

# Doerschler & Associates

Wealth Management Financial News

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Doerschler & Associates  
WEALTH MANAGEMENT

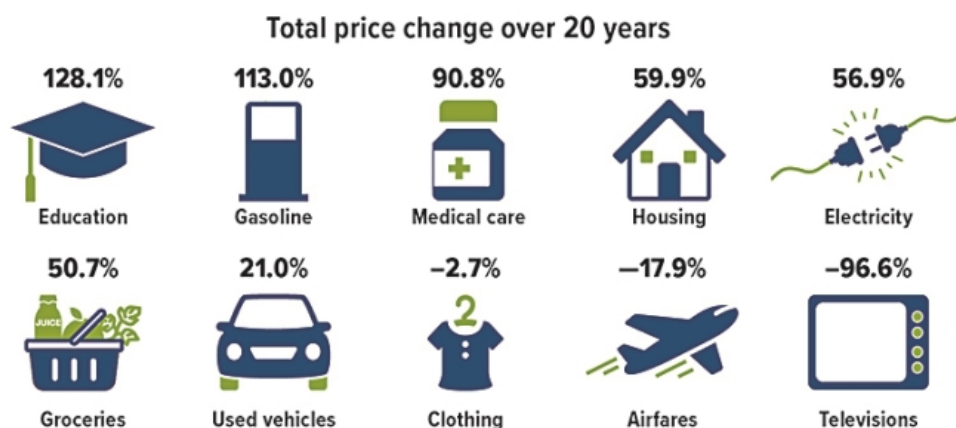
Dear Clients,

We hope that this communication finds you well. As always, if you have any questions or would like additional information in regards to any of the topics discussed, please feel free to reach out to Carl at 269-744-4180 or [carl@doerschlerandassociates.com](mailto:carl@doerschlerandassociates.com), or Jill at 269-744-2004 or [jill@doerschlerandassociates.com](mailto:jill@doerschlerandassociates.com).

Thank you for your time,  
Carl & Jill

## Two Decades of Inflation

After being largely dormant for the last decade, inflation roared back in 2021 due to various factors related to the pandemic and economic recovery. For perspective, it may be helpful to look at inflation over a longer period of time. During the 20-year period ending September 2021, the Consumer Price Index for All Urban Consumers (CPI-U), often called *headline inflation*, rose a total of 53.8%. While the prices of some items tracked the broad index, others increased or decreased at much different rates.



Source: U.S. Bureau of Labor Statistics, 2021 (data through September 2021)

# 401(k) and IRA: A Combined Savings Strategy

Contributing to an employer-sponsored retirement plan or an IRA is a big step on the road to retirement, but contributing to both can significantly boost your retirement assets. A recent study found that, on average, individuals who owned both a 401(k) and an IRA at some point during the six-year period of the study had combined balances about 2.5 times higher than those who owned only a 401(k) or an IRA. And people who owned both types of accounts consistently over the period had even higher balances.<sup>1</sup>

Here is how the two types of plans can work together in your retirement savings strategy.

## Convenience vs. Control

Employer-sponsored plans such as 401(k), 403(b), and 457(b) plans offer a convenient way to save through pre-tax salary deferrals, and contribution limits are high: \$19,500 in 2021 (\$20,500 in 2022) and an additional \$6,500 if age 50 or older. Although the costs for investments offered in the plan may be lower than those offered in an IRA, these plans typically offer limited investment choices and have restrictions on control over the account.

IRA contribution limits are much lower: \$6,000 in 2021 and 2022 (\$7,000 if age 50 or older). But you can usually choose from a wide variety of investments, and the account is yours to control and keep regardless of your employment situation. If you leave your job, you can roll assets in your employer plan into your IRA.<sup>2</sup> Whereas contributions to an employer plan generally must be made by December 31, you can contribute to an IRA up to the April tax filing deadline.

## Matching and Diversification

Many employer plans match a percentage of your contributions. If your employer offers this program, it would be wise to contribute at least enough to receive the full match. Contributing more would be better, but you also might consider funding your IRA, especially if the contributions are deductible (see below).

Along with the flexibility and control offered by the IRA, holding assets in both types of accounts, with different underlying investments, could help diversify your portfolio. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

## Rules and Limits

Although annual contribution limits for employer plans and IRAs are separate, your ability to *deduct* traditional IRA contributions phases out at higher income levels if you are covered by a workplace plan: modified adjusted gross income (MAGI) of \$66,000 to \$76,000 for single filers and \$105,000 to \$125,000 for joint filers in 2021 (\$68,000 to \$78,000 and \$109,000 to \$129,000 in 2022).<sup>3</sup> You can make nondeductible contributions to a traditional IRA regardless of income.

Eligibility to contribute to a Roth IRA phases out at higher income levels regardless of coverage by a workplace plan: MAGI of \$125,000 to \$140,000 for single filers and \$198,000 to \$208,000 for joint filers in 2021 (\$129,000 to \$144,000 and \$204,000 to \$214,000 in 2022).

## Percentage of U.S. households with tax-advantaged retirement savings accounts



Source: Investment Company Institute, 2021

Contributions to employer-sponsored plans and traditional IRAs are generally made on a pre-tax or tax-deductible basis and accumulate tax deferred. Distributions are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn prior to age 59½ (with certain exceptions). Nondeductible contributions to a traditional IRA are not taxable when withdrawn, but any earnings are subject to ordinary income tax. Required minimum distributions (RMDs) from employer-sponsored plans and traditional IRAs must begin for the year you reach age 72 (70½ if you were born before July 1, 1949). However, you are generally not required to take distributions from an employer plan as long as you still work for that employer.

Roth IRA contributions are not deductible, but they can be withdrawn at any time without penalty or taxes. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and take place after age 59½ (with certain exceptions). Original owners of Roth IRAs are exempt from RMDs. Beneficiaries of all IRAs and employer plans must take RMDs based on their age and relationship to the original owner.

1) Employee Benefit Research Institute, 2020

2) Other options when separating from an employer include leaving the assets in your former employer's plan (if allowed), rolling them into a new employer's plan, or cashing out (usually not wise).

3) If you are not covered by a workplace plan but your spouse is covered, eligibility phases out at MAGI of \$198,000 to \$208,000 for joint filers in 2021 (\$204,000 to \$214,000 in 2022).

# Smoothing Market Ups and Downs

After the wild ride of 2020, the U.S. stock market was relatively calm in 2021, but there was still plenty of volatility. There were 55 days when the S&P 500 index — generally considered representative of U.S. stocks — closed with a rise or fall of 1% or more from the previous day's closing price. And there were seven days with a change of more than 2%.<sup>1</sup>

The good news for investors is that the trend was generally upward, and the S&P 500 ended the year up almost 27%.<sup>2</sup> But no matter which way the market is moving, trying to choose the "right" time to buy or sell can be stressful and counterproductive.

An investor who waits to buy may be frustrated as prices rise and then decide to stop waiting and purchase securities just before prices drop. On the other hand, an investor who sells when prices are dropping may lock in losses and miss out on gains when the market turns upward again. That's why one of the most fundamental maxims of investing is "you can't time the market."

One approach that might help steady your blood pressure and build your portfolio over time is *dollar-cost averaging*.

## A Consistent Strategy

Dollar-cost averaging involves investing a fixed amount on a regular basis, regardless of share prices and market conditions. Theoretically, when the share price falls, you would purchase more shares for the same fixed investment. This may provide a greater opportunity to benefit when share prices rise and could result in a lower average cost per share over time.

If you are investing in a workplace retirement plan through regular payroll deductions, you are already practicing dollar-cost averaging. If you want to follow this strategy outside of the workplace, you may be able to set up automatic contributions to an IRA or other investment account. Or you could make manual investments on a regular basis, perhaps choosing a specific day of the month.

You might also use a similar approach when shifting funds among investments. For example, let's say you want to shift a certain percentage of your stock investments to more conservative fixed-income investments as you approach retirement. You could execute this in a series of regular transactions over a period of months or years, regardless of market movements.

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## Steady Investments

If Tina invested \$6,000 in a security with a \$50 share price in month one, she could purchase 120 shares. If instead she invested \$1,000 each month over a six-month period, she might be able to accumulate more shares for the same dollar investment, which could result in a lower average cost per share.

Month	Amount invested	Share price	Shares acquired
1	\$1,000	\$50	20.00
2	\$1,000	\$55	18.18
3	\$1,000	\$45	22.22
4	\$1,000	\$40	25.00
5	\$1,000	\$50	20.00
6	\$1,000	\$55	18.18
<b>TOTAL</b>	<b>\$6,000</b>	<b>[\$295 ÷ 6]</b>	<b>123.58</b>

Average price per share: \$49.16 ( $\$295 \div 6$ )

Average cost per share: \$48.55 ( $\$6,000 \div 123.58$ )

This hypothetical example is based on mathematical principles and used for illustrative purposes only; it does not represent the performance of any specific investment. Actual results will vary.

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Dollar-cost averaging does not ensure a profit or prevent a loss, and it involves continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases during periods of low and high price levels. However, dollar-cost averaging can be an effective way to accumulate shares to help meet long-term goals.

*Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. All investments are subject to market fluctuation, risk, and loss of principal. When sold, they may be worth more or less than their original cost.*

1–2) S&P Dow Jones Indices, S&P 500 index for the period 12/31/2020 to 12/31/2021. Retrieved from FRED, Federal Reserve Bank of St. Louis. The S&P 500 is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

# Four Basic Principles of Financial Literacy

It is widely recognized that financial literacy impacts a person's overall economic success. In fact, studies have shown that individuals who are exposed to economic and financial education at an early age are more likely to exhibit positive financial behaviors when they are older (e.g., maintaining high credit scores, accumulating wealth). As a result, many states are requiring high school students to take a course in either economics or personal finance before they graduate.<sup>1</sup>

Whether you are just starting out and beginning to manage your own finances or simply want to stay on top of your current financial situation, it's important to always keep these basic principles of financial literacy in mind.

**1. Create a budget and stick with it.** A budget helps you stay on track with your finances. Start by identifying your income and expenses. Next, compare the two totals to make sure you are spending less than you earn. Hopefully, your budget is still on the right track. If you find that your expenses outweigh your income, you'll need to make some adjustments. Finally, while straying from your budget from time to time is normal, once you have a solid budget in place it's important to try to stick with it.

**2. Set financial goals.** Setting goals is an important part of life, particularly when it comes to your finances. Short-term goals may include saving for a new car or

building an emergency fund, while long-term goals may take more time to achieve (e.g., saving for a child's education or retirement). Over time, your personal or financial circumstances will most likely change, so you'll need to be ready to make adjustments and reprioritize your goals as needed.

**3. Manage your credit and debt.** Reducing debt is part of any healthy financial plan. Whether you have student loan debt, an auto loan, and/or a credit-card balance, you'll want to pay it down as quickly as possible. Start by tracking all of your balances while being mindful of interest rates and hidden fees. Next, optimize your repayments by paying off any high-interest debt first and/or taking advantage of a debt consolidation/refinancing program.

**4. Protect yourself.** When it comes to insurance coverage, are you adequately protected? Having the appropriate amount of insurance to help protect yourself against possible losses is an important part of any financial strategy. Your insurance needs will depend on your individual circumstances and can change over time. As a result, you'll want to make sure your coverage properly aligns with your income and family/personal circumstances.

<sup>1</sup> 2020 Survey of the States, Council for Economic Education

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