SPRING 2023 VOLUME 13, ISSUE 2

THE LIGHT

A FREE QUARTERLY PUBLICATION OF
LIGHTHOUSE WEALTH MANAGEMENT, INC.

FINANCIAL CRISIS 2.0?

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The first quarter of 2023 has come to a close. Coming off a rough 2022 and heading into the new year, most of the investing world was a little bit tired of the downward trend in the markets. To kick off 2023, there seemed to be a bit of optimism in the air, especially given the fact the S&P finished up 4.4% and the Dow was up 12.4% in the 4th quarter of 2022. Much to our delight, the positive momentum continued as January was a fantastic month with the market climbing another 6.2%. Since Valentine's Day, the market has been on a little bit of a ride, mostly in the wrong direction.

Many of the same topics that dictated the market's direction last year are still very much with us today. Inflation, interest rates, and geopolitical tensions are the dominant players in the news cycle and justifiably so. But the interesting thing about the stock market is that it's usually something that's not being talked about that delivers the blow. Obviously the market doesn't like the unknown. The best algorithms and models in the world can't possibly factor in every scenario that can influence the market. Look no further than 9/11 and COVID-19 as examples.

In the middle of March, we saw something come out of nowhere yet again. We witnessed the collapses of Silicon Valley Bank and Signature Bank. The market reacted with some significant selling of bank stocks with names like JP Morgan Chase, Bank of America, and Wells Fargo losing close to 20% of their market value in just a couple of weeks. For a few days there was a bit of market panic that there could be a run on the banks. The Federal Reserve stepped in and provided liquidity to the two banks so that customers could get access to their money. In doing so also assured consumer confidence in the financial system at a much needed time. Thankfully, the skid has stopped and most bank stocks have begun to pare their losses.

One important takeaway from this is that some banks have very different business models and customers. SVB saw a surge of deposits over the last couple years as a result of the monetary and fiscal response to the pandemic. The vast majority of this influx was from tech startups, venture capital, and crypto currency. More than 95% of their deposit base was not FDIC insured. Now flush with cash the bank decided to look for yield and bought a lot of longer-term government bonds. Cue the fed interest rate hikes during 2022 and the bank's investments took a big downturn showing large losses, at least on paper. The combination of higher interest rates and high concentration to tech startups and venture capital is what led to its demise. To throw SVB and Signature Bank in with the likes of other regional and national bank names would be unfair. Those banks went too far out on the limb and it snapped.

The road to a recession might have been fast tracked by the recent turmoil in the banking sector. Lending standards will likely become more restrictive and fewer loans would result in less spending by consumers and businesses. The "good" news with a credit crunch is that inflation should cool further. The Fed signaled in their last meeting they might be nearing the end of rate hikes due to banks being tighter. There are even talks about the Fed cutting rates as early as June, anticipating a need to provide some stability to what appears to be an economy becoming more fragile. Where the market is headed in the short run is nearly impossible to predict. Whatever storm is ahead, or that we're already in, the market will be a leading indicator of where things are going. In other words, by the time the "all safe" signal is given to invest again, the market will have already passed you by. That's why staying in the market is far more important than trying to time it.

ALSO IN THIS ISSUE:

SECURE ACT 2.0

NEW RETIREMENT PROVISIONS FOR INVESTORS

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On December 29, 2022, President Biden signed into law the Securing a Strong Retirement Act, commonly known as SECURE 2.0. This law follows up on the original SECURE Act signed into law in 2019. The new law covers many changes to retirement provisions to increase retirement savings, encourage employees to save for retirement and increase access to retirement accounts. Most of the impact will come into effect in 2024.

The following is a summary of major provisions of this recent Act:

- The new law moves the Required Minimum Distribution (RMD) starting age to 73.Individuals turning age 72 during 2023 or later will start their RMD at age 73. This is an additional deferral from the original secure act which moved the age from 70 ½ to 72. Individuals who have already started their RMDs in prior years will not be impacted and will continue their withdrawals according to the IRS distribution tables.

- In 2033, the start date for RMDs will move again to age 75. Effectively, this means that anyone born after January 1, 1958 will have an RMD start age of 75.

- Currently there is a catch-up provision that allows anyone age 50 or older to contribute an extra $1,000 into their IRA for a total limit of $7,500. Beginning in 2024, this catch-up amount will be indexed for inflation, but will only be changed in increments of $100. The indexed amount is rounded to the nearest $100, so it may take several years for the catch-up $1,000 to move up to $1,100 depending on the rate of inflation.

- For employer plans (such as a 401(k)) the catch-up provision for individuals age 50 or over is currently $6,500 per year. Beginning in 2025, SECURE 2.0 moves this up to $10,000 for individuals between the ages of 60 and 63. One additional requirement for participants with wages in excess of $145,000, is that the catch-up contribution must be made as a Roth contribution. Currently, catch-up contributions can be made into either traditional IRA or Roth IRA accounts. This means the catch-up provision will not reduce taxable income since it is a Roth contribution. Participants with income under $145,000 will still be able to choose between a Roth or a traditional IRA for their catch-up contributions.

- Roth employer matches are now available starting in 2023. In the past, employers have been able to match employees' Roth 401(k), but the match was with pre-tax dollars. When these matching funds would be withdrawn, they would be taxable. Employers may now match employee Roth deferrals into the Roth portion of an employee's account.

- Beginning in 2024, 529 plans that are no longer needed for education can be transferred into a Roth IRA for the benefit of the beneficiary. To qualify, the 529 plan must have been in effect for at least 15 years and the amount transferred cannot exceed the total contributions made into the 529 plan in the most recent 5 years. In addition, the amount transferred is subject to the annual IRA contribution limits (currently $6,500 per year for those under age 50). Conversions could be made across multiple years until the full balance has been transferred. Although there is also a lifetime maximum conversion limit of $35,000.

- RMD penalties have been reduced from 50% to 25% beginning in 2023.

- SECURE 2.0 allows a plan participant to withdraw up to $1,000 annually for unforeseeable or immediate family needs relating to personal or family emergency expenses. These withdrawals are not subject to the 10% early withdrawal penalty for individuals under age 59 ½. Only one distribution can be made each year. The taxpayer has the option to repay the distribution within 3 years.

While there are many other provisions in the SECURE 2.0 Act, these are the most significant ones for investors to note.

IMPORTANT AGE MILESTONES TO CONSIDER IN 2023

CHRIS BEVINGTON, CPA, MTAX, CFP®

AGE	POSSIBLE ACTION
50	Catch-up contributions are allowed for IRAs and company retirement plans. The maximum catch-up contributions allowed for IRAs is $1,000 and for 401(k)s is $7,500.
55	Catch-up contributions are allowed for HSAs. The maximum catch-up contribution allowed is $1,000. The 10% early withdrawal penalty no longer applies to certain qualified 401(k)s or 403(b)s, if you separate from service at age 55 or later (age 50 for qualified public safety employees). This benefit is specific to each individual company employer plan, so you'll need to review details with your particular retirement plan to see if you qualify.
59.5	The 10% early withdrawal penalty no longer applies to IRAs or qualified retirement plans.
60	The earliest a widow or widower can start receiving Social Security survivor benefits is age 60. A person receiving survivor benefits, who qualifies for retirement benefits that are more than their survivor benefits, can switch to their own retirement benefit as early as age 62 or as late as age 70.
62	The earliest age an individual can start collecting retirement benefits from Social Security is age 62. Most retirees should consider waiting until full retirement age or later to begin collecting as benefit payments increase the longer an individual waits to start collecting.
65	Eligibility for Medicare begins at age 65. Generally you're first eligible to enroll for Part A and Part B starting 3 months before you turn 65 and ending 3 months after the month you turn 65.
66-67	The full retirement age (FRA) for social security benefits is age 66 if you were born from 1943 to 1954. The FRA increases gradually if you were born from 1955 to 1960 until it reaches 67. For anyone born 1960 or later, full retirement benefits are payable at age 67.

AGE	POSSIBLE ACTION
70	Maximum Social Security benefits are attained at age 70. Make sure not to delay benefits beyond this age.
70.5	Eligible age for Qualified Charitable Distributions (QCDs). You can give up to $100K directly from your IRA to a qualified charity. This reduces your taxable incomemeven if you are unable to itemize.
73	Required Minimum Distributions (RMDs) now begin at age 73. (Those who were age 72 or older in 2022 must already be taking RMDs.) The first RMD is due by April 1 of the year after reaching age 73. Subsequent RMDs must be taken by 12/31 of each year after.

MARKET RECAP

How the major indices performed in the 1st Qtr. 2023:

DOW JONES INDUSTRIAL AVERAGE
1st QTR. RETURN: 0.38% YTD RETURN: 0.38%

S & P 500 COMPOSITE
1st QTR. RETURN: 7.05% YTD RETURN: 7.05%

RUSSELL 2000
1st QTR. RETURN: 2.34% YTD RETURN: 2.34%

BARCLAYS AGGREGATE BOND
1st QTR. RETURN: 2.73% YTD RETURN: 2.73%

NASDAQ COMPOSITE
1st QTR. RETURN: 16.77% YTD RETURN: 16.77%

All indices are reported Total Return which includes Dividends

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