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Life. Investing. And Everything in Between

Newsletter Highlights

Securing our Future: Navigating the Challeges of Social Security

- Understanding Social Security Benefits
- Impact of Retirement Age on Benefits
- Planning & Strategy for Maximizing Benefits

Navigating the Bull: Markets Surge as Investors "Damn the Torpedoes"

- Historical Parallels
- Current Market Performance
- Investor Confidence and Strategy

Just for Fun -

Market Myth Busting: April 2024 Edition

SECURING OUR FUTURE: NAVIGATING THE CHALLEGES OF SOCIAL SECURITY

By Kelly L. Olczak, CFP®

Social Security provides retirees with a basic income. It was never intended to fully cover the cost of living in retirement. But it acts as a supplement to your resources.
Social Security includes disability, dependent benefits, and survivor benefits for minor or disabled children. Our focus today will be on retirement benefits.

As you are probably aware, retirement benefits may start at age 62.

The table below highlights the age you receive your full retirement benefit based on your date of birth.

If you were born in 1956, for example, your full retirement age is 66 and 4 months. If you were born in 1960 or later, the full retirement age rises to 67.

Receiving Social Security before reaching full retirement will permanently reduce your benefits. That may not be in your best interest. The longer you wait to apply for benefits, the greater your monthly check.

Table 2: Retirement and benefits if born in 1960 or later

Age at retirement	Percent of full benefit paid
62	70.0%
63	75.0
64	80.0
65	86.7
66	93.3
67	100.0
68	108.0
69	116.0
70	124.0

Source: Social Security Retirement Planner
If your birthday is on the 1st of the month, your benefit will be calculated as if it were in the previous month.

Should I retire at 62, 67, or 70?

Unless there is a compelling reason to start receiving Social Security benefits early, it is usually advisable to hold off as long as possible. Your benefit maxes out at age 70. Variables such as your health and cash needs will play a role in determining the best time to take benefits.

Table 2 illustrates the discount and premium you will receive based on when you file for benefits for those born in 1960 or later.

As shown in Table 2, you will receive 70% of the full retirement benefit if you claim at 62, 100% at 67, and 124% if you delay until 70.

If your birth year falls between 1943 and 1956, you will receive 75% of your full Social Security benefit if you retire at age 62, 100% of your full benefit at 66, and 132% of your full benefit at 70.
Your benefit level is prorated by the month and gradually increases every month after your birthday.

Additionally, the minimum and maximum benefit amounts are also prorated based on your birth year. Based on your birthdate and when you apply for benefits, the minimum benefit ranges from 70-75%. The maximum benefit ranges from 124-132%.

Strategies

We are providing a high-level overview, but we understand that your individual situation could generate questions. Planning for Social Security can sometimes feel like entering a maze. The options may feel overwhelming, and you can quickly get lost.

Please feel free to reach out if you have any questions. We'd be happy to assist.

That said, anyone born in 1929 or later needs 10 years of work to be eligible for retirement benefits.

Social Security began when many households had one spouse who was the sole wage earner. A non-working spouse may apply for a spousal benefit that is up to half the benefit of a working spouse. If a spouse begins receiving benefits before full retirement age, the benefit will be reduced. However, if a spouse is caring for a qualifying child, the spousal benefit is not reduced.

If the working spouse dies first, then the surviving spouse's benefit increases to the monthly amount that the deceased working spouse was receiving.

What if both spouses worked? Well, the lower-earning spouse will receive the special spousal benefit or the benefit based on his/her earnings, whichever is greater.

How might you maximize benefits for a married couple?

If both spouses claim benefit at 62, their overall benefits are permanently lower. If the higher-earning spouse passes first, the step-up in benefits will be less generous because the higher-earner applied early.

For example, Tom is eligible to receive $2,000 a month when he reaches age 67. He believes he has a life expectancy of 85.

His wife Sarah will get $1,000 at 67. Based on her health and family history, she believes she may live past 95.

Both were born in 1963.

The couple was planning to claim at 62. He would get $1,400 a month, and she would get $700. Because they are claiming early, their monthly benefits are 30% lower than they would be at their full retirement age of 67.

After they consult with their financial advisor, Tom realizes that applying at 62 will reduce his wife's benefits during the years she expects to outlive him. If Tom can delay until 67 or even 70, he will increase his overall monthly Social Security check.

For Tom, his benefit at 62 amounts to $1,400 per month (70% of full retirement), $2,000 at 67 (100% of full retirement), and $2,480 at 70 (124% of full retirement).

The simple example illustrates one big advantage of delaying benefits.

In a 'Ward and June Cleaver world,' the benefit calculation is relatively straightforward, especially if there is only one wage earner during the marriage.

In a 'Modern Family world' divorce and re-marriage add an extra wrinkle for some couples.

For example, if you have been divorced and were married for at least 10 years, you may be eligible for benefits based on your ex-spouse's social security. You can receive up to 50% of their full retirement benefits. This will not affect your current spouse's benefits.

Claiming benefits while working

If you work and are at full retirement age or older, you may keep all of your benefits, no matter how much you earn. However, if you're younger than full retirement age, there is a limit to how much you can earn and still receive full Social Security benefits.

If you're younger than your full retirement age during all of 2024, Social Security must deduct $1 from your benefits for each $2 you earn above $22,320.

If you reach full retirement age in 2024, Social Security must deduct $1 from your benefits for every $3 you earn above $59,520 until the month you reach full retirement age.

One more thing: Taxes

According to Social Security, you must pay taxes on up to 85% of your Social Security benefits if you file a:

- Federal tax return as an individual, and your provisional income (AGI, plus half of your Social Security benefit, plus tax-exempt interest) exceeds $25,000.
- Joint return, and you and your spouse have a provisional income (AGI, plus half of your Social Security benefit, plus tax-exempt interest) of more than $32,000.

BRIEF MARKET UPDATE

Records lead to more records

During the Civil War, the Union placed a blockade on Confederate ports. In August 1864, David Farragut was given the task of closing the port at Mobile, Alabama, which had defied the order.

When Admiral Farragut ordered his fleet to proceed, one of the ships hit a mine and sank, causing the rest of the fleet to hesitate. Farragut, however, was undeterred and famously exclaimed, "Damn the torpedoes! Four bells! Captain Drayton, go ahead! Jouett, full speed!"

Today's market has a similar ring to it. Investors are confidently navigating a minefield of uncertainties as the Fed hopes to steer the economy toward a soft economic landing.

As the table illustrates, U.S. stocks have had a strong start to the new year.

During the quarter, the broad-based S&P 500 Index notched 22 closing highs, and the Dow recorded 17, according to Dow Jones Newswires. The Nasdaq posted four new highs.

Repeated new highs on the major market indexes suggest the rally, which was concentrated in a few large stocks last year, is broadening.

Key Index Returns		
Index	**MTD %**	**YTD %**
Dow Jones Industrial Average	2.1	5.6
Nasdaq Composite	1.8	9.1
S&P 500 Index	3.1	10.2
Russell 2000 Index	3.4	4.8
MSCI World ex-U.S.A.**	2.8	4.8
MSCI Emerging Markets**	1.9	1.6
Bloomberg U.S. Agg Total Return	0.9	-0.8

Source: Wall Street Journal, MSCI.com, Bloomberg, MarketWatch
MTD returns: February 29, 2024–March 28, 2024
YTD returns: December 29, 2023–March 28, 2024
***in U.S. dollars*

The Stock Market's Magnificent Seven Is Now the Fab Four, read a headline in the April 1 Wall Street Journal. "It is a bullish signal that the market is rallying without the likes of Apple and Tesla," at least according to some investors.

Dubbed the Magnificent Seven by a Bank of America analyst last year, Apple (AAPL), Microsoft (MSFT), Nvidia (NVDA), Tesla (TSLA), Amazon.com (AMZN), Meta (META, Facebook), and Alphabet (GOOG/GOOGL, Google) were responsible for a big chunk of last year's advance in the S&P 500.

It seems surprising that the market could mount a rally without Apple's leadership, but that's exactly what happened in Q1.

According to The Wall Street Journal, shares of Apple and Tesla slipped in Q1, and Alphabet registered a more modest advance.

In other words, the Magnificent Seven is now the Fab Four, at least according to the Journal. Nonetheless, the rally has broadened as other firms have picked up the slack.

The Magnificent Seven is still a force to be reckoned with. But its grip on key market indexes loosened in Q1.

What's driving stocks higher?

The rate of inflation is off its peak, and the Federal Reserve is considering up to three quarter-point rate cuts this year.

Moreover, the economy is expanding, and corporate profit growth has been strong, according to LSEG, formerly Refinitiv.

Finally, the AI locomotive has yet to show any signs of slowing down.

But we are always mindful that pullbacks are simply an unexpected headline away.

Bull markets create wealth for long-term investors who adhere to a diversified and disciplined approach, but market corrections can't be discounted. They are inevitable.

What might create volatility?

Well, unexpectedly bad economic news could jar markets, as that would cloud the outlook for corporate profits.

Fed officials believe the recent uptick in inflation is temporary. However, if the recent sticky inflation numbers prove to be, well, stickier than expected, Fed officials could delay projected rate cuts.

Additionally, international tensions could spill into sentiment.

When stocks tumble, it can be tempting to move away from equities and embrace cash. In the long term, however, that's rarely profitable, as once-shy investors find themselves chasing the market higher.

Conversely, a strong bull market can give one an aura of invincibility.

"Now's the time to step on the gas and load up on stocks," some might say. A seemingly invincible market can encourage too much risk-taking, which can be compounded when your golfing buddy constantly reminds you about his/her newfound windfall and "trading skills."

Yet, we caution against a more aggressive stance simply based on market action.

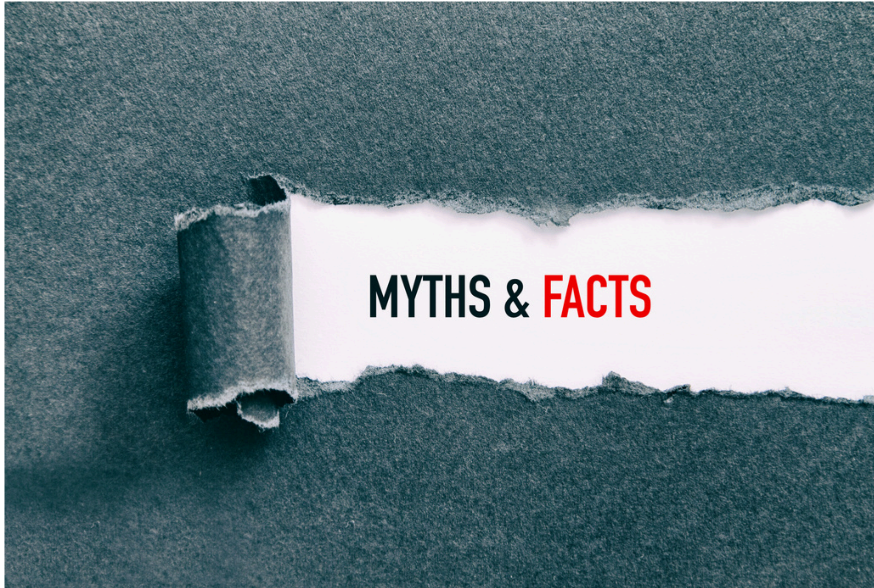
Market Myth Busting: April 2024 Edition

Every spring, this catchy phrase blooms in the minds of investors, suggesting they should sell their stocks in May to avoid a seasonal decline and return to the market later in the year. But before you start setting calendar reminders, let's dig into this floral fable.

Busting the Myth:

The adage "Sell in May and go away" stems from the historical underperformance of stocks in the summer months compared to the winter. However, like deciding to wear shorts based on a single sunny day in April, this strategy is overly simplistic and overlooks several key points:

> **Historical Performance Isn't a Crystal Ball**: Yes, there have been periods when summer months showed weaker returns, but it's not a universal rule. For instance, recent years have seen some summers with strong market performance. Stocks don't really check the calendar before deciding whether to go up or down.



Missed Opportunities: If you ditch the market each May, you might miss out on significant gains. Market timing is notoriously difficult, even for professionals. By being out of the market, you risk missing days with potentially high returns. Remember, some of the best market days occur during periods of volatility!

Costs and Taxes: Selling assets can generate transaction fees and, potentially, capital gains taxes. These costs can eat into any additional returns gained from avoiding downturns. It's like throwing out the bananas with the peel – sometimes, you lose more than you bargained for.

The Real Deal: A better approach is a well-rounded, diversified investment strategy that aligns with your long-term financial goals. Instead of trying to time the market based on an old saying, consider a steady investment plan that can weather ups and downs, regardless of the season.

Fun Fact to Wrap Up: The phrase "Sell in May and go away" actually originates from an old English saying, "Sell in May and go away, come back on St. Leger's Day." This referred to the custom of aristocrats, merchants, and bankers who would leave London and escape to the country during the hot months. Today, it's less about the weather and more about market cycles!

So, before you spring into action this May, remember that a little myth-busting can keep your investment strategy blooming all year round!

Final thoughts...

As we wrap up this month's newsletter, let's chat about the power of patience in handling the ups and downs of the market rollercoaster. When things get wild, it's easy to feel the urge to react quickly. But hey, let's take a breath and remember that patience is our secret weapon. By staying cool and sticking to our long-term plans, we can ride out the turbulence and come out on top. So, let's keep our eyes on the prize, stay patient, and ride the waves with confidence!

Have a wonderful month, and we will reconnect in May!

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