SUMMER 2023

the FINANCIAL INSIGHTS UPDATE

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APPROVED

By Donna Esposito Complex Risk Officer at 5:56 pm, Jun 02, 2023

Morgan Stanley

Coming to Terms with Stocks

With all of the volatility in the stock market recently, it can be difficult to determine how to devise an investment strategy to help reach your financial goals. To help you determine a reasonable rate of return to expect on your stock investments, it might be instructive to review some facts about the stock market:

✔ **The stock market's historical return can change dramatically depending on the period considered.** For instance, from 1926 to 2022, the Standard & Poor's 500 (S&P 500) had an average annual return of 10.1%. From 1998 to 2022 (25 years), the average return was 7.7% and 12.4% from 2013 to 2022 (10 years).*

✔ **The market tends to revert to the mean.** There is a tendency for the stock market to revert back to the average return when it has an extended period of above- or below-average returns.

✔ **History may not be a good predictor of future returns.** The expected rate of return for your investment program is typically based on an analysis of past returns, since no one can predict future returns. However, realize those returns may not be replicated in the future. During much of the stock market's history, the United States was in a substantial growth phase. Growth in the future may not approach those levels.

✔ **The pattern of actual returns affects your investment balance.** Even if you get the average rate of return exactly right, your portfolio's balance will depend on the pattern of actual returns during that period. Some years will experience higher-than-average returns, while other years will have lower or even negative

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Why Budgets Are Important

For most of us, a budget is arduous and time-consuming, but it is the first step in securing your financial future. Planning is critical and you need to know how you are spending. The merits of a budget include:

The Foundation for Establishing and Reaching Financial Goals — You need to understand your overall financial situation to set financial goals. The first step is to understand your income and expenses. Review your bank, credit card, and income statements for the past six to 12 months. Once you know where your money is going and if you have a surplus or deficit, you can establish goals.

Helping You Spend Based on Your Priorities — Now that you understand your financial picture and have established goals, you can begin to control your money instead of it controlling you. It will help you decide if you need to or want to make sacrifices to meet specific goals.

Building Wealth and Saving for Retirement — You can also begin to focus on the long term as part of your budget. Identify how much you can put toward savings and investments so that you can reach some of the goals you defined. You will be able to clearly see what spending you may have to reduce or cut in order to save. And retirement warrants special attention, so put away as much as possible. Even $100 a month can increase your savings by tens of thousands of dollars by the time you retire.

Reducing Stress — Feeling confident about your finances will significantly reduce stress and help you enjoy the benefits of your hard work. ✔✔✔

Coming to Terms

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returns. If you experience high returns in the early years, your portfolio's value will be lower than if those returns occurred in the later years.

✔ **Historical returns do not include several factors that investors must deal with.** Two of the most significant factors are inflation and taxes, which can significantly impact the value of your portfolio.

✔ **Investors have a difficult time earning historical returns.** Several studies have found that investors' returns tend to lag the overall market, since investors have a tendency to buy high and sell low.

What does all this mean to an investor? When designing an investment program, use a conservative estimated rate of return, since it may be difficult to earn the historical returns of the past. It's easier to start with a lower expected rate of return and find out later that your actual return is higher, which means you just need to save less. Consider these strategies when designing your investment program:

✔ **Take a fresh look at your financial goals.** Reevaluate your goals, how much you need to reach them, and how much you should be saving annually.

✔ **Save more of your income.** If you can't count on returns to provide growth in your portfolio, you should compensate by saving more of your income. Another strategy is to reduce your living expenses and save the reductions.

✔ **Invest in a tax-efficient manner.** Taxes are often a significant investment expense, so using strategies to defer the payment of taxes can make a substantial difference in your portfolio's ultimate size.

✔ **Adequately diversify your investment portfolio.** Typically, you do not know which asset class will perform best on a year-to-year basis. Diversification is a defensive strategy — it may help protect your portfolio during market downturns and help reduce your portfolio's volatility. Diversify your investment portfolio among a variety of investment categories.

✔ **Evaluate your portfolio's performance on an annual basis.** That way, if returns are lower than you targeted, you can make adjustments to your strategy.

Please call if you'd like to review your investment program. ✔✔✔

* Source: dqydj.com. The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market. Investors cannot invest directly in an index. Past performance is not a guarantee of future returns.

6 Signs You Need a Financial Plan

A clear financial plan helps you prepare for the future, brace yourself for the unexpected, and positions you to pursue goals. Below are six signs that it may be time for a financial plan.

You're planning (or just had) a big life change. New job. New baby. New house. All of those milestones and more are signs that you should be taking a big-picture look at your finances. When your life changes in big ways, it often brings with it changes in how you approach money.

You're worried about your finances — and your future. If money worries keep you up at night, a financial plan can help ease your mind. Whether you have immediate worries or are just feeling uneasy about what tomorrow may hold, you can regain control over your life by having a clear direction.

You're making good money, but you're not sure where it goes. If you want to turn today's income into tomorrow's wealth, you need a financial plan. That way, you'll be able to take the money you're earning today and use it to create a secure future.

You have financial goals, but you're not sure how to make them a reality. Does retirement seem like a distant dream? Do you wish you could upgrade to a bigger home, send your kids to college without taking on debt, or start a business? With a financial plan, you'll know what you need to do to make those dreams a reality.

You and your partner are fighting about money. If you and your partner can't see eye-to-eye on money issues, a financial plan might be part of the solution. Meeting with an objective third party can help you both understand where you stand and negotiate a path forward.

Your investments and finances are getting so complicated, it's difficult for you to keep track of everything. As your money and life get more complex, it can be difficult to manage all the details without help. A financial plan will help you identify the best ways to save, find ways to reduce taxes, and protect yourself against risk. With the help of your advisor, you'll be able to understand your total financial picture and take the steps necessary to achieve your goals. ✔✔✔

Financial Planning for Every Stage of Life

Financial planning is a lifelong process. And just as your life evolves, so should your financial plan. While everyone's financial plan needs to be customized to their personal situation, below are some financial planning tips for some of life's major stages.

Recent college graduate

New college graduates aren't usually thinking much about financial planning. But that's exactly the reason why young people need a financial roadmap. Once you score that first job, a financial plan can help make sure you're sticking to a budget, on track to pay off your student loans, saving for big goals, and even setting aside enough for retirement. Setting aside even small amounts now will mean you have to save a whole lot less when you're older.

Just married

A wedding is a good reason to take stock of your financial situation as a married couple. A clear financial plan will help ensure you're on track for your biggest shared goals. It will also help you tie up any financial loose ends, like changing the beneficiary designations on retirement accounts and insurance policies. In fact, it may be a good idea to start your financial planning before the wedding. Sitting down to talk about your finances and your goals can help make sure you're on the same page and avoid surprises after you tie the knot.

New parents

If you've just welcomed a bundle of joy into your home, you have a lot on your plate. It's easy to let financial planning fall by the wayside. But as your family composition changes, so should your financial plan. If you already have a plan in place, it may need a reset. And if you don't have one at all, you need to get one. Factors your plan needs to consider after you have children include making sure you have adequate life insurance coverage, getting started saving for college, and updating your estate plan to make sure your child will be provided for should the worst happen.

Big promotion

When you finally earn that big promotion, it will hopefully come with a corresponding bump in salary and other perks. You need a plan for what to do with the extra cash. And if your promotion came with benefits like stock options or deferred compensation, you need a plan for dealing with that as well. A financial plan will help you avoid the problem of lifestyle creep and make sure that the money you're earning is helping to pursue your financial goals.

Ready to retire

As your retirement date nears, you'll also need to do a financial check up. Even if you've been saving for years, a financial advisor can help you estimate how long your savings will last and what kind of income you can expect in retirement. Your retirement financial plan should also include suggestions about reducing risk in your investment portfolio as well as a plan for increasing your savings if necessary (such as working longer or delaying Social Security benefits). Your retirement financial plan may also address issues such as where you'll live (you may downsize or move to a less expensive location to stretch your budget) or how you'll pay for healthcare or long-term care as you age.

The bottom line: as your life changes, so should your financial plan. If it's time to update your financial plan — or to get started with planning for the first time — please call. ✔✔✔

Tips for Your 401(k) Plan

While 401(k) plan information may seem confusing, it is not as complex as it seems and may be vital to your retirement plans. Simply put: it pays to understand your 401(k) plan. Here are a few tips to help:

Market Data

	Month End			% Change	
Stocks:	May 23	Apr 23	Mar 23	YTD	12-Mon.
Dow Jones Ind.	32908.27	34098.16	33274.15	-0.7%	-0.2%
S&P 500	4179.83	4169.48	4109.31	8.9	1.2
Nasdaq Comp.	12935.29	12226.58	12221.91	23.6	7.1
Total Stock Market	41617.30	41511.46	41136.55	8.0	0.2
Precious Metals:					
Gold	1964.40	1982.55	1979.70	8.4	6.8
Silver	23.56	25.07	24.16	-0.8	8.2
Interest Rates:	May 23	Apr 23	Mar 23	Dec 22	May 22
Prime rate	8.25	8.00	8.00	7.50	4.00
Money market rate	0.53	0.51	0.48	0.33	0.08
3-month T-bill rate	5.30	5.07	4.68	4.35	1.12
20-year T-bond rate	4.01	3.80	3.81	4.14	3.28
Dow Jones Corp.	5.60	5.26	5.36	5.54	4.27
Bond Buyer Muni	4.63	4.43	4.42	4.64	4.42

Sources: Barron's, Wall Street Journal. An investor may not invest directly in an index.

Maximize contributions — As soon as you possibly can, begin making contributions to your 401(k) plan, contributing as much as your budget will allow.

Take advantage of employer matching contributions — If your company offers a matching contribution, make sure you contribute enough to take advantage of the maximum amount provided.

Diversify investments — Review your plan's investments carefully to make sure you select ones that fit your particular goals.

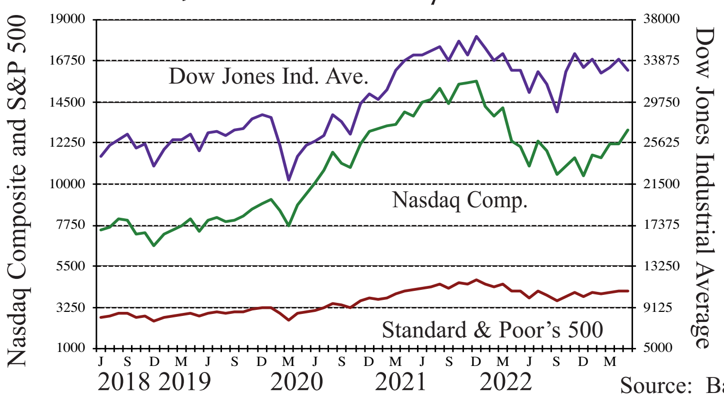
Limit company stock — Since your livelihood is already tied to that company, you don't want too much of your retirement funds to also be tied to the same company.

Review your plan annually — Go over all these other factors annually to make sure your 401(k) plan is on track.

Don't touch your plan for other purposes — If you leave or lose your job prior to retirement, make sure to protect your 401(k) plan. Don't be tempted to cash out your 401(k) plan. Either leave the funds in your former employer's 401(k) plan, or roll your balance over to an individual retirement account (IRA) or to another employer's 401(k) plan. ✔✔✔

Stock Indices

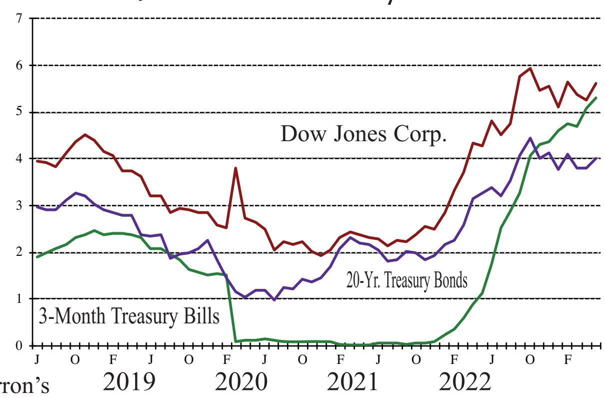
June 2018 to May 2023



Source: Barron's

Interest Rates

June 2018 to May 2023



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