Demming
Financial Services Corp.

"PLANNING LIFE WITH A MARGIN OF SAFETY"

October 2022 – December 2022

4th Quarter 2022

Special Notes:

Retirement plan contribution limits have increased for 2023. Please see page two of this newsletter for more information.

Please remember to remind your tax preparer about any QCD's that you may have completed in 2022.

We are planning on having events for our clients in the future! If you would like to be included, please email Mike at: michael@demmingfinancial.com

DEMMING DISPATCH

- Donation Drive Recap - Thank you to everyone who donated to ACCESS Inc. this holiday season! Thanks to you, we were able to raise $1,157.68. Demming Financial Services has also pledged to match $1,000, bringing the total to $2,157.68! Your generosity will help women and children experiencing homelessness this winter.

- We would like to congratulate Jake Smail on earning the CFP® designation. He completed the education and experience requirements early this month.

- TD Ameritrade has changed the process for updating client information. If you need help updating your phone number, email, and/or statement delivery preferences in TD Ameritrade, please call the Technical Support line at 866-530-1913 and select option 3.

- Follow us on LinkedIn to stay up to date with blog posts, news, and more.

Retirement Account Contribution Changes in 2023 (IRA, Roth IRA, 401(k), 403(b))

As we start the new year, we wanted to make you aware of changes to the contribution limits of your retirement accounts.

The previous maximum for IRAs and Roth IRAs was $6,000 ($7,000 if you were 50 or above). That amount has increased to $6,500 this year ($7,500 if you are 50 or above).

As an example, if you were maximizing your IRA/Roth IRA contributions on a monthly basis throughout 2022, you were contributing $500 per month ($583.33 per month if you are 50 or above).

This year, your monthly contributions will need to be increased to $541.66 per month to maximize funding ($625 per month if you will be 50 or above).

As for employer sponsored plans (401(k) and 403(b)), please note that the funding limits have increased to $22,500 ($30,000 if you are 50 or above).

If you would like to make changes to your monthly contributions or have any questions, please feel free to call us at 330-562-2122, or email Andrea at andrea@demmingfinancial.com.

A Crypto Fable

There's an interesting story going around the upper reaches of the investment world, that purports to explain cryptocurrency investments in a way that anybody can understand them. Some people think it's funny; see if you agree.

The story starts when the villagers living in a deep African forest look up to see a mystic and a native assistant approaching along the trail. The assistant translates for the mystic to say that he owns a company on the other side of the ocean that needs a supply of monkeys. So, he will pay five dollars for any monkeys the villagers bring to him.

Of course, the villagers think this is crazy. What kind of company needs monkeys? But some of the young people in the village, with nothing better to do, manage to trap a few of the many monkeys that live in the surrounding trees, and sure enough, they are given five dollars for each of the monkeys they present to the mystic.

The mystic's assistant cares for the captured monkeys in their cages, and when the mystic realizes how few monkeys his proposal has brought in, he decides to raise his price. He tells the villagers that when he returns in a week, he will pay ten dollars for every captured monkey.

A few of the men and women of the village, still skeptical, decide to give this arrangement a try, and at the end of the week, they double the number of monkeys in the crazy mystic's cages, and receive ten dollars for each of them.

Alas, the mystic is still dissatisfied, and asks that the villagers redouble their efforts while he's away. He promises, when he returns, that he will pay 20 dollars per monkey.

As one might imagine, this new offer gets the attention of the entire village, who have been watching the previous purchases with something approaching astonishment. This time, the entire village goes out into the woods, and at the end of the week the number of captured monkeys has increased four-fold. The mystic returns, pays the higher price for the monkeys, and confers with his assistant.   The villagers, meanwhile, are enjoying their unaccustomed new wealth, and begin purchasing luxury items that they could not previously afford.

The mystic, meanwhile, has all but given up on the idea that he will ever get enough monkeys to satisfy the mysterious demands of his company. So, he declares that when he returns in a week, he will pay 50 dollars per monkey, in hopes that the village would finally meet his quota. He leaves the village, leaving the assistant to tend the larger group of monkeys.

By now, the village has all but abandoned the traditional activities of tending crops and cattle, and every able-bodied person is focused on gathering monkeys. There is a brisk trade in something like a monkey futures market, where some of the more athletic villagers are pre-paid for the monkeys they will bring back to be sold by the investors, and pools of capital are used to build more and better traps. When the mystic returns, there are many more monkeys for him to buy, and he pays 50 dollars for each of them, as promised. But, he says, he still has not quite reached his quota.

And so the mystic tells the astonished villagers that when he returns in a week, he will pay one hundred dollars per monkey that is presented to him.

But now the villagers are concerned that the supply of monkeys is drying up, just as they have the opportunity to score a maximum profit on them. What to do? This is when the assistant, who has been quietly tending the captured monkeys in their cages, approaches the village elders with a proposal. He says that he will sell the captured monkeys back to the villagers for 70 dollars each, and then leave, instructing them to say to the mystic that he has taken the current supply of monkeys with him for safekeeping.

Over the next week, the villagers borrow as much money as they can from the neighboring farms and villages, and by the end of the week, they have managed to buy the entire group of monkeys that the assistant has in his cages—for $70 each, anticipating an easy $30 profit on each of them. The assistant leaves, and the villagers look forward to the mystic’s return.

And they wait. A month passes, and then a year, and then two, and the now-indebted villagers are beginning to realize that a monkey, in and of itself, has no value at all to their village life.

But of course, a few are buying monkeys at a discount, and they are still waiting for the return of the mystic and his assistant.

2022 Investment Report

Many investors are no doubt glad to see 2022 in the rear-view mirror, and if they do look back, the picture is not pretty. Stocks were buffeted by the Federal Reserve Board's aggressive rate hikes (the fastest since the 1980s stagflation era) and the reverse of the Quantitative Easing policies which, for a decade or more, flooded global markets with liquidity. It didn't help that there were persistent fears of a recession all through the last 12 months, and a certain level of alarm over the Russia-Ukraine war. 2022 saw our three main stock indexes post their first yearly drop since 2018, and market economists with long memories were comparing this perfect storm of headwinds to the declines triggered by the 2008 financial crisis.

A breakdown shows that just about every U.S. investment asset was showing double-digit declines. The broadest market measure, Russell 3000 index was down 19.21% for the year.

Looking at large cap stocks, The Russell 1000 large-cap index finished the year with a similar 19.13% loss, while the widely-quoted S&P 500 index of large company stocks gained 7.08% during the year's final quarter and overall finished down 19.44% in calendar 2022.

Meanwhile, the Russell Midcap Index finished the 2022 calendar year down 17.32%.

The smaller companies Russell 2000 Small-Cap Index posted a 20.44% loss in the past 12 months. The technology-heavy Nasdaq Composite Index was the biggest loser in 2022, dropping 28.27% of its value over the last 12 months.

Most foreign markets were no better. The broad-based EAFE index of companies in developed foreign economies gained 17.00% in the final quarter of 2022, but still lost 16.79% of its value in dollar terms for the year just ended. In aggregate, European stocks lost 17.28% in 2022, while EAFE's Far East Index was down 17.20%. Emerging market stocks of less developed countries, as represented by the EAFE EM index, lost 22.37% in dollar terms in the year.

Real estate securities produced even greater losses, albeit for small portions of most investment portfolios. The Wilshire U.S. REIT index posted a truly awful 26.81% loss in 2022. But due to global increases in oil prices (and oil company profits), the S&P GSCI index, which measures commodities returns, eked out a 0.38% gain in the 4th quarter, ending the year up 8.71%.

Perhaps the most dramatic market movements in 2022 occurred in the bond markets, where yields on 10-year Treasury bonds rose dramatically over the course of the year, from 0.95% a year ago to 3.87% currently. 30-year government bonds rose from 1.88% yields at this time last year to 3.96%. Five-year municipal bonds were providing, on average, a meager 0.60% yield last January; now the rate is a comparatively robust 2.56%, while 30-year municipals are yielding 3.63% on average. Of course, for bond investors, these yield gains represented capital losses; when rates go up, the lower-yielding bonds that investors had purchased previously lose par value proportionately.

The broad market downturn, in stocks and bonds, marks the end of an extraordinary period of investment history, a three-year run that saw many investors at or near doubling their portfolio values. The interesting thing is that, despite the declines, we are not currently in bear market territory--usually defined as a 20% decline.

What will the future bring? Of course, we don't know, but perhaps the range of outcomes is wider than in more recent history. It's certainly possible that the Fed will achieve that mythical ‘soft landing’ for the economy in the coming year. Inflation seems to have peaked and is falling faster than many expected—the CPI is up just 0.1% in November, 7.1% year-over-year. The GDP, which measures growth in the economy, recovered in the third quarter; total economic activity in the U.S. expanded a healthy 2.9% for the three months ending September 30, and a survey of economists suggests that growth could reach 1.0% in the fourth quarter. Unemployment is still low, at 3.7%. Low unemployment, wage gains and near 1% gains in personal income are fueling an increase in consumer spending. U.S retail sales posted their strongest gains in eight months this past October.

But… investors may be cautious about feeling too optimistic quite yet, especially with that glimpse into the rear-view mirror. 2022 marks the first year in history when the S&P 500 and 20-year Treasury bonds both experienced double-digit losses; the previous ‘record’ was 1969, when the S&P 500 lost 8.5% and long Treasuries declined by 5.1%. Global diversification also didn’t help much, as both the MSCI EAFE and emerging markets experienced double-digit losses, much due to the strong value of the $USD.

The problem for many investment markets is that what had been a strong tail wind is now a brisk head-wind.

The U.S. Central Bank is engaged in quantitative tightening, shrinking its $9 trillion balance sheet by roughly $100 billion a month. As the Fed economists attempt to bring inflation down to a 2% annual rate, they are likely to raise the Fed funds rate to at least 5%, which makes short-term bond instruments competitive with stocks and may reduce demand in the equities markets.

Meanwhile, the housing market recently experienced the ninth consecutive month of declining sales—almost certainly due to higher mortgage rates. And the Conference Board's October index of leading economic indicators recently declined for the eighth straight month, which may signal an increasing risk of a recession in the coming year. That gloomy prediction is reinforced by the inverted yield curve. The recent spread between three-month and 10-year Treasury bonds has reached -0.77%. When investors buy long-term bonds at lower yields than short-term bonds, it means they're expecting turmoil on the horizon.

When markets decline as they did this past year, history tells us that they become a buying opportunity; in effect, they go on sale, and become more attractively priced than they were before the downturn. Of course, there is no guarantee that stocks won't become even more attractively priced at some point in the coming year; we just don't know what to expect. What we do know is that in virtually every historical period, stock prices have recovered, usually unexpectedly and swiftly, and the biggest danger has always been to move to the sidelines at the wrong time and miss out on that next upsurge. If we knew any more than that about the future, you would all be the first to know.

To a fruitful 2023,

Your Demming Financial Services Team

Sources

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Contact Us

Demming Financial Services Corp.

13 New Hudson Road Aurora, OH 44202

Phone: (330)562-2122
Toll Free: (877) 841-2122
Fax: (330) 562-6086
info@demmingfinancial.com www.demmingfinancial.com