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Wealth Management

WEALTH OF KNOWLEDGE

NEWSLETTER COVERING THE WEALTH CONTINUUM

The Market and the Elections

As we approach the end of the first quarter of 2024, the market has managed to continue to climb, even with headwinds such as geopolitical conflicts and elevated interest rates still prevalent features in the daily newsfeed. Although investors remain concerned about prices at the grocery store, one worry overrides all others: the election. According to a recent investor survey by Janus Henderson, over 78% of investors cite the election as their biggest worry in 2024.

So, what do we know so far about the election? Even though we are in the early stages of the election cycle, now that Super Tuesday is over it appears a rematch between Biden and Trump is a highly probable outcome.

The question is, is it important—at least from an investment perspective—who wins the election? A review of historical data indicates that there is limited correlation between national election outcomes and capital market performance. Even though election results can impact government policy, laws and foreign relations, data studied over the past 85 years indicate there is minimal impact on financial market performance based on possible election outcomes.

The average return of the S&P 500 Index between 1937 and 2022 shows that election-year returns have on average been positive for portfolios. Specifically, the average return from 1937 to 2022 of the S&P 500 was 11.9%. In non-election years, it was 12.5%, and in election years it was 9.9%.* So, while election years have been less accretive to portfolio returns, they still have historically been positive.

Conversely, economic and inflation trends show stronger and more consistent effects on market returns than election outcomes. Rising growth and falling inflation are a combination that has often led to returns above long-term averages while the opposite often corresponds to below-average market returns. Earnings trends are a more reliable indicator of market returns than presidential elections.

This does not mean there will never be a negative impact on the markets due to a change in leadership which cause changes in policy (i.e. taxes). But the actual election is unlikely to create anything more than short-term volatility and should not impact long-term investment strategies.

The 24-hour news and social media torrents have been significant contributors to the rise of investor anxiety over the past several election cycles. Combined with financial concerns, this formula makes emotions run high and impact investors' moods. This can lead to poor decisions which can impact long-term financial goals.

It is important to consider your time horizon in the allocation of your investment portfolio. If you are pre-retirement or in the early

stages of retirement, you could have a 20-30 year time horizon for your investments, and time should help smooth the volatility inherent in capital markets. Review your allocation to ensure it is appropriate for your long-term goals, rebalance if necessary, and stick to your strategy.

However, if you are in the later stages of retirement, a thorough review of your allocation—and some adjustments—could ease some of your anxiety. A condensed time horizon means less time to recover from market downturns. Perhaps a less risky portfolio, with a higher amount in cash or bonds, could provide greater peace of mind. A review from a financial professional can help you see the impact of this on your overall plan.

Besides the financial impact of the election, there is also an emotional impact that cannot be discounted. Statistics show that investor sentiment directly correlates with whether the side they prefer won or not. Since it is such a polarizing event, full of often nasty rhetoric, it is important to protect yourself from becoming overwhelmed from the news cycle. Stay informed, but don't let the news rule your day. It is a long cycle, and your mental-and physical health are more important than the outcome of one election.

No matter what happens, it is best to stick to your financial plan. If it needs updating, this is a great time to do it, as you may not be able to control the election results (besides voting), but you can control your own financial picture. This election year will eventually be over, but decisions you make regarding your finances should be based on your goals, not the results of the election. As always, our team at CNB Wealth Management is here to answer your questions and help you to meet all your financial goals.

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*Source: Janus Henderson

There's Still Time to Fund an IRA for 2023

The tax filing deadline is fast approaching, which means time is running out to fund an IRA for 2023. If you had earned income last year, you may be able to contribute up to $6,500 for 2023 ($7,500 for those age 50 or older by December 31, 2023, $1,000 of which is considered a catch-up contribution) up until your tax return due date, excluding extensions. For most people, that date is Monday, April 15, 2024.

You can contribute to a traditional IRA, a Roth IRA, or both. Total contributions cannot exceed the annual limit or 100% of your taxable compensation, whichever is less. You may also be able to contribute to an IRA for your spouse for 2023, even if your spouse had no earned income.

Traditional IRA contributions may be deductible

If you and your spouse were not covered by a work-based retirement plan in 2023, your traditional IRA contributions are fully tax deductible. If you were covered by a work-based plan, you can take a full deduction if you're single and had a 2023 modified adjusted gross income (MAGI) of $73,000 or less, or married filing jointly with a 2023 MAGI of $116,000 or less. You may be able to take a partial deduction if your MAGI fell **within** the limits below. You may **not** take any deduction if your MAGI is above the upper limits here:

- Single/Head of household $73,000 - $83,000
- Married filing jointly $116,000 - $136,000
- Married filing separately $0 and $10,000

If you were not covered by a work-based plan but your spouse was, you can take a full deduction if your joint MAGI was $218,000 or less, a partial deduction if your MAGI fell between $218,000 and $228,000, and no deduction if your MAGI was $228,000 or more.

Consider Roth IRAs as an alternative

If you can't make a deductible traditional IRA contribution, a Roth IRA may be a more appropriate alternative. Although Roth IRA contributions are not tax-deductible, qualified distributions are tax-free. You can make a full Roth IRA contribution for 2023 if you're single and your MAGI was $138,000 or less, or married filing jointly with a 2023 MAGI of $218,000 or less. Partial contributions may be allowed if your MAGI fell **within** the limits below. You may **not** contribute to a Roth IRA if your MAGI is above the upper limits here:

- Single/Head of household $138,000 - $153,000
- Married filing jointly $218,000 - $228,000
- Married filing separately $0 - $10,000

Tip: If you can't make an annual contribution to a Roth IRA because of the income limits, there is a workaround. You can make a nondeductible contribution to a traditional IRA and then immediately convert that traditional IRA contribution to a Roth IRA. (This is sometimes called a backdoor Roth IRA.) Keep in mind, however, that you'll need to aggregate all traditional IRAs and SEP/SIMPLE IRAs you own — other than IRAs you've inherited — when you calculate the taxable portion of your conversion.

A qualified distribution from a Roth IRA is one made after the account is held for at least five years and the account owner reaches age 59½, becomes disabled, or dies. If you make an initial contribution — no matter how small — to a Roth IRA for 2023 by your tax return due date, and it is your first Roth IRA contribution, your five-year holding period starts on January 1, 2023.

If you are unsure if your MAGI is below the limit to contribute to a Roth IRA for the current year, a good best practice would be to wait until the tax deadline in the following year to make a prior year contribution as well.

CNB Wealth Management is here to help. Reach out to your Relationship Manager for assistance and guidance regarding prior year contributions. Many taxpayers are unaware that they can make a prior year contribution to a Traditional or Roth IRA. If you can make a deductible Traditional IRA contribution, you'll save some money on taxes, too.

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CNC Shareholder Corner

Annual Shareholder Meeting

Wednesday, April 17, 2023

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