WEALTH MANAGEMENT NEWSLETTER

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HOW TO INVEST BETTER - AND LIVE BETTER

It can be challenging to start a conversation about investing. That's why I encourage having a conversation before the investing conversation—what I like to think of as a "preamble." Connecting life principles to investment principles is a powerful way to ground abstract principles in reality, and to connect over universal experiences and feelings. It can also help make sense of investment concepts often dismissed as overly complex for those who aren't familiar with them.

Our lives are the cumulative result of the decisions we make every day. Just as in investing, the power of these decisions compounds over time. That's why it's so important to find a decision-making process that works for you—both in life and in investing. In my mind, this involves acknowledging that uncertainty can create both stress and opportunity, planning for what might happen rather than trying to predict what will happen, cultivating flexibility and adaptability, harnessing the power of compounding, and accepting your own limits. Embracing uncertainty by planning for the future can help you live life better now.

UNCERTAINTY

Given life's profound uncertainty, it's sometimes hard to feel like an optimist. Most of what happens in our lives is unpredictable, and it's impossible to forecast the future. But you can live your life fully without knowing what's going to happen. And you can have a good investment experience without forecasting what the market is going to do, because you're not trying to guess which companies will succeed and when. You're investing in the ingenuity of people to solve problems and make their companies run better.

PLANNING

You don't have to predict, but you do have to plan. You can feel empowered by uncertainty instead of beaten down by it. Without uncertainty, there would be no opportunity. Think about all the unexpected turns your life has taken and the possibilities those turns opened up. While you couldn't have predicted the outcomes of decisions you made, you intuitively knew how to gauge your feelings about the risks and opportunities being presented to you. The same is true of investing in markets. People shrink away from investing because of uncertainty, but experience living life has given us the tools to deal with it. While you can't control markets, you can control how much risk you take. And you can control whether you have an investment professional in your corner for help making financial decisions you can live with.

continued on page 2

IN THIS ISSUE

HOW TO INVEST BETTER - AND LIVE BETTER

Having a solid plan in place can help ease the uncertainty, both in life and when investing.

PAGE 1-2

NOW MIGHT BE A GOOD TIME FOR A ROTH CONVERSION

If the assets in your traditional IRA have lost value, you will pay taxes on a lower asset base when you convert.

PAGE 3

SPREADING GRATITUDE THIS HOLIDAY SEASON

Take a moment to share your appreciation with someone who has had a positive impact on your life.

"When eating fruit, remember the one who planted the tree."
-Vietnamese Proverb

PAGE 3-4

HOW TO INVEST BETTER - AND LIVE BETTER

continued from page 1

FLEXIBILITY

While it's important to have a plan, in both life and investing, the road will be easier if you cultivate flexibility. Think about someone you know who's successfully navigated major challenges. Were they rigid, or were they nimble?

COMPOUNDING

If you need motivation to stick to your plan and adapt accordingly, consider the power of compounding. And I'm not just talking about the financial benefits (although the market has returned an average of about 10% a year over the past 100 years or so).[1] If you think about it, the life equivalent of compound interest is wisdom. Learning from the past helps you make better decisions in the future, and those lessons build on one another over time.

LIVE LIFE

Once you've done the best you can, go easy on yourself. Learn from your disappointments, and enjoy your successes. It's not the decisions you make, but how you make decisions. Approach other people with empathy. Investing, like life, is a process. If you've followed a solid plan to the best of your ability, you've put yourself in the best position to achieve success. Don't ruin your state of mind by obsessing after the fact.

> ***"Life prepares you for investing and investing prepares you for life."***

I co-founded Dimensional Fund Advisors more than 40 years ago, at the beginning of a revolution in finance that transformed the investment business. Back then, I was excited about a strategy that focused on investing in human ingenuity rather than trying to find "mispriced" stocks. Today, I'm gratified to see so many people living better lives as a result. I'm proud of the role, however large or small, we played in that. But I'm even happier that we now live in a world where everybody can buy shares in a fund that reflects the broad market. That can help them make the most of the money they worked so hard to earn. And the first step on that journey is having an honest conversation about how life prepares you for investing and investing prepares you for life.

1. In US dollars. S&P 500 Index annual returns 1926–2021. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

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Dimensional Fund Advisors Executive Chairman and Founder

DID YOU KNOW?!

Established in 1602, the Amsterdam Stock Exchange was the first in the world.
(Columbia University Press)

Australia has had the best performing share market in the world from 1900 to 2009.
(Market Watch; interactive investor; The Department of Foreign Affairs and Trade)

Changes in stock prices were expressed as fractions until the year 2000.
(Investopedia)

About 10% of US households hold international equity.
(A Wealth of Common Sense)

Source: https://fortunly.com/statistics/stock-market-statistics/#gref (11/16/2022)

NOW MIGHT BE A GOOD TIME FOR A ROTH CONVERSION

One silver lining in the current bear market is that this could be a good time to convert assets from a traditional IRA to a Roth IRA. Converted assets are subject to federal income tax in the year of conversion, which might be a substantial tax bill. However, if assets in your traditional IRA have lost value, you will pay taxes on a lower asset base when you convert. If all conditions are met, the Roth account will incur no further income tax liability for you or your designated beneficiaries, no matter how much growth the account experiences.

TAX TRADE-OFF

The logic behind deferring taxes on retirement savings is that you may be in a lower tax bracket when you retire, so a current tax deduction might be more appealing than tax-free income in retirement. However, lower rates set by the Tax Cuts and Jobs Act (set to expire after 2025) may have changed that calculation for you. A cost-benefit analysis could help determine whether it would be beneficial to pay taxes on some of your IRA assets now rather than later. One strategy is to "fill your tax bracket," meaning you would convert an asset value that would keep you in the same tax bracket. This requires projecting your income for 2022.

LOWER VALUES, MORE SHARES

As long as your traditional and Roth IRAs are with the same provider, you can typically transfer shares from one account to the other. Thus, when share prices are lower, you could theoretically convert more shares for each taxable dollar and would have more shares in your Roth account to pursue tax-free growth. Of course, there is also a risk that the converted assets will go down in value. You may have the option to take taxes directly out of your converted assets, but this is generally not wise.

TWO TIME TESTS

Roth accounts are subject to two different five-year holding requirements: one related to withdrawals of earnings and the other related to conversions. For a tax-free and penalty-free withdrawal of earnings, including earnings on converted amounts, a Roth account must meet a five-year holding period beginning January 1 of the year your first Roth account was opened, and the withdrawal must take place after age 59½ or meet an IRS exception. If you have had a Roth IRA for some time, this may not be an issue, but it could come into play if you open your first Roth IRA for the conversion.

Assets converted to a Roth IRA can be withdrawn free of ordinary income tax at any time, because you paid taxes at the time of the conversion. However, a 10% penalty may apply if you withdraw the assets before the end of a different five-year period, which begins January 1 of the year of each conversion, unless you are age 59½ or another exception applies.

MORE FAVORABLE RMD RULES

Unlike a traditional IRA, Roth IRAs are not subject to required minimum distribution (RMD) rules during the lifetime of the original owner. Spouse beneficiaries who treat a Roth IRA as their own are also not subject to RMDs during their lifetimes. Other beneficiaries inheriting a Roth IRA are subject to the RMD rules. In any case, Roth distributions would be tax-free. The longer your investments can pursue growth, the more advantageous it may be for you and your beneficiaries to have tax-free income.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

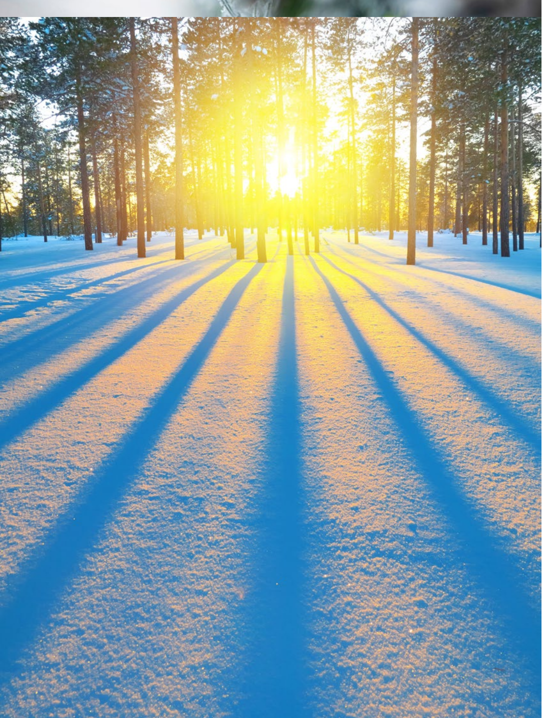
SPREADING GRATITUDE THIS HOLIDAY SEASON

As we swing into this year's holiday season, we wish you a reaffirming sense of inner peace. But because even the most independent among us can sometimes use a helping hand, we also wish for you the grace that comes from accepting assistance from others. In a world that sometimes seems intent on grinding us down, who have been your life's heroes?

For many of us, it may be our parents. Jane Goodall once described how her mother helped her realize her now legendary career as a primatologist:

"At age 10, I read Edgar Rice Burroughs's 'Tarzan of the Apes' and resolved that I would go to Africa, live with wild animals and write books about them. … Almost everyone laughed at me. … World War II was raging. And I was just a girl. 'Dream about something you can achieve,' they said. But I was fortunate to have a supportive mother who told me, 'You will have to work hard, take advantage of opportunities, and if you never give up you may find a way.'"

continued on page 4



SPREADING GRATITUDE THIS HOLIDAY SEASON

continued from page 3

We can also be inspired by global leaders. When Putin first invaded Ukraine, imagine how different things might have been had Ukrainian President Volodymyr Zelenskyy fled the country, instead of reportedly insisting, "I need ammunition, not a ride." Behold, the strength of balancing self-determination with the wisdom of accepting aid from our allies.

How would you fill in these blanks in your life:

Were it not for ________, I would never have _____________!

Perhaps your heroes have been friends or family. Or maybe they've been far-flung acquaintances who happened to cross your path at a pivotal time.

Regardless, as you contemplate this year's holiday giving, why not send your greatest heroes a gift of gratitude? Because heroes are vulnerable too. Just like you and me, they have days when they may question their worth. Sometimes, simply telling someone how much they've meant to you can turn the tides in their life. Or at least make their day.

In that spirit, we send you and your family our most heartfelt thanks for entrusting us with your personal wealth. We can think of no greater, or more rewarding calling than serving as your financial advisor through thick and thin. We appreciate everything that serving you and your family has meant to us—and hopefully to you as well.

With abundant gratitude, we wish you and yours the warmest of holiday seasons.

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