GALECKI FINANCIAL MANAGEMENT — FINANCIAL SENSE

	LAST MONTH	LAST 3 MONTHS	YTD
S & P 500 Index	4.48%	11.03%	28.71%
Russell Midcap Index	4.08%	6.44%	22.58%
Russell 2000 Index	2.23%	2.14%	14.82%
Dow Jones Industrial Average	5.53%	7.87%	20.95%
Morgan Stanley EAFE Index	5.12%	2.69%	11.26%
DJ US Real Estate Index	9.44%	14.58%	38.99%
S&P Commodity Index	7.59%	1.51%	40.35%
Barclays Aggregate Bond Index	-0.26%	0.01%	-1.54%

INDEX RETURNS

Stocks surged in the final three months of the year. The S&P 500 increased 11.03% in the quarter to finish the year up 28.7%. Growth stocks grew by about 32% while value was up around 24%. The Russell Mid-cap index was up 6.44% and small-cap stocks were up 2.14% over the last three months. Real Estate jumped 14.58% in the final quarter to finish the year up nearly 39%.

International stocks had a solid December and ended the quarter up 2.69% according to the MSCI EAFE Index. Canada led the way with a return of 26.87% on the year. Emerging Market stocks continued to struggle with the EM Index dropping 2.54% on the year. Ten days into 2022 and EM stocks are beating the S&P 500 by 2%.

Bond markets are having a tough time fighting the Fed. The Barclays Aggregate Bond index rose 0.01% in the fourth quarter and tallied a decline of 1.54% on the year. Global bonds declined 2.05% on the year. Traditional bonds could struggle in 2022 if interest rates continue to rise.

ECONOMIC REVIEW AND OUTLOOK

The U.S. economy was robust in the final quarter of the year. GDP is estimated to be in the 6-7% range. This follows the 2.3% showing in the third quarter which was held down due to supply constraints. The last three weeks have seen real-time data slow for a couple of reasons. Seasonally, this is a slower time, and the Omicron variant surge has impacted economic data. Therefore, January should allow suppliers to catch-up with inventories which will in turn relieve some of the inflation pressure in certain areas of the economy.

Restaurants were down about 8% from pre-pandemic levels but have fallen sharply to -24%. Hotels are down about 9% while TSA traffic is now down 17%. The Leading Economic Index was up 1.1% in November to 119.9 following the 0.9% increase in October and a 0.3% increase in September. Industrial Production increased 0.5% in November after moving up 1.7% in October. The Capacity Utilization rate (which measures how much slack is in the economy) was up 0.3 percentage points to 76.8.

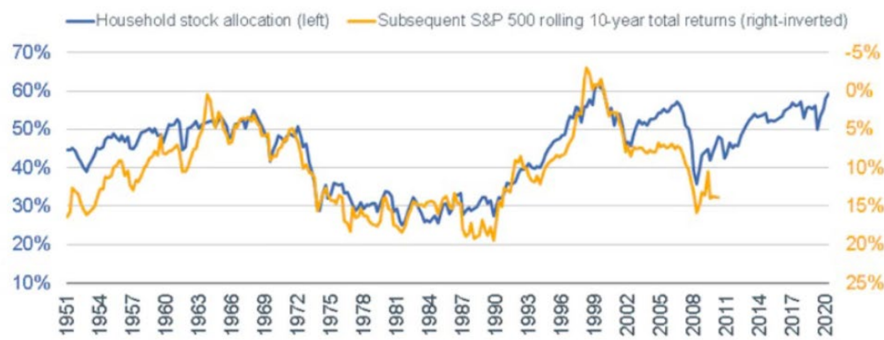
Non-farm payrolls rose by 199,000 in December and the unemployment rate fell to 3.9 percent. Weekly unemployment claims were 207,000 for the week ending January 1, 2022. The four-week moving average increased to 204,500. There were 11 million job openings at the end of October. This is near an all-time high and is roughly 3 million more jobs than unemployed Americans. Transportation and warehousing, leisure and hospitality, and food services represent the industries with the most job openings.

Manufacturing increased to 61.1% on the ISM PMI index in November. The New Orders Index came in at 61.5% which was up 1.7% from October. The ISM Services index was at 66.7% in October which is another all-time high and was an increase of 4.8% from September. This marks the 17th straight month of growth for the services sector. The Business Activity Index came in at 69.8% and New Orders were at 69.7%.

Global economies are also seeing impressive growth. The JPM Global Manufacturing PMI was at 54.3 in December which is a strong reading. This marks the 17th straight month of expansion. The European zone was at 53.3 which is still growth, but a bit slower than Q3. France, Spain and India all came above 55. Japan, the U.K. and China are all right behind at 53. This should help fuel global growth in Q1 and Q2 this year.

EQUITY AND BOND MARKETS

Domestic equity markets rallied in the fourth quarter to finish off an impressive year. However, returns varied wildly based on asset class and style. For example, Russell 2000 Value stocks were up 28.27% while Russell 2000 growth stocks were only up 2.83%. Russell Mid-Cap Value stocks were up 28.34% while Russell Mid-Cap Growth stocks were only up 12.73%. Outside of the U.S. saw a similar theme. The MSCI EAFE Index was up 11.26% while the ACWI-Ex U.S. Index was only up 7.82% and the MSCI EM Index was down 2.54%.



Household stock allocation quintile	Average household stock allocation	S&P 500 annualized return (10-years later)		
		Low return	High return	Average return
Highest 20%	54.6%	-3.0%	8.4%	4.1%
2nd highest 20%	50.0%	2.8%	13.8%	7.1%
3rd highest 20%	45.8%	5.5%	16.4%	10.7%
4th highest 20%	36.7%	8.5%	18.1%	13.2%
Lowest 20%	29.1%	13.2%	19.4%	16.3%

The above chart shows that U.S. households are carrying about 60% of their investments in equities. The last time this allocation was above 60 was in 1999. Historically when household stock allocations have been this high, forward returns in the market have been muted. The average return over the next decade has only been 4.1% per year. Investors should prepare for reduced portfolio returns over the next ten years.

Domestic stocks have outperformed international equities for the last 14 years. At some point, this will shift. So far in the first ten days of 2022, Developed Equity Markets and Emerging Markets are outperforming the S&P 500. In fact, Emerging equities are positive on the year while the S&P 500 is down more than 2%. This is the reason that Advisors (including Galecki) use a diversified allocation approach to provide a consistent long-term return with less risk than choosing one particular asset class such as the S&P 500.

The Fed has indicated that they are going to continue tapering, which is the process of slowly pulling back the stimulus they have provided during the pandemic. Bond purchases have added more than $4 trillion to the Fed's balance sheet which now stands at roughly $9 trillion. They are also expected to increase rates three times in

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2022 and four times in 2023. All of these actions will provide a headwind for the bond market. With the Ten-Year Treasury yield around 1.7% and inflation running north of 5%, the real rate of return is around -3%. This does not make Treasuries all that attractive. Many bond investors have been hunting for yield in spaces like High Yield, Convertible Bonds, and Global Bonds. We expect this will continue in 2022 and 2023.

PORTFOLIO MANAGEMENT

The Investment Committee continues to monitor current allocations and risks to the portfolio. Stock valuations have been the biggest concern for the Committee. Having a diversified portfolio going back to 1950 has provided a decent rate of return. In fact, a 50% equity and 50% bond portfolio has averaged 9% per year over the last 70 years. With equity valuations near historic highs, diversification may be more important than ever.

We continue to believe that international equities offer better valuations than domestic equities. Therefore, we are keeping our current allocation. Performance in the funds have been solid and no major changes are expected. However, we are continuing to monitor our balance between asset classes to minimize risk.

The fixed income side of the portfolio continues to keep our attention. The Barclays Aggregate Index was down 1.54% in 2021 and that could happen again in 2022. Keeping duration down will hopefully protect against major declines. In addition, we are reducing our intermediate bond exposure and adding exposure to real estate. The real estate position will get exposure to warehouses and other real estate opportunities which should provide a consistent income stream and a diversified holding. We are also maintaining our large position in the Market Neutral fund which offers fixed income like returns but is less interest rate sensitive.

FINANCIAL PLANNING

Required Minimum Distributions (RMDs) have undergone a variety of changes over the past few years. Once an individual reaches a certain age, they are required to distribute funds from qualified retirement accounts. Retirement accounts include IRAs, 401(k)s (including Roth 401(k)s), 403(b)s, and Thrift Savings Plans (TSP). Roth IRAs are not subject to RMDs.

Prior to 2020, RMDs started at an individual's age 70.5. The SECURE Act, passed in December 2019, pushed the RMD age to 72. If an individual is still working at age 72+, their employer sponsored retirement plans are not subject to RMDs as long as the individual is not more than a 5% owner of their employer.

RMDs are calculated by taking the IRA value on December 31st of the prior year and dividing by a set factor. Factors are based on age in the current year and are set by the IRS. There are three factor tables to choose from based on your specific situation:

- Uniform Lifetime Table – This is the most commonly used table. This is for single individuals, married individuals whose spouses are less than 10 years younger, and married individuals whose spouses aren't the sole beneficiaries of their IRAs.
- Table II (Joint Life and Last Survivor Expectancy) – This table is used for IRA owners whose spouses are more than 10 years younger. The spouse must be the sole beneficiary.
- Table I (Single Life Expectancy) – Used for non-spouse beneficiaries of an Inherited IRA.

All three tables were updated as of January 1, 2022 with new factors. The tables were updated due to the increase in life expectancy. The last revision was in 2002.

Below is an illustration of how RMDs have changed under the Uniform Lifetime Table:

		Uniform Lifetime Table in Effect Through 2021			New Uniform Lifetime Table Effective January 1, 2022			
Age	Account Value 12/31	Old RMD Factor	Old RMD as a % of Account Balance	Old RMD Amount	New RMD Factor	New RMD as a % of Account Balance	New RMD Amount	Difference in RMD
72	$ 1,000,000	25.6	3.91%	$ 39,062.50	27.4	3.65%	$ 36,496.35	$ (2,566.15)
73	$ 1,000,000	24.7	4.05%	$ 40,485.83	26.5	3.78%	$ 37,735.85	$ (2,749.98)
74	$ 1,000,000	23.8	4.21%	$ 42,016.81	25.5	3.93%	$ 39,215.69	$ (2,801.12)
75	$ 1,000,000	22.9	4.37%	$ 43,668.12	24.6	4.07%	$ 40,650.41	$ (3,017.72)
76	$ 1,000,000	22.0	4.55%	$ 45,454.55	23.7	4.22%	$ 42,194.09	$ (3,260.45)

If you inherited a qualified retirement plan prior to 2020, you are able to do a one-time reset of your RMD due to these factor changes. In order to calculate your new RMD, you must go back to Table I, find your age the year *following* the original owner's death, and use that factor as your starting value. You then subtract "1" from your starting factor each year until arriving at the current year.

Inheriting an IRA became more convoluted in 2020. The SECURE Act also eliminated the ability for most beneficiaries to stretch RMDs over their life expectancy. Instead of annual RMDs, most non-spouse beneficiaries must distribute the full value of the IRA within 10 years of the original IRA owner's death. This 10-year rule does not apply if you are an Eligible Designated Beneficiary: spouse, minor child until age of majority, disabled individual, and individual less than 10 years younger.

Required Minimum Distributions have increased in complexity over last few years. Failure to properly satisfy an RMD results in a 50% penalty on the amount that should have been distributed. It is best to meet with your advisory team to ensure the correct amount is distributed and any caveats directly related to your situation are addressed.

COMPANY NEWS

On January 1, 2022, Greg Galecki retired from Galecki Financial Management. Throughout his 30+ years in the industry, he touched many lives. It took a tremendous amount of courage and determination to open a Fee-Only firm during a time when almost all financial advisory firms worked on commissions. Greg's priority was to always do right by his clients - keeping their best interests ahead of his own. That spirit will continue to be the driving force behind GFM for the next 30+ years. We wish Greg the best on his new adventure!

Galecki Financial Management now has 6 shareholders. Pictured left to right are: AT Kohout, Kevin Chandler, Chloe Blythe, Brady McArdle, Melanie Colwell & Andy Young.

Together we are excited to navigate Galecki Financial Management over the next 30+ years. We are committed to providing our clients with the best possible experience, knowledge, and guidance.

Thank you for the trust and confidence you instill in us. We look forward to a new year of new opportunities. May you all have a happy, healthy, and prosperous 2022.

- Galecki Financial Management Investment Committee

If you would like to schedule an appointment with a Certified Financial Planner™ Professional, please visit www.galecki.com

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