

the BENCHMARK

BCS Wealth Management's Quarterly Newsletter



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By Scott Linn

Local Housing Market Update

The secret is out! Northeast Tennessee is a great place to live, and several national publications have recognized the region of late. Most recently, The Wall Street Journal/Realtor.com Emerging Housing Markets Index recognized Johnson City as the top emerging housing market. Johnson City began receiving recognition in the spring quarterly edition of the index, cracking the top 20 at number 17. In the summer ranking, Johnson City jumped to number three, and in the fall edition it reached the top.

The index cites features such as favorable economic and housing conditions with the cost of both housing and overall living below national averages.

The lack of income taxes in Tennessee is also a favorable consideration within the index. Johnson City's proximity to several lakes, rivers, and outdoor trails, including the Appalachian Trail, are also mentioned as attracting folks looking to relocate.

Speaking of relocation, nearly two-thirds of those looking at the Johnson City housing market are coming from outside the state of Tennessee. The same is true for the Bristol/Kingsport market.

Both the Johnson City and Bristol/Kingsport markets are in the top 20 of Realtor.com's Market Hotness Index. At least one of the two markets has cracked the monthly index since March 2022.

Realtor.com's Market Hotness Index measures "(1.) market demand, as measured by unique viewers per property on Realtor.com, and (2.) the pace of the market as measured by the number of days a listing remains active on Realtor.com."

Data from relocation companies PODS and U-Haul confirmed the remarkable interest in the region from outside the state. PODS cited Johnson City as the second most relocated-to city in its 2020-21 published list. U-Haul, according to their most recent growth index, recognized Tennessee as the third-fastest growing state, mentioning

both Johnson City and Bristol specifically as two of the fastest growing cities in the state.

It seems our region has certainly seen growth and increased demand in housing. However, an abrupt increase in mortgage rates prompted by the Federal Reserve Bank's efforts to slow inflation has caused a bit of a recent slowdown in the local housing market. According to the Northeast Tennessee Association of Realtors (NETAR), home sales in the region were down nearly 30% in November 2022 from 2021. While that might seem like a big decline, that still puts home sales in the neighborhood of where they were prior to the start of the pandemic, in what was considered a hot housing market at the time. Post-pandemic, homes were selling at a record pace for the region.

Home prices have also recently dropped in the region, though they remain above prices from a year ago and well above prices prior to the pandemic. According to NETAR, median home prices (the middle of the market) in the region fell to \$225,000 in November 2022, down

from the high of \$245,000 reached in August 2022. However, prices remain \$17,000 higher than a year ago and a whopping \$73,000 higher than the year prior to the pandemic.

While national headlines may read of a housing crash, and the local market has slowed from its peak, it still remains on relatively solid footing. In fact, according to NETAR, homes in the region are still selling faster than 2021

as measured by time on the market.

We certainly would not consider ourselves real estate experts at BCS Wealth Management, but we realize that a home is usually one of the largest, if not the largest, asset many people own. The value of a property can be an important piece of a financial plan. For questions about how your home or real estate might apply to your financial plan, reach

out to your advisor. We would also be more than happy to refer you to one of our many realtor friends for any specific questions regarding your home or real estate.

Scott Linn,
RMA®
Financial Advisor



Celebrating 25 Years

February will mark our 25th year in business! We couldn't be more excited to celebrate throughout the upcoming year!

Many of you will remember your first introduction to BCS Wealth Management (BCS Financial at that time) when we were located inside the CPA firm of our partner company, Blackburn Childers & Steagall, PLC (BCS). We were "headquartered" in what is now the kitchen of Building B for 13 years! In the last 12 years, we've outgrown that office and two others. However, we remain only a few yards away from where it all started.

Tommy Greer was the Managing Partner of BCS in 1998. When asked about the "why" of starting BCS Wealth Management, here is what he had to say:

"Prior to launching in 1998, the BCS partners and Jim Wilson discussed for many years the benefits and risks of starting a wealth management company. We knew being a 'fee-based' firm was unique at the time. Our initial strategy that we believed was in our clients' best interest was to manage a portfolio of no-load mutual funds – and nothing else – with a long-term perspective. This allowed

us to sit on the same side of the table as our clients. We wanted to make sure the clients knew there were no conflicts of interest, commissions, or incentives to manage one way over another. In addition, wealth management went hand in hand with the other services we offered, including tax and financial strategies, and more times than not our clients were asking us if we could provide this service for them."

Many things have evolved over the years. Regulations, rules, and laws have changed. Markets have been up, down, and everywhere in between. Yet we have remained consistent in our independence and laser-focused on taking care of our clients at the highest level. We've been blessed to grow substantially since our humble beginnings in 1998 and to be recognized by industry publications. More importantly, we've been fortunate to play a key role in making a positive difference in our clients' lives along the way.

This year we plan to celebrate and give back in many ways, including client events, giveaways, and community outreach. To kick off our year of celebration, we have established an annual scholarship fund at

two local universities, Milligan University and East Tennessee State University. We call it the "25 for 25." We will provide a \$2,500 scholarship to a deserving finance student at each university. For more details on this annual scholarship, please reach out to the respective university or our office.

We recognize that our team is a steward of what God has created and provided. We are blessed to be in business with so many clients, friends, and colleagues. We work hard every day to continuously earn your trust. On behalf of our partners and staff, I thank you, our clients and friends in the communities that we serve, for your trust and partnership. Our growth and ability to serve would not be possible without you.

Stay tuned for more celebratory happenings from around the firm. We hope to see you soon!

Nick Clay,
CFP®, CPWA®,
AIF®, AAMS®
Managing Partner &
Senior Financial Advisor





By Nathan Goodwin

Quarter Review

The New Year provides an opportunity for making resolutions and looking ahead. This is a welcome moment for investors who are ready to put 2022 behind them. The last days of the quarter saw any hopes for a “Santa Claus rally” vanish, with the S&P 500 essentially trading flat between December 19 and 30.

The S&P 500 ended lower by 19.4% for the year. This is the steepest yearly loss since the 2008 financial crisis, and it is the fourth-worst year since the creation of the index in 1957.

In fact, all three of the major U.S. indexes suffered their worst loss since 2008.

Making last year even more dire was a historic sell-off in bonds. The bond sell-off provided little place to hide for most investors.

Bonds, where we typically look for lower volatility and more consistent returns, had the worst year on record (Bloomberg U.S. Aggregate Bond Index), down 13%.

What were the catalysts for such a negative year? Although we can point to many causes, the two main culprits seem to have been high inflation and interest

| Major Stock Indexes | 4th Quarter 2022 | 2022 |
|--|------------------|--------|
| DJIA | 15.4% | -8.8% |
| Nasdaq Composite | -1.0% | -33.1% |
| S&P 500 | 7.1% | -19.4% |
| Russell 2000 | 5.8% | -21.6% |
| Global Dow | 16.6% | -10.7% |
| Japan: Nikkei 225 | 0.6% | -9.4% |
| Stoxx Europe 600 | 9.6% | -12.9% |
| UK: FTSE 100 | 8.1% | 0.9% |
| Major Bond Index | 4th Quarter 2022 | 2022 |
| Bloomberg Barclays US Aggregate (Total Return) | 1.9% | -13.0% |

rate increases. With inflation hitting a 40-year high in early 2022, the Federal Reserve (Fed) started a series of rate increases aimed at taming the significant price increases consumers were seeing in goods and services. The trek began with a quarter-point increase in March, followed by a half-point jump in May. Four straight three-quarter-point rate hikes came between June and November, followed by a half-point increase in December. This brought the Fed's overnight borrowing rate to a target range of 4.25% - 4.5%, the highest level in 15 years.

This series of rate increases put significant pressure on the bond market as well as stocks.

The values of most bonds and bond funds declined as a function of rising interest rates. While stocks typically outperform in rising rate environments, a sudden change from the loose monetary policy of the Covid era, combined with the pace and magnitude of these increases, proved too much to absorb.

The Fed's race to catch inflation has brought the fear of a recession to the forefront. Trying to curb inflation without killing the economy is a balancing act that is nearly impossible to get just right. Depending on the day, you can read that the chances of a recession vary from unlikely to imminent. Whether we're in for a "hard" or "soft landing" (as the phrase goes) is difficult to say, but what we

do know is that the economy is slowing. Many analysts believe we will see a mild recession in early 2023, followed by a recovery period and eventually another growth cycle.

I wouldn't dare make a guess about the precise timing of the next recession. However, I will say that it's not uncommon to find that by the time a recession is confirmed, we're already coming out of it. Many of the recession indicators are backward-looking. It would not surprise me to learn we are in one right now, with confirmation coming in the months ahead.

While we still face headwinds, there are several positives to consider as we enter the New Year and the first quarter of 2023.

- Current rates are less than one percentage point away from the Fed's current target of 5.1% and should stabilize later in the year. The markets are likely to see this as a positive. They are even hinting at rate decreases in 2024.
- While the current inflation rate of 7.1% is still far above the Fed's target of 2%, it is retreating. Recent interest rate increases take time to work through the economy. Therefore, progressive tightening should continue to bring inflation numbers down.
- History suggests positive gains in 2023. The S&P 500 follows negative years with positive returns 80% of the time, with an average return of

15%. The average three-year return is 35%, and the five-year forward return is almost 80%. It's not out of the question to have two negative years in a row, but it's very rare.

- The economy is not the stock market. The stock market is generally considered to be forward-looking, or a leading indicator. Recession or not, if this holds true then the markets should begin to recover before the economy does. This is yet another reason to stay invested and not try to time the markets.

This is a time to stick to your plan, rebalance if needed, and know that years like 2022 are rare – but expected. Volatility accompanies most investment strategies, but much wealth has been created for those who think long-term and stick to a plan. We believe the risk-reward relationship will continue to serve investors well over the longer run, as it has done historically. Please call us with any questions or concerns about your portfolio or broader financial plan.

We wish you a healthy and prosperous year. We look forward to seeing you soon.



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2023 Annual Limits

Relating to Financial Planning

| Retirement Plans | 2023 |
|---|---|
| Elective deferrals 401(k), 403(b), 457, and SARSEPs Catch-up contribution | \$22,500 \$7,500 |
| Defined contribution (\$415(c)(1)(A)) Defined benefit (\$415(b)(1)(A)) | \$66,000 \$265,000 |
| SIMPLE plan SIMPLE catch-up contribution | \$15,500 \$3,500 |
| Maximum includible compensation Highly compensated employee Key employee (top-heavy plan) | \$330,000 \$150,000 >\$215,000 |
| IRA or Roth IRA contribution limit IRA or Roth IRA catch-up | \$6,500 \$1,000 |
| IRA deduction phaseout for active participants Single Married filing jointly Married filing separately Non-active participant married to active participant | \$73,000-\$83,000 \$116,000-\$136,000 \$0-\$10,000 \$218,000-\$228,000 |
| Roth IRA phaseout Single / Head of Household Married filing jointly Married filing separately | \$138,000-\$153,000 \$218,000-\$228,000 \$0 - \$10,000 |

| Social Security FRA | | | |
|---------------------|---------------------|----------------|---------------------|
| Year of Birth | Social Security FRA | Year of Birth | Social Security FRA |
| 1943-54 | 66 | 1958 | 66 and 8 months |
| 1955 | 66 and 2 months | 1959 | 66 and 10 months |
| 1956 | 66 and 4 months | 1960 and later | 67 |
| 1957 | 66 and 6 months | | |

| Estate and Gift Tax | 2023 |
|-------------------------------------|--------------|
| Annual gift tax exclusion | \$17,000 |
| Estate and gift tax basic exclusion | \$12,920,000 |

| LTCG Rates Based on Taxable Income | | | |
|------------------------------------|----------------|--------------------|----------------|
| Filing Status | 0% rate | 15% rate | 20% rate |
| Single | up to \$44,625 | \$44,625-\$492,300 | over \$492,300 |
| Head of household | up to \$59,750 | \$59,750-\$523,050 | over \$523,050 |
| Married filing jointly | up to \$89,250 | \$89,250-\$553,850 | over \$553,850 |
| Married filing separately | up to \$44,625 | \$44,625-\$276,900 | over \$276,900 |
| Estates and trusts | up to \$3,000 | \$3,000-\$14,650 | over \$14,650 |

| Health Savings Account | 2023 |
|---|-------------------------------|
| Minimum Deductible Amount Single Family | \$1,500 \$3,000 |
| Maximum Out-of-Pocket Amount Single Family | \$7,500 \$15,000 |
| HSA Statutory Contribution Maximum Single Family Catch-up contributions (age 55 or older) | \$3,850 \$7,750 \$1,000 |

| Income Tax | 2023 |
|---|---|
| Standard deduction Single Married filing jointly Head of household Married filing separately Kiddie tax limited standard deduction | \$13,850 \$27,700 \$20,800 \$13,850 \$1,250 |

If you have any questions, please call BCS Wealth Management at (423) 283-9821 or email John Brandon, jbrandon@bcswalth.com



Secure Act 2.0

Setting Every Community Up for Retirement Enhancement (SECURE) Act 2.0 of 2022 was signed into law December 29, 2022. The Act contains more than 90 changes to qualified retirement plans, IRAs, SIMPLE IRAs, SEPs, and 529 Plans. Effective dates vary, ranging from immediately to all the way out to 2032. Below are provision changes that might most commonly affect our clients:

Effective 2023:

- Required Minimum Distributions (RMDs) age changes from age 72 to age 73 (for individuals who attain age 72 after December 31, 2022)
- Failure to take RMD Penalty – Reduced from 50% to 25% and further reduction to 10% with timely corrective action

- Employers are now able to offer Roth SIMPLE and SEP IRAs alongside traditional SIMPLE and SEP IRAs
- Employer contributions (match and non-elective) may be designated as Roth

Effective 2024 or later:

- Roth 401(k) funds will be exempt from RMDs (current law requires RMDs for Roth 401(k) funds)
- Automatic enrollment requirement begins for new 401(k) and 403(b) plans established after enactment
- Catch-up contribution limit increase at ages 60, 61, 62, and 63
- Employer matching contributions for student loan payments
- 529 excess funds, up to \$35,000, can

be rolled over to a Roth IRA for the beneficiary penalty-free and tax-free over their lifetime. Subject to annual Roth IRA contribution limits and the 529 must be at least 15 years old.

- RMD age increases to 75 for those who attain age 74 after 12/31/2032



Community Involvement

Our Holiday Season was filled with joy! We wrapped up 2022 with several giving back projects such as bell ringing for the Salvation Army and sponsoring children for Christmas. We also participated in Downtown Johnson City's Candy Land Christmas. Did you see the BCSWM tree?



BCS Wealth Management is an independent financial planning firm in Johnson City, TN. We help individuals, families, and businesses reach goals important to their financial wellbeing. We provide investments and financial planning, insurance, and group benefits.

bcsworld.com



Recent Highlights at BCSWM



Eliza Wampler, MBA student at ETSU and intern at BCSWM, recently had her thesis published in *The Journal of Beta Investment Strategies*.

Eliza Wampler, MBA Student
BCSWM Intern

Scott Linn was recently interviewed on WJHL about making smart financial decisions as we navigate into the new year.



Scott Linn, RMA®
Financial Advisor

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