GALECKI FINANCIAL MANAGEMENT

FINANCIAL SENSE

	LAST MONTH	LAST 3 MONTHS	YTD
S & P 500 Index	-9.21%	-4.88%	-23.87%
Russell Midcap Index	-9.27%	-3.44%	-24.27%
Russell 2000 Index	-9.58%	-2.19%	-25.10%
Dow Jones Industrial Average	-8.76%	-6.17%	-19.72%
Morgan Stanley EAFE Index	-9.35%	-9.36%	-27.09%
DJ US Real Estate Index	-12.67%	-10.41%	-28.35%
S&P Commodity Index	-7.80%	-10.31%	21.80%
Barclays Aggregate Bond Index	-4.32%	-4.75%	-14.61%

INDEX RETURNS

After a decent rally in July and August, equities retreated hard in September. The S&P 500 dropped 9.21% in September and is now down nearly 24% on the year. The Russell Mid-cap index is down more than 24% for the year and small caps are down 25.1%. The Nasdaq 100 is down 32.48% on the year. The third quarter saw both US growth and value decline almost equally; there was just no place to hide domestically.

International stocks had similar results with the EAFE Index declining 9.36% for the quarter making it down 27% on the year. Australia and Canada have held up relatively well with YTD declines of around 18%. Emerging Markets had a rough September as well and now see their index down 27.16% on the year. Brazil and Chile however are both up around 11% on the year, bucking the downward global trend.

Bonds realized big declines in the quarter with the Barclays Aggregate Bond index dropping 4.75% on the quarter and it is now down 14.61% on the year. Global bonds are down more than 24% year-to-date.

ECONOMIC REVIEW AND OUTLOOK

The Federal Reserve has been raising short-term interest rates in an effort to bring down inflation. The current Fed Funds target is at 3.25% and they have indicated they want to get to 4.5% by mid next year. Rate increases make it more expensive for companies and consumers to borrow. This typically reduces revenue and profitability, but it does not happen overnight. There is a lag effect on the economic impact.

Since the Fed is increasing rates faster than other Central Banks around the globe, the U.S. Dollar has been surging. While this makes international travel more affordable for U.S. citizens, it makes it more difficult for U.S. companies to sell their products abroad. More than half of the revenue for the companies in the S&P 500 comes from foreign sales. It will be very difficult for them to compete globally with a Dollar that is this strong.

The National Bureau of Economic Research (NBER) defines a recession as “a significant decline in economic activity that is spread across the economy and that lasts more than a few months”. So far in 2022, Gross Domestic Product declined 1.6% in the first quarter followed by a 0.6% decline in the second quarter. It is likely that Q3 GDP will be in the 0-1.5% range. It is hard to say whether NBER will identify this current environment or upcoming quarters as an official recession. It might just be semantics at this point since everyone knows that we have an economy that is having a difficult time growing due to several factors.

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The Leading Economic Index declined 0.3 percent in August to 116.2 following a 0.5 percent decline in July. Industrial Production increased 0.4% in September. The Capacity Utilization rate (which measures how much slack is in the economy) was up 0.2 percentage points to 80.3 percent in September.

Labor continues to be a bright spot for the economy. Non-farm payrolls rose by 263,000 in September and the unemployment rate fell to 3.5 percent. Weekly unemployment claims were 228,000 for the week ending October 8, 2022. This was an increase of 9,000 from the previous week and the 4-week moving average is at 211,500.

Manufacturing decreased to 50.9% on the ISM PMI index in September. This was a drop of 1.9% from August. The New Orders Index came in at 47.1% which was down 4.2% and is now in contraction territory. The ISM Services index was at 56.7% in September. This marks the 28th straight month of growth for the services sector. The Business Activity Index came in at 59.1% and New Orders were at 60.6%. This data reflects a slowing manufacturing sector with a much stronger services sector.

The JPM Global Manufacturing PMI was at 49.5 in September and shows that global economies have been in contraction territory since August. Germany is at 45.9 and the UK is at 48.4. Emerging economies are a bit stronger led by India at 56.2 and China at 53.

EQUITY AND BOND MARKETS

Equity markets were hit hard in September after a brief rally in July and August and now stand at their lows on the year. The S&P 500 decline of 25% represents an official bear market. Going back to 1952, we have had 12 occurrences of a decline of more than 20%. This means we get an official bear market every 5.8 years. The average decline each year for the S&P 500 is 13.7%, yet the market has finished positive in 51 of those 70 years.

Ned Davis Research Crowd Sentiment Poll	S&P 500 annualized gain (12/01/1995-09/30/2022)	Percent of time
Above 66	-0.41%	27.57%
57-66 from above	1.95%	17.77%
57-66 from below	20.13%	18.52%
Below 57	9.74%	35.73%

Source: Charles Schwab, Ned Davis Research, Inc. as of 9/30/2022. See NDR Disclaimer at www.ndr.com/copyright.html. Further distribution prohibited without prior permission. All Rights Reserved. For data vendor disclaimers refer to www.ndr.com/vendorinfo. Schwab does not recommend the use of technical analysis as a sole means of investment research.
Past performance is no guarantee of future results.

Due to the decline in economic activity and the equity markets, the NDR Crowd Sentiment Poll has dropped into extreme pessimism territory. In addition, the Consumer Sentiment Index is at 58.6 at the end of September. Both indicators are contrarian indicators that suggest further downside in the market may be limited at these levels. Historically annualized returns off these levels tends to be solid.

The forward P/E ratio for the S&P 500 has dropped down to 15.15 times earnings, which is now below the 25-year average. Stocks have gone from expensive in December of last year, to relatively inexpensive today. In fact, if the S&P 500 returns to it's January peak in two years, it would equate to a 17.6% annualized return. If it takes three years, it would be a 12% annualized return.

What could turn the tide for the market? If Russia and Ukraine have a cease-fire, global equity markets would experience a rally. When inflation data begins to slow, and the Federal Reserve slows tightening, global equity markets will benefit. Since the market is a leading indicator, waiting for the economic data to turn higher would be too late for investors. On the bond side of the market, it might be time to extend out to some intermediate bonds in case the Fed does slow down their tightening Monetary policy.

PORTFOLIO MANAGEMENT

The Investment Committee continues to monitor allocations, the performance of our portfolios, and the underlying funds and ETFs. So far this year, performance has been holding up relatively well. Our low-cost ETFs and funds have been performing well relative to their benchmarks. It has just been a challenging environment with bonds declining 15% on the year and displaying such a positive correlation with equities. Historically speaking, they often have an inverse relationship.

Our philosophy is to build a diversified portfolio and keep a long-term perspective. We know that this approach will work over at least a 5-year time horizon. Anything can happen in the short-term, but if we keep a long-term strategy then we will be able to meet our return goals which enables our financial plans to work.

FINANCIAL PLANNING

Medicare Open Enrollment begins on October 15th and lasts through December 7th. For individuals already on Medicare, this is the annual opportunity to review and make changes to your Medicare supplement plan (also known as Medigap), Part D (prescription drug) plan, or change to or between Medicare Advantage plans.

Even if you are happy with your coverages over the past year, it is possible that a new plan could save you on out-of-pocket costs, especially if your health situation or prescriptions have changed. We recommend speaking with a trusted Medicare insurance agent to evaluate your Medicare policies each year. If you need a referral to trusted agent, please contact your GFM team. Below is a brief review of Medicare.

Original Medicare has 3 parts: A, B, and D. With original Medicare, you also likely have a supplement policy.

Medicare Part A helps cover inpatient care in hospitals, Part B covers services from doctors, outpatient care, and preventative services, and Part D covers prescription drugs. Medicare supplement plans help to fill the areas that are not covered by Parts A, B, and D. Supplement plans are also labeled by letters (F, G, K, L, M, N). Each plan has its own nuances in coverage.

Medicare Advantage plans (Part C) are available as an alternative to Original Medicare. Advantage plans "bundle" Part A and B and usually D. These plans operate similarly to a PPO plan where individuals must see an in-network provider and a primary doctor first for referrals to specialists if needed. Individuals enrolled in an Advantage plan are still subject to the Part B and D premiums explained below.

Determining if Original Medicare or a Medicare Advantage Plan is right for you depends on your specific health situation and lifestyle.

Most individuals do not pay a premium for Medicare Part A because they or their spouse have 40 or more quarters of Medicare covered employment. The premium for Part B is adjusted annually. If Adjusted Gross income is over a certain threshold you will pay more for Part B and Part D; this is called the Income Related Monthly Adjustment Amount (IRMAA). The 2023 costs for Part B and D were just announced and will be lower in 2023 than in 2022. Tables below.

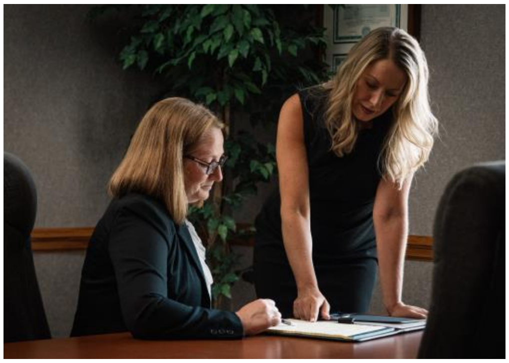
Part B - AGI in 2021 determines 2023 premium amounts			
Individual	Married Filing Jointly	Married Filing Separately	Monthly Cost
$97,000 or less	$194,000 or less	$97,000 or less	$164.90
above $97,000 up to $123,000	above $194,000 up to $246,000	N/A	$230.80
above $123,000 up to $153,000	above $246,000 up to $306,000	N/A	$329.70
above $153,000 up to $183,000	above $306,000 up to $366,000	N/A	$428.60
above $183,000 less than $500,000	above $366,000 less than $750,000	above $97,000 less than $403,000	$527.50
$500,000 or above	$750,000 or above	$403,000 or above	$560.50

Part D - AGI in 2021 determines 2023 premium amounts			
Individual	Married Filing Jointly	Married Filing Separately	Monthly Cost
$97,000 or less	$194,000 or less	$97,000 or less	your plan premium
above $97,000 up to $123,000	above $194,000 up to $246,000	not applicable	$12.20 + your plan premium
above $123,000 up to $153,000	above $246,000 up to $306,000	not applicable	$31.50 + your plan premium
above $153,000 up to $183,000	above $306,000 up to $366,000	not applicable	$50.70 + your plan premium
above $183,000 less than $500,000	above $366,000 less than $750,000	above $97,000 less than $403,000	$70.00 + your plan premium
$500,000 or above	$750,000 or above	$403,000 or above	$76.40 + your plan premium

COMPANY NEWS

Although we hope our clients and their families never need this expertise, we want to highlight that Owner and Senior Financial Planner, Melanie Colwell is a Certified Divorce Financial Analyst™.

This specialty provides Melanie with the skills and education needed to analyze the financial impact of a divorce settlement and work closely with the legal team throughout the process. Melanie is currently the only woman in our area to hold this accreditation. At Galecki, we are committed to helping individuals and families navigate through all the stages of their financial lives, including the difficult and unexpected.



- Galecki Financial Management Investment Committee

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