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Investment Advisory Services Offered Through Legacy Wealth Asset Management, LLC dba Legacy Wealth, a Registered Investment Advisor.

Securities Offered Through M Holdings Securities, Inc. A Registered Broker/Dealer, Member FINRA/SIPC.

Legacy Wealth is independently owned and operated.

LEGACY WEALTH

October 1st, 2022

John and Mary Smith
1234 Apple Way
Woodbury, MN 55125

Dear John and Mary,

We hope this update finds you and yours doing well as you reflect on warm summer memories and look forward to what hopes to be a beautiful autumn. After officially reaching bear market territory back in June, the equity markets rallied over 17% over the next two months, only to swoon again over the last few weeks back into bear market territory. For the year, most of the major equity indexes are now down over 20% and the bond markets as are actually down 14.61% from Jan 1.[1] The bond market losses in value are due to multiple rate increases instituted by the Federal Reserve in an effort to squelch inflation, while hopefully not slowing growth too much, or pushing the economy into a deeper recession.

ECONOMIC UPDATE

After increasing rates 75 basis points two weeks ago, the Fed's aggressive stance on interest rates is expected to continue through the end of the year. Market expectations are assuming a 75 basis point increase in November and another 50 point increase in December. The Fed's objective is to bring inflation down to the 2-3% range by the end of 2023. They are continuing to press forward in this direction realizing the fallout from their aggressive stance against inflation will negatively impact corporate profits, employment, consumer confidence, housing, and overall business activity due to the higher cost of borrowing.

Whether you believe we are already in a recession, or possibly heading into one, the real question seems to be where we go from here. It seems logical that the Fed's objective of slowing economic growth is going to play out over the next several months. It also appears the market may be pricing that future slowdown into current market valuations based on the recent selloffs we have seen. The hope is that the inevitable slowdown will be both small in size and short in duration, whereby the Fed can stave off inflation without pushing the economy over the edge. If accomplished, ideally this would move us back to a slow growth, low inflation, low interest rate environment, which historically has proven to be very profitable for patient investors.

MARKET OUTLOOK

As we evaluate the uncertain terrain and the impact of Fed policies over the next several months, there are a number of factors that we are taking into consideration that encourage us to hold our course through this rough patch of uncertainty with the best possible outcome for your long-term planning objectives.

[1] Data obtained from YCharts September 30th, 2022

Valuations

As with many market downturns, equity valuations have been pushed down below their 25-year averages. In other words, quality stocks appear to be relatively inexpensive. Looking historically, after periods of undervaluation, equity markets tend to provide stronger average returns over the next 5 years.[2] Along the same lines, average market returns after reaching bear market status have also been very strong over the next several years. Even more so, recoveries from the bear market bottoms have averaged over 13% for 3, 5, and 10-year periods as reflected by the table below.[3] Although we may not have hit the bottom of this bear, our inability to accurately predict when we hit bottom encourages us to stay on course for the best outcome.

Bottom of the Bear Market (Month-Begin)	Subsequent Annualized Returns 3-Year	5-Year	10-Year
June 1970	16.63%	9.51%	9.20%
September 1974	20.02%	16.86%	15.63%
November 1987	15.92%	17.30%	18.72%
September 2002	16.72%	15.45%	8.01%
February 2009	25.56%	23.00%	16.51%
Average (Annualized):	**18.97%**	**16.43%**	**13.61%**

Data from All Financial Matters, March 31, 2020

Market Performance During Recessionary Periods

As a leading indicator of an upcoming recession, equity markets many times will see their greatest corrections before actually entering into a recession. Since the Depression, average market returns during recessions have surprisingly yielded positive returns. Accordingly, if you could have timed every recession perfectly, getting out on the first day of the recession, and back in on the last day you would have averaged 10.6% vs. 11.7% simply holding the course through the recession.[4]

Economic Indicators

Although a slowdown is evident and already beginning to play out, many leading indicators appear strong enough to weather a hopefully mild pull back. Corporate profits and housing starts are both still 40% ahead of their 15-year averages, and the JOLT Index (job opportunities) is at 200% of the 15-year average. Unemployment has averaged 6.3% over the last 15 years and we are currently at 3.7%. We are continuing to add jobs at a rate that is 400% above the quarterly average of the last 15 years, and retail sales are still 20% above their inflation adjusted 15-year average.[5] These economic realities are all likely playing a part in Chairman Powell's aggressisve stance on rate increases, believing an economic "soft landing" is still achievable.

Fixed Income Markets

Although a rising interest rate environment typically damages growth because of the impact on borrowing and the housing markets, there are some positives as well. One of the biggest positives as it pertains to your portfolio is that bond holdings that had previously been providing yields of 1-3% are now in the 5-7% range, which makes for a more favorable risk-reward relationship in fixed income holdings moving forward.

PORTFOLIO STRATEGIES

While it has obviously been a difficult year for equity markets, one of the most frustrating things in a rising interest rate cycle is what has happened to bond valuations, and correspondingly to moderately allocated (60/40) portfolios.

[2] JPMorgan Guide to the Markets June 30, 2022 (pages 6 and 12)
[3] All Financial Matters March 31, 2020
[4] How to Think About Investing During a Recession by Charlie Bilello
[5] Data from YCharts as of September 30th, 2022

Considering annual returns going back to 1928 of a portfolio allocated 60% to the S&P 500 and 40% in ten-year treasuries would be down over 20% YTD through 9/26/22, which has happened only two other times (1931 and 1937) in the last 94 years.[6] It is encouraging to note that although moderate portfolios do incur losses periodically, in 79% of those 94 years this allocation provided positive returns, and the average annual return going back to 1928 has been 8.45%.[7]

Rebalancing

As with all volatile periods in the market, we are continuing the discipline of buying low and selling high through strategic rebalancing where appropriate. This will help to both enhance returns and maintain proper asset allocation in line with your specific goals and objectives.

Tax Loss Harvesting

Although the obvious negative is that we actually have incurred losses in the portfolio, the positive is that we are taking advantage of the opportunities to harvest those losses to offset against realized capital gains for 2022, and future realized gains with capital loss carry forwards.

Legacy Portfolio Managers

We have continued to be encouraged with our selected managers and the strategies we have employed. Over 80% of our managers have continued to stay ahead of their indexes through Covid and during this recent Bear Market,[8] which has been encouraging. Although our allocation to alternative strategies is lagging so far this year, we believe we are well positioned to benefit from those allocations moving forward.

Please take some time to review your enclosed updates, and should you have any questions of concerns, please feel free to reach out. If we have not heard from you, we will keep in touch. As always, we consider it an honor and privilege to help you with your planning and look forward to doing so for many years to come.

Kindest Regards,

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[6] 60/40 Portfolio: S&P 500/US 10-Year Treasury (Total Returns, 1928-2022) by Charlie
[7] NYU Stern Historical Returns on Stocks, Bonds and Bills: 1928-2021
[8] Data from Envestnet as of September 30th, 2022

Economic Data Trends

Data Point	15-year Average	1 year ago	6 mo. ago	Current	Recent Trending Status
Unemployment Rate	6.3%	5.2%	3.8%	3.7%	Improving
Jobs Added last 3 months (thousands)	245	1763	1806	1134	Slowing
Participation Rate	63.4%	61.7%	62.3%	62.4%	Improving
Job Openings (mils)	5.352	10.783	11.283	11.239	Improving
Consumer Sentiment Level	80.5	72.8	59.4	58.6	Declining
Retail Sales last 3 months (bils)	1,200.66	1,643.08	1,714.58	1,791.35	Improving
Home Prices (Case-Shiller Reading)	182.92	263.68	284.77	305.32	Improving
Existing Home Sales Annualized (mils)	5.02	5.99	5.93	4.80	Declining
Housing Starts Annualized (mils)	1.058	1.576	1.777	1.575	Declining
US Corporate Profits After Tax (last 12 months) (bils)	7,129	10,094	10,999	11,464	Improving
Real GDP Growth Yr./Yr.	1.9%	7.0%	7.0%	-0.6%	Declining
Manufacturing (ISM PMI)	53.5	59.9	58.6	52.8	Slowing
Services (ISM PMI)	55.1	61.7	56.5	56.9	Slowing

Data obtained from YCharts as of September 30, 2022

Market Performance

Morningstar Target Risk Indices	3rd Quarter	YTD	3 Year Avg. Return	5 Year Avg. Return
Conservative	-5.32	-16.70	-1.59	0.82
Moderately Conservative	-5.33	-18.54	0.15	2.17
Moderate	-5.92	-20.91	1.14	2.95
Moderately Aggressive	-6.16	-22.82	2.21	3.74
Aggressive	-6.33	-24.15	2.90	4.26
Index	**3rd Quarter**	**YTD**	**3 Year Avg. Return**	**5 Year Avg. Return**
S&P 500 (US Large Cap)	-4.88	-23.87	8.16	9.24
Russell 2000 (US Small Cap)	-2.19	-25.10	4.29	3.55
MSCI EAFE (International)	-9.29	-26.76	-1.38	-0.36
MSCI Emerging Markets Index	-11.42	-26.89	-1.71	-1.44
Barclays US Aggregate Bond Index	-4.75	-14.61	-3.26	-0.27
Barclays US Treasury Bills 1-3 Month	0.47	0.63	0.55	1.10
Bloomberg Barclays US Corp. High Yield Index	-0.65	-14.74	-0.45	1.57
Bloomberg Commodity Index	-4.11	13.57	13.45	6.96
Dow Jones US Real Estate Index	-10.41	-28.35	-1.67	3.66

Data provided by YCharts and Morningstar as of September 30, 2022

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