TONKINSON FINANCIAL
Specializing in Your Retirement

QUARTERLY NEWSLETTER 4Q 2021

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MARKET HIGHLIGHTS:

- The economy ended 2021 on a solid note, with strong household finances, rising employment and robust retail sales supporting an estimates 5.6% growth rate in Q4.
- Inflation has surged with the headline and core Consumer Price Indexes (CPI) for November, up 6.8% and 4.9%, respectively, from a year earlier. The headline CPI posted the highest rate of advance in 39 years.
- The Fed has doubled the pace of QE tapering, with the aim of ending its asset-purchase program by March.
- Treasuries posted a small gain for Q4, but not enough to reverse a decisive negative return for the full year, the first annual loss for the sector since 2013.
- The yield curve experienced a significant flattening as it became clear that the Fed no longer regards inflation as "transitory" and plans to act to cool it down.
- U.S. equity markets closed Q4 sharply higher, capping a third consecutive year of double-digit gains for the S&P 500. Solid consumer demand and strong corporate earnings growth fueled the market's rise.

NEWSLETTER HIGHLIGHTS:

Happy New Year!

The Tonkinson Financial Team wishes your 2022 to be full of happy surprises and joy! May this year be an incredible part of your journey!

INDEX PERFORMANCE 12/31/2021

	Q	YTD	1 Year
Aggressive Allocation	5.657%	17.85%	17.85%
Balanced Allocation	4.30%	13.28%	13.28%
Conservative Allocation	3.02%	8.86%	8.86%
S&P 500 TR	9.77%	28.71%	14.82%
Russell 2000 TR	0.44%	14.82%	14.82%
Barclays U.S. Agg Bond TR	-0.27%	-1.54%	-1.54%
MSCI EAFE NR USD	3.53%	11.78%	11.78%

	As of 12/31/2021	As of 12/31/2020
10 year Treasury	1.52%	0.93%
Barclays 1-3m Treasury/Cash	0.05%	0.10%
Price of oil	$75.21	$48.52
Real GDP YoY % charge	5.6%	-2.8%
U.S. Unemployment Rate	4.2%	6.7%

The aggressive allocation is made up of 50% S&P 500 TR, 8% Russell 2000 TR, 18% Barclays U.S. Agg Bond TR, 22% MSCI EAFE NR USD and 2% cash. The balanced allocation is made up of 39% S&P 500 TR, 5% Russell 2000 TR, 35% Barclays U.S. Agg Bond TR, 16% MSCI EAFE NR USD and 5% cash. The conservative allocation is made up of 29% S&P 500 TR, 2% Russell 2000 TR, 53% Barclays U.S. Agg Bond TR, 9% MSCI EAFE NR USD and 7% cash. All indices are unmanaged and investors cannot actually invest directly into an index. Unlike investments, indices do not incur management fees, charges, or expenses. Past performance does not guarantee future results.

MARKET REVIEW

— By Rick Tonkinson, MBA, MPA, CFP®, CLU, AIF®

The December rally helped end the year on a high point. The S&P 500 posted a robust 28.7%.

The big winners were Energy at 54.8%, Financials at 35.8%, Technology at 34.5% and Real Estate at 42.5%. It is important to note that Energy and Real Estate were losers in 2020 but had a huge recovery in 2021, this is an example that yesterday's losers are today's winners. This reconfirms that paying attention with active money management is vital.

Utilities posted 17.7% and Nextera Energy (NEE) posted 23.4% but really struggled in early 2021 and came back to life in the 4th quarter.

Unemployment at 4.2% is considered full employment and inflation is high at 6.8%. These factors have forced the Federal Reserve to increase interest rates in 2022. With higher interest rates the mortgage rates will also increase. Higher rates will slow down the feeding frenzy going on in real estate sales. What you are qualifying for today, will change as you will be qualifying for less down the road. For example, a $300,000 mortgage at 2.5% for 30 years is a monthly payment of $1,185. If interest rates rise 2% to 4.5% then that monthly payment becomes $1,520 which turns into an extra $120,000 over the lifetime of the loan.

The Fix Income sector had varying in results as TIPS posted 6.0% and High Yield Bonds 5.3% while Treasuries ended with a negative (2.3%). During 2020 Treasuries were the "go-to" safe haven, but if people did not move out of them, they lost money in 2021. The value of Treasuries might go up and down but only if held to maturity there is no loss in principal. Once again, active money management means not staying too long in any investment.

On the international stock side there is a trend of the rapid growth of the middle class in India and China. Their economic prosperity means more buying power for virtually any product or service. For perspective the market cap of the entire Chinese market is smaller than the entire market cap of the largest US company, Apple.

The Gross Domestic Product shows economic activity at 5.6% in 2021, which was a boost from pre-pandemic averages of 2%. GDP is expected to decelerate to 3.9% in 2022. This is like a car switching from the fast lane to the middle lane. 2021 was a great year. 2022 is expected to be a good year for the economy.

What a Difference 20 Years Can Make
– By Rick Tonkinson, MBA, MPA, CFP®, CLU, AIF®

On 11/03/21, the Dow closed over 36,000. Depending on your age, this milestone varies in significance. The older you are, the more meaningful it is.

For our clients age 60 and over, who may have started working in 1980, the Dow was at 838. It has grown 4,332%. A dollar invested in 1980 is now worth $43.32.

For our clients' children age 40 and over, who may have started working in 2000, the Dow was 11,357. It has grown 316%. A dollar invested in 2000 is now worth $3.16.

Depending on their age and personal experience, people may view investing in entirely different ways. However, the fact remains that over time the equity markets have gone up, and the more you reinvest, the better the chance you have of improving your return, especially the longer you get to do it.

Regardless of time horizon, the Dow has had excellent growth over the long term.

INTERSTING STATS:
Social Security to Increase in 2022
– By Steven Tonkinson, CFP®, AIF®, CFS®

The Social Security Administration announced on Oct. 13 that retirement benefits will increase by 5.9% in 2022, the largest cost-of-living adjustment (COLA) in 40 years.

Social Security benefits rise automatically when the consumer price index (CPI) increases in the third quarter of the current year over the corresponding third quarter of the previous years.

Over the past 12 years, Social Security COLAS have averaged a sparse 1.4%. In 2021 it was 1.3%.

The 5.9% COLA will increase the average monthly retirement benefit next year by $92 a month to $1,657. Anyone who is 62 or older and eligible to receive Social Security in 2022 will benefit from the 5.9% COLA, even if you haven't yet filed for benefits, so there was no need to have filed for Social Security before the end of 2021.

The COLA for the next few years may be meager or nonexistent because inflation would have to continue at a relatively robust levels to exceed the current high bar. For example, in 2009 the COLA was 5.8% and for the following two years Social Security was flat.

Other changes that come with the 2022 5.9% COLA, are increased earning caps. Individuals under full retirement age for a full year will be able to earn up to $19,560 a year without forfeiting any benefits, up from $18,960. For full retirement age individual, the earnings cap is more generous, going up to $51,960 from $50,520.

Employers and employees each pay 7.65% of wages to support Social Security and Medicare. In 2021 the 6.2% portion of the payroll tax that funds Social Security applies to the first $142,800 of gross earnings. With the 5.9% COLA, the new maximum wages in 2022 is $147,000.

We are happy to share that our analyst, Tom Saul, passed the November 2021 Level II Chartered Financial Analyst® Exam!

The CFA charter is one of the most respected designations in finance and is widely considered to be the gold standard in the field of investment analysis.

We wish Tom continued success as he prepares for Level III of this exam!

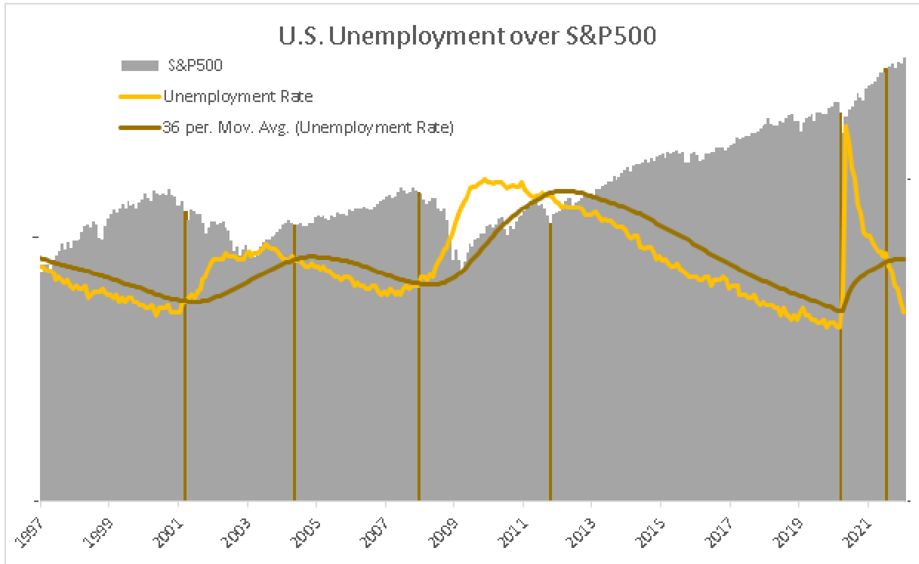
Graphing the Markets – By Tom Saul, Analyst and Co-Portfolio Manager

As we start the new year, let's take a look at the long-term macro trends and review what happened over the last 12 months through the following graphs.

U.S. Unemployment over S&P500

What is it?

It is a graph of the US Unemployment rate with its 36-month moving average, laid over the S&P 500 equity index.



Why look at it?

This is one of the best indications of when to expect a recession. There is an inverse relationship between level of unemployment and forward stock market returns. The best returns, historically, have come after periods of high unemployment. Unemployment rates below its 36-period moving average coincide with stable economic conditions.

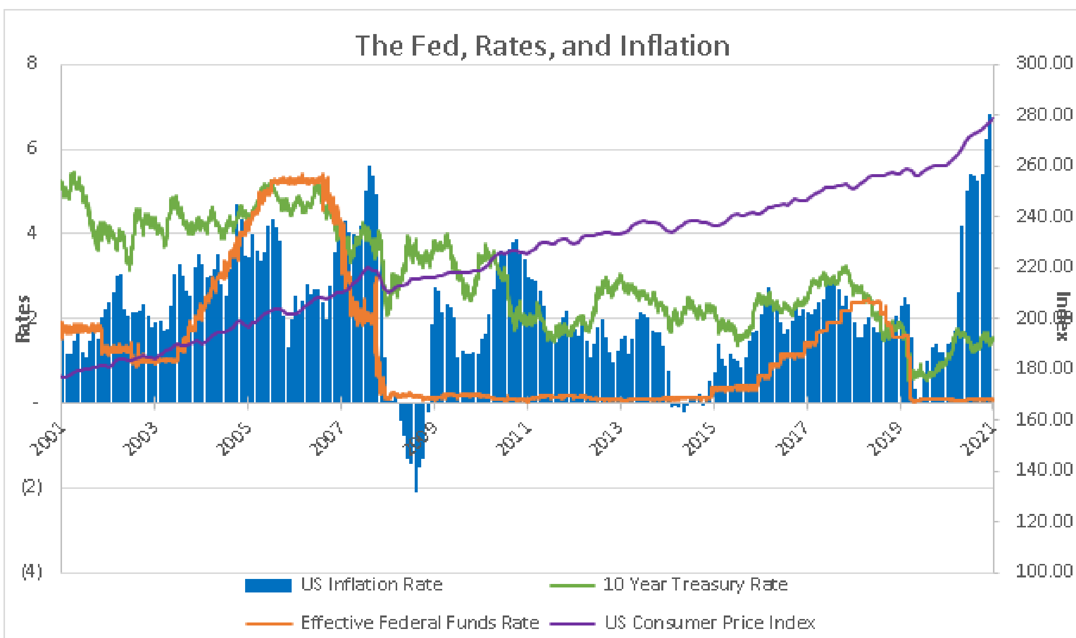
What happened over the last 12 months?

Unemployment is at 4.2% compared to 4.6% last month and 6.7% last year. This is lower than the long-term average of 5.7%. The unemployment rate crossed back below its 36-month moving average in September and continues to recover towards the pre-pandemic low of 3.5%. However, this number might be a little misleading as there is still a 4 million job gap from the pre-pandemic level. As more Americans retire, shift jobs or call in sick, it's clear that fatter paychecks are only part of the solution. People want more fulfilling jobs, and they're willing to retire early or start their own businesses to make that happen.

The Fed, Rates, and Inflation

What is it?

This is a graph of the Fed's funds rate, the 10-year treasury rate, the US inflation rate, and the long-term US Consumer Price Index, or CPI.

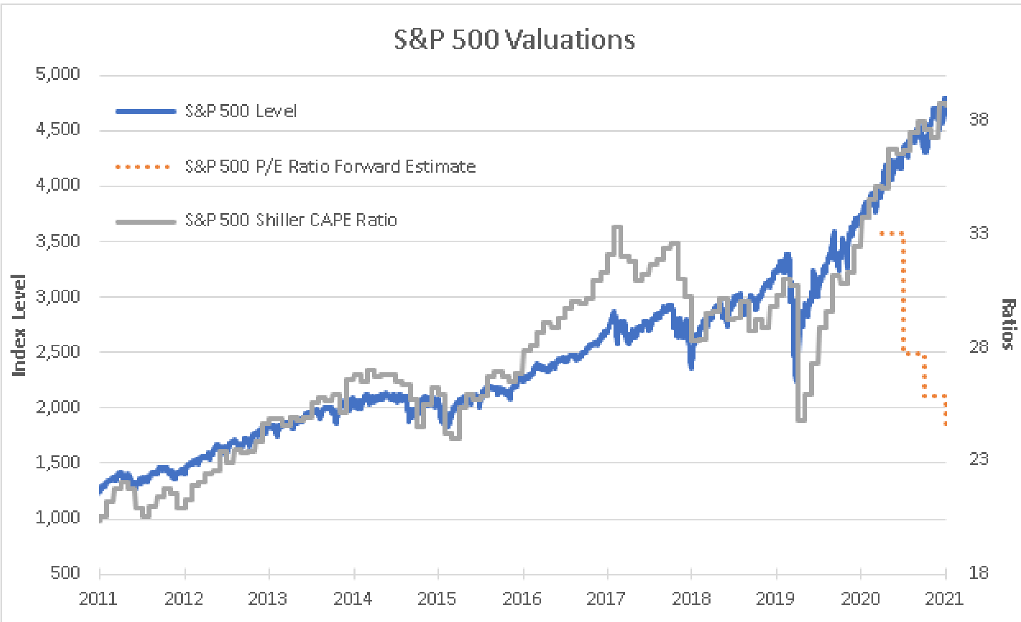


Why look at it?

The Fed funds rate determines the short-term interest rates in the market. Inflation expectations, on the other hand, drive long-term interest rates. There is also an inverse relationship between the rate of unemployment and inflation. The Treasury yield curve is a graph that plots interest rates at different maturities. When short-term rates rise following a rise in the Fed funds rate, the Treasury yield curve flattens, as the shorter end would rise more compared to the farther end. In general, when interest rates are low, the economy grows and inflation increases. Conversely, when interest rates are high, the economy slows and inflation decreases. Changes in interest rates have a direct effect on fixed income investment returns.

What happened over the last 12 months?

While the Fed made no rate hikes in 2021, tapering did start in November. The Fed is proposing three rate hikes in 2022. Supply chain issues, as well as money printing, has accelerated inflation and brought it to the forefront of investors' minds. In 2021, we saw inflation at 6.8% compared to 1.17% the prior year, much higher than the long-term average and the Fed target of 2%. Wages and benefits will continue to be "the big inflation story" as there simply aren't enough workers to deliver grain or oil or lumber. However, inflation is not and will not be a problem because prices are rising as they are supposed to, and are doing so for real reasons. The pandemic has accelerated inflation but higher wages will lead to a healthier economy as things continue to normalize.



S&P 500 Valuations

What is it?

This is a look at the S&P 500 and its P/E Ratios: the CAPE ratio and the P/E ratio. The CAPE ratio is a Cyclically Adjusted Price-Earnings ratio. The P/E Ratio Forward Estimate uses estimated net earnings over the next 12 months.

Why look at it?

The CAPE Ratio smooths out and shows a more accurate representation of the ratio between current prices and earnings. Whenever the CAPE ratio of the market is high, it means stocks are overvalued, and in contrast, whenever the ratio is low, it means the stocks are undervalued. The P/E Ratio forward estimate tells what the market expects will happen to valuations.

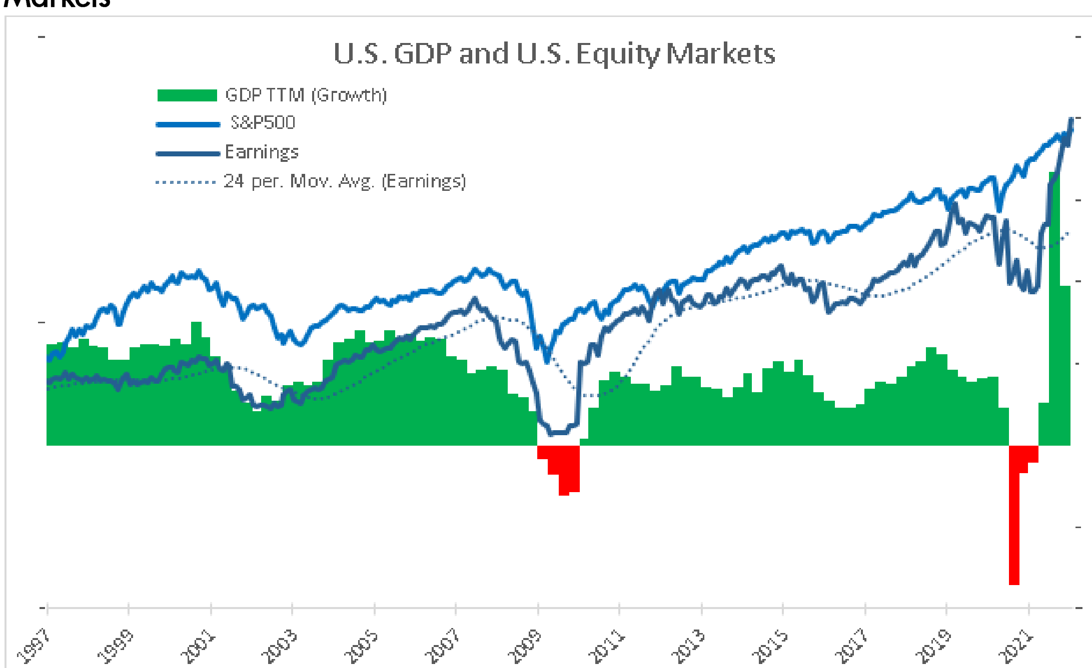
What happened over the last 12 months?

In 2021, PE ratios and prices accelerated while earnings also accelerated. The Cape ratio grew by 14.5% while the S&P 500 did 28.7%. The down move in the PE ratio forward estimate (orange line), tells us that the market expects earnings to continue to grow; however, our willingness to pay for those earnings to decline.

U.S. GDP and U.S. Equity Markets

What is it?

This graph looks at the relationship between earnings, U.S. GDP and prices.



Why look at it?

Stock portfolio will do better during periods of increasing prosperity in the country. The linkage between GDP, Corporate Earnings & Equity Prices can provide a long-term view of valuations and give basis for adjustments in equity allocations. We want heavier equity exposure when GDP, profitability, and sentiment measures look to be at historical low points.

What happened over the last 12 months?

US GDP is it at a current level of $23.2T up from 21.1T, an increase of 9.8%. This is a much faster recovery than that of the last recession of 08-07 and is showing signs that the pandemic has created real growth for this country. If you remember from my 2020 market analysis, I predicted that because the 2007 recession was caused by a structural problem and the 2020 recession was caused by a pandemic, the recovery from 2020 would likely be faster and stronger. This was all made possible due to the infusion of stimulus money into our economy.

S&P 500 earnings broke above the 24-month moving average in the 2nd quarter and are anticipated to break the 200 level for the first time in the 4th quarter which would be a gain of over 100% year over year. We expect growth to decelerate from here but continue to be strong.

The fact is, with every problem, there is an opportunity for a solution, like innovation in technology, that leads to opportunities for growth, i.e. jobs.

***All graphs in this article are sourced from YCharts.com*

SOUND ADVICE: Headwinds for Stocks in 2022 — By Steven Tonkinson, CFP®, AIF®, CFS®

Over the past 75 years, in the second year of a new U.S. president's term, stocks have tended to fall short of their long-term average annual performance. Whether or not this particular bit of history is a good forecasting tool, there are reasons why the market performance next year may be less impressive than it has been since the low reached in March 2020.

Here are some of the headwinds the market faces and why stocks might be weaker in 2022:

Expiration of government aid relief programs to offset Covid-19

Although Congress enacted trillions of dollars in pandemic relief programs, those are expiring. That rush from Covid relief programs is fading which is downshifting the income growth for most of the nation. Consumers were able to amass savings during the pandemic and have shown signs of being eager to spend, there seems to be low risk of a recession. Still next year's GDP growth, which is projected at around 3% to 4% might feel low after estimated expansion in 2021 of about 6%.

Rising Interest rates look to increase

To keep the economy from going into a tailspin, the Fed last year cut its benchmark interest rate to near zero and began large purchases of government bonds. The buying depressed yields, making it cheaper to borrow. But inflation recently has been around 6% annualized. And although the Fed says that the pace will slow, they have announced a tapering of bond purchases and they expect to raise the benchmark bank lending rate a few times next year, further tightening policy. These steps would remove a large amount of liquidity from the financial system.

Corporate profits growth may lose steam

Corporate profits surged in 2021. That has helped propel the market. But profit growth is slowing because of rising wages, soaring freight costs and higher material prices. 2022 corporate profits are estimated to be only a fraction of last year's profits. The impact of these cost pressures will vary significantly for different sectors and companies.

Proper planning and preparations are key. Understanding the potential challenges, we may face will help us navigate 2022.

Changes to RMD Calculation — By Kristina Shamonina, CFP® Certified Senior Advisor (CSA®)

As the world is continuing to deal with the challenges from the ongoing Covid-19 pandemic, there is some good news for the current and future retirees: on January 1st, 2022, the IRS has updated the life expectancy tables. These tables are used in calculating the Required Minimum Distribution (RMD) that we have to take out of certain IRAs or employer-sponsored retirement accounts starting age 72. The new life expectancy tables will result in a smaller RMD amount and, potentially, a smaller tax bill.

This change follows the Secure Act, signed into law in December of 2019, which raised the RMD age from 70.5 to 72. As the most recent census shows, people are living longer which, in turn, means that their assets and income need to last longer as well. The updated life expectancy tables are an additional measure taken to address the issue of people outliving their assets and is meant to provide more time to deplete the funds in our retirement accounts.

The RMD amount is calculated by dividing the value of the retirement account on December 31st prior year by the factor in the life expectancy table corresponding to your age in current year. For example, if you turn 75 in 2022 with $500,000 in IRA assets as of 12/31/2021, your 2022 RMD will be $20,325.20 (using factor of 24.6) instead of $21,834.06 (using factor of 22.9) under the old life expectancy table. This is a decrease of $1,508.86 which you won't have to pay income tax on and which can stay in the retirement account and continue to grow.

The decrease may not seem very substantial; however, it does remove some dollars from retirees' taxable income. It is especially beneficial to those who only take withdrawals from the IRAs to satisfy the RMD requirement and not because they actually need the income. The higher the IRA balance and the age, the higher the RMD; the higher the income, the higher the tax bill – and anything reducing the tax bill is good news.

As we are preparing for the year ahead, it is worthwhile to review your financial plan for 2022 early and make arrangements of taking out your RMD in the most efficient manner for your investment portfolio. Remember, non-compliance with the RMD carries a hefty penalty of 50%.

UNIFORM LIFETIME TABLE TO BE USED STARTING 2022

AGE	RMD FACTOR	AGE	RMD FACTOR	AGE	RMD FACTOR
72	27.4	82	18.5	92	10.8
73	26.5	83	17.7	93	10.1
74	25.5	84	16.8	94	9.5
75	24.6	85	16.0	95	8.9
76	23.7	86	15.2	96	8.4
77	22.9	87	14.4	97	7.8
78	22.0	88	13.7	98	7.3
79	21.1	89	12.9	99	6.8
80	20.2	90	12.2	100	6.4
81	19.4	91	11.5	101	6.0

CALCULATE YOUR RMD:

2022 RMD		IRA VALUE AS OF 12/31/21		RMD FACTOR FOR AGE IN 2022
$20,325.20	=	$500,000	/	24.6 (FOR AGE 75)
$ ______	=	$ ______	/	______

Why You Should Have a Trusted Contact
– By Lucy Foerster, Client Relations Coordinator

Annually when January rolls around there are so many items on the annual to-do lists. We would like to suggest one more for your financial safety: selecting/reviewing a Trusted Contact for your investment accounts.

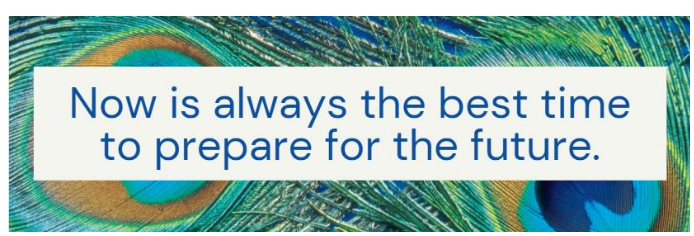
Elder fraud is on the rise around the globe. In the U.S. alone, 38% of the 4.7 million reported schemes in 2020 were filed by people aged 70 and above, according to the Federal Trade Commission. To help protect yourself and your loved ones against financial fraud we suggest adding a Trusted Contact.

The trusted contact person must be age 18 or older. In the unlikely scenario that we are unable to contact you for an extended period of time, via phone, email and/or physical mail, we may reach out to your trusted contact to help get in touch with you.

Why would you add a "trusted contact person"?
First and foremost, a trusted contact has no access to your account details and will not be able to act on the account. They are simple an emergency contact.

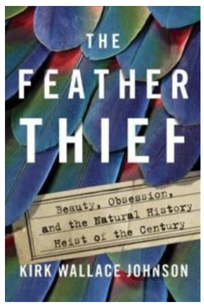
When would we reach out to a trusted contact?
If Tonkinson Financial cannot get a hold of you directly, reaching out to your trusted contact person will help us ensure that your current address and contact information are correct. Adding a trusted contact person may help us respond to possible financial exploitation or potential fraud in your account and protect your assets. If there is reason to believe that you are experiencing a health issue, this trusted contact person will aid our attempt to confirm your current health status or verify the identity of any legal guardian, executor, trustee or holder of a power of attorney on your account.

Know that we are looking out for your best interest. This is your back-up plan, so let's start the year off right and get this in place.



Book Review: The Feather Thief - by Kirk Johnson – Margarita Tonkinson, Associate

This is one of the most bizarre robberies of recent decades. In June 2009, Edwin Rist, a 20-year-old American flutist studying at the Royal Academy of Music in London broke into the Museum of Natural History in Tring (near London). He stole hundreds of rare bird specimens whose gorgeous feathers were worth staggering amounts of money to those who shared Rist's obsession, the Victorian art of salmon fly-tying.

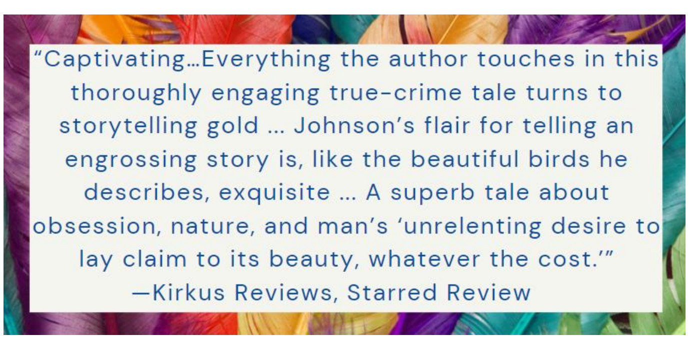


Rist established a clandestine online business to sell the feathers to help finance his living expenses and support his parents.

The British Museum of Natural History in Tring is home to one of the largest ornithological collections in the world and was full of rare bird specimens, some collected 150 years earlier by a contemporary of Darwin's, Alfred Russel Wallace, who traveled to remote areas in the world and risked everything to gather them.

The author, Kirk Wallace Johnson, is a former USAID employee, writer and founder of the List Project (a nonprofit organization that resettles Iraqis marked for death after working with the American military). He first learned of the heist in northern New Mexico in 2011 from his fly-fishing guide. He became obsessed with the story that took him years of worldwide investigation to answer questions such as: What would possess a person to steal dead birds? Had Edwin paid the price for his crime? What became of the missing skins?

This remarkable story proves that truth is stranger than fiction! The Feather Thief reads like a thriller and most importantly, you do not need to be a fly fisher to enjoy this book.



COMMUNITY CORNER

Clients in the Community: Volunteers in Medicine Clinic for Martin County

We want to take an opportunity to highlight the great work some of you are doing in the community. We would like to share the story of Mary Ettari.

Mary has had an amazing career in medicine, she started out as a nurse, then studied to be a Physician Assistant and currently lends her time to the Volunteers in Medicine Clinic (VIM) located in Martin County. The clinic's goal is to provide free healthcare for those who have no access to care. Their patients are identified as the people who build our homes, maintain our roads, serve our coffee and care for our children. Low-income adults face many barriers to quality healthcare. The care provided by the volunteer medical team at VIM allows patients to not have to rely on county emergency services and hospital emergency departments for their medical needs.

TF: What drew you to this organization?
ME: Our VIM was the first clinic of its kind for our county when it opened over 25 years ago. Since then, many clinics have opened around the country with the same goals & vision. The opportunity to practice medicine and volunteering my time was such a delight.

TF: How are you involved?
ME: Since 2008 I have been a volunteer clinician (PA) and currently serve on the Friends of VIM Foundation Board.

TF: What has been your most rewarding experience with this organization?
ME: As a "serial volunteer" I have enjoyed being able to unite medicine and giving back to the community. As I have been volunteering with VIM for many years and have had so many experiences it is difficult to pin down one moment. It did feel good knowing that back in 2008 during the market crash, we were able to treat many people who lost their health insurance due to downsizing. It really felt like our community was pulling together to support one another.

To learn more, please visit: www.vimclinic.net

Twelve Good Men

This past November Rick was honored as one of Ronald McDonald House Charities of South Florida's Twelve Good Men. The money raised each year at this luncheon helps fund the annual operation budget of our local Ronald McDonald House. The Ronald McDonald House is built on the simple idea that when a family is focused on healing their child, nothing else should matter.

Rick was in good company with several honorees including Alberto Carvalho (Miami-Dade County Superintendent) and Steadman Stahl (President of Police Benevolent Association).

Woodystock

The 9th Annual Woodystock Benefit Concert did not disappoint. There was a clear feeling of community and giving on December 12th in Coconut Grove. The event celebrates the foundation's work for the previous year and also raises funds for their core projects that improve the lives of people living with paralysis. The Tonkinson Foundation has proudly supported this event since the inaugural year in 2013.

Cutler Ridge Women's Club

It was a busy November for Rick as he also hosted a Financial Wellness Seminar for the Cutler Ridge Women's Club.

Founded in 1956, the Club is proudly one of the oldest organizations in continuous operation in the Cutler Bay area. The club has six committees: the Arts Department, Conservation Department, Education Department, Home Life, International Affairs, and Public Affairs. These committees coordinate the Club's numerous civic, community, and social activities.

Securities and advisory services offered through Commonwealth Financial Network®, Member FINRA/SIPC, a Registered Investment Adviser. Fixed insurance products and services offered by through CES Insurance Agency. This material is intended for informational/educational purposes only and should not be construed as investment advice, a solicitation, or a recommendation to buy or sell any security or investment product. Please contact your financial professional for more information specific to your situation. Past performance does not guarantee future results.

Investing in individual stock involves principal risk – the chance that you won't get all the money back that you originally invested—market risk, underlying securities risk, and secondary market price. Talk to your financial advisor before making any investing decisions.

Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is no guarantee of future results.

Certificates of deposits (CDs) typically offer a fixed rate of return if held to maturity, are generally insured by the FDIC or another government agency, and may impose a penalty for early withdrawal.

DJ Industrial Average (DJIA): Computed by summing the prices of the stocks of 30 companies and then dividing that total by an adjusted value—one that has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are invested to reflect the actual performance of the underlying securities. NASDAQ Composite Index: Measures the performance of all issues listed on the NASDAQ Stock Market, except for the rights, warrants, units and convertible debentures. Barclays Capital Global Aggregate Bond: This index provides a broad-based measure of the global investment-grade, fixed-rate debt markets. Citigroup 3-month T-Bill: Measures monthly return equivalents of yield averages that are not marked to market. The 3-month Treasury Bill Indexes consist of the last three 3-month T-Bill issues. MSCI China: This free-float adjusted capitalization-weighted index is designed to measure the performance of China-based equities. MSCI EAFE (Morgan Stanley Capital International Europe, Australia, Far East): This index is a capitalization-weighted index that tracks the total return of common stocks in 21 developed-market countries within Europe, Australia and the Far East. MSCI Emerging Markets EMEA: This index captures large and mid-cap representation across 8 Emerging Markets (EM) countries in Europe, the Middle East and Africa (EMEA). With 139 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Russell 2000: This index measures the performance of the 2,000 smallest companies in the Russell 3000 Index. Standard and Poor's (S&P) 500: This index tracks the performance of 500 widely held, large-capitalization U.S. stocks. S&P Consumer Discretionary: A market capitalization weighted index that tracks the performance of consumer discretionary companies. S&P Consumer Staples: A market capitalization weighted index that tracks the performance of consumer staples companies. S&P Energy: A market capitalization weighted index that tracks the performance of energy companies. S&P Health Care: A market capitalization weighted index that tracks the performance of health care companies. S&P Materials: A market capitalization weighted index that tracks the performance of materials companies. S&P Technology: A market capitalization weighted index that tracks the performance of technology companies. S&P Utilities: A market capitalization weighted index that tracks the performance of utility companies.