

Weekly Market Commentary April 4th, 2022

The Market Was Down For The Quarter.....But Not Out!

Equity markets end the quarter lower, but rebound off the lows:

Most major equity markets ended the first quarter of 2022 lower, with the S&P 500 down about -5.0%, the lowest quarterly performance since the first quarter of 2020. Nonetheless, over the last few weeks, U.S. markets have rebounded nearly 10% from their lows, climbing several walls of worry, including higher inflationary pressures, a potentially more aggressive Fed, and the ongoing crisis in Russia/Ukraine.

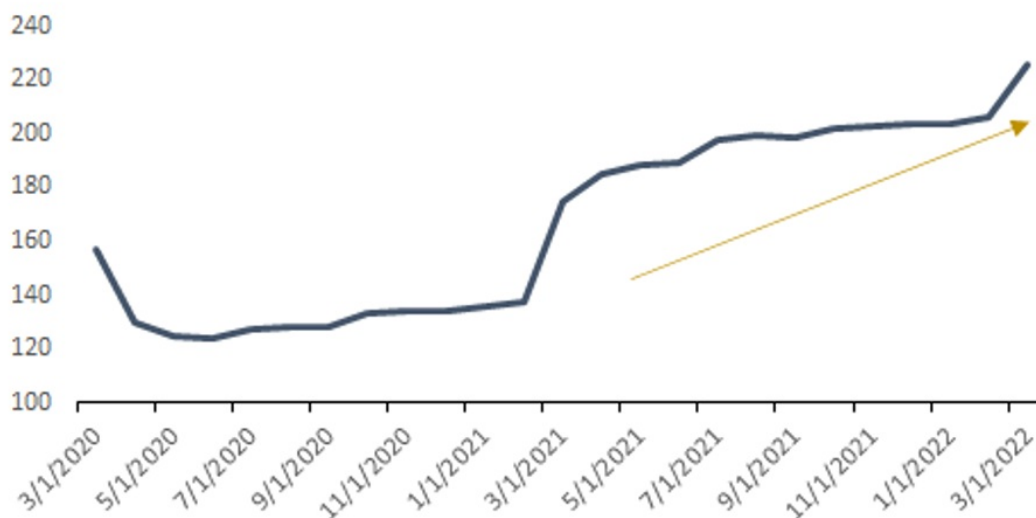
While you should expect some sideways movement after this move higher in equities, here is a quick take on what to expect in the markets.

1. The U.S. consumer remains healthy: You will continue to see evidence of a relatively healthy U.S. consumer; despite the challenges, they are facing with higher prices. Friday's jobs report underscored this as well, with the unemployment rate falling to 3.6% -- a post-pandemic low -- and average hourly earnings increasing to 5.6% year-over-year. The labor force participation rate continues to climb, now at 62.4%, an indication that labor supply is gradually returning to the workforce, perhaps as pandemic trends improve, and fiscal stimulus starts to wane. More broadly, U.S. households overall are entering the year with over \$2.5 trillion more in savings than before the pandemic began, which offers some cushion in the face of rising borrowing costs in the year ahead.

2. Corporate balance sheets and earnings growth have been resilient: The second factor we are monitoring closely is corporate earnings growth this year. While the first-quarter earnings season won't begin in earnest until mid-April (starting with large banks like J.P. Morgan on April 13), you will continue to see earnings revisions for 2022 grind higher. Typically, analysts revise their earnings growth expectations downward for the year in the face of rising headwinds, a trend we have not yet seen. Expectations for S&P 500 earnings growth are now at 9.1%, up from 7.0% on Dec. 31, in line with average historical growth rates. While we may see some downward revision to these estimates if consumption patterns deteriorate, you can still expect positive earnings growth for the year, which would support market performance as well.

Remember, you should be holding equities for 5 years or longer, but this is an excellent time-to-dollar cost average while the market continues to battle choppiness month to month.

S&P 500, 2022 EPS Forecasts (\$)



Source: FactSet. Past performance does not guarantee future results. Market indexes are unmanaged and cannot be invested into directly.

This chart shows an upward trend in recent S&P 500 Earning Revisions since early 2020.

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	34,818	.13%
S&P 500 Index	4,546	.46%
NASDAQ	14,262	.58%
MSCI EAFE	2,182	1.07%
10-yr Treasury Yield	2.38%	-4.03%
Gold	\$1,925	-1.74%
Bonds	\$106.75	.35%

Source: Reuters/Wall Street Journal

Can You Still Set Up A Retirement Plan Before Tax Day?

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 or
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 to 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 do not realize a 401(k) plan is available for a 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

Huawei: In 2021, Huawei brought in revenue of 636.8 billion Chinese yuan (\$99.9 billion), a 28.5% year-on-year decline. That is the first yearly decline in revenue based on publicly available reports. Huawei's net income surged 75.9% year on year to 113.7 billion yuan as it focused on boosting profitability. Huawei's business has been hurt by U.S. sanctions which have sought to cut it off from key software and components like semiconductors.

Walgreens: Walgreens Boots Alliance shares fell as demand linked to the coronavirus pandemic slowed and the company ramped up its investments in healthcare services. The drugstore chain has drawn foot traffic and higher sales during the pandemic, particularly when Covid cases spike. Walgreens maintained its outlook for the year, despite beating Wall Street's fiscal second-quarter earnings expectations.

News and Notes

Could You Help Solve A Murder With A Go Fund Me Campaign?

So people are actually giving money for Go Fund Me Campaigns to solve crimes and murders?

- Absolutely. It's the new motto, "We're Crowdfunding For Justice" – There isn't enough money or police to solve all the cases and it's tax-deductible.
- This new investigative field using direct-to-consumer DNA databases to identify leads is growing- but it's not cheap- usually about \$5,000 to process DNA evidence.
- This technique was pioneered in the Golden State Killer case by combing through consumer genetic databases.

What's fueling people to donate money to solve murders?

- In part, it's the cult following. People who religiously watch Forensic Files or listen to podcasts like True Crime.
- People often donate because they want to help a cause bigger than themselves and are fascinated by helping to solve crimes.
- A group of well-off friends calling themselves Vegas For Justice, recently donated \$45,000 which helped to solve 3 murder rape cases in Las Vegas.

Can you help if you can't donate money?

- You can donate your DNA at www.dnasolves.com, but be careful – companies may say they are protecting your data, but it's usually an opt-out process. Privacy is still an issue.
- Facebook has a great group called DNA Detectives, using DNA to help people find their biological parents.
- In a recent survey, 48% of respondents said it's ok that companies share genetic data, and 33% said it was not.

From the team at J M Brown Financial Partners

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