BEDELFINANCIAL

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The Market is Dropping, What Should I Do?

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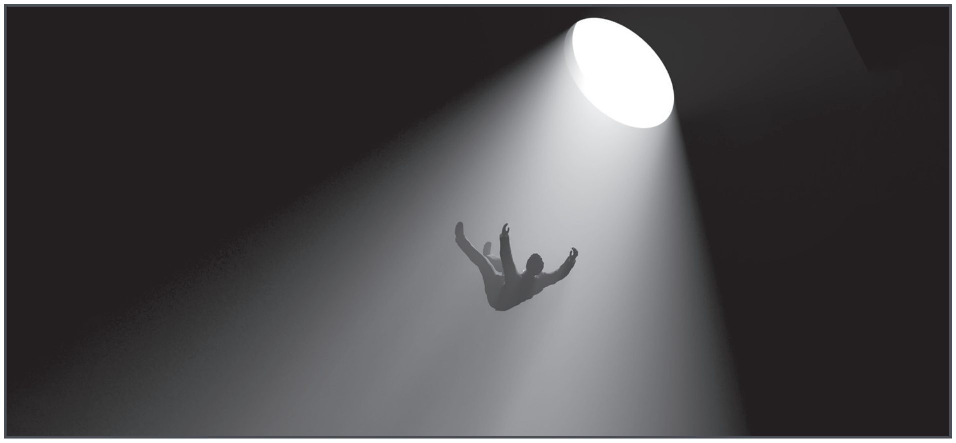

Both the stock and bond markets have been under considerable pressure in 2022. As we write this article on March 17th, the S&P continues to hover around correction territory. There are several possible explanations for the decline – rising interest rates, an overvalued market, a potential economic slowdown, the Russia-Ukraine war, etc. But, given how complicated the markets are, any attempt to pinpoint an exact cause of the drop seems like nothing more than a Rorschach test for whoever is trying to do the pinpointing. In reality, some combination of all these (and, perhaps, other) factors is likely leading to the recent pullback in the markets.

While it is never fun for an investor to experience a market drop that impacts their portfolio, it is important to remember that market declines are a natural part of investing. Going back to 1950, the S&P 500 has experienced a decline of at least 10% once every other year. The same is true for the NASDAQ (which started in 1971) and the Russell 2000 (1979). While it would be great to avoid these downturns, it is impossible to time the market. No one can consistently know precisely when and how to avoid market declines. No matter how unpleasant it may feel, if you are invested in the market, you will experience many significant drops in value throughout your investing life. What matters most to your long-term financial well-being is how you respond to them.

Sometimes the declines worsen, and you end up with either a bear market (down 20%+) or even a dreaded crash (down 30%+). However, bear markets and crashes are much less frequent than corrections. If you panic and sell every time a correction occurs, you only end up harming your performance. For every correction that turns into a bear market or a crash, many more are short-lived and less severe.

The urge to do something is always strong. Unfortunately, our human instincts, honed over tens of thousands of years of survival in the wild, lead us astray in this situation. Our first impulse is to sell out and "stop the bleeding." But this innate sense of survival can often be wrong. Think back to March 2020, for example, when the market dropped 30% in a matter of weeks as COVID spread worldwide. The desire to sell was strong (and many did), but it turned out to be the exact wrong move over the long run as the markets rebounded strongly and swiftly, quickly reaching new all-time highs.

Something important to note is that if you decide to sell out of the market, that is not the only decision you face. You must also choose when and if to get back into the market. Most investors who pull out usually wait for some promising sign before reinvesting their money. But markets are forward-looking; they tend to recover well before the good news shows up in the data or headlines. Thinking back to the 2008-2009 Great Financial Crisis: markets bottomed in March 2009, but unemployment numbers kept deteriorating until November of that year. If you waited for unemployment to stabilize, you missed a 60%+ recovery. This underscores the futility of trying to time the market consistently and highlights the tremendous negative impact that failing to do so can have on your portfolio.

The good news is that despite all the corrections, bear markets, and even crashes, the markets have rewarded those who stayed the course (or, better yet, rebalanced regularly). The compound annual growth rates for the S&P (+11.7%), Nasdaq (+10.4%), and Russell 2000 (+11.7%) have all been strong over the periods mentioned above. While it can be tempting to think that you might be able to improve upon those performances via adroit market timing, the sad truth is that you are much more likely to realize much worse performance. Study after study has shown that the average mutual fund investor materially underperforms the fund itself, a gap that poorly timed market bets can only explain.

Markets will not always go up, but they have rewarded the long-term investor over time. So while we know you get tired of hearing it, the best advice we can give is to stay the course and ensure that your portfolio is aligned with your financial goals.

Contact Dave if you have questions or want additional information regarding this topic.

In This Issue

BLT Corner

Hello, Spring Time!

We hope the start of 2022 has brought you and your family more joy than the past couple of years!

In this edition of our newsletter, you will read all about the latest market fluctuations in our feature article written by David Crossman, CFA. Also, Abby VanDerHeyden, CFP®, and Kathy Hower, CFP®, explore the complex and sometimes confusing world of 529s in our Generation NeXt and Industry News articles. And in a very informative column, Austin Stagman, CIMA®, answers your questions about the Federal Reserve raising interest rates.

As the Bedel Financial team continues to grow and excel, we will be adding new team members in 2022. We take pride in hiring early and anticipating future firm growth. As you know, we are planners! We hire early to ensure our current clients do not experience any lapse in service during our growth phase.

We want you to experience our boutique white-glove service, even though we may be growing behind the scenes. Our existing clients will always come first!

Our new Bedel Financial Podcast, "Make it Make ₵ents," will debut later this summer. While telling real-life stories, Kate Arndt, CFP®, and Chris Wakefield will host discussions around common financial topics like inflation, insurance, generational wealth, and more. In addition, the show will explore what makes our economy tick. They will interview the experts, learn about how economic changes can impact you at home, and find a way to "make it make sense."

In the next year, we will be rolling out new technology to replace My BFC Keeper. Our clients will no longer need to wait for their quarterly reports to view investment performance. Instead, they'll be able to access this information daily. Our clients will also have an easier way of securely sending documents to advisors. We will release YouTube tutorials to help with the education process. Stay tuned!

As inflation ramps up and geo-political tensions build, we are here to help you navigate your path at sea, even if supply chain issues try to slow down our ships. So please do not hesitate to reach out to your BFC team whenever questions arise.

Enjoy the beautiful days to come!

The Bedel Leadership Team

TIME TO GO DIGITAL?

If you would like to receive our quarterly newsletter digitally, instead of a paper version, please scan the QR code below and sign up.

Thank You!

SCAN ME

Generation NeXt

529 Plans & Tax Time

By: Abby VanDerHeyden, CFP®
Wealth Advisor & GenerationNext Team Leader

The 2021 tax season is in full swing, and many people are wondering how to handle their 529 accounts during this tax season. As a 529 account owner, do you know what type of IRS reporting needs to be done each year? Some (not all) contributions to your 529 account need to be reported on your tax return, along with some (not all) distributions made from your 529. That's not confusing at all, right? To make it a bit easier to understand, let's look at some of the most important things you need to know when it comes to 529 contributions and distributions.

Contributions to 529s

If you contribute to a 529 plan, you most likely will not need to report those contributions on your federal tax return. Since contributors do not receive a federal tax benefit for saving to a 529 plan, there is no reason to report contributions to the IRS for federal tax purposes.

However, if you contributed more than $15,000 to a 529 as a single filer or more than $30,000 as a married filing joint filer in tax year 2021, you will need to report your contributions on IRS Form 709 (United States Gift Tax Return). This is because the annual federal gift tax exclusion amounts ($15,000 for single and $30,000 for a couple in 2021) apply to 529 plan contributions. Any contributions over the stated exclusion amounts need to be recorded. So while you will likely not owe taxes on the gifted contributions, you need to keep track of gifts exceeding the annual exclusion amount.

Additionally, if you live in a state that provides a tax credit or deduction for 529 plan contributions, you must report those contributions on your state tax return. For example, Indiana provides a 20% state tax credit up to the first $5,000 of contributions made in a tax year. So, to receive these types of tax credits or deductions, make sure to report your 529 contributions on your state tax return!

Distributions from 529s

If you take withdrawals from a 529 plan, you will receive Form 1099-Q, which reports total withdrawals from 529 plans. Withdrawals from 529 plans made for qualified education expenses do not need to be recorded on your federal or state tax return. Qualified education expenses can include tuition, books, technology, fees, and room and board costs. Plan owners can also distribute up to $10,000 tax-free per year for private elementary through high school tuition. Additionally, a one-time distribution up to $10,000 can be withdrawn to repay a designated beneficiary's (or a designated beneficiary's sibling's) student loans with no tax consequences.

However, withdrawals made from 529s for non-qualified purposes must be reported on your tax return. If your withdrawal includes investment earnings, the earnings portion of the withdrawal will be taxable and a 10% penalty will be assessed. To determine the taxable amount of the withdrawal, use form 1099-Q to break out the investment earnings portion of the withdrawal. The amount originally contributed, or "the basis", will never be taxed. In addition, your state of residence may recapture a portion of any state tax credit or deduction received when a non-qualified withdrawal is made.

Contact Abby if you have questions or want additional information regarding this topic.

NEW Digital Resource

PROTECTING YOUR PERSONAL INFORMATION

As identity theft becomes more prevalent, we have provided a new resource to help you take steps to protect your information.

Go to: ***BedelFinancial.com/protect***

Industry News

The 529A Savings Plan for those with Disabilities

By: Kathryn J. Hower, CFP®
Sr. Wealth Advisor & Director of Financial Planning

The "Achieving a Better Life Experience (ABLE) Act" was signed into law in 2014 and is designed to help those with disabilities save for a better quality of life without disrupting public benefits. Minors or adults diagnosed with a severe physical or mental disability before the age of 26 are eligible to establish an account. The individual must also be entitled to Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI) through the Social Security Administration or possess a signed disability certification letter from their physician.

The 529A account can be used for current and future disability-related spending, including but not limited to housing, education, transportation, employment training and support, assistive technology, and personal support services. The IRS identifies qualifying expenses as those related to the beneficiary's disability and helps maintain or improve health, independence, and quality of life. Withdrawals for qualifying expenses are not subject to income tax.

Also, like 529 college savings plans, each state establishes and administers its 529A plan. Individuals can utilize any state plan; however, it's important to pay attention to tax incentives that your state may offer, available only to its residents. These incentives could be an added benefit. Although, if your state's plan is more expensive or doesn't offer favorable investment options, another state's plan may outweigh the tax incentive. Contributions to 529A accounts are made with after-tax dollars and can be invested in funds offered in the state's plan.

529A contributions can be made by the beneficiary and/or others and must be made in cash (not securities). Contributions cannot exceed $16,000 per year (tied to the annual gift exclusion amount). This yearly maximum is a combined total from all contributing sources. Any contributions that exceed the annual maximum are subject to a 6% excess contribution penalty each year until the overage is removed from the account.

Funds in an existing 529A or 529 college savings account can be rolled into the 529A account once per year, subject to the annual contribution limit. In addition, 529A account holders can make contributions from earned income over the annual limit, but no more than the previous year's federal poverty level ($12,880 for a single person or $17,420 for a household of two, etc. in 2021).

While the 529A program offers some excellent benefits, there are a few drawbacks that you need to be aware of:

- SSI benefits will be forfeited if the 529A account value exceeds $100,000. Each state can establish its own 529A account maximum as several hundred thousand dollars. However, if the account value exceeds the maximum at any time, funding from SSI will be suspended until it falls back below that amount.
- Medicaid benefits will be reimbursed at death. Any funds remaining in the account at the beneficiary's death must be used to repay the state for any Medicaid assistance after the account was created. Any funds remaining after repayment to Medicaid would go to the post-death beneficiary named on the account (income taxes would be owed on the earnings portion, but the 10% penalty is waived).

Contact Kathy if you have questions or want additional information regarding this topic.

Ask Bedel

What Does it Mean When the Fed Raises Rates?

By: Austin Stagman, CIMA®.
Portfolio Manager

QUESTION: What does it mean when the Fed raises rates?

ANSWER: When you hear the Federal Reserve (Fed) is raising interest rates, they are increasing the Federal Funds Rate (FFR). The FFR is the rate at which commercial banks borrow and lend their excess cash reserves to each other overnight to satisfy liquidity requirements set by regulators. Since they can't set an exact rate, they set an interest rate target range, which is currently set at 0.25%-0.50%. The Fed increased the FFR to its current rate in March 2022—the first increase since 2018. Currently they are projecting to raise interest rates six more times in 2022.

QUESTION: What loans does this affect?

ANSWER: The FFR affects the cost of most credit throughout the economy, albeit indirectly, such as credit cards, auto loans, bank loans, and Treasury bond yields.

Because the rate is related to overnight loans, the Fed has the greatest impact on short-term loans when it changes interest rates, although longer-term rates may also be influenced to a lesser extent. The prime rate (the current interest rate that banks charge their customers with higher credit ratings) is one of the most important rates influenced by the Fed because it is typically set approximately 3% higher than the FFR. The FFR also influences the interest that you are earning on cash in checking and savings accounts.

QUESTION: Why would the Fed increase rates?

ANSWER: Raising and lowering the FFR is a powerful way for the Fed to influence the economy. In theory, the Fed lowers interest rates to help encourage spending when the economy is slow. If financing is cheap, more people will borrow money to buy goods. For example, the Fed lowered the FFR to essentially 0% in March 2020 when the COVID-19 pandemic began.

On the other hand, the Fed will raise interest rates when an economy is doing very well to help keep it in check. The Fed will also use interest rates to help combat inflation. When inflation is getting out of hand, the Fed will raise the FFR to slow spending, encourage savings, and bring inflation down.

QUESTION: Does this affect the stock and bond markets?

ANSWER: In the short term, rising interest rates will usually have a negative impact on the stock market because it will be more expensive for businesses to borrow money, therefore, decreasing profits. However, there seems to be little impact over longer time horizons.

The price of bonds is inversely related to interest rates. Therefore, if interest rates rise, you should expect to see the prices of currently issued bonds fall. However, as new bonds are being issued, they will be paying a higher interest rate, which is good for the purchaser.

Contact Austin if you have questions or want additional information regarding this topic.

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Corporate Calendar

Bedel Financial Consulting will be closed for business on the upcoming days:

May 30	**Memorial Day**
July 4	**Independence Day**
Sep 5	**Labor Day**
Nov 24	**Thanksgiving**
Nov 25	**Day after Thanksgiving**

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