Israelite Group Insights

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It doesn't quite feel like summer, but the markets might be turning sunny after the doom and gloom to start the year.

Q1 GDP was revised downward to minus 1.5%. Is it possible we are actually in a recession? If so, the markets may have seen the bottom as rallies typically start before a recession ends.

Last week marked the first time in 9 weeks stocks ended higher than the week before. We just experienced the longest streak of down weeks in 99 years!

The FOMC notes revealed a continued effort to suppress inflation with a prediction of interest rates ending the year between 2.5% and 2.75%. This is a bit lower than the market expected, helping push stock and bond prices higher.

With headwinds keeping stock prices down, corporate earnings are still showing positive trends and consumers are paying higher prices with cash saved during the previous two years. How long can the consumer brush off inflation? Hopefully long enough for interest rate hikes to make a dent.

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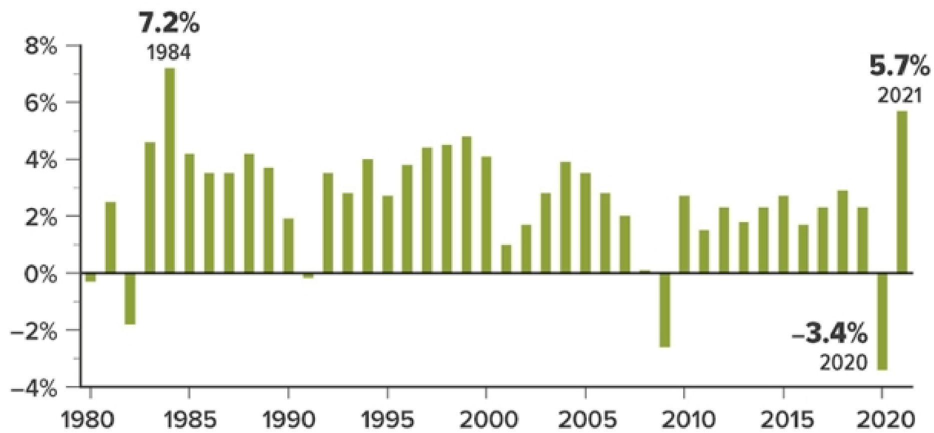
GDP Growth Highest in 37 Years

In 2021, U.S. real gross domestic product (GDP) — the value of goods and services produced in the United States — grew by 5.7%, the highest annual rate since 1984. This marked a strong recovery from 2020, when GDP dropped by 3.4%. Real GDP is adjusted for inflation to more accurately compare economic output at different periods. Current-dollar GDP, typically used to measure the overall size of the economy, increased by an even more impressive 10.1%.



Source: U.S. Bureau of Economic Analysis, 2022

What's Your Retirement Dream Elevator Pitch?

Imagine stepping into an elevator and realizing that you're about to spend the 30-second ride with someone who could make your retirement dreams come true — if only you could explain them before the doors open again. How would you summarize your financial situation, outlook, aspirations, and plans if you had 30 seconds to make an "elevator pitch" about achieving one of your most important goals?

Answering that question — and formulating your own unique retirement dream elevator pitch — could help bring your vision of the future into sharper focus.

What Are Your Goals?

Start with an overview of what you hope to accomplish. That typically includes describing what you want, when you want it, and why. For example, you might say, "My goal involves retiring in 10 years and moving to a different state so I can be closer to family." Or, "In the next 15 years, I need to accumulate enough money to retire from my regular job and open a part-time business that will help sustain my current lifestyle."

If your plans include sharing life with a loved one, make sure you're both on the same page. Rather than assume you have similar ideas about retirement, discuss what you want a future together to look like.

How Much Will It Cost?

To put a price tag on your retirement dream, consider working with a financial professional to calculate how much money you'll need. Making multiple calculations using different variables — such as changing your anticipated retirement date and potential investment growth rate — will help you develop a better understanding of the challenges and opportunities you may encounter.

It's important to remember that plans don't always work out the way we intend. For example, 72% of workers surveyed in 2021 said they expect to continue working for pay during retirement, but only 30% of retirees said they actually did so. And nearly half (46%) of current retirees left the workforce earlier than expected.[1] Understanding the financial implications of an unanticipated change in plans *before it happens* could make it easier to adjust accordingly.

How Will You Do It?

If your calculations indicate you may be facing a retirement savings shortfall, take a fresh look at your spending habits to help find ways to save more money. Make a list of your fixed expenses and then keep track of your discretionary purchases every day for a month. It might be startling to realize how much you routinely spend on non-essential items, but you'll quickly discover exactly where to start applying more financial discipline.

Among workers surveyed in 2021:

72%

Were very or somewhat confident about being able to afford a comfortable retirement

31%

Made changes to their workplace retirement account strategies in the past year

32%

Said the pandemic negatively affected their ability to save for retirement

54%

Said they had either a major (18%) or minor (36%) debt problem

Source: Employee Benefit Research Institute, 2021

Finally, you'll need to manage the funds you earmark for retirement by choosing the types of accounts to use and allocating your money within each account. If you have access to an employer-sponsored retirement account with matching contributions from your employer, you might want to start there and then invest in additional tax-deferred and taxable investments.

Regardless of the types of accounts you choose, your specific investment decisions should reflect your personal tolerance for risk and time frame, while addressing the priorities outlined in your retirement dream elevator pitch. If your retirement outlook changes at any point, take a fresh look at your investment strategy to make sure you're still potentially on course.

All investing involves risk, including the possible loss of principal. There is no guarantee that any investment strategy will be successful. Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. There is no assurance that working with a financial professional will improve investment results.

1) Employee Benefit Research Institute, 2021

Should You Consider Tapping the Equity in Your Home?

With home values skyrocketing recently, your home may be one of your largest assets. Using home equity to help finance other financial objectives is a strategy many people consider, but before doing so be sure you understand the risks as well as the potential benefits.

Home equity is the difference between how much your home is worth, based on current market conditions, minus your mortgage balance. Let's say your home is worth $450,000 in the current market and your outstanding mortgage is $250,000. That means you have $200,000 in equity.

In most cases, lenders will allow you to borrow up to 80% of your home's value minus your mortgage balance. In the example above, the total amount you might borrow would be $110,000 (assuming you qualify).

It's probably best to be as conservative as possible when using home equity. There's no guarantee that your home will maintain its current market value, so you could end up owing more than it's worth. Moreover, in the unfortunate event of default, you could lose your house.

How to Access Home Equity

Generally, there are three ways to access home equity:

1. Cash-out refinance: In a cash-out refinance, you would refinance your mortgage for more than what you owe and take the difference in cash.

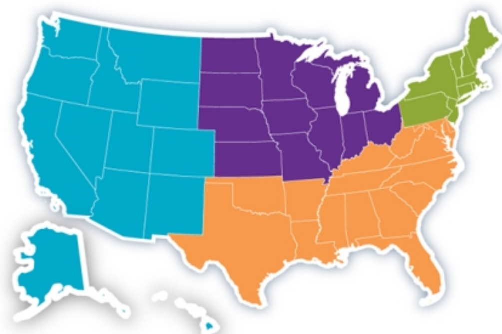
2. Home equity loan: With this type of loan, you would leave your current mortgage untouched and take out a separate loan against the equity in your home, with a fixed interest rate and fixed monthly payments.

3. Home equity line of credit: A HELOC works much like a credit card. You apply for a revolving credit amount up to a certain limit and, upon approval, have access to that money for a specific period, known as the *draw period* (usually 10 years). HELOC funds don't all have to be used right away or at the same time. You can usually access the funds as needed by writing a check or using a linked credit card. Interest rates are variable; required payments will depend on how much you borrow and the prevailing rate. When the draw period ends, all outstanding balances need to be repaid.

Keep in mind that each of these options will have specific fees, including appraisal fees. A refinance could also require closing costs, which can equal thousands of dollars, depending on the amount borrowed.

The best type of loan will depend on your specific situation. If you need a fixed amount of money, a cash-out refinance or home equity loan might be appropriate. If you need an indeterminate amount over time or seek an emergency cash reserve, a HELOC might better serve your needs.

Growth in Home Sales Prices Since 2019



	2019 median sales price	2022 median sales price	Percentage increase
U.S. national	$250,100	$357,300	42.9%
West	$379,200	$512,600	35.2%
Midwest	$188,800	$248,900	31.8%
South	$219,900	$318,800	45.0%
Northeast	$273,000	$383,700	40.5%

Source: National Association of Realtors, 2020-2022 (median existing-home sales data as of February 2019 and 2022)

When Using Home Equity Might Make Sense

Because you're putting your home at risk, it's important to think critically and strategically when using home equity. Are you using the funds in a way that could reap future financial benefits, such as home repairs and improvements, helping to pay for a child's college education, or consolidating high-interest debt? Then it might make sense. (A loan used for home repairs may also offer tax benefits; talk to a tax professional.) On the other hand, it might not be in your best financial interest if you're thinking of using the money to fund an extravagant purchase, such as an expensive vacation or new luxury car.

Home equity loans and lines of credit that are not used to buy, build, or substantially improve your primary home (or a second home) are considered home equity debt; you cannot deduct the interest on home equity debt. With a cash-out refinance, you can only deduct interest on the new loan if you use the cash to make a capital improvement on your property.

Adjusting Your Tax Withholding

Now that you've seen last year's tax results and can see where this year is heading, it may be a good time to consider adjustments to your income tax withholding.

Getting It Right

If you have too much tax withheld, you will receive a refund when you file your income tax return, but it might make more sense to reduce your withholding and receive more in your paycheck. However, if you have too little tax withheld, you will owe tax when you file your tax return and might owe a penalty.

Two tools — IRS Form W-4 and the Tax Withholding Estimator on irs.gov — can be used to help figure out the right amount of federal income tax to have withheld from your paycheck. This can be beneficial when tax laws change, your filing status changes, you start a new job, or there are other changes in your personal situation.

You might make a more concerted effort to review your withholding if any of the following situations apply to you:

- File as a two-income family
- Hold more than one job at the same time
- Work for only part of the year
- Claim credits, such as the child tax credit
- Itemize deductions
- Have a high income and a complex return

Form W-4

In some circumstances, you will need to give your employer a new Form W-4 within 10 days (for example, if the number of allowances you are allowed to claim is reduced or your filing status changes from married to single). In other circumstances, you can submit a new Form W-4 whenever you wish. See IRS Publication 505 for more information.

Your employer will withhold tax from your paycheck based on the information you provide on Form W-4 and the IRS withholding tables.

If you have a large amount of nonwage income, such as interest, dividends, or capital gains, you might want to increase the tax withheld or claim fewer allowances. In this situation, also consider making estimated tax payments using IRS Form 1040-ES.

You can claim exemption from federal tax withholding on Form W-4 if both of these situations apply: (1) in the prior tax year, you were entitled to a refund of all federal income tax withheld because you had no tax liability, and (2) for the current year, you expect a refund of all federal income tax withheld because you anticipate having no tax liability.