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2022 Holiday Newsletter

Points of Interest:

- Interesting Times
- Higher Rates & Market Education
- Schwab Update
- Team & Services
- Enclosed: "Three Crucial Lessons for Weathering the Stock Market's Storm"

It's been a busy year, and we are very grateful for the relationships we have with our clients. Thanks for your loyalty and trust in our services! From all of us at FPIS, Inc.—we hope you had a great Thanksgiving and we would like to wish you a safe and happy holiday season!

- Friday—December 23rd
- Monday—December 26th
- Friday-December 30th

Interesting Times

2022 has not been kind to investors of both equities and bonds. Longer duration assets, such as growth stocks and longer maturity bonds, have been hit hard due to rising interest rates. Here are some important things to consider about the economy and markets moving forward.

Inflation may have reached it's peak and the actions of the Federal Reserve should continue to bleed into the economy and slow things down. This sounds like a bad thing, and we may dip into a recession because of these actions, but markets could actually welcome this news as a sign that interest rate hikes will slow, pause and one day "pivot". Both equity and bond markets should see this as a bullish sign. We don't know when this will occur, but policy will ultimately change course.

Rebalancing is important as the economy ebbs and flows with certain sectors performing well and other sectors feeling some pressure. By shifting dollars in and out of each sector, we can take advantage of various market cycles. For example, in 2021 when growth did well and value was soft, we rebalanced between growth and value. We are now seeing a reversal of this. Nobody knows what cycle will lead next, but ongoing rebalancing helps us capture gains from strong sectors and position dollars into the weaker sectors (which will likely be the next opportunity).

We feel our approach sets up well for this type of economy. Value oriented companies generally have stronger balance sheets and more reasonable price to earnings ratios. This is generally attractive in a rising rate or higher rate environment compared to growth companies that will experience higher borrowing costs. We think small caps can do well as we move forward. International and emerging markets are fairly undervalued, and we are hopeful to see outperformance in these areas as well.

Market timing, fear and greed are not effective strategies. Staying the course in times when anxiety is high is often the best action for a long-term investor (see article enclosed). When markets are down, the true test of an investor's risk tolerance comes to light. From a behavior standpoint reducing risk when markets are down is not a great idea. It's better to ride it out and adjust at a better time.

Although we feel inflation has reached it's peak, it could remain "sticky" for some time so, the decision to increase equities for some clients should be beneficial over the next several years. We will continue to monitor our funds and make changes accordingly. Clients should make sure to contact us if there are any changes to their risk tolerance moving forward.

Investments are not insured and market results will vary over time. Past performance is not indicative of future investment results.

2023 Annual Limits for Tax Planning

The one good thing about inflation is that Social Security benefits and annual tax limits have also increased more than usual. Here are some common planning limits that we discuss with clients:

401k/403b Contributions—$22,500
Catch Up Contribution—$7,500

IRA/Roth IRA Contribution—$6,500
Catch up Contribution—$1,000

Health Savings Account—$3,850 (single), $7,750 (family) and $1,000 catch up (age 55+)

The Roth IRA phaseout:
Single $138,000—$153,000
Married $218,000—$228,000

Annual Gift Exclusion—$17,000

Social Security Wage Base—$160,200

Social Security Earnings Limit when collecting under Full Retirement Age—$21,240

Medicare Part B Premium Rates—$164.90 if your 2021 income was below $97,000 for single and $194,000 for married. If income was above these levels, then a higher premium and Part D surcharge would apply.

The tax brackets have also increased as well at every level. For example, the top of the 22% marginal tax bracket for a married couple filing a joint return increased from $178,150 in 2022 to $190,750 in 2023.

PLEASE NOTE OUR 2022 TAX QUESTIONNAIRES WILL BE MAILED IN THE EARLY PART OF JANUARY.

Higher Interest Rates Change a Few Things

Pay down debt vs investing: Due to the rise in interest rates, the philosophy of borrowing money from a bank at cheap rates and investing your own money has changed. Depending on risk tolerance, an investor may target a long-term rate of return between 6% - 8%. When interest rates were below 4%, there was an easy argument for this strategy. However, with borrowing rates elevated, the risk/reward has changed for the time being. Unless rates drop sharply, this new environment is likely here to stay. It is still important to save for retirement, but investing extra cash flow versus paying down a 7% mortgage may now be a different story.

Pension: lump sum vs monthly annuity: With rates rising, pension calculations have become more desirable with a stronger argument for electing a monthly payment over a lump sum option. In the long-term the lump sum will often times still benefit, but the risk/reward trade off has changed. There are still many questions to consider such as longevity, family wealth and current market environment, but nonetheless, rising rates have made this decision more challenging than in the past. Retirees still have to remember that higher inflation can be painful when on a longer term fixed income.

CD's, savings, money markets: These accounts have been unfavorable for years with rates being so low, but rates on these safe haven investments are starting to look more desirable and should continue rising while rates remain elevated compared to the past 10+ years. FPIS, Inc. is also working on a high yield cash management option for our clients (see page 4), but make sure you are looking at rates with your local banking relations as there may be some better options than simple savings accounts.

Market Education

As many of you know, we talk about long-term investing, diversification and ongoing rebalancing as a major "core" of our investment strategy. It won't be a surprise to hear that nothing is changing on our end, despite the recent downturn in both equity and bond funds. With that being said, we wanted to point out a few long-term reminders:

The S&P 500 Index is a "cap weighted" index meaning that the largest companies in the index carry more weight than other companies. For example, at one point FAANG (Facebook, Apple, Amazon, Netflix and Google) made up about 15% of the entire index because these companies were so big. The remaining 495 companies in the index accounted for the other 85%. These ratios are always changing, but the point is that the performance of these large and fast growing companies carried a lot of weight on performance the past ten years. However, the growth of an individual company always slows down and once companies reach a certain size, the rapid growth likely comes to an end.

A high US dollar is generally a headwind for international investments. With the dollar at record highs, international investments have lagged. The Russia/Ukraine war, COVID restrictions in China and other political tensions have not helped the international sector. However, trends change and there will be a time when international outperforms the United States. In our opinion, global diversification remains an important ingredient for any portfolio.

We bring these talking points up simply because diversification is important, but there are short periods of time where an investor can lose sight of this proven philosophy. Remember, cycles exist and just when you are about to give up on them, the winds usually change. Hang in there and remain a patient investor…it will pay off!

Schwab Update

As you most likely know, in November 2019 it was announced that Charles Schwab would be purchasing TD Ameritrade. The integration of the two firms was expected to take anywhere between 18 and 36 months. We now know the transition date is scheduled to take place over Labor Day weekend 2023. On September 5th, your accounts that were held at TD Ameritrade will be at Charles Schwab with new account numbers. There will be nothing for you to do or sign for this conversion to happen.

Information that will convert:

- Account History
  - 4 years of account history
  - 10 years of statements
  - 7 years of tax documents
  - 2 years of trade confirmations
- Statement Preferences
  - Paperless preferences
- Client Instructions
  - Advisor Authorizations
  - Most standing move money instructions
  - Fee authorizations
  - Dividend reinvestment elections
  - Most beneficiary designations (Corporate, Conservatorship, UGMA/UTMA, Guardianship ***will not*** convert)

Because your account number will be changed, it is important to note that if you have an ***outside electronic transaction set up for your TD Ameritrade account (for example, a mortgage or car payment) you will need to set those instructions back up post-conversion*. This is only for any transaction that you did not set up with the assistance of FPIS, Inc. Please call if you have any questions about this.

Here's what you can expect in the time between now and the transition:

- December 2022
  - Client Information Hub available – this is available to help you learn more about the Schwab platform and Schwab's role as custodian of your accounts.
- June 5th 2023
  - Clients will receive personalized information and calls to action on advisorclient.com to help prepare for the conversion
- July 7th – July 15th 2023
  - Account transition notice will be mailed to you
  - Regulatory mailings will be sent to you
- July 24th 2023
  - Link to set up Schwab Alliance credentials from AdvisorClient.com will be available
- August 5th 2023
  - Key information letter, including new Schwab account numbers
- August 29th 2023
  - Schwab-issued debit cards and checks
- September 2nd – 4th 2023
  - Conversion weekend – clients no longer have access to AdvisorClient.com
- September 5th 2023
  - Conversion complete: Clients are welcomed on Schwab Alliance and guided on what they need to review and set up
- October 5th 2023
  - Account verification letter
- January 2024
  - Clients receive **year-end statements** and **tax documents** from BOTH Schwab and TD Ameritrade

Schwab's Client Learning Center is available at: https://content.schwab.com/learningcenter/index.html

It is also important to note that about two weeks prior to the transition, we will not be able to open new client accounts or make any account changes. Additionally, one week prior to the transition, we will no longer be able to do any external account transfers. We will still be able to trade the Friday before the transition weekend, but our goal is to limit trades that day.

In early November members of our team attended our first ever Schwab Impact conference. It was a great conference and we are excited to share some additional features we see utilizing through our new Schwab relationship:

- Broader list of no transaction fee mutual funds
- Donor Advised Funds
- Health Savings Accounts
- Borrowing against pledged securities (e.g. bridge loans)
- Lending such as variable or jumbo mortgages

FPIS, Inc. intends to begin opening new client accounts with Schwab effective January 1st, 2023.

Our Team and Services

Jada Vandevelde has interned with us for several tax seasons. She graduated in June 2022 and has joined us full time in our tax department. Many of you may have already worked with Jada for tax planning and income tax preparation. She is currently studying to obtain her CPA license. Jada graduated from St. Norbert College with a Bachelor of Business Administration in Accounting and Finance. She is from Suring, WI. Jada enjoys spending time with her fiance, Sydney, and their two cats. Her hobbies include reading, drawing, disc golf and hiking.

Allison Roetz will continue joining in client facing meetings and assist in implementing client plans, in addition to working with investments and client portfolios. Allison is enrolled in the CFP program and is currently studying for the exam.

Andy Nagan has earned his CPA license. Andy's primary role in the firm is financial planning assistant where he works on client portfolios, investments and financial planning needs at all levels. Having a heavy tax background is helpful for tax preparation and planning season. Andy continues to move into more client facing scenarios.

Hannah Coenen moved into a client services role, but will continue to prepare taxes during tax season.

Brock Becker will slowly slide into a lead advisory role and meet with clients directly.

FPIS, Inc. will be building it's team moving forward to make sure we provide exceptional services to our existing and future clients. Adding an operations role and an experienced financial advisor are at the top of our list.

In the Community: Our firm is involved in a couple of non-profit organizations in the Wisconsin area and assist these organizations with their investment management.

Ryan Wempe is acting treasurer for a local non-profit, Foster the Village. Foster the Village is currently moving to a new location due to the growing needs from the foster community. The mission of the organization is to brighten the lives of children in foster care by providing essential basic needs and community support, to ease the transition into foster care for them and their caregivers.

Ryan Wempe has also been working with Trees for Tomorrow, a non-profit organization in Eagle River, WI, to educate donors on ways to strategically give to charity and how to coordinate it with tax planning opportunities. This includes qualified charitable distributions, Donor Advised Funds and gifts of appreciated securities for example. If you or someone you know is a charitably inclined and you have any questions about these topics, please give our office a call. Coordinating a charitable giving strategy with other tax planning opportunities can provide additional value for taxpayers.

Flourish is a new service that we have partnered with for our asset management clients. Flourish is an online bank that offers a high yield cash management exclusively for advisory clients. The current rate is 3.75% APR and this account is set up and managed by clients themselves. FPIS, Inc. will simply provide a link for clients to access and set up this banking relation. Please contact our firm if you have excess bank balances sitting in a low yielding savings or money market. Please note that the higher APR is always changing with changes in interest rates and is only available on the first $250,000 for a individual account and $500,000 for a joint account. FDIC Insured limits are higher because Flourish is backed by several large banks. We are always looking for ways to provide services relative to client needs in financial planning.

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CFP

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Financial Planning & Information Services, Inc. is committed to providing quality financial advice that is in the best interest of the client. We identify the important financial goals for each client and help each achieve these goals through a variety of services. Our staff works together as a team to satisfy each client's objectives with professionalism, integrity, and utmost good faith, always putting the interest of the client ahead of their own.