DIVERSIFIED PORTFOLIOS, INC.

Investment Insights

A Resource for Investors, Attorneys and CPAs

October 2022

at a glance

Market Update

The third quarter of 2022 looked much like the first half of 2022. This has been a volatile year consisting of losses in stock and bond markets.

Midterm Elections and your Money

We take a deep dive into the upcoming midterm elections and its impact on financial markets

Financial Planning

An update on Required Minimum Distributions from recently Inherited IRAs, along with some year-end reminders.

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Market Update

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Asset Class	3rd Quarter 2022 Return	YTD 2022 Return
Large U.S. Stocks: S&P 500 Index	-4.8%	-23.7%
Small U.S. Stocks: Russell 2000 Index	-2.1%	-25.3%
Developed International Stocks: MSCI EAFE Index	-9.3%	-27.0%
Emerging Market Stocks: MSCI Emerging Markets Index	-12.5%	-27.7%
Bonds: Bloomberg Barclays U.S. Aggregate Index	-4.7%	-14.7%
Cash: FTSE 3-Month Treasury Bill Index	0.5%	0.6%

Source: Charles Schwab - Returns Calculator as of September 30, 2022

Global equity markets continue to struggle as inflation and the Ukraine conflict weigh on sentiment

The third quarter of 2022 is about to wrap up, unfolding much like the first half of 2022. This has been a volatile year consisting of losses in global stock and bond markets. Adding fuel to the fire, there has been no shortage of headlines from the financial media—some designed to create fear and confusion. There are many reasons why markets have been challenged thus far in 2022, with rising interest rates to combat inflation and the Russian invasion of Ukraine topping the list.

The actual news on the U.S. economy has been pedestrian. Earnings from U.S. corporations are actually growing quarter over quarter, the labor market remains strong, and economic growth as measured by GDP has been nearly flat over the last six months. However, the Federal Reserve's aggressive moves to combat inflation have weighed on equity valuations.

International stock returns have lagged for much of the last decade and 2022 has been more of the same, with the uncertainty surrounding Russia and strong dollar weighing on returns. The invasion has roiled European energy markets, while impacting currencies and supply chains. Emerging Market equities continue to struggle as China maintains a "zero-covid" policy along with a less than friendly posture towards their business community.

Bond investors have experienced their worst year on record. Aggressive Federal Reserve rate hikes have left bond yields as high as they have been across the curve at any point since 2007. Fortunately, looking ahead, bonds look primed to deliver mid-single digit returns over the medium term, after resetting in price this year.

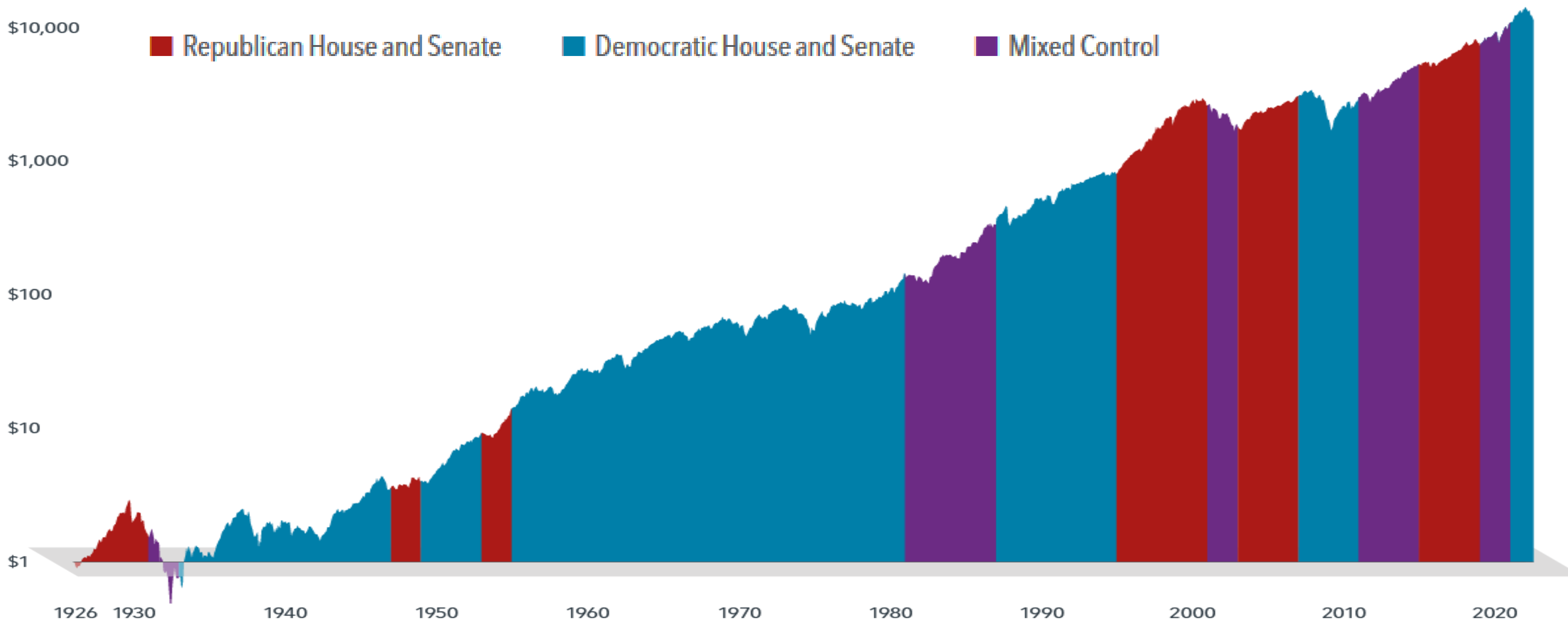
Deeper Dive: Midterm Elections

October 2022

While the upcoming U.S. midterm elections are an interesting topic to speculate about, history shows that who controls congress has had no statistically significant impact on portfolios.

With U.S. Midterm elections coming up on November 8th, emotions are running high. And, for the stock market, it is yet another uncertain variable in a year of tough headlines. In the contentious political environment that we operate in, it is human nature to wonder how your vote at the ballot box may impact your portfolio. While we are not political analysts, we can approach this question by looking at empirical data just like we would any other investment question. A century of market history suggests that there is no statistically significant relationship between who controls the legislative branch of congress and stock returns.

The below graphic from Dimensional Fund Advisors is an illustration from June of this year which shows the growth of one dollar in the S&P 500 from 1926 through today. One thing is clear from the graph below: stocks tend to drift higher over the long haul, with no correlation to who is in office. So while the coming weeks are sure to be interesting, staying the course and sticking to a long term investment plan is tried and true when it comes to your portfolio.



Source: What History Tells Us about the Market and Control of US Congress: Dimensional Fund Advisors – June 2022

Financial Planning

IRS Delays Decision for Inherited IRA rules

For those who inherited IRAs starting in 2020, the IRS announced recently that they would delay enforcement of rules for taking required minimum distributions from those inherited IRAs through the end of 2022.

The delay is due to confusion around rules the IRS proposed last year, but did not finalize. The 2019 Secure Act required that beneficiaries of IRAs take out the value of the IRA over 10 years, instead of stretching withdrawals over their lifetimes as was allowed previously. The proposed rules surprised tax payers with an additional requirement of taking at least a required minimum distribution out annually as well as draining the account by the tenth year.

Tax Planning

The losses experienced so far in 2022 gives advisors an opportunity to coordinate on the tax and investment side.

One technique that financial advisors can use to lower tax burdens of clients is called Tax Loss Harvesting. For example, if an advisor bought an intermediate U.S. Treasury bond fund a year ago – it would currently be trading at a loss. An advisor can swap the U.S. Treasury Bond Fund into a U.S. Core Bond Fund which contains similar instruments and risk characteristics. With this, the client can maintain similar risk exposure in their portfolio while booking the loss for tax purposes. Depending on individual circumstances, this technique can add significant value by reducing current and/or future capital gains taxes.

End of Year Reminders

In 2022, participants in 401k, 403b, and other similar plans can contribute a maximum of $20,500 of employee contributions. Investors 50 and older can contribute an additional $6,500 for a total of $27,000.

For those in profit sharing or defined benefit style plans, it is a good time to start thinking about how the calendar year is shaping up from a tax and business perspective and look to determine how much income can be contributed into these plans.

We're here to help

The team at Diversified Portfolios is wishing everyone a great start to the fall season as we work through the 4th quarter of the year. We are here to help on any investment or financial planning question.

Inherited IRA update: The Wall Street Journal – October 7, 2022 https://www.wsj.com/articles/irs-delays-new-guidelines-for-inherited-iras-11665182415?mod=life_work_featured_pos2

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DIVERSIFIED
PORTFOLIOS, INC.

39520 Woodward Avenue, Suite 200
Bloomfield Hills, MI 48304
248.644.3030