rates appear to have stabilized. Keep in mind that these are only projections, based on current conditions, and may not come to pass. The actual direction of interest rates might change.

Reinvesting or Taking Withdrawals

When bonds from the lowest rung of the ladder mature, the funds are often reinvested at the long end of the ladder. When rates are rising, investors who reinvest the funds may be able to increase their cash flow by capturing higher yields on new issues. Or a ladder might be part of a withdrawal strategy in which the returned principal from maturing bonds is dedicated to retirement spending.

Bond ladders may vary in size and structure, and could include different types of bonds depending on an investor's time horizon, risk tolerance, goals, and personal preference. Owning a diversified mix of bond investments might also help cushion the effects of interest rate and credit risk in a portfolio. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

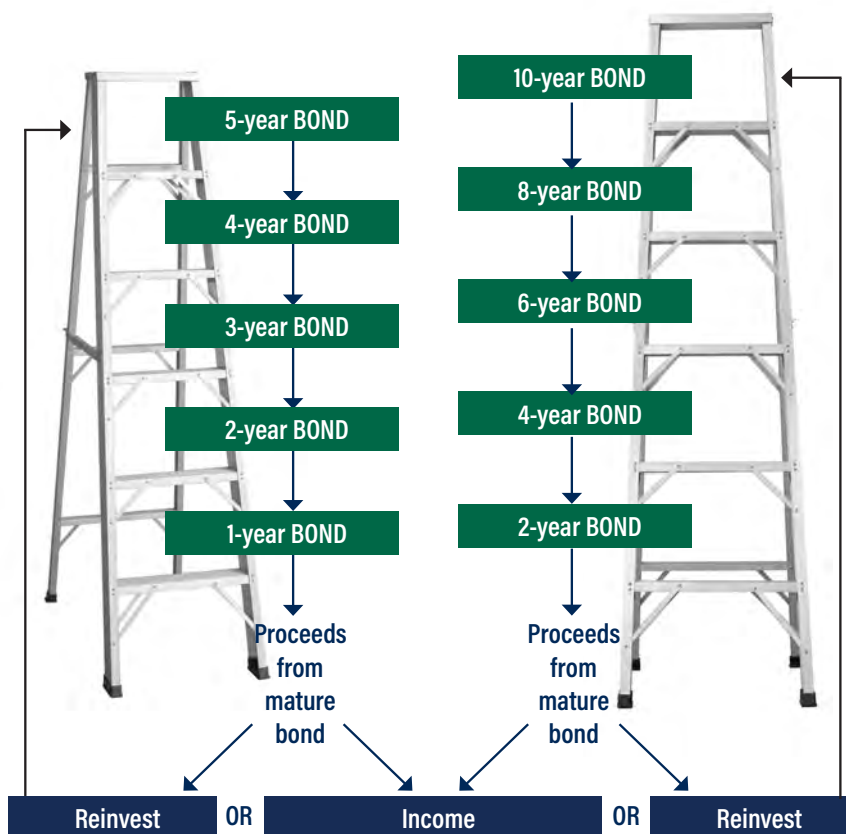
Individual Bonds vs. ETFs

Buying individual bonds provides certainty, because investors know exactly how much they will earn if they hold a bond to maturity, unless the issuer defaults. However, individual bonds are typically sold in minimum denominations of \$1,000 to \$5,000, so creating a bond ladder with a sufficient level of diversification might require a sizable investment.

A similar approach involves laddering bond exchange-traded funds (ETFs) that have defined maturity dates. These funds, typically called target maturity ETFs, generally hold many bonds that mature in the same year the ETF will liquidate and return assets to shareholders. Target maturity ETFs may enhance diversification and provide liquidity, but unlike individual bonds, the income payments and final distribution rate are not fully predictable. Bond ETFs are subject to the same inflation, interest rate, and credit risks associated with their underlying bonds.

Rung by Rung

Here are two sample structures for a bond ladder. When bonds mature, the proceeds can be used for income or reinvested in bonds to fill the longest maturity rung.



Exchange-traded funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest. 1) Federal Reserve, 2022



The passage of the SECURE Act in 2019 effectively eliminated the stretch IRA, an estate planning strategy that allowed an inherited IRA to continue growing tax deferred, potentially for decades. Most non-spouse beneficiaries, including children and grandchildren, can no longer stretch distributions over their lifetimes. Moreover, proposed IRS regulations require most designated beneficiaries to take annual required minimum distributions (RMDs) within the 10-year distribution period if the original account owner died on or after his or her required beginning date. This shorter distribution period could result in unanticipated and potentially large tax bills for non-spouse beneficiaries who inherit high-value IRAs.

You may be looking for alternative ways to preserve your wealth and pass it on to your beneficiaries. Here are three options you might consider.

Roth Conversion

If you are willing to pay income taxes now instead of your beneficiaries paying them later, you could convert your IRA to a Roth IRA. Anyone can convert a traditional IRA to a Roth IRA. However, you generally have to include the amount you convert in your gross income for the year converted. Not only would you have to pay taxes on the amount converted, but the beneficiaries of your Roth IRA will generally have to liquidate the account within 10 years of inheriting it, although they won't pay federal income taxes on the distribution(s).

Life Insurance

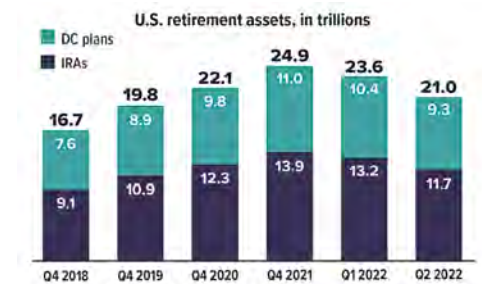
You could take distributions from your IRA and use them to buy life insurance on your life. The beneficiaries you name in the life insurance policy will receive those proceeds tax-free at your death. The policy beneficiaries could use the tax-free proceeds of the life insurance to pay any income taxes they would owe on the balance of the IRA they inherit from you. Or, if you've been able to liquidate or spend down your IRA during your lifetime, the tax-free life insurance death benefit would replace some or all of the taxable IRA that otherwise would have been inherited by the beneficiaries.

Irrevocable Trust

You could create an irrevocable trust and fund it with non-IRA assets. An irrevocable trust can't be changed or dissolved once it has been created. You generally can't remove assets, change beneficiaries, or rewrite any of the terms of the trust. Often, life insurance is used to fund the irrevocable trust. You can direct how and when the trust beneficiaries are to receive the life insurance proceeds from the trust after your death. In addition, if you have given up control of the property, all of the property in the trust, plus any future appreciation on the property, is removed from your taxable estate.

Wealth Cache

Assets held in individual retirement accounts (IRAs) and defined-contribution plans such as 401(k)s dipped in the first half of 2022 to \$21 trillion. Even so, that total was up more than 25% from year-end 2018.



Source: Investment Company Institute, 2022

While trusts offer numerous advantages, they incur upfront costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax professionals before implementing such strategies.

As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. In addition, if a policy is surrendered prematurely there may be surrender charges and income tax implications. Any guarantees are subject to the financial strength and claims-paying ability of the insurer.

To qualify for the tax-free and penalty-free withdrawal of earnings, a Roth IRA must meet the five-year holding requirement, and the distribution must take place after age 59½ or due to the owner's death, disability, or a first-time home purchase (\$10,000 lifetime maximum). Under current tax law, if all conditions are met, the Roth IRA will incur no further income tax liability for the rest of the owner's lifetime or for the lifetimes of the owner's heirs, regardless of how much growth the account experiences.

Three Stretch IRA Alternatives



Famous People Who Died Without Proper Planning

The importance of proper estate planning cannot be overstated, regardless of the size of your estate or the stage of life you're in. Nevertheless, it's surprising how many American adults haven't put a plan in place.

You might think that those who are rich and famous would be way ahead of the curve when it comes to planning their estates properly. Yet plenty of celebrities and people of note have died with inadequate or nonexistent estate plans.

Michael Jackson

The king of pop died in June 2009 with an estate worth an estimated \$600 million. Jackson had prepared an estate plan that included a trust. However, he failed to fund the trust with assets prior to his death — a common misstep when including a trust as part of an estate plan. While a properly created and funded trust generally avoids probate, an unfunded trust almost always requires probate. In this case, Jackson's trust beneficiaries had to make numerous filings with the probate court in order

to have the judge transfer assets to the trust. This process added significant costs and delays, and made what should have been a private matter open to the public.

Trusts incur upfront costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax professionals before implementing such strategies.

James Gandolfini

When the famous Sopranos actor died in 2013, his estate was worth an estimated \$70 million. He had a will, which provided for various members of his family. However, his estate plan did not include proper tax planning. As a result, the Gandolfini estate ended up paying federal and state estate taxes at a rate of 55%. This situation illustrates that a carefully crafted estate plan addresses more than just the distribution of assets. Taxes and other expenses could be reduced, if not eliminated altogether, with proper planning.

Prince

Prince Rogers Nelson, better known as Prince, died in 2016. He was 57 years old, still making incredible music, and entertaining millions of fans throughout the world. The first filing in the Probate Court for Carver County, Minnesota, was by a woman claiming to be his sister, asking the court to appoint a special administrator because no will or other testamentary documents were filed. Since Prince died without a will, the distribution of his over \$150 million estate was determined by state law. In this case, a Minnesota judge was tasked with culling through hundreds of court filings from prospective heirs, creditors, and other "interested parties." The proceeding was open and available to the public for scrutiny.

Barry White

Barry White, the deep-voiced soulful singer, died in 2003 without a will or estate plan. He died while legally married, although he'd been separated from his second wife for many years and was living with a long-time girlfriend. He had nine children. Because he had not divorced his wife, she inherited everything, leaving nothing for his girlfriend or his children. Needless to say, a legal battle ensued.

Heath Ledger

Formulating and executing an estate plan is important. It's equally important to review your documents periodically to be sure they're up-to-date. Not doing so could result in problems like those that befell the estate of actor Heath Ledger. Although Ledger had prepared a will years before his death, several changes in his life transpired after the will was written, not the least of which was his relationship with actress Michelle Williams and the birth of their daughter Matilda Rose. The will left nothing to Michelle or Matilda Rose. Fortunately, Ledger's family later gave all the money to his daughter, but not without some family disharmony.

Florence Griffith Joyner

An updated estate plan works only if the people responsible for carrying out your wishes know where to find these important documents. When Olympic medalist Florence Griffith Joyner died in 1998 at the young age of 38, her family couldn't locate her will. This led to a bitter dispute between her husband, Al Joyner, and Flo Jo's mother, who claimed her daughter had promised that she could live in the Joyner home for the rest of her life.

Americans are Putting Off Estate Planning

2 out of 3

Americans still don't have a will despite the COVID-19 pandemic

56%

of Americans said that having a will or a living trust is very or somewhat important

40%

of Americans cite procrastination as the main reason they don't have a will

Source: 2022 Wills and Estate Planning Study, Caring.com



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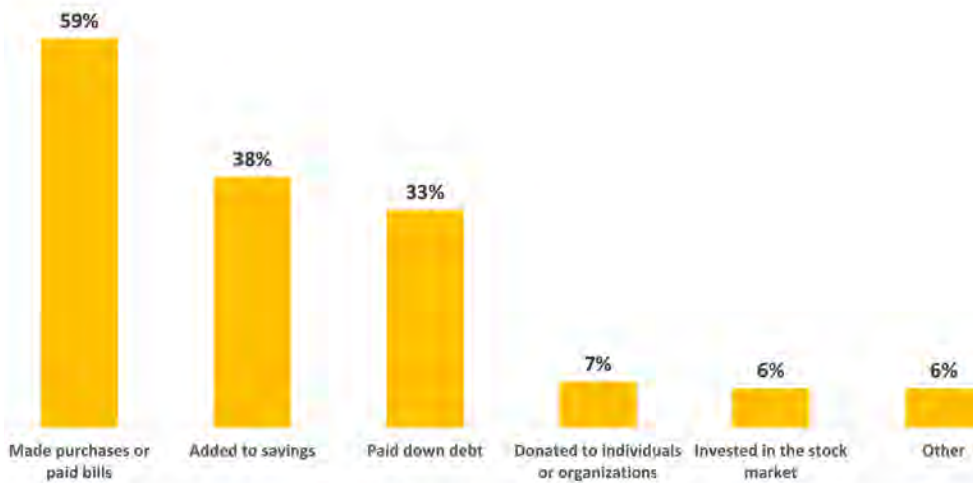
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Stimulus Payments: Spending, Savings or Both?

About three out of five Americans who received COVID-19 stimulus payments used the funds to make purchases or pay bills, which was consistent with the federal government's intention to stimulate the economy. However, many people used at least part of the funds to improve their overall financial position by building savings or paying down debt.



Source: 2021 National Financial Capability Study, FINRA Investor Education Foundation, 2022 (multiple responses allowed)



53% of Americans said they had set aside at least three months of emergency funds in 2021, up from 49% in 2018 and 35% in 2009. It's likely that government stimulus programs contributed to this improvement. The end of stimulus payments coupled with high inflation may make it more difficult for some Americans to maintain a financial safety net. Source: FINRA Investor Education

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