Many Happy Returns
Comprehensive Investment Management, LLC
Fee Only Personal Financial Planning
Spring 2022

A Review of the Financial Markets at March 31, 2022

Momma said there will be quarters like this, there will be quarters like this my Momma said. Actually it was the mother of the lead singer of the Shirelles who said that, and she was talking about days not quarters. But the sentiment is the same. Although it is relatively rare, sometimes over a three month period bonds will be down more than stocks. It's happened seven times since the 1990's including this past quarter. CIM uses only short and intermediate term bonds and they performed better than stocks, but still finished underwater. The stock average was down 7% and bonds 5%. Long term investors have to tolerate the ups and down of the financial markets. It could have been worse.

Recent market and economic activity is newsworthy. However most of it can be dismissed as "noise" and not indicative of a trend. Investment performance over longer periods, while not predictive, is significantly more meaningful.

It proved to be an uncomfortable quarter all around. The Omicron variant ran rampant at the start and inflation numbers came in at the highest levels in a generation. In February, Russia invaded Ukraine. The Federal Reserve started hiking interest rates and selling some of the bonds it has been hoarding since the financial crisis of 2008. The S&P 500 index fell into correction territory in February and was still down 13% mid March. It managed to reduce that to 6% by the end of the quarter.

Not a good first quarter but not nearly as bad as 2020 when S&P stocks were down 21% and bonds 2%. On March 23, 2020 the S&P was 32% below its all time high set just a month earlier. Finding ourselves suddenly facing the first global pandemic in a hundred years, things were quite scarier back then. The major market menaces we face now of increased inflation and rising interest rates are much more historically typical concerns for investors. But Covid is still very much around and its impact on so many facets of peoples' lives that it will continue to filter through the economy for some time to come. We also now have the invasion of Ukraine, which is likely a glob-

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Average Annual Returns of CIM Select Mutual Funds

At March 31, 2022	QTR	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Large Cap Stocks	-3.9	-3.9	7.4	15.3	14.2	14.5	11.6
Mid Cap Stocks	-7.7	-7.7	1.7	14.3	13.4	14.9	11.2
Small Cap Stocks	-10.2	-10.2	-4.5	12.4	12.6	13.1	10.7
Healthcare Stocks	-5.8	-5.8	7.5	13.5	13.0	15.9	13.1
Foreign Stocks	-13.9	-13.9	-14.8	10.1	9.8	8.1	6.8
Short Term Bonds	-3.6	-3.6	-3.9	1.2	1.5	1.5	2.5
Intermediate Bonds	-5.5	-5.5	-2.3	3.1	2.9	2.6	4.1
High-Yield Bonds	-4.2	-4.2	-.6	4.0	4.2	5.2	5.6

The Financial Markets (from page 1)

al economic game changer. Russia supplies 40% of Europe's natural gas and 25% of its oil. Although there will be relatively limited direct impact on the US, at least initially, the aggressive seizure of power by an unrestrained authoritarian and its destabilizing impact, this will have worldwide implications for years to come. We have a global economy and no country is an island. Although there is going to be a strong effort to make Russia feel like it is one.

Generally when stocks go down bonds go up. If both went down, where did the money go? A good bit went to the sidelines, as in cash and cash equivalents. Looking down a long list of returns for Vanguard's mutual funds, only a couple of funds were ahead and that was by a percent or two. The exception was the Energy Fund and the Capital Cycles Fund, which is Vanguard's current offering for investing in gold and precious metals. They were up 14% and 9%, respectively. But over the last ten years the annual returns for those funds were 1.2% and -2.2%, so clearly not lucrative long term alternatives.

LOOKING AHEAD

From here prices are sure to go up, down and all around, but it looks like we should expect a lot more down days ahead. Part of the reason is stock prices had been on a tear. In 2021 they rose 30%, among the best performances of the last hundred years. And last year wasn't a one year wonder. Stock prices have more than doubled over the last five years and that includes two years of Covid. That's primarily because the economy is recovering strongly from the severe, but short, pandemic recession. Company profits have grown quite strongly, which regardless of what you may have heard or read, is where stocks get their value. The percentage share of the economic pie going into those profits has never been so high. That's despite labor shortages and global supply chain disruptions that have added significantly to costs.

Rock bottom interest rates have supported high stock prices in several ways including making the alternative of bonds and certificates of deposit so unattractive. That is about to come to an abrupt end. The only question is how abrupt. Among other things the Federal Reserve thinks it needs in its attempt to get inflation under control is a weaker stock market.

Having said all that, it is well known in investing circles that timing the ups and downs in the stock market is a losing affair. Watch any finance show with two experts and you will hear ten predictions hedged with words like "could" and "possible" and no specificity as to "when". Jamie Damon, CEO Morgan Chase just released this definitive statement recognizing that the Fed has to move to tame inflation. "I cannot foresee any scenario at all where you're not going to have a lot of volatility in the markets. There's no chance it won't happen".

Investors have to ignore volatility. The American economy will prevail. Global economies as well, but more unevenly. On an ongoing basis, a portfolio of 50% stocks and 50% bonds with appropriate tweaks for time horizon, risk tolerance and special circumstances is a winning ticket.

At March 31, 2022 Annual Returns of Vanguard Balanced Funds With Opposing Bond/Stock Allocations

	Quarter	1 Year	3 Years	5 Years	10 Years	15 Years*
Wellesley 65% bonds	-3.6	3.5	7.3	6.8	6.9	6.7
Wellington 65% stocks	-6.4	7.6	11.6	10.1	9.8	8.1

*On a $100,000 over 15 years, the difference between a 6.7% and 8.1% return is $63,000 before taxes.

The 529 Grandparent Trap Eliminated

Over the last several decades, the cost of education has risen at more than twice the rate of inflation. At age eighteen the cost for today's newborn is projected to be $150,000 a year for a private college. It's not surprising that grandparents, who can afford to do it, want to provide some financial help. Until recently, a 529 education account owned by a grandparent (or anyone else outside of the student's household) got the worst end of the deal when it came to affecting the possibility of student financial aid. As much as 50% of distributions from those 529 accounts could reduce federal aid eligibility. In contrast, a parent-owned 529 counts just like any other as a parental asset, but actual distributions are not a factor. You have to wonder how specious the thinking had to be to so strongly disfavor grandparent assistance. Just another example of no good deed going unpunished. I suspect the underlying principle was not to discourage grandparents from helping out, but questioning whether they really needed the extra incentive of tax free growth for qualified distributions.

In any case, a new rule in 2021 eliminated the grandparent trap. Their 529 distributions are no longer a factor when applying for federal financial aid. That process starts with completing the Free Application for Federal Student Aid. It's not unusual for private schools to require additional paperwork of their own. Another recent change is that 529 distributions for K-12 education are allowed up to $10,000 per year per student. Also a one-time $10,000 can now be used to pay student debt.

The Latest Scoop on Education Tax Credits

There are two types: the American Opportunity Tax Credit (AOTC) and the lifetime Learning Credit (LLC). Both credits are subject to phase-out based on a taxpayer's modified adjusted gross income. For joint returns the phase out starts at $160,000 and is complete at $180,000. For others it is $80,000 to $90,000. Married filing separate (MFS) need not apply. The suspicion is the IRS does not want to use its limited resources to match up the income of the two MFS returns in order to validate income qualifications.

AOTC is a maximum credit of $2,500 per student per year (100% of the first $2,000 of eligible expenses and 25% of the next $2,000). There is no limit on the number of eligible students in a given year. The student must file for themselves, or be a dependent of the taxpayer, and enrolled in a program that leads to a degree, certificate or other recognized educational credential.

LLC is a tax credit equal to 20% of up to $10,000 of qualified tuition and fees. The maximum credit is $2,000. This credit is per tax return, not per student. There is no student workload requirement and nondegree courses are eligible. There is no limit on the number of years for which the credit can be claimed for a student.

A taxpayer may not claim both an AOTC and a LLC for the same student, same year. However, tax payers with more than one student can choose to take the credits on a per-student, per-year basis. For example, the AOTC can be claimed for one student and the LLC claimed for another. AOTC can also be claimed in same year that a 529 distribution but not for the same expenses.

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We Got Mail

Q: CNBC just reported on new research that couples who pool their money are more likely to stay together. Why would that be true?

News flash: Couples who tend to share with each other get along better than those that don't. The study found that 43% of couples have joint accounts with the percentage drifting down depending on age. Baby boomers were at 49%, Millennials 31%. Part of that has to be related to how much money is involved. In the seventies the Boomers considered pooling his $350 with her $250 and saving money by living with one of their parents. Millennials make more money, move out while still single, and get married at a later age. Many have a good bit of savings and are use to making their own financial decisions.

A joint account is a no-brainer to cover shared living expenses like rent or mortgage payments, utilities, insurance and alike. There should be a buffer for unpredictable yet inevitable surprises.

Having a joint account does not preclude that the bulk of assets are segregated. By far most serious savings will be in tax advantaged accounts, like 401K's and IRA's which can't be joint. If both are employed, the goal should be for each to put away the same percentage of gross income while maximizing any company match. The percentage of tax withholdings should be equal as well. Self employment by one or both presents another set of challenges for budgeting and in particular income taxes.

Do times change? It wasn't that long ago that the idea of a prenuptial agreement was outrageous. "What? Why get married, if you are thinking that way?" But again there is a lot more money around these days, including inheritances, both incoming and outgoing. In a second marriage where there are two sets of children, what could possibly go wrong there?

The study suggests couples have an annual formal financial meeting. A good idea is to include a trusted and objective financial adviser. What's one way to tell if the adviser can be trusted? They don't mention annuities.

Send your questions to Mercedes@cimontheweb.com