LET'S TALK MONEY®
May/June 2023

INVESTING IN THE MIDST OF VOLATILITY

The past couple of years have certainly emphasized the fact that investing has never been a sure thing. Stock prices fluctuated wildly and riskier investments like crypto reminded most of us of the definition of "extreme" risk. Global inflation, rising interest rates and geopolitical unrest further combined to roil markets and make investors nervous.

When stock prices and other investments decline in value and inflation soars, investors face a conundrum. Equities have historically been the hedge of choice when inflation is shrinking the value of your dollar, but recently the market downturn coincided with record inflation. According to S&P Dow Jones Indices LLC, the 2022 return for the Standard & Poor's 500 Index was down almost 20%.*

What Now?

In this environment, it's crucial to work with your financial professional to review your portfolio to identify any necessary changes to your investment strategy *(see infographic for younger and older investors on p. 2).*

If your investments are allocated with your time horizon and goals in mind, and if you have rebalanced your portfolio to account for falling equity prices, you may be able to wait for stocks to rebound. If it's safety you're after, look at fixed income investments — particularly of Treasury securities, whose yields have risen from near 0%.

IF YOU HAVE REBALANCED AFTER THE STOCK MARKET DECLINE, YOU MAY BE ABLE TO WAIT FOR A POTENTIAL MARKET REBOUND.

While you deal with current volatility, you may want to position yourself to take advantage of investments that do particularly well when equity markets rebound, or you may want to explore alternative investments. *(continued on page 3)*

Forbes.com, January 2023

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FR2022-1228-0094/E HNW

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I am committed to helping my clients achieve their financial goals for themselves, their families and their businesses by providing them with strategies for asset accumulation, preservation and transfer.

High Net Worth Version

WHEN INVESTING STRATEGIES DIFFER

There are certain things all investors may consider doing when equity markets are volatile. For example, if you own a stock that has underperformed its peers, find out why. Management changing direction may make the holding less appealing than in the past, or perhaps peers have passed this company by. Maybe the company is negatively affected by the economy, but is poised to recover when the economy does.

Steps to Take Depending on Your Age

But there are other things to consider that are appropriate for investors of different age groups. Younger investors may stay the course, as time typically helps even out short-term volatility (although past performance won't guarantee future results).

More seasoned equity owners without the time needed to recover from short-term volatility should review their portfolios to ensure they are positioned appropriately for their time horizons. As stock prices consistently gained over the past few years, it was easy to think that rising prices would never stop. Well, they did and investors who were caught with a high percentage of equities in their portfolios lost the most during the decline.

Tips for Investors of All Ages

Resist the urge to make it all back at once with even riskier investments. Consider keeping stocks poised to rebound as inflation and interest rate hikes subside, while holding on to those with a profitable history in recovering markets. And make sure that your portfolio consists of investments that are appropriate for your situation.

TIMES LIKE THESE

Volatile times can weigh on investors, but your financial professional can help you diversify your holdings to better meet your needs.

AGE 21-40
Time to Recoup Losses
Stay Invested
Invest Consistently

AGE 41-60
Different Needs
Varied Retirement Dates
Pay Attention to Time Horizon

AGE 61+
Retirement Nearing or Here
Preserve Your Principal
But Invest Some for Growth

EXPLORING FIXED INCOME

Investors typically flee to bonds when equity markets decline, but this asset class encompasses a few different types of investments. Here's a look at some of them:

Treasury Securities

This investment is your loan to the federal government. You can buy U.S. Treasury bills, which mature in a year or less. You may prefer Treasury notes, which mature between two and 10 years, or bonds, which mature after 10 years. Their interest rates are promised only when held to maturity, so you can lose money if you sell before that time.

When yields rise like they have with inflation, its increasingly likely that selling before maturity would net you less than the guarantee because prevailing higher yields are more attractive.

Agency Securities

This type of fixed income investment is either debt issued by a U.S. government or government sponsored entity (GSE). The latter, which includes agencies like mortgage providers Fannie Mae and Freddie Mac, does not offer a guarantee. The Small Business Administration and U.S. Postal Service are among other agencies issuing everything from bills to bonds.

Corporate Securities

Interested in investing in a part of the world's biggest companies, but you don't want the risk of equities? Corporate bonds might be your alternative. While they are typically less volatile than stocks, they aren't risk-free. The same bad news that affects stock prices, whether it's the economy or poor company performance, can also distress bonds.

Bonds are rated by ratings companies, and negative factors like these can lower the ratings of companies that issue bonds. When this occurs, companies typically must pay a higher interest rate on newly issued bonds. This means more risk, but potentially more reward. If you're worried about risk, look for corporate debt that is secured, which collateralizes the debt.

**Prices of fixed income securities may fluctuate due to interest rate changes. Investors may lose money if bonds are sold before maturity. You should consider the securities' investment objectives, charges, expenses, and risks carefully before you invest. The securities' prospectus, which can be obtained by calling your financial representative, contains this and other information about the fund. Read the prospectus carefully before you invest or send money.*

INVESTING AND VOLATILITY

(continued from page 1)

Alternative investments, from real estate and private equity to precious metals and collectibles, can help you diversify your portfolio. Beware, however, of putting too much into any one type of investment, and think hard before putting a penny into something you don't understand.

Take Solace

Meanwhile, if you do suffer capital gains losses, take solace in the fact the IRS will allow you to deduct some of them each year. A capital gain or loss is the difference between your basis, which is typically the historic cost of an asset or investment adjusted by certain previous deductions for depreciation and depletion, and what you get for selling it.

If your investments have a realized net capital loss, you can deduct up to $3,000 of the loss against your income annually if filing jointly ($1,500 if married filing separately). If your losses exceed the annual limit, you may carry losses forward to future years, deducting up to $3,000 per year against your income until your capital losses are exhausted. Talk to your financial and tax professionals to learn more.

TRADITIONAL BUT NOT DEDUCTIBLE

When investors examine their retirement investment options, they typically pay a great deal of attention to whether their contributions are deductible or not. There are a wide variety of investment accounts, from 401(k) and 403(b) plans, that offer this benefit regardless of income. For high net worth individuals, limits to how much they can contribute to these plans may leave them looking for another place to put additional monies.

The Roth IRA, which doesn't offer deductible contributions but does feature tax-free qualified distributions, is one place to look. However, high net worth individuals often get shut out of investing in a Roth IRA due to income restrictions.

So, where can these retirement investors go if they max out on other traditional qualified accounts and don't qualify for the Roth? A traditional, nondeductible IRA still offers potential tax-deferred gains. Talk to your financial professional to learn more.

IRA Rules

So why bother at all with a traditional IRA if you can't defer taxes on contributions? ***Potential tax-deferred growth*** of your investments is the four-word answer. Additionally, the percentage of your contributions to investment gain also won't be taxed when you begin distributions.

There are other alternatives, including taxable investments and potentially qualifying for the Roth in some years by shifting income, so talk to your financial professional to learn if this approach is right for you.

DO YOU NEED A TRUST?

While trusts are often complex, they offer high net worth families and individuals tax advantages and more control over how their assets are distributed to future generations. One of the more common and effective trusts used to accomplish these twin goals is an AB trust, which is also known as a credit shelter or bypass trust. This type of trust begins as a revocable trust, when you can make changes, and ends as an irrevocable trust.

When families and individuals want to retain some control over how their assets are distributed after they're gone while limiting the corrosive effect of estate taxes, any one of a variety of irrevocable trusts can accomplish this. Irrevocable trusts also shield assets named in these trusts from the public glare of probate court, while dictating how your estate will provide for family going forward.

AN AB TRUST IS A DUAL-PURPOSE VEHICLE THAT CAN ALLOW YOU TO PROVIDE INCOME TO A SURVIVING SPOUSE WHILE EVENTUALLY PASSING ON TAX-ADVANTAGED ASSETS TO BENEFICIARIES.

Multiple Advantages

How does this trust work? Part A of the trust provides income to the surviving spouse. When the second spouse dies, Part B kicks in for the benefit of the second spouse's estate and becomes irrevocable.

By dividing asset ownership among both spouses, the trust ensures the couple receives the maximum federal estate tax exemption, or credit, which in 2023 is $12.92 million per individual. This is key because a couple can lose part of one spouse's exemption if they haven't used it all.

While the estate can allow the surviving spouse to use the deceased spouse's remaining exemption, it has some limits. The AB trust provides more control, but it doesn't apply to the GST tax exemption and isn't recognized by some states.

An AB Trust can offer control, maximize tax credits and help ensure that assets pass to beneficiaries as intended.

If you want to leave financial means to a spouse after your death while also ensuring other beneficiaries ultimately receive the remainder of tax-advantaged assets, the AB trust is one way to achieve this.

Consult an estate planning attorney and your tax and financial professionals to learn if this type of trust is appropriate for your situation.

We Value Your Input...

Your feedback is very important to us. If you have any questions about the subjects covered here, or suggestions for future issues, please don't hesitate to call. You'll find our number on the front of this newsletter. It's always a pleasure to hear from you.

ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

January 18, 2023

Reference: **FR2022-1228-0094/E**
Link Reference: FR2022-1117-0074

Org Id: 23568

1. LTM High Net Worth Version May Jun 2023
   Rule: FIN 2210

The communication submitted appears consistent with applicable standards.

Reviewed by,

Jeffrey R. Salisbury
Principal Analyst

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Please send any communications related to filing reviews to this Department through the Advertising Regulation Electronic Filing (AREF) system or by facsimile or hard copy mail service. We request that you do not send documents or other communications via email.

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