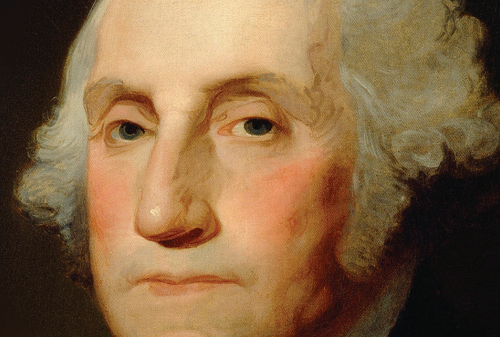




# Financial Stuff

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CJ – Social Chairman

## GUARANTEED INCOME?

Nothing in life is truly guaranteed. **BUT!** As fewer retirees receive monthly pensions from their employers, there is a growing demand for “*private pension plans*.” The traditional “*fixed annuity*” is often the preferred solution. Let’s suppose a 65 year old couple is looking for \$3,000 per month guaranteed for the rest of their lives. If the insurer offers a 6% payout, then the couple would need to deposit \$600,000. If one or both is alive in 16.7 years, then they would have received their deposit back. If one or both lives to age 90, then they will have received \$900,000 at an annual average return of 3.4% over 30 years. Their family very likely receives nothing regardless of when they die. The variable annuity is designed to offer the best of both worlds; a guaranteed check today and a death benefit tomorrow. The problem is the insurance company usually still has to “*guarantee*” everything, which is expensive. The contract cost is often more than 4%, which usually results in no cash remaining. The newer kids on the block are indexed annuities, which use options to invest the money instead of stocks and bonds. The returns will be based on “*participation rates*,” which the insurance companies adjust, as needed, to manage their risk. Quick Example. Let’s suppose a 65 year old couple has \$500,000 in retirement funds and they want to guarantee \$2,000 per month. They purchase a fixed annuity for \$400,000 to secure the monthly income and invest \$100,000 in mutual funds that average 7%. In 20 years they have received \$480,000 and the mutual funds are worth \$387,000, which is available for them to spend as needed, help offset inflation and/or leave behind to family. This is a simple example of the “*bucket*” theory; one for immediate income and the other for income tomorrow. (Source: *Financial Advisor, Kiplinger, JFR, Financial Planning*)

## IS IT TIME TO FLIP THE CHART?

Since 2009 we have had several trends directing our economy. Is it possible going forward we will see the opposite? Higher interest rates instead of low? Lower stock valuations instead of higher? Sell the rally instead of buy the dip? Risk off instead of risk on? Real assets instead of ideas? Commodities instead of stocks? Foreign stocks instead of domestic? Value stocks instead of growth? Small traders moving the market instead of institutions? Principles moving the markets instead of profits? We’ll find out! (Source: *John Mauldin, Investor Place*)



## I WANT IT ALL!

**And Now!** Fewer Americans today are thinking this way with the many uncertainties we are dealing with day to day, but human nature hasn't changed. A recent study by the American College (*Source: Participant Attitudes Toward Guaranteed Income in a Defined-Contribution Plan*) confirmed most Americans want it all. The primary mystery is how much we'll actually need and for how long. The study revealed most Americans want lifetime income and growth; *aka the best of both worlds*. They were asked how they should be invested for this outcome and most were not properly allocated for their age and risk tolerance. Most of the participants were focused on how much they could spend in retirement, how quickly their retirement funds would grow and how they can position their money to avoid losses. The study reconfirmed that our risk tolerance declines as we age; especially after retirement. What to do? If you're 30 years from retirement, then time is on your side. Save 10% of your income and put most/all in stocks. If this is too risky for you, then you need to save more to offset the lower return. If you're 20 years away, then time is still on your side. Hopefully, you can increase your savings to 15%. If you're 10 years away, then time is still on your side. **BUT!** The market drops will be a little tougher to handle emotionally. Increase your retirement savings to 20% and pay off your debts. I'm ready to retire. Now what? It's important to remember most Americans now spend 20+ years in retirement. As a result, stocks still need to be a part of the plan. Like life in general, be flexible and anticipate. What if the market drops by 30%? The best option is to reduce your withdrawals until the market

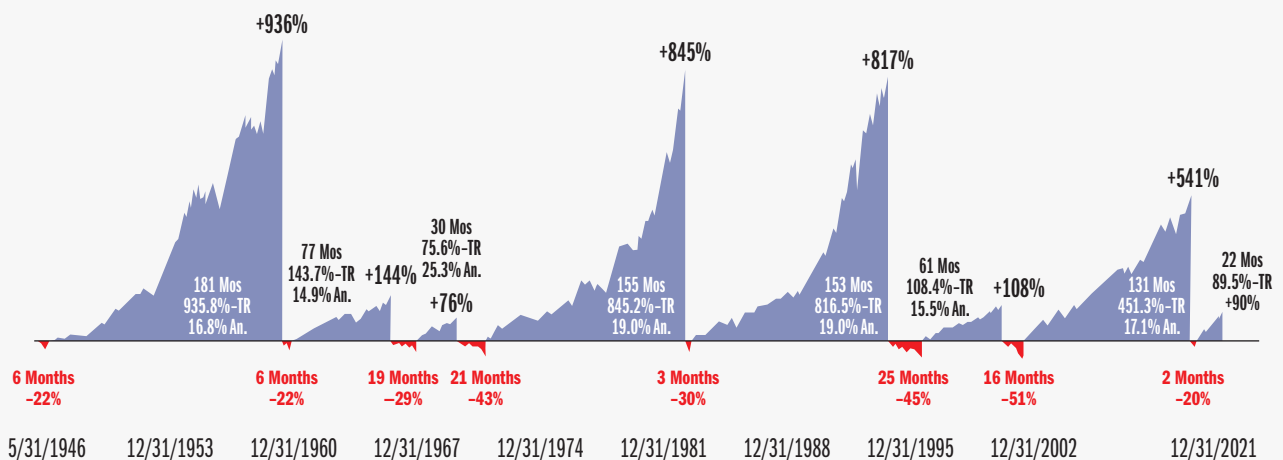
recovers. The pandemic revealed how little we can get by on when we need to. Our baseline budgets are much lower than we thought. What does a day look like in retirement? What are you not doing today that you look forward to doing in retirement? What will you do with your extra time? What do you want to accomplish in retirement? (*Source: Financial Advisor, American College, JFR*)

## SOCIAL SECURITY—FILE EARLY OR WAIT?

The mystery is when the Lord is going to call us home. All roads currently cross at age 78. Another mystery is when and how will the government "fix" the Social Security shortage. We'll get an idea when Washington is forced to address the Medicare shortfall in a few years. In the meantime, Social Security has a simple example for someone who is at Full Retirement Age (FRA) and their benefit is \$1,000. (*Source: SSA*)

AGE	EXPECTED BENEFIT
62	\$725
63	\$775
64	\$833
65	\$900
66.5	\$1,000
67	\$1,040
68	\$1,120
69	\$1,200
70	\$1,280

## BULL AND BEAR MARKETS SINCE 1946



**TR = Total Return An. = Annualized**

*Source: Morningstar Direct as of 12/31/21. Returns based on the S&P 500 Index. This chart shows the historical performance of bull and bear markets and excludes performance of periods between those markets.*

## GRANDPARENTS TO GET MORE BANG FOR THEIR COLLEGE EDUCATION BUCKS

Saying, “*I love you*” to your grandchildren just got more profitable. Recent changes to financial aid rules allow grandma and grandpa to contribute to 529 college savings plans without jeopardizing student financial aid eligibility. The Free Application for Federal Student Aid, or FAFSA, is lengthy, complex and contributions from grandparents currently reduces student eligibility by as much as 50%. Beginning in the fall of 2024, students will no longer have to report outside contributions. Currently 37% of families with children in college use 529 plans. Parents are the biggest contributors, but grandparents are a close second. The net result is more taxes for everyone, but this is a big break for families with children in college. (Source: *Financial Advisor, Financial Planning*)

## I CAN DO IT!

Like everything else, financial knowledge has become a commodity. The same is true for repairing cars, but hardly any can since it also involves tools and skills very few have. Investing is very mechanical at its roots. **BUT!** Wisdom is still sold separately. The financial industry continues to be squeezed by competition and government regulations. The end result is fewer people can afford professional advice and/or they are paying too much. Our \$300 financial profile continues to cover the big picture very well for a very low cost. Very very few need more detail. We also continue to do free initial consultations. The majority of Americans do everything themselves. Statistics show they aren't good at it, but not due to the lack of free knowledge and resources available. (Source: *Nationwide, WSJ*)

## INCOME TAX 101—START WITH THE BIG PICTURE

The IRS has a simple objective. Collect as much money as they can. **BUT!** We do not have to send any more than we are legally obligated to. However, “*saving*” taxes is not the only consideration. A good example is Roth IRAs. They are not completely tax free and may not be the least expensive way to save taxes over a lifetime. The default assumption is taxes will be higher tomorrow, so let's convert today. The best option is to review the matter periodically. As a practical matter, most retirees pay less in taxes after retirement than while they were working. Those who benefit from Roth Conversions are usually the exception rather than the rule. How about the expiring tax reductions from the Tax Cuts and Jobs Act (TCJA) at the end of 2025. There's nothing we can do about it today. How about those who make charitable contributions? There are several tax

saving strategies available. Let us know if you're interested. The clear winner today for saving taxes is retirement plans. When it costs ~\$0.75 to save \$1.00, and the money grows tax deferred for 30-40 years, that is hard to beat. Tax deductions/writeoffs aren't worth as much as most Americans think. Especially under current tax law where fewer than 15% of Americans itemize. (Source: *Advisor Perspectives, Fidelity*)

**A Few Numbers** — Societies need a fertility rate of 2.1 (births per woman) to replace itself from one generation to the next. In 2001, the average number of births in America was 11,030 per day compared to 10,022 in 2021. Since 1970, the fertility rate has dropped from 2.5 to 1.6. (Source: *World Bank, CDC*)

**A Few More Numbers** — From 1997-2021, “*cost of living adjustments*” (COLA) for Social Security benefits have increased by 73.7%. Inflation during the same period increased by 75.8%. (Source: *Social Security, Department of Labor*)

**Just A Couple More** — The size of our economy (GDP) as of 3/31/2022 was \$24.4 trillion. The size of the US National Debt as of 3/31/2022 was \$30.4 trillion. History teaches this is not good. The last time we were in this position was after WWII. Keep in mind these numbers do not include our unfunded liabilities, the largest being Social Security, Medicare and government pensions. (Source: *Commerce Department*)

## TURN IT OFF!

We're hearing “*lots*” of financial terms, predictions and “*analysis*” these days. Most not used in the appropriate context, which makes everyone nervous. Downturns aren't unusual. Since 1980 there have been 10 bear markets (drop of 20%+), 33 corrections (drop of 10-19%) and 6 recessions (2 consecutive quarters where GDP dropped). The best action is to focus on what we can control. Focus on the Long Term = 5+ years. Preferably 10! Stay Positive. Life is getting better. Don't let today's news change your long-term plans and goals. Reallocate. When the markets are down, it is a good time to reallocate, but usually difficult to do! Control. We can't control the markets, but we can control what we spend. Manage Expectations. It is not reasonable to assume our investments will make 7-10% per year and never lose. Divide Your Portions. Don't chase the hot tip of the day. Stay diversified. Like 2008, this is another unusual time where stocks and bonds are both dropping. It won't last forever. (Source: *Vanguard, FactSet.*)



## IT'S JUST MONEY

The Congressional Budget Office (CBO) projects over the next 10 years, the Federal Government will receive \$57 trillion in revenue (taxes) and spend \$72 trillion, adding \$15 trillion to the National Debt; 50% more than the current \$30 trillion. The Social Security Trust Fund is projected to be exhausted in 2034, compared to 2042 as projected in 2007. With no new “*legislation*,” this will result in a 20% cut in Social Security benefits. The 75 year shortfall for Social Security is projected to be \$20 trillion. The shortfall can be eliminated by increasing the payroll taxes by 25% or reducing the benefits by 20%. Medicare covers 20% of our population. In 2021 they were cash positive, collecting \$888 billion and paying out \$839 billion. Medicare is projected to have a cash shortfall of 10% beginning in 2026. **But Wait!** The average American family income in 1992 was \$38,000, compared to \$51,000 today. That’s an increase of 34%. Cash flow after taxes and inflation is down over the past 30 years. The Federal Government budget in 1992 was \$1 trillion, compared to \$4 trillion in 2022; not including the extra \$2 trillion spent on the pandemic. (Source: CBO, Social Security, Medicare, Bureau of Economic Analysis)

## GENERATORS AND FINANCIAL PLANNING

We have a generator at the office. The first time we needed it we were waiting on the City’s approval! It has rarely come on so far, but we’re paying for service and maintenance. Financial planning is similar. There can be long stretches of time where having JFR in the boat seems like a waste of time and money, **BUT!** When we’re needed there is no price too high to keep the lights on and not lose what’s in the refrigerator and freezer.

- 1) **Keep in Touch.** We have the annual reviews to keep everything updated. In between, you can call or email. Whenever there is a financial change, situation or concern, *call JFR!*
- 2) **Taxes.** Whether we prepare your return or not, income tax planning is important. The new thing is “*decumulation planning*,” where we determine how to minimize taxes, maximize income, charitable bequests, and how much is left behind for family. Tax loss harvesting. Which investments should be sold first in retirement? ROTH IRA conversions, Required Minimum Distributions (RMD), Social Security Planning, Retirement Income...
- 3) **Asset Management.** The new thing here is “*location*.” How much should be in my IRA versus a liquid account? (Source: Financial Planning)

## INFLATION IS NOT HIGHER PRICES...

**Higher prices are the result.** Inflation is the decline in the value of the dollar. When inflation arrives, we hear excuses. “*Transitory*.” “*Putin’s war*.” “*Greedy businessmen*.” In truth, it is “*always and everywhere a monetary phenomenon*,” as economist Milton Friedman famously put it. Governments reduce the value of money to help them deliver on promises made to voters. Government, like any institution, wants to not only survive, but also grow. They can’t grow without more power and money. They don’t want to do what’s best; i.e. get out of the way and leave us alone. Inflation is their friend. Recently, the market did not do a good job of preparing for inflation. Everything went crazy along with a scramble for cash. Cash that is losing value each day is still an important part of surviving market drops. What to do? Accept that we cannot predict the future, but we can prepare. (Source: Stansberry, WSJ, Barron’s)

## FIDELITY RETIREMENT PLANS

Fidelity is one of the strongest players. And we now have access to their platform!

**SAFE** – Fidelity employs more than 800 dedicated cybersecurity, fraud and risk management professionals all over the world. Real time alerts and two factor identification. You can be reimbursed for unauthorized transactions.

**Communication** – Online, mobile, investor centers and 24 hour call centers.

**Investment Options** – Flexibility from mutual funds, index funds, managed accounts and self directed brokerage. 99.99% Accuracy. 98% Satisfaction. There is no cost or obligation for us to review employer retirement plans. Technology and competition are bringing the costs down dramatically, but many plans are still out there with higher costs and outdated arrangements. (Source: Fidelity Investments)

## A FEW NUMBERS

**OUCH!** The net worth of households and nonprofit organizations dropped by \$500 billion in the first quarter of 2022 to \$149 trillion. **BUT WAIT!** The 500 wealthiest people in the world lost \$1.4 trillion due, primarily, to the downturn in financial markets. Whatever risk management techniques they, and their advisors, are using don’t appear to be working at the moment. (Source: Federal Reserve)

*We don't have inflation because the people are living too well. We have inflation because the Government is living too well.*

RONALD REAGAN

## TIME & INTEREST

What is seen and not seen are equally important in economics, but our “leaders” tend to ignore many things, just like the average American. 40 years of falling interest rates has resulted in a large hole to dig out of. What we do today will affect tomorrow. What our “representatives” did yesterday will also impact tomorrow. Some things are seen, some are not. Bad economics ignore tomorrow. They focus on one group of people while ignoring the others. We have “a lot” of bad economics in the system today, as well as “a lot” of debt. Capitalism works when “creative destruction” is allowed to function. Competitive pricing is like the thermostat in our homes on auto instead of heat or cool. We like to flip back and forth on our own. When we don't let supply and demand determine the interest rates, or the money supply, we create problems. Easy money increases risk for everyone when the thinking is the opposite. Normal caution is overruled when the cost to borrow is low. The quick dollar results in less productivity and less capital. Building on sand instead of rock results in loss when the storm hits. (Source: Bastiat)

## HERE WE GO AGAIN!

Just when things seem to be returning to normal. The good news is we have options in addition to “Spend < Earn, Be/Become Debt Free and “Divide Your Portions.” Inflation and no interest on savings is not good, but having extra cash is good. Today is a good time to have 12+ months of living expenses in cash as opposed to the normal 3-6 months. In a recession, extra cash is good. For a retiree whose IRA withdrawal has increased from 4% to 5%, cut back if possible to 4% until the account value recovers. For those still working, consider working a few more years. Life is fairly predictable, but being flexible helps! When to file for Social Security will always be a mystery without knowing when we will die, but there are advantages to waiting when the income needed per month will be difficult to generate with the money you have. If you are able, consider working part time to generate the extra money needed. Review your lifestyle. We all want to achieve our dreams and goals, **BUT!** Perhaps some of the dreams and goals don't involve as much money as we think. (Source: Financial Planning, Advisor Perspectives)

## TIME TO GO?

How long have we heard a celebrity, or politician, announcing they will be leaving the USA when an election doesn't go their way? And why don't they? Is it difficult? There is a process that can take years due to all the delays caused by the pandemic. You do not have to cut ties with your life in

America. You can continue to receive Social Security, use your credit card, keep your bank accounts, investments... There could be an “Exit Tax,” but if your tax returns are up to date, and your net worth is less than \$2,000,000, then you should be okay. You also get to keep your Medicare and/or health insurance, but as a rule must be in the USA to file to use them. In order to come and go from the USA, you will need to follow the rules for any nonresident. (Source: Wealth Magazine, IRS)

## INFLATION (CPI) “COST OF LIVING”

It's been 40 years since inflation was on the front page of the news every day, but it never went away. America has averaged 3-4% inflation for a long time, which translates into our money losing 50% of its value every 20 years or so. Technological improvements and increased productivity help offset the loss, but they can't keep up with 8-9% inflation. This is why Washington is panicking, since we vote our pocketbooks more than anything else. Inflation is especially “taxing” on middle and lower income households. The “official” inflation numbers do not line up well with expenses for lower and middle income families. One study found inflation 40% higher over the past 20 years. The primary variables are rising rent, medical expenses, food, transportation and number of children. All very important! The average American family has ~\$500 per month left after covering their basic expenses to put toward college, retirement, emergencies and vacation. That's not going to work. (Source: BEA, Shared Economic Prosperity, Federal Reserve, Forbes)

## TAXES—MARRIED FILING SEPARATE?

It is very unusual for filing separately to be the best way to go. If one happens to have low income and high deductions, combined with the other having a high income, then it may make sense. Another situation we came across recently where filing jointly is clearly the best option involved Medicare premiums. If one income exceeds \$91,000, then the Medicare premium for that individual jumps from \$170 per month to \$544 per month. **OUCH!** Another catch is the extra 3.8% on investment income kicks in at \$125,000 filing separately versus \$250,000 joint. (Source: Medicare Mindset, IRS)

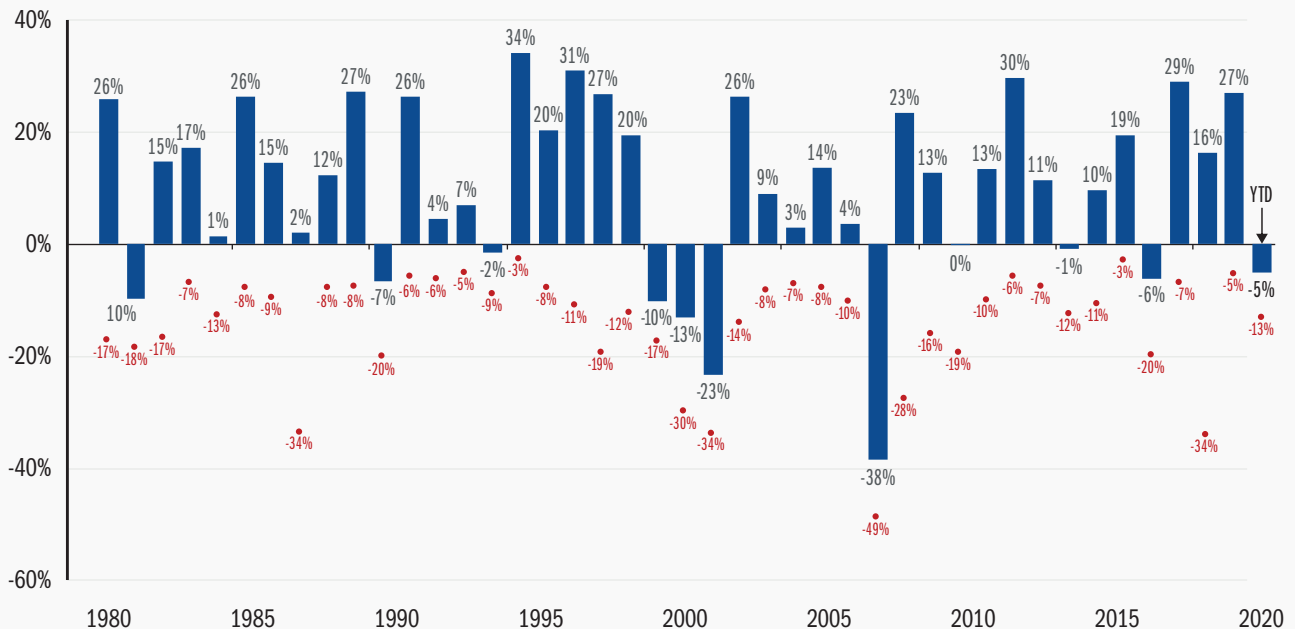
*In theory, there is no difference between theory and practice. In practice there is.*

ALBERT EINSTEIN

## UPS AND DOWNS

### S&P intra-year declines vs. calendar year returns.

Despite average intra-year drops of 14.0%, annual returns were positive in 32 of 42 years.



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980-2021, over which time period the average annual return was 9.4%. *Guide to the Markets — U.S. Data are as of March 3, 2022.*

## WHAT IF I CAN'T MAKE DECISIONS?

A Durable Power of Attorney (POA) allows someone else to make decisions if/when you are unable and/or don't want to. The most common candidates are children or other family members. BUT! Think about qualifications and character, not relationship. You need someone who is organized, calm and diligent. Physical proximity helps, but not crucial. If you don't know anyone who meets the test, then consider a professional. Managing someone's affairs can be more complicated than most realize. (Source: *Financial Advisor, AARP*)

## ESTATE DISTRIBUTION BEFORE DEATH

When you don't need the money, this can be an excellent way to see how your beneficiaries handle money. If they don't pass the test, then you can adjust your estate plan. The most common being someone who doesn't manage money well should likely have their share distributed over time and/or managed by someone else to prevent them from squandering your hard earned dollars. There may be a need to protect someone from themselves, but think it through. Like money itself, having restrictions is a blessing and a curse. Another benefit of distributing money before death is your heirs may need it more today than down the road. For those who like to make charitable contributions,

there is a good chance your children aren't. Teaching them how and why is an excellent way to prepare them for life without you. Another good use of money is to help them with life improving activities; education being the most common. Another is helping them fund their retirement plans. How about bucket list items, such as paying for a family trip to an expensive spot when the grandchildren are little? (Source: *Advisor Perspectives, AARP, Kiplinger*)

## HELPING FAMILY

Suppose your granddaughter wants to start a business. Before you help, ask yourself how this will affect your own finances. Does she have a business plan? Does it make sense? More often, it's just an idea generated by a bump in the road. Does she have good work habits? A common one we deal with is extra withdrawals from retirement accounts, which usually is not a good idea. If you decide to help one grandchild, then what about the others? If you decide to invest in the granddaughter, as opposed to just gifting her the money, then take an organized approach. What will everyone's responsibilities be? What are the expectations? How will she repay you? (Source: *Financial Planner, Barron's*)



## ANY ULTIMATE TRUTH...

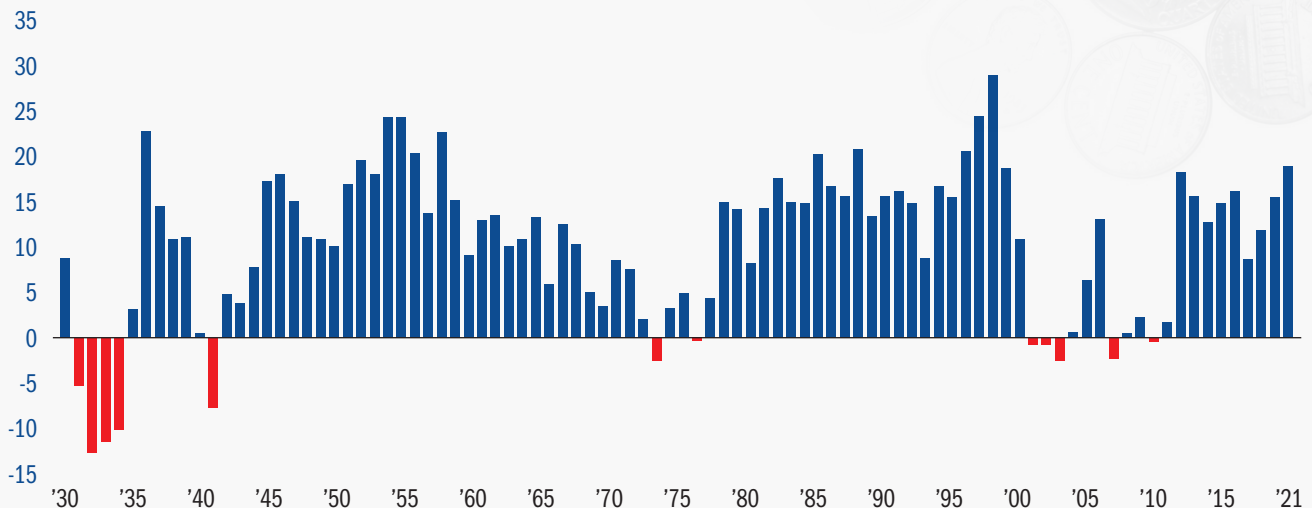
“*Sell in May and Go Away*” is on track to work in 2022, but as a rule is true less than 40% of the time. Warren Buffett said, “*In the short run the market is a voting machine (i.e. popularity contest). In the long run, it is a weighing machine (i.e. substance/facts).*” Another possibility is stock movement today is based on what is widely believed, but not necessarily true. Tomorrow, stocks will move based on what is true despite not all of the facts being believed. (Source: *Investors Business Daily, Stansberry, JFR*)

## DOW JONES DECLINES (1900-2021)

TYPE OF DECLINE	MAGNITUDE	AVERAGE FREQUENCY
Pullback	5%-10%	Approximately 3 times per year
Correction	10%-20%	Approximately 1 time per year
Bear	20% or more	Approximately once every 4 years

Source: Bloomberg as of 12/31/21. The Dow Jones Industrial Average is an unmanaged, price-weighted average of 30 actively traded industrial and service-oriented blue chips stocks.

## FIVE YEAR HOLDING PERIODS FOR THE S&P 500 (1930-2021)



Source: Morningstar EnCorr, 1930-2021, as of 12-31/2021. All rights reserved. Used with permission. This chart is for illustrative purposes only and is not meant to depict the performance of any specific investment. The S&P 500 is a weighted, unmanaged index composed of 500 stocks believed to be a broad indicator of stock price movements. Investors cannot directly invest in an index. Past performance is no guarantee of future results.

## STAY OUT OF SIGHT!

When it comes to identity theft and/or cybercrime, its important to anticipate what a thief is looking for and don't let them have it! Leave as few footprints as possible. The simple examples being bank accounts and credit cards. For most of us, we only need one of each. When a statement arrives, review it for accuracy. For our computers, lock it whenever you step away. Use long passwords with letters, numbers and symbols. Encrypt emails. Our cell phones are incredible resources, but they usually have all kinds of information stored on them. Learn how information flows in and out of them and manage same very closely! A big no-no is public Wi-Fi. If you have to, get on and off quickly. Be careful with any information entered on a website. Phishing emails are getting better all the time. Don't open anything that is “*Phishy*.” Same with texts. Beware of emails requesting personal information. Verify the address and the need for the information. If your information is compromised, notify people who can help immediately. (Source: *Fidelity, JFR*)

## THE COST TO INVEST IS VOLATILITY

Picture a river with rapids, or a roller coaster, a thunderstorm... **There are many analogies.** While it is riskier to drive than fly, many Americans prefer driving. The reality is we can't generate wealth without risk unless we live like a pauper today in order to save our way to wealth. For example, if you average 10%, you'll need to save ~\$500 per month to accumulate \$1,000,000 in 30 years. If you average 3%, you'll need to save ~\$1,750 per month to reach \$1,000,000 in 30 years. While the goal may be the same, the costs are dramatically different. During bear markets, it is important to have extra cash to more easily ride out the storm without having to sell investments while they are down. Extra cash also helps us sleep at night. The problem is cash loses value over time. Today, even more so! The dollar may be strong from an investment standpoint, but it isn't helping us fill our gas tanks or buy milk. (Source: *JFR, BTN*)

*If socialists understood economics, they wouldn't be socialists.*

F. A. HAYEK



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SEPTEMBER 2022

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Business Planning and Development	Estate Planning	Employee Sponsored Retirement Savings Plans
Real Estate Investment Trusts	Asset Management	Retirement Plans: IRA, SEP, 401k, Keogh, 403b
Mutual Funds*	Annuities, Fixed and Variable*	Full-Service Brokerage Accounts*

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