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THE ADVOCATE

Don't Miss the Forest for the Trees

SECURE Act 2.0

Market Review

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A Note from the Principal

Wow! What a year! 2022 is in the books and I, for one, am glad of it. How complex has life become?

Remember when there were only three, thirty-minute national news programs? They all came on at 5:30pm, Monday through Friday. You felt like whatever Walter Cronkite or David Brinkley said was important and their version of the story was the gospel truth. A concise, manageable amount of important information from a reliable source. Who wouldn't appreciate that?

In 1980, a guy named Ted Turner decided we needed more. We needed to get the news 24 hours a day. So, he created The Cable News Network (CNN), and nothing has been the same since.

On June 29th, 2007, the first iPhone was released and boredom slowly began to be eradicated forever. Social media, which practically began with the launch of Facebook in late 2003-early 2004, now had millions of mobile devices on which to share news, opinions, etc. Voila, information on any subject, anytime.

No doubt, living in a free country with the ability to express our views and consider those of others without censor is much preferable to one where what we hear and see is controlled. The problem is, with so much information being produced, how can we tell what is important and what isn't? What is fact, what is fiction, and what is something in between?

From the blessings of freedom and technological innovation come the dual curses of distraction and information overload. From the time we wake up until the moment our head hits the pillow we are attacked with messages of one kind or another. They distract us from being "in the moment" and flood us with both constructive and destructive ideas on virtually every subject or issue. Clearly, there is more information and opinions than we could ever hope to digest.

Enter the old saying, "Don't miss the forest for the trees". Of course, easier said than done. The tidal wave of information present in our day creates trees so diverse, so interesting, and distracting that it is easy to forget they are, in fact, part of a forest. Anyone, or even any group, can cause us to miss the bigger picture.

This is a financial newsletter, so I won't meander into the weeds to discuss all the problems that arise from this phenomenon but, suffice it to say, there are many. With regard to financial management, it encourages us to have unrealistic expectations about our ability to anticipate what will happen next and become fixated on short-term success or failure. In combination, these two misguided notions can be catastrophic to our long-term financial success.

Alternatively, research clearly shows that successful investment/financial outcomes are far more likely when adopting a long-term, big-picture mindset. This is the obvious "forest". Let's not fail ourselves by unnecessarily trading the simple for the complex.

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Don’t Miss the Forest for the Trees

Wayne Cravens

Markets around the world struggled in 2022, far more than any in recent memory. All major asset classes, other than commodities (energy), were in the red. Not since 2008, have so many asset classes been negative. The year was especially painful because every major bond index was negative for the year. Usually, stocks and bonds have low correlations, but not last year. Since most investors (individuals, endowments, pension funds), rely on bonds to buffer stock volatility, the pain was virtually universal. In a year where there is almost no place to hide, our client portfolios were down as well but suffered less than their benchmarks.

Some of the factors which drove the repricing of assets are moderating, and 2023 results thus far have been positive for both stocks and bonds. The main contributors to last year’s fall in asset prices were 40+ year highs in inflation and the Federal Reserve’s aggressive efforts to reign it in. As lagging and coincidental indicators now show inflation is declining in most products, the Fed recently signaled they may slow the pace of their rate hikes. We are also seeing indications that China’s reopening is picking up pace. On the flip side, pricing inflation on services and wages is proving more stubborn, the Federal debt is out of control and lawmakers are reluctant to increase the “debt-ceiling”, and the Russian invasion of Ukraine shows no sign of ending. Any one of these problems would create tremendous economic uncertainty. Collectively, they create a concerning picture for the world’s economy.

So, should we be concerned? Of course, how could we not. But, should we allow our concerns to cause us to make unhealthy financial or investment decisions? History tells us the answer to this question is a resounding, NO! One of the most-unhealthy investment decisions we can make is to try and “time” market investments.

There is an old allegory depicting a conversation between the fabled detective Sherlock Holmes, and his trusted companion, Watson. It goes like this:

Sherlock Holmes and Watson go camping. One night, after a great meal they lay on their backs and go to sleep. In the middle of the night, Holmes elbows Watson and says, "Wake up, what do you see?" Wanting to impress his companion, Watson says, "Gorgeous sky with stars everywhere."

Holmes grumbles and asks again, "What do you see?" Watson replies "Astrologically, I see millions of galaxies and billions of stars. Meteorologically, I see we will have a beautiful clear day tomorrow. Logically, I see it's around 3:00 AM".

Holmes grumbles again and asks, "What do you see?" Watson replies, "Well, theologically, I see there's a big God up there, and we are really small. Holmes, what do you see?"

Holmes replies, ***"I see someone has stolen our tent."***

Clearly, Watson missed the big picture. He was lost in the details, trying to impress Holmes. Given the amount of information we receive every day, it is easy for us to miss the big picture as well. What should we do about inflation, a potential recession, the China situation, the war in Ukraine? These are questions we can't answer because we aren't clairvoyant.

Making guesses, educated or not, on the short-term direction of any investment is a fool's errand. Long-term data is convincing that publicly-traded markets are generally efficient, with the current price factoring in all known information. Therefore, only new information causes changes in asset prices. It is also often true that, when the situation feels the worst, most of the bad conclusions are already reflected in the current price.

For investors, publicly traded markets are both a blessing and a curse. We are blessed to have highly-regulated, generally-transparent markets that allow us to own a portion of companies which would otherwise be closed to us. Also, the size of our markets provides a degree of liquidity that isn't available in owning private companies or real estate.

However, there is a dark side to these benefits that can rob us of success. The "curse of information" exacerbates the human emotions of fear and greed and can encourage us to speculate, rather than invest methodically/logically. The media and financial industry are happy to encourage and then feed upon our emotions, because that's the way they make money. Unfortunately, in succumbing to their insidious whispers in our ear, we forfeit our greatest asset – time.

Over time, the noise affecting markets generally fades and companies' financial results become the final judge. Over the years, we've studied and/or watched many calamities impact our economy, and the companies that drive it. Recessions and depressions, world-wars, energy-crisis, hyper–inflation, and pandemics to name a few. They are real and deeply concerning but, time and again, capitalistic markets work, through good times and bad.

We don't want to miss the forest for the trees and play the "loser's game". Certainly, big challenges lie ahead. But, attempting to time markets would put us squarely against the odds. Instead, let's continue to rely on sound investment principles and let time take care of the rest.

SECURE Act 2.0

Drew Martin

What You Need To Know

On December 29, 2022, President Biden signed into law a $1.7 trillion spending package. The package includes the SECURE 2.0 Act, a series of provisions that will affect the way many Americans plan and save for retirement.

SECURE 2.0 builds on the SECURE Act of 2019, which, among other measures, increased the age at which retirees must take required minimum withdrawals (RMDs) from 70½ to 72. Key provisions in the new package include additional increases to the RMD age, as well as less severe penalties for failing to take an RMD. In addition, savers over the age of 50 will be able to make larger catch-up contributions beginning in 2025.

Many of the SECURE 2.0 Act's provisions take effect January 1, 2023. Still, others may take years to implement. Here's what you need to know about SECURE 2.0 and how it may affect your retirement plan.

#1: Changes to Required Minimum Distributions (RMDs)

To keep people from using retirement accounts to avoid paying taxes, the IRS requires individuals to begin taking minimum distributions from certain qualified accounts once they reach a certain age.

The SECURE Act of 2019 increased the age at which individuals must begin taking required minimum distributions (RMDs) from 70½ to 72. SECURE 2.0 raises the RMD age to 73 beginning January 1, 2023. In 2033, the RMD age will increase to 75.

Keep in mind if you turned 72 in 2022 or earlier, you'll need to continue taking your annual RMDs. If you turn 72 in 2023 and have already scheduled your RMDs this year, you may want to consider delaying withdrawals until they become mandatory.

Moreover, the IRS previously imposed a penalty of up to 50% for failing to satisfy your RMD before the deadline. SECURE 2.0 reduces the penalty to 25% of the RMD amount and 10% if an individual corrects the discrepancy in a timely manner. In addition, Roth accounts in employer retirement plans will be exempt from RMDs beginning in 2024.

#2: Increases to Catch-Up Contributions per the SECURE 2.0 Act

Since 2001, the IRS has allowed those aged 50 or above to make catch-up contributions to qualified retirement plans. In 2023, individuals over the age of 50 can contribute an additional $1,000 to an individual retirement account (IRA). Currently, this amount isn't indexed to inflation. However, that will change beginning in 2024.

Meanwhile, those 50 years old and above can contribute an additional $7,500 to an employer-sponsored retirement plan in 2023. Beginning in 2025, individuals between the ages of 60 and 63 can make annual catch-up contributions up to $10,000 to a workplace plan. This amount will continue to be indexed to inflation.

It's important to note that if your income exceeds $145,000 in the previous calendar year, you'll need to make your catch-up contributions to a Roth account in after-tax dollars. Those earning less than $145,000 are exempt from this requirement.

#3: Employer Matching for Roth Retirement Accounts

Prior to SECURE 2.0, matching in employer-sponsored retirement plans was on a pre-tax basis only. According to the new law, employers will be able to offer employees the option of receiving matching contributions to their Roth retirement accounts.

Since Roth contributions are made after taxes, earnings within the account and future withdrawals are tax-free in most cases, making this a potentially meaningful change for some retirement savers. However, it may take time for employers to make this option available due to administrative hurdles.

#4: Changes to Qualified Charitable Distributions (QCDs)

If you don't need your RMD, the IRS allows you to donate it to charity through what's called a qualified charitable distribution (QCD).

A QCD allows IRA owners to transfer up to $100,000 directly to charity each year before the RMD deadline. However, not all charities are eligible to receive QCDs.

SECURE 2.0 expands which types of charities can take QCDs. Beginning in 2023, individuals above age 70 ½ can make a one-time gift up to $50,000 to a charitable remainder unitrust, a charitable remainder annuity trust, or a charitable gift annuity as part of their QCD limit.

#5: Provisions for Younger Retirement Savers

The SECURE 2.0 Act also includes provisions to help younger workers save for retirement. For example:

Automatic enrollment and automatic plan portability. Beginning in 2025, the new law requires employers offering new 401(k) and 403 (b) plans to automatically enroll eligible employees at an initial contribution rate of 3%. It will also provide the option for employees with low-balance retirement accounts to automatically transfer their balance to a new plan when they change jobs.

Emergency savings within defined contribution plans. Starting in 2024, employers can add a Roth emergency savings account option to defined contribution retirement plans. Non-highly compensated employees can contribute up to $2,500 annually, which may be eligible for an employer match depending on the plan's rules. In addition, their first four withdrawals per calendar year will be tax-free and penalty-free.

Student loan debt. Beginning in 2024, employers can "match" an employee's student loan payments by contributing an equal amount to a retirement account on their behalf.

529 Plans. SECURE 2.0 allows 529 plan assets to be rolled over to a Roth IRA—subject to annual Roth contribution limits and a lifetime limit of $35,000—after 15 years. The Roth IRA must be for the 529 plan beneficiary.

We can Help You Navigate the SECURE 2.0 Act

Indeed, these are just a few of the SECURE 2.0 Act's key provisions that may be impactful. Ideally, this summary can help you better understand the changes coming, so you can plan accordingly. With that said, it's also important to note that this is complex legislation with many rules and caveats.

We're here to help. If you have questions, please email us at: info@cravensco.com or call us at: 931-528-6865. We are already factoring these changes into your long-term retirement plan, but we also want to ensure both you and we have the correct information. We look forward to hearing from you.

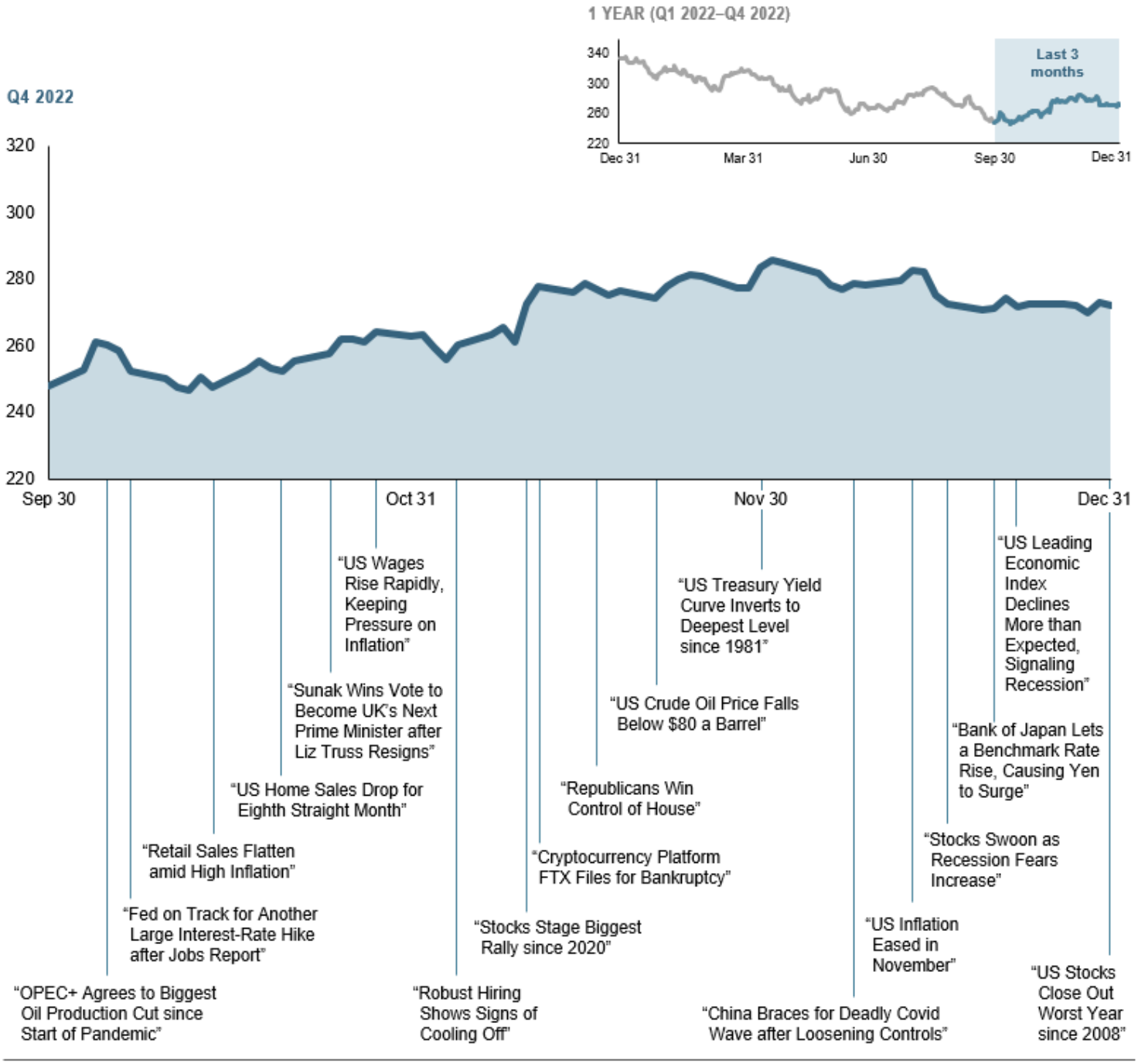
the Secure Act 2.0

key points for individuals

RMD Age Increase	Beginning 1/1/23, the new beginning age for RMDs will be 73. By 2033, the age for RMDs will be pushed back further to 75.
Catch-Up Contribution Changes	For 401(k)s, the catch-up contributions are being increased for those ages 60-63 to $10,000, starting in 2024. These catch-up contributions will have to be Roth for individuals making > $145,000/year
529 Accounts to Roth IRAs	529s will be allowed to rollover tax-free to Roth IRAs, with significant restrictions. Among other restrictions, the total amount allowed to be rolled over in aggregate is $35,000.
Increased Roth Flexibility in 401(k)s	Employer matching contributions will be allowed to be Roth. In addition, employee contributions to SEP and SIMPLE IRAs will now be allowed to be Roth.
Student Loan Matching	Starting in 2024, employers will have the ability to match student loan payments with retirement contributions, which will help young investors to begin saving for retirement even if they can't afford to contribute to their 401(k) plan just yet.
Auto-portability	A plan provider can now transfer a participant's retirement savings from a previous employer to their new one, unless the participant elects otherwise.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q4 2022



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2023, all rights reserved. Index level based at 100 starting January 2001.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio.
Past performance is not a guarantee of future results.

Market Review

Woody Welch
Jennifer Cross

Market Recap

An extremely difficult year in the financial markets ended with a thud for U.S. stocks. After a 14% rally in October and November, the S&P 500 Index dropped 5.8% in December to close out the year with an 18.1% loss, its largest annual decline since 2008.

Foreign stock markets held up much better in the fourth quarter. Developed international stocks (MSCI EAFE Index)[1] gained 17.3% --- one of their best quarters ever -- and Emerging Market stocks (MSCI EM Index)[2] were up 9.7 %. For the full year, developed international stocks were down 14.5% in dollar terms (almost four percentage points better than the S&P 500)[3], while EM stocks were down a bit more than the S&P 500[3] with a 20.1% drop. These annual returns were despite the U.S. dollar (DXY Index)[4] appreciating 8.3% for the year, which reduces dollar-based foreign equity returns one-for-one. In the fourth quarter, however, the dollar dropped 7.7%, providing a tailwind to EM and international equity returns for U.S. investors.

Turning to the fixed-income markets, core investment-grade bonds (Bloomberg U.S. Aggregate Bond Index, aka the "Agg") had a solid fourth quarter, gaining 1.9%. But this was still the worst year for core bonds in at least 95 years, with the Agg dropping 13.0%. The key driver, of course, was the sharp rise in bond yields; the 10-year Treasury yield ended the year at 3.9%, up from just 1.5% a year prior. High-yield bonds (ICE BofA Merrill Lynch U.S. High Yield Index) had a strong fourth quarter, up 4.0%, but were down 11.2% for the year. Flexible/nontraditional bond funds (Morningstar Nontraditional Bond category) declined 6.3%, roughly half as much as core bonds.

Portfolio Performance and Key Performance Drivers

For 2022, all of our model portfolios beat their benchmarks. Positive contributors included positions in flexible, actively managed bond funds and short-term bonds which declined much less than the core bond index. Our Quality Focus stock portfolio continued to shine, performing much better than the overall stock market, while our Broad Market Stock strategy benefited from an emphasis on smaller companies and international companies. Real Estate did not provide the diversification we expected during the decline. Our Risk Managed strategy lost, but roughly half what would be expected. Having a small position in hedged strategies did provide a positive return, reducing overall portfolio volatility. We are thankful to lose less than most investors, but losing is still painful.

Investment Outlook and Portfolio Positioning

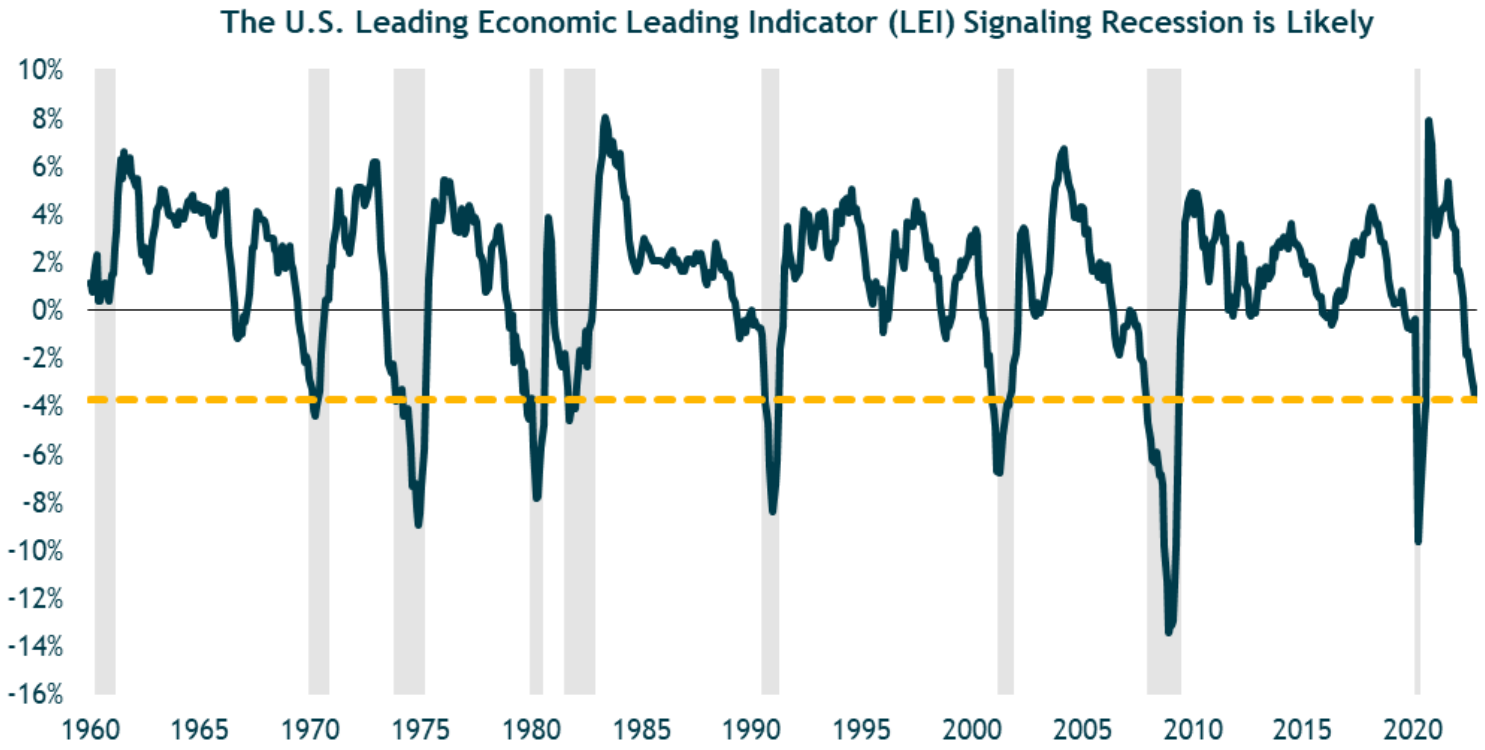
Inflation and monetary policy remain the financial markets' key macro focus. U.S. headline inflation data have improved, suggesting we've seen the peak in inflation for this cycle. Various measures of core inflation (i.e., excluding food and energy) have flattened, but remain at 5% or 6%, far above the Federal Reserve's 2% target. The Fed's message has been clear that it intends to maintain restrictive (tight) monetary policy throughout 2023. Indeed, at its December 14 meeting, the Fed raised the fed funds rate by 0.5% to a target range of 4.25% to 4.50%. It also forecasted 75bps of additional rate hikes in 2023.

Inflation is not just a U.S. problem. Nearly all the other major global central banks (except Japan and China) are also continuing to hike interest rates in their countries. For example, both the European Central Bank (ECB) and the Bank of England hiked their policy rates another 0.5% in December. These synchronized global rate hikes will further depress global aggregate demand and economic growth over the shorter term. It's also typically a headwind for stocks.

On the economic growth front, key leading indicators deteriorated further in the fourth quarter. The Leading Economic Indicator (below), which has a long track record of "calling" recessions, has fallen for nine consecutive months (and likely will again in December). This has never happened without an ensuing recession.

While we weigh the evidence as leaning strongly towards recession, there are some positives supporting the economy that should mitigate the severity of a U.S. recession if and when it happens. First and foremost, the labor market remains strong, enabling consumer income and spending growth; monthly job growth (nonfarm payrolls) has also remained solid, increasing by 263,000 in November; weekly new unemployment claims (a leading indicator for the labor market) remain low, though they are ticking higher.

Households also still have huge "excess savings" stemming from the pandemic – about $1.5 trillion (down from $2.3 trillion) that can support additional spending even as the Fed tightens. Business balance sheets are also generally in good shape, with many firms having refinanced their debt at low rates prior to this year's sharp rise. More broadly, there don't appear to be any major, systemic, economic/financial icebergs lurking under



LEI shown is six-month rate of change for the index. Dashed line represents lastest reading. Shaded regions represent NBER-defined recessions. Source: Bloomberg LP. Data as of 8/31/2022.

the surface, e.g., unlike in 2007-08 with the housing/mortgage derivatives market.

To the above list of macro positives, we'd add a significant new development in the fourth quarter: the unexpected and sudden abandonment of China's highly restrictive zero-COVID policy. Zero-COVID has been the key driver of China's economic slump the past two years. But now the most repressive measures – mandatory testing, quarantines, community lockdowns and travel restrictions – are being revoked. The reopening of China's economy for domestic consumers should be a catalyst for a growth rebound in 2023.

The bottom line is that a U.S. recession next year is not a certainty. But based on the evidence, we think it is highly likely. On the positive side, it should be milder than the 2007-08 and 2000-01 recessions.

Closing Thoughts

As 2022 has reminded investors, we should "expect the unexpected, and expect to be surprised." This is expressed in our portfolio construction and investment management via balanced risk exposures, diversification and forward-looking analysis that considers a wide range of potential scenarios and outcomes.

We believe 2023 will likely present us with some excellent long-term investment opportunities. Unfortunately, we also expect a recession and the potential for stock market volatility.

While challenging, it is critical for long-term investors to stay the course through these rough

periods. The shorter-term discomfort is the price one pays to earn the long-term "equity risk premium" – the additional return from owning riskier assets such as stocks that most investors need to build long-term wealth and achieve their financial objectives.

Outside of the U.S. stock market, we already see attractive medium-term expected returns from international and emerging markets stocks. (With a recession they will likely get more attractive.) A declining dollar, as we expect medium-term, would further fuel non-U.S. equity returns.

Fixed-income assets and high-quality bonds are also now reasonably priced with mid-single digit or better expected returns. Core bonds will also provide valuable portfolio ballast in the event of a 2023 recession.

From all of us at Cravens & Company, we wish you and yours a healthy, happy, and prosperous New Year.

Sincerely,

Your CCA Investment Team

[1]The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.
[2]The MSCI Emerging Markets Index is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.
[3]The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is a market value weighted index with each stock's weight in the index proportionate to its market value.
[4]The U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.

Your Financial Advocate

You have goals you want to achieve… places you hope to go… things you want to do… people you desire to spend time with.

These dreams have motivated you over the years to work hard and to sacrifice.

Fully realizing your dreams also takes planning and execution to get them "over the top".

Whether you aspire to…

> ...travel the world with your spouse…
> …spend more time on hobbies like flying, cooking, or wine collecting…
> ...live on a ranch in the country or a cabin in the mountains…
> ...create a legacy for your children and grandchildren…
> ...support the charities and causes that you hold dear...

We can help you create and execute a comprehensive plan for financial success. One that will give you the confidence to spend your free time on the other things that are important to you.

At Cravens & Company Advisors, our mission is to help successful individuals and their families realize and enjoy their life goals. We are an SEC-Registered Investment Advisor that combines holistic planning, personalized investment management, tax and estate strategies, and business planning with a proactive, solutions-oriented mindset. The result is a fiduciary with a plan and a culture centered on your success; however you define it.

Since 1996, we have been serving the specialized needs of family businesses and their owners, professionals, and successful retirees. While prudent investment advice is a foundational component of our service, we believe developing an intimate understanding of your overall financial situation and goals is essential to formulating your strategy. Our holistic approach enables the development of solutions with the highest possibility for success. Because goals cannot be measured by return, we benchmark our progress as a firm in the same way you do as our client; by successful outcomes.

As we discuss your situation, goals, and concerns; we hope you will recognize the benefits that come with our independence and objectivity. As your fiduciary, we are held to the highest standard of transparency, objectivity, and disclosure. Simply put, we have not only an ethical but also a legal requirement to always act in your best interest.

Our goal is to provide each client with the leadership, relationship, and creativity needed to allow them to achieve their life's goals and, even more importantly, the confidence to enjoy the journey. After all, what is the point of all the work and worry if you do not get the satisfaction of realizing the results?

At Cravens & Company, we have a team that is by design, ready to work for you. If you have complex financial issues and/or desire a relationship of this type, please contact us to arrange an introductory meeting. We can be reached at 931-528-6865 or by email at info@cravensco.com.

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