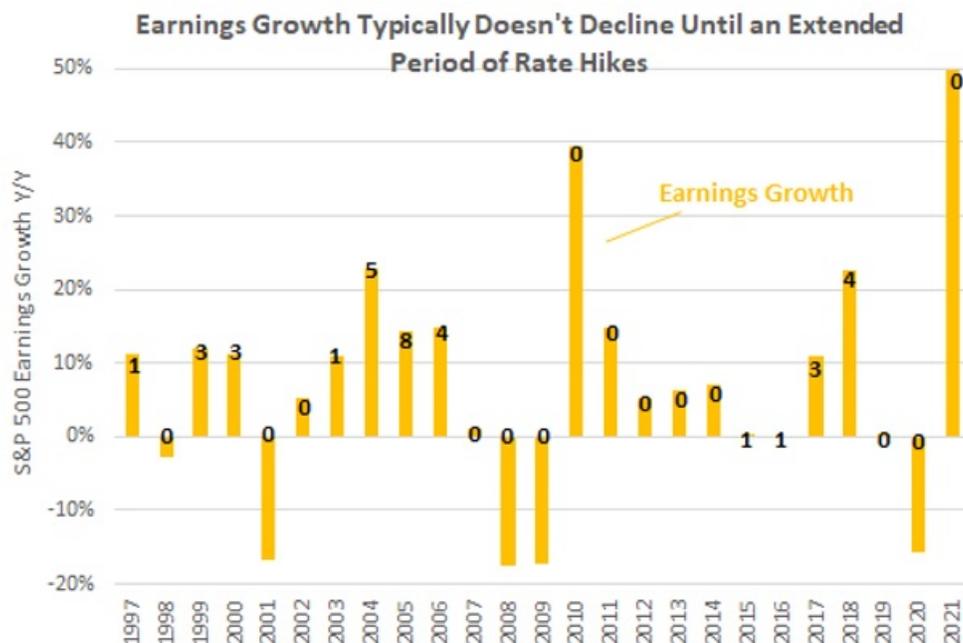


Weekly Market Commentary January 24th, 2022

Is There More Earnings Fuel In The Tank?

Profits will set the pace. Sentiment can drive market performance, but history shows that earnings growth is a powerful and reliable guide over time. It doesn't seem the Fed's pivot this year is driving a decline in corporate profits as the robust consumer-demand backdrop suggests revenue growth will remain elevated this year. Moreover, it's often much further into a Fed-rate-hike campaign before earnings rollover, weakening the foundation that supports rising stock prices. It won't be a repeat of 2021 when profits rose at a roughly 50% year-over-year clip. The bar of comparisons is much higher, and economic growth will be slightly lower (though still above average). Upper-single-digit earnings growth is reasonable, which should set the pace for equity-market returns.

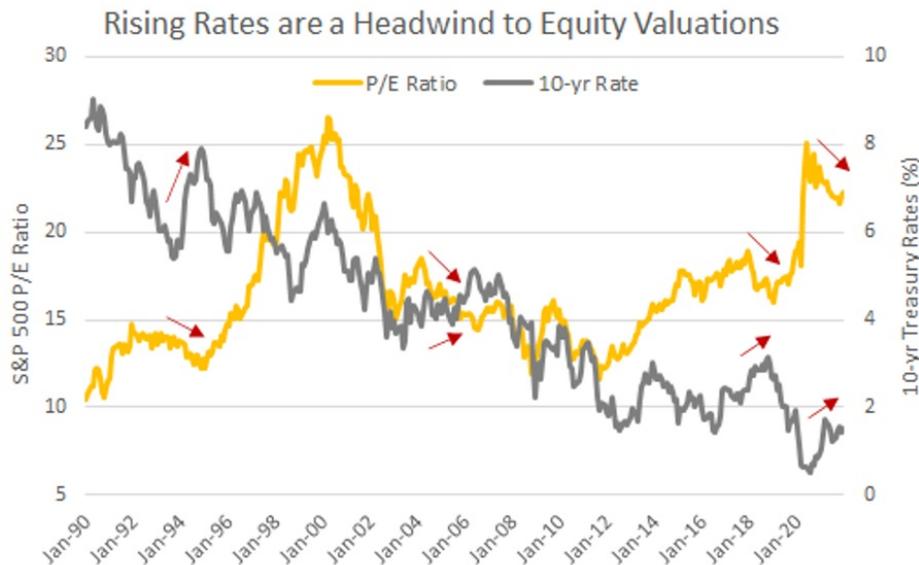


Source: FactSet, the S&P 500 index is unmanaged and cannot be invested directly. Past performance does not guarantee future results.

This chart shows that stocks earnings typically continue to rise even after a Fed Rate hike unless hikes are substantial and sustained.

Little room for valuations to expand from here. Perhaps the most likely victim of higher interest rates is the price-to-earnings (P/E) ratio for equities. As rates rise, the present value of future cash flows moves lower, which should pull some of the air out from current lofty valuations. It isn't necessarily a bear-market catalyst, but an environment of gradual Fed tightening and modestly higher longer-term rates leaves little room for valuations on stocks to expand. A flat to slightly lower P/E ratio accompanied by the earnings growth mentioned above and a modest dividend yield

are the components that make up the outlook for positive but very small market gains in 2022 compared to prior years.



Source: FactSet, the S&P 500 index is unmanaged and cannot be invested directly. Past performance does not guarantee future results.

This chart shows that Federal Reserve rate hikes act as gravity to stock multiples. As rates rise, valuations come down.

Declining profit margins signal a maturing cycle. Corporate profit margins are at record highs. While this is a positive for earnings, the path for margins from here is likely somewhat lower, driven in large part by rising wage costs. In an environment where revenue (sales) growth is growing at a healthy pace, which is currently the case with revenue rising by double digits, profit margins can move lower as costs rise but still produce compelling profit growth.

Nevertheless, we're paying close attention, as an unexpected slowdown in revenue gains, or persistent inflation conditions that exert accelerated pressure on expense growth would threaten the current positive earnings-growth backdrop.

Rates are driving equity-leader rotation. The shifting-rate environment has been a catalyst for rotating stock leaders in the markets. The 6% pullback in the S&P 500 has been underpinned by weakness in the tech sector, which was the largest source of gains for the index last year, given tech has the largest weight in the S&P 500. Tech has been hardest hit by the increase in rates, as reflected by the official 10% correction in the Nasdaq last week. Value investments have outperformed growth investments during this phase, and you should continue to consider an overweight allocation to value investments because cyclical asset classes and sectors will benefit from a second wind in the economic rebound, helped by moderating inflation, clearing supply bottlenecks, and a further improvement in employment conditions.

Source: FactSet, the S&P 500 index is unmanaged and cannot be invested directly. Past performance does not guarantee future results.

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	34,265	-4.59%
S&P 500 Index	4,398	-5.68%
NASDAQ	13,769	-7.55%
MSCI EAFE	2,318	-1.78%
10-yr Treasury Yield	1.77%	-.56%
Gold	\$1,830	.66%
Bonds	\$112.23	.05%

Source: Reuters/Wall Street Journal

Are You A Sole Proprietor: The Three S's For Retirement

In today's 'gig economy' more and more individuals are picking up some sort of side hustle to improve their financial situation. Along with that trend, people in their mid 50's are stepping away from their corporate jobs in the search of freedom and flexibility to start their own consulting LLCs. This new plethora of part-time and full-time entrepreneurs leave a maze of dizzying choices on what kind of potential retirement plan is available when you own a brand new business. One easy way to remember what kinds of retirement plans are available to you is to remember the three S's of retirement which are SIMPLE IRA plans, SEP IRA plans, and Solo 401(k) plans.

The SIMPLE IRA Plan

The SIMPLE IRA Plan is a simple, easy-to-set-up retirement where an employee may defer up to \$14,000 in 2022. Employees ages 50 or over can make a catch-up contribution of up to \$7,000. The salary reduction contributions under a SIMPLE IRA plan are "elective deferrals" and employees can usually put away as little as 1% of their overall salary. If you simply earn 1099 income, you can be eligible to put away as much of your net income up to the annual limits.

If you have employees in the business or you want to make a matching contribution to yourself, there are two important rules to remember. You are generally required to either:

1. Match each employee's salary reduction contribution on a dollar-for-dollar basis up to 3% of the employee's compensation
2. Make a nonelective contribution of 2% of the employee's compensation.

The one main catch to the SIMPLE IRA is that you must get the plan set up by October 1st of the calendar year you plan to fund the SIMPLE IRA Plan, and you are not required to make contributions year to year. Investment options tend to be broad because this operates just like a Traditional IRA or Roth IRA account that you would invest with regularly.

The SEP-IRA Plan

A Simplified Employee Pension (SEP) IRA is an attractive option for many business

owners because it involves very little start-up and operating costs. It can also be set up until the time you file your taxes, so you can still go back and potentially fund one of these for 2021. Many individuals or people who have a side hustle set up a SEP plan to contribute to their own retirement at higher levels than a traditional IRA allows. If you don't have a ton of net income, a Traditional IRA or Roth IRA may be the easiest option.

As of 2019, contributions cannot exceed the lesser of 25% of the employee's compensation for the year or \$61,000 excluding catch-up contributions. If you are 50 or older, you still have the ability to do catch-up contributions on top of this number. Investment options tend to be broad because this operates just like a Traditional IRA or Roth IRA account that you would invest with regularly.

The challenge with SEP IRA plans is when you start to bring employees into the business because you must contribute the same percentage contribution into their plans as you do to your own. You can set these up excluding employees for 3 years (you can do a shorter time frame), but if you have many employees that work for you for a longer-term time frame it can become cost-prohibitive.

However, if you are going to be a sole proprietor side hustle type business or a single-member LLC business, this can be a very viable long-term option.

The Solo 401(k) Plan

There are still many sole proprietors or people who have a side hustle that does not realize a 401(k) plan is available for business of one (or one plus your spouse) called a Solo 401(k). Sometimes you'll hear these referenced as an Individual(k) plan as well.

With the Solo 401(k) plan, you are eligible to make elective deferrals of your salary just as you would if you were working for a large corporation. That means you'll be able to contribute as much as \$20,500 in 2022 for elective deferrals and make a catch-up contribution of \$6,500 if you were born in the year 1972 or earlier (50 or older). Even if you are a sole proprietor and make net income only, you are still eligible to make these elective deferral contributions.

In addition, you can also make something called 'profit sharing' contributions just as large employers make today. For 2022, you can make profit-sharing contributions to the extent that it gets your total elective deferrals and profit-sharing contributions to a maximum of \$61,000. For small businesses where you take a salary, the profit-sharing contribution is 25% of your salary, and for sole proprietors, it is 20% of your business net income.

One of the advantages of the Solo 401(k) versus the SEP and SIMPLE plans is that you can borrow on your 401(k) just as you could if you worked for a large company. It isn't recommended to borrow on your 401(k) unless it is a last resort, but you can borrow up to 50% of your 401(k) to a maximum of \$50,000. Remember, with a Solo 401(k), your spouse or partner can be on the payroll as well and be a participant in this type of retirement plan, and these plans for the employee portion of contributions must be set up and funded by 12/31 in the calendar year you plan to contribute to them. Profit-sharing contributions can be made the following calendar year up until the time you file your corporate taxes.

Investment options tend to be more limited with a Solo 401(k) unless you can find a plan that will allow you to set up a self-directed brokerage account. You will generally

be limited to what you can do by the fund family where you set up the plan.

Earnings Highlights This Week

(source: CNBC)

Citigroup: Here are the numbers: Earnings of \$2.01 a share vs. estimated \$1.91 a share, according to Refinitiv. Revenue: \$14.52 billion vs. estimate \$14.6 billion

Proctor & Gamble: Procter & Gamble reported fiscal second-quarter earnings and revenue that topped Wall Street's expectations. The company raised its outlook for sales growth from a range of 2% to 4% to a range of 3% to 4%. P&G also said it expects commodity and freight costs to weigh even more heavily on its fiscal 2022 results.

American Airlines: American posted its highest revenue of the Covid pandemic in the fourth quarter. Rivals Delta and United previously warned that the omicron variant would temporarily weigh on bookings in early 2022.

Netflix: Netflix reported fourth-quarter earnings after the bell on Thursday. The streamer beat on profit and was in line with expectations on revenue, but shares plunged in after-hours trading on slowing subscriber growth. The company said for the first quarter of 2022, it expects to add 2.5 million subscribers, compared to the 3.98 million it added in Q1 2021.

News and Notes:

Did You Waste 26 Days Last Year- That's The National Average

26 days a year are wasted doing nothing....What does that mean when people say you are doing nothing?

- People either waste 26 days a year or have 26 days a year of wasted time. That's more than 624 hours annually.
- What's amongst the biggest time wasters?
 - Waiting on hold (for customer service representatives) on the phone (45%)
 - Standing in line (45%)
 - Sitting in traffic (44%)- in some cities
 - Browsing on social media (21%)

Is this a trend that will continue going into 2022?

- Absolutely, more people are buying services online, so people are going to spend more time on the phone tracking their purchases.
- As of June 2021, users of TikTok spend on average more than 24 hours of content a month- that has now passed YouTube.
- And more people are working remotely- recently, 2 out of 3 remote employees admitted to wasting time at home during work.

How can people become more productive with their time in 2022?

- More than half the people in the country (56%) say that they need to get better at practicing time management.
- People find themselves with nothing to do three times per day average-often resorting to watching tv.
- Parkinson's law- the amount of time you allot to a job is how long it will take to get it done. The key is calendar items in short blocks – you might know what to do, but the calendar tells you when to do it.

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You cannot invest directly in an index. The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index. The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998. The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal. The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets. Yahoo! Finance is the source for any reference to the performance of an index between two specific periods. The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

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