KACHKOVSKY & FISHER
REGISTERED INVESTMENT ADVISOR

Winter 2023

Welcome to 2023. Though we continue to face an evolving environment, the start of a new year offers a chance to reset and refocus. What will you strive toward this year? Are there resolutions you've written out? Perhaps you're planning to achieve a new level in your career, nurture a hobby or do more for the causes you admire. No matter your resolution, you'll need dedication and thoughtful planning to reach it. The same can be said of achieving the goals laid out in your financial plan. A new year could bring with it new challenges that, if you're not careful, could throw you off your financial course. But by resolving to uphold your financial plan as we head into the year, making adjustments as your life changes, the path toward achieving your goals becomes an easier one to follow. In 2023, let's reach for new heights, work toward meaningful goals and always keep our sights set on the future.

Let's take a look at the numbers.

	(As of 12/31/22)
Dow Jones Industrials	-8.78 %
S&P 500 Index	-19.44 %
NASDAQ Composite	-33.47%
Russell 2000	-21.56%
MSCI EAFE Index	-14.45 %
MSCI Emerging Markets	-20.09 %

Major Bond Indexes	(As of 12/31/22)
Barclays U.S. Aggregate Bond	-13.29 %
Barclays U.S. Corporate Bond	- 15.71 %
JPM EMBI Global Diversified Bond	- 17.78 %
Fed Funds Rate	4.25 – 4.50%
30-year fixed mortgage	6.87%

Source: The Wall Street Journal and Barron's

*Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

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FINANCIAL AND INVESTMENT PLANNING

"You never know how strong you are, until being strong is your only choice"
... Bob Marley

After a bit of a hiatus, we are happy and excited to bring back our newsletter. We were not English or Literature majors in college. Writing does not come easy to either one of us. Yet, we think it is important for us to summarize and share what our perceptions of the markets and economies around the world are.

So much to say about last year. In short, both stocks and bonds fell in tandem last year, which marks the only time that has happened in the last 45 years. We saw the Fed raise rates 425 basis points (4.25%) to combat soaring inflation, the most aggressive tightening since 1980. Asset prices tumbled. Mortgage rates soared. Russia invaded Ukraine. Europe and Japan suffered from weak economies and there were issues across the emerging markets, such as the strong dollar and China's zero COVID policies. The general sense is that investors are ready to move on from 2022.

As we enter 2023, the war in Ukraine drags on, inflation is still too high and there is a chance of another recession. It's always darkest before dawn and tough times may seem to last forever. We know they don't. Green shoots are starting to appear. Inflation has been coming down as evidenced by the drop in prices for commodities, goods, real estate and the decrease in the M2 money supply. The Fed has slowed the pace of rate hikes and we are much closer to a pause than we were a year ago. As of this writing, the fixed income markets are pricing in two more 0.25% rate hikes, landing at a terminal rate of 5%. China made a hard pivot and dismantled it's stringent COVID policy, which should unleash pent-up demand (like it did in the U.S.). India's economy has been resilient. Many of the emerging market headwinds that we've seen of late are starting to turn into tailwinds. Emerging market growth is expected to outpace developed markets by the widest margin since 2013.

On the domestic front, corporate earnings have held up better than many expected due to strong consumer demand (resilient/tight labor market and the remnants of COVID-induced savings). As 2023 unfolds, it will be interesting to see if the consumer starts to pull back on spending in a meaningful way. Some companies, particularly in the technology sector, have adjusted their spending (including layoffs). Looking to valuations, they have come down and are now closer to levels near the 25-year average. The dividend yield has actually come up a little, but still below the long-term average.

S&P 500 Index

Valuation measure	Description	Latest	25-year average
Price Earnings Ratio	Forward P/E	18.0x	16.82%
P/B	Price to book	3.42x	3.10x
P/CF	Price to cash flow	12.42x	11.19x
Div. Yield	Dividend Yield	1.81%	1.99%

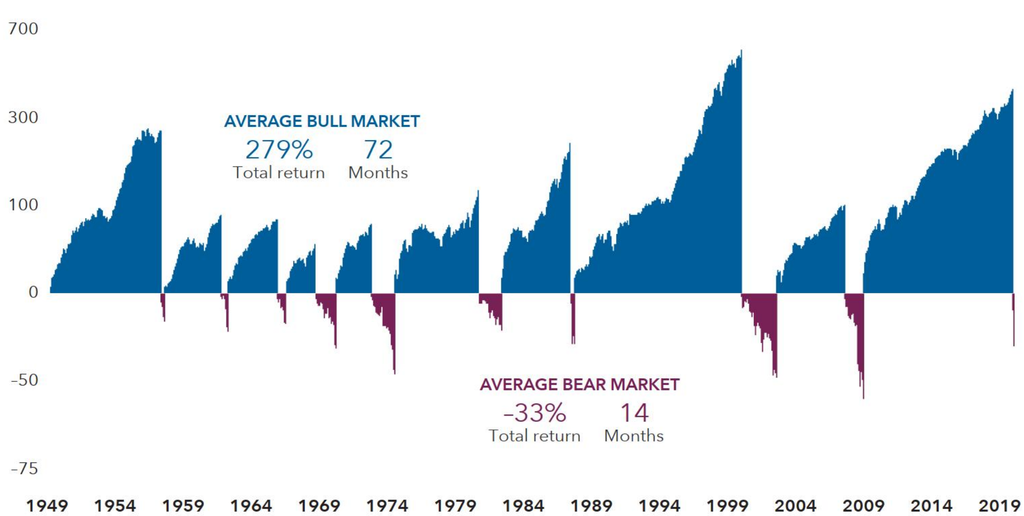
Source: FactSet, FBR, Refinitiv Data Stream, Robert Shiller, Standard & Poors, Thomsen Reuters, JP Morgan Asset Management.
Price-to-earnings is price divided by consensus analysis estimates of earnings per share for the next 12 months as provided by IBES Since December 1997 and by FactSet since January 2022.

Looking to the fixed income markets, the short end of the yield curve jumped dramatically during 2022. This led to much higher yields in shorter duration assets like short-term bonds, money market funds and CDs. Investors looking for income have many more attractive options today compared to the last few years. With inflation moderating and the Fed rate hikes likely to peak this year, bond investors have reasons for optimism in terms of yield and total return.

The global economic and policy landscape has undergone a massive shift over the last few years due to the global pandemic. These shifts can often have impacts that persist for many years. James Camp, Managing Director at Eagle Asset Management, shared his views, "The secular changes most likely to impact markets and the economy are the shift from globalization to on-shoring or nearshoring, the end of cheap and plentiful capital, and unsettled labor markets. The United States, once a champion of free trade, has become more protectionist. Supply chains are disrupted, and 'just in time' gives way to 'just in case'. Borrowing costs have increased sharply on more than one-third of global debt (previously negative yielding), and credit conditions are tightening. Mortgage rates have spiked, and the housing market is already in a recession. Certain parts of the population have exited the labor force, either by choice or necessity. Return to office metrics are hovering at 50% of pre-pandemic levels, even though economic mobility data show back to normal in travel, restaurants, etc. Almost three years after COVID-19 hit, companies are still struggling to get and retain talent. Labor shortages driven by a shrinking pool of workers are a result of population and immigration changes, but also changes in attitudes and preferences. The starting point for employment is historically strong. Jobless rates for developed countries are the lowest since the early 1980s. But the Fed, at least for now, is willing to sacrifice the employment part of its mandate for price stability. White-collar industries such as technology, banking, and real estate, where staffing is above pre-COVID levels, are vulnerable. It will take time to 'reorder' that part of the labor force to industries in need of workers. The two primary inputs of the economy, labor and capital, have been transformed. Near-term economic challenges are plentiful, but the backdrop for better long-term outcomes may be improving dramatically. There is growing evidence that companies are adapting to these challenges. We have moved from bond and stock markets driven by liquidity to markets that are now driven by fundamentals – ultimately a better, more stable model for growth and wealth creation. This reordering of the economy sets the foundation for a more productive economy."

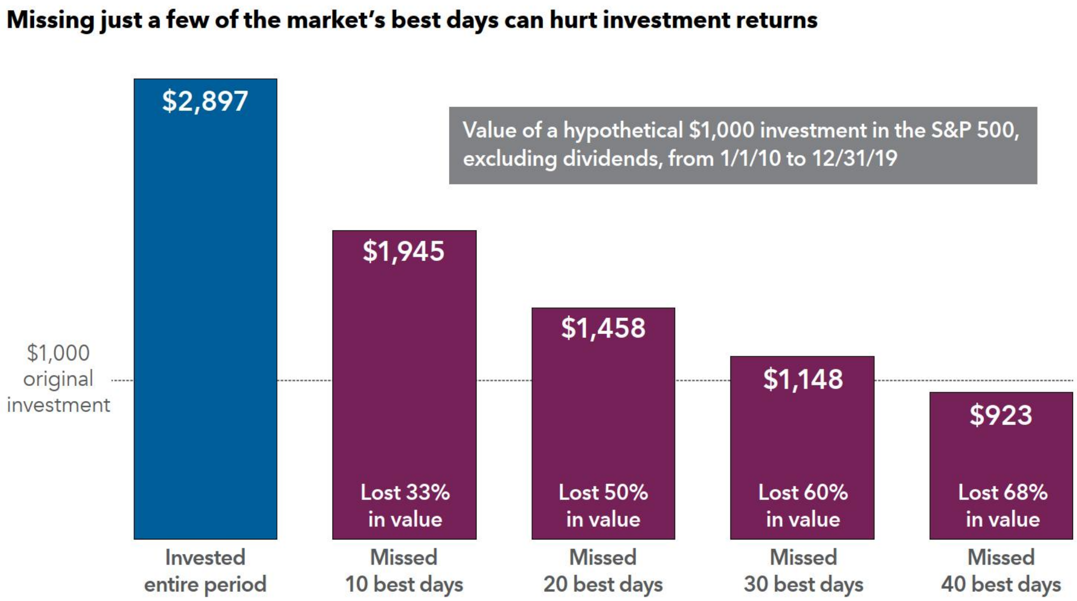
As an investor, it's important to have control over our emotions. This is often the most challenging during bear markets because of the scary headlines, market declines and increased volatility. The good news is bear markets are short compared to recoveries when we look at history. The average bear market since WWII has lasted 14 months, while the average recovery has been 72 months. The difference in stock market returns has been perhaps even more dramatic. The average bear market return of the S&P 500 is -34%, while the average return during a bull market is 279% as evidenced by the chart below:

Cumulative price return for each bull and bear market



Sources: Capital Group, RIMES, Standard & Poor's. As of 3/31/20. Bear markets are peak-to-trough price declines of 20% or more in the S&P 500. Bull markets are all other periods. Returns shown on a logarithmic scale.

When we think about successful long-term investing, it's time in the market, not timing the market that matters. Missing just the 10 best days of a recovery would significantly hurt one's long-term return. Missing additional "good" days, results in even lower returns. The next graph illustrates the impact of missing the best days during the previous decade:



Sources: RIMES, Standard & Poor's. As of 12/31/19. Values in USD.

Although it was difficult to find any positives in 2022, the year ended on an upbeat note from a place we'd least suspect – with almost unanimous consent, Congress passed the Secure Act 2.0. We will dive into a bit more details in the future missives. However, we think it's important to highlight a few major changes. For those nearing the RMD age, beginning date/age has been extended. Take a look at the table below.

SECURE Act 2.0 Phased-In Timeline For RMD Beginning Ages

Birth Year	Age at Which RMDs Begin
1950 or earlier	72 (70½ for those who turned 70½ prior to 2020)
1951 - 1959	73
1960 or later	75

Here is a short list of some notable changes:

- 529 plan beneficiaries may roll over amounts from their 529 account to a Roth IRA after 15 years.
- Participants may choose, plan permitting, to treat employer matching and nonelective contributions to qualified employer-sponsored plans as designated Roth contributions.
- Creation of SIMPLE Roth IRAs and SEP Roth IRAs
- Increased plan catch-up contributions for participants in their early 60s
- Reduction of the 50% penalty for an RMD shortfall to 25%
- HSA limits have increased to $3,850 per person and $7,750 per family

Please reach out to us discuss any of these changes if you feel they may impact you.

- Past performance is not a guarantee of future results. Individuals cannot invest in an index directly.
- Lipper indexes are based on the 30 largest funds by asset size within the Lipper objective and do not include multiple share classes of similar funds.
- The Dow Jones Industrial Average (DJIA), commonly known as "The Dow", is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal.
- The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material accurate or complete.
- The S&P 500 is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market and includes over 3,000 companies.
- Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Bonds are subject to credit and interest rate risk. Timely payments of interest and principal payments are based on the financial condition of the issuer. Yield and market value will fluctuate with changes in market conditions. There is an inverse relationship between interest movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Diversification does not insure a profit or a guarantee against a loss. Investing involves risk and you may incur a profit or loss regardless of strategy selected. Please note that international investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

PERSONAL

The Fisher girls, Kora (12) and Macy (10) had a busy 2022. With the girls being active and loving the outdoors, dad thought it was time for them to hike their first 14er (a mountain peak with an elevation of at least 14,000 feet). The sisters were excited! The day of the hike, the alarm went off at 3:30 am. No Kora and Macy. Dad went into their rooms at 3:40 to pull them out of bed. Shortly thereafter, they were on the road. Once at the trailhead, the girls were giddy. They loved hiking under the moonlight with their headlamps. For those who have hiked 14ers, you know how the lack of oxygen can impact your breathing at higher elevations. The three took breaks along the way. Soon, the cool mountain air gave way to the warmth of the rising sun. Near 12,000 feet, a number of mountain goats appeared along a ridge. Macy and Kora loved seeing them and came up with a name for the smallest one, "Miss Baby Mountain Goat." As they continued their ascent, the views of surrounding mountains appeared in the distance. Once on the summit, the girls said they wanted to hike another one. Over the next few weeks, the adventurous sisters would hike three more 14ers.

In addition to the hikes, Kora and Macy swam on the local swim team last summer. Once swim was over, they played in basketball and volleyball leagues. While volleyball is their favorite sport, it doesn't match the love they have for their dog, JoJo (a Bernese Mountain Dog). As 2023 begins, the girls are again taking ski lessons at Copper Mountain. Everyone looks forward to skiing as a family once lessons are over in late February. With Macy and Kora being better skiers than their parents, it’s not uncommon to hear, “Dad, what took you so long?” at the bottom of a ski run.

For the Kachkovsky clan, 2022 was a year of new ventures and adventures. Birthdays were celebrated, milestones achieved. In January, the family gathered in Florida for Garry’s mom’s 70^{th} birthday. A visit in December to great-grandmother Jackie’s home in Glendale, CA turned into a small family reunion. Ava, who turned 11 in November and is in 5^{th} grade, and Elle, who is in 2^{nd} grade and will be eight in March, began playing piano under the guise of a classically trained instructor hailing originally from Ukraine. Lessons are tough, but progress is obvious. Last spring, kids also started softball. Evolution is noticeable – both doing a good job of picking up on the nuances of a new sport. Ava looks forward to playing short-stop, while Elle is happy to help anywhere as the all-around Ms. Hustle. Having played in her youth, Emily is a proud mom and a willing assistant coach.

Garry, Ava and Elle continue to participate in the YMCA Adventure Guides program, camping about eight times per year around southern California. Last November, the group camped at Mt. Laguna, about an hour east of San Diego. Temperatures overnight got well below freezing, but did not prevent the brave souls from having a great time hiking, mountain biking and making S’mores over the open fire. During Christmas break, the girls plunged into kickboxing and Brazilian Jiu-Jitsu. Garry couldn’t be more excited about the girls following his path into martial arts. What the girls lack in size, they make up for in determination, having a blast all along.

One of the highlights of last year was celebrating Kris’ 50^{th} birthday. More than 30 people made the trek to a mountain town in Colorado to surprise and celebrate a very good person. The planning went off without a hitch due to Angie’s meticulous planning.

As we look forward to the new year, we wish you and those most important around you a happy, healthy and prosperous New Year! Thank you for your trust, confidence and friendship.

“*Tact is the art of making a point without making an enemy.*”

— Isaac Newton

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