Spring 2022

Financial planner

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Spring 2022 Newsletter Topics

- *Understanding Market Volatility – Investing with a Long-term Focus*
- *Military Conflicts and Market Fluctuation*
- *8,000 Days – The Four Phases of Retirement*
  1. *The Honeymoon*
  2. *The Big Decision*
  3. *Navigating Longevity*
  4. *The Solo Journey*
- *IRS Changes to Retirement Plans*

MARKET UPDATE

While volatility can be unpleasant, we believe the outlook within the U.S. is largely unaffected by the unfolding situation in Ukraine. We still believe there are plenty of reasons to remain constructive on the stock market, as valuations have become much more reasonable, earnings growth looks to continue its strong run and has very little exposure to the two countries involved in the conflict, and the economic outlook still looks positive. In our eyes, the market impact will likely only be in the short-term, so we would urge investors to remain disciplined, and stay the course.

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Market Volatility

Investing for the long term in a short-term focused world: During times of market volatility, it's easy to get caught up in the buzz of the here and now. Newspaper headlines and TV programs can make it feel like the current market trends are here to stay.

You may sometimes wonder if it would be easier to keep your money out of the market entirely to avoid the ups and downs.

Short-term market fluctuations can be unnerving for anyone. But a disciplined, long-term approach to investing has the potential to generate earnings that compound over time, helping you pursue your retirement goals.

> ***Tune out the noise – Staying focused on your retirement goals in a volatile market can be challenging. But if you can maintain a long-term perspective, investing can be an effective way to financially prepare yourself for retirement.***

Focus on time in the market: When investing for retirement, it's important to have a long-term focus. History has shown that trying to "time" the market can actually hurt your results.

To improve your chances of success, it's better to focus on maximizing how much you're saving and how long you're invested in the market.

During downturns, it's not uncommon for investors who fear further declines to want to move their money out of the market. Unfortunately, these investors sometimes do so at the very worst times, such as near a market low.

Let your earnings compound: Some who grow weary of short-term market volatility choose instead to try to "save" their way to retirement without investing. But without good investment returns, it can be difficult to accumulate enough money for retirement.

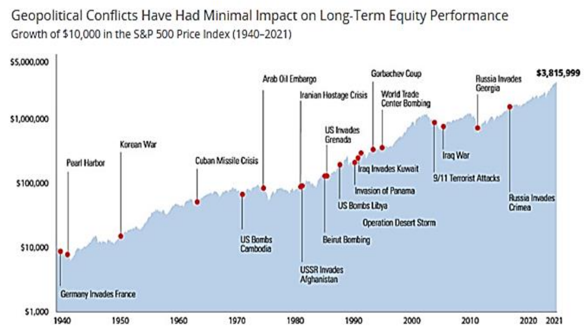
If you invest with a long-term perspective, you can benefit from growth potential and compounded earnings, which is when the earnings on your investments produce additional earnings. Although your investment is subject to the volatility of the stock market, this process can help you reach your long-term goals.

Military Conflicts and Market Fluctuation

Geopolitical uncertainty causes short-term market volatility, but the stock market is resilient. Note: stocks generated positive performance one year after an act of aggression for 75% of the armed conflicts since World War II. The longer the investment time frame, the more likely a positive return.

Geopolitical/Military Events	S&P 500 Index Price Return (%)				
		Annualized			
Event (Start Date)	3 Months Later	1 Year Later	3 Years Later	5 Years Later	10 Years Later
Germany Invades France (May 1940)	-15.3	-22.0	-0.9	4.1	4.2
Pearl Harbor Attack (December 1941)	-12.4	0.4	11.7	9.5	9.6
Korean War (June 1950)	1.5	11.2	8.1	16.4	11.7
Cuban Missile Crisis (October 1962)	17.4	32.0	18.3	11.4	7.0
US Bombs Cambodia (April 1970)	-4.6	27.1	9.4	0.9	2.6
Arab Oil Embargo (October 1973)	-13.2	-36.2	-2.9	-1.4	4.4
Iranian Hostage Crisis (November 1979)	11.6	25.9	11.4	10.3	12.7
USSR Invades Afghanistan (December 1979)	-8.8	26.2	9.1	9.0	12.4
Beirut Bombing (October 1983)	-0.7	0.7	13.0	11.3	10.8
US Invades Grenada (November 1983)	-1.1	0.7	12.8	11.2	10.8
US Bombs Libya (April 1986)	-0.5	19.9	8.3	9.9	10.5
Invasion of Panama (December 1989)	-2.9	-6.9	7.5	5.6	15.0
Iraq Invades Kuwait (August 1990)	-10.5	10.2	8.6	9.7	15.1
Operation Desert Storm (January 1991)	21.5	32.3	14.5	14.0	15.4
Gorbachev Coup (August 1991)	-1.8	9.3	6.3	11.5	11.9
World Trade Center Bombing (February 1993)	1.5	5.4	13.7	18.7	6.5
9/11 Terrorist Attacks (September 2001)	2.5	-16.7	0.9	3.5	0.6
Iraq War (March 2003)	15.6	27.0	14.3	8.2	5.9
Russia Invades Georgia (August 2008)	-34.3	-22.3	-4.7	5.5	8.1
Russia Invades Crimea (March 2014)	3.9	10.7	8.0	7.9	---
Median	-0.9	9.7	8.8	9.6	10.5
% Positive	**40%**	**75%**	**85%**	**95%**	**100%**

Staying invested can pay off in the long run.



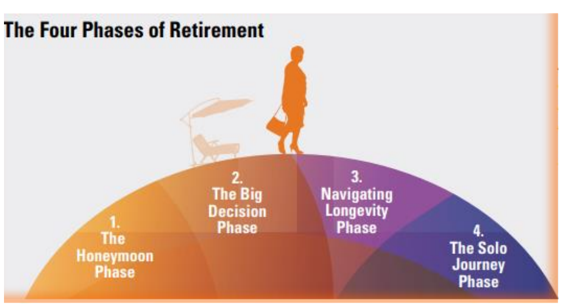
8,000 Days – The Four Phases of Retirement

A Life in 8,000 Day Parts Here's some basic math about modern lives. Let's assume that a person, with some or more college education and good income, is now likely to live well into their 80s.

Your life can be divided into four periods averaging approximately 8,000 days each. Birth to college graduation at age 22 is about 8,000 days. College graduation to midlife at about age 44 is another 8,000 days. Midlife to retirement at age 66 is 8,000 more days. And, add about another 8,000 days from your retirement party forward.

It's often asked, "What will you do on Day One of your retirement?" Most people have a clear image of Day One. Maybe even Day 1,001. But few can imagine 8,000 days of golf, and even fewer have a vision of what they will be doing on any given day—such as Day 4,567. But getting started on the right foot can be crucial.

Instead of planning for 'retirement' as a single state, it may be beneficial to reframe the conversation to reflect a four-phased concept of retirement. Each is characterized by the tasks and issues individuals are most likely to be managing. The four retirement phases enable a clear vision to plan and to anticipate what is likely to come.



Part One: The Honeymoon Phase For those with greater education and income, there is likely to be an even greater span of well-being in retirement giving far more time to do more than walk an endless beach. A 65-year-old person in their early 60s today is likely to enjoy nearly 20 healthy life years ahead of them.

Many see this first retirement phase as a honeymoon stage. It's a time filled with travel and participation in other leisure activities, perhaps with a balance of work, part-time employment, or volunteering to remain engaged and to ensure adequate income to support loved ones. Among 65- to 74-year-olds, labor force participation is predicted to hit 33% by 2026.

Everything Has Changed. Nothing Has Changed. The Honeymoon Phase is characterized by resources and well-being comparable to life during full-time work. Shifting responsibilities, desire to pursue existing and new interests, and additional healthy life years often allow for more freedom. It is also the opportune time to anticipate and safeguard against potential decreases in resources in the future through planning.

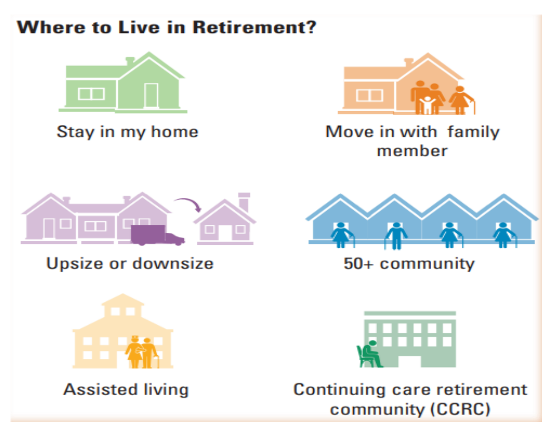
Full House Baby boomers, even in their retirement years, are increasingly described as the sandwich generation because of their responsibilities in continuing to support adult children in addition to caring for frail, aging parents. In fact, 79% of parents are financially supporting their adult children in some way and 32% of this generation are providing financial support to their parents.

As young adulthood for millennials extends, adult children may also still be living at home or be somewhat financially dependent. In a Pew study, 52% of young people live with their parents.

Part Two: The Big Decision Phase While the second retirement phase is best characterized by more 'free' time, it is often unstated that it is a key time for making big decisions. It takes shape as work truly fades from view.

While health status may be less vibrant than before, the second retirement phase does provide greater opportunity to make or renew social connections. Friends now have more time to socialize and even travel together. Work may be replaced by increased volunteering, grandparenting, travel plans, or hobbies.

Where to Go? Retirees are confronted in the second retirement phase by tactical questions: "Now that we are fully 'retired,' should we buy a new car for both transportation and personal reward? Should we stay in our hometown or move somewhere warmer? Will life be easier if we downsize? Can we afford our current lifestyle for the long term?"



As empty nesters face issues regarding changing housing needs, the option to downsize may be appealing. In fact, 42% of people say they plan to downsize in retirement.

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For many, concerns about the cost of home maintenance, proximity to family, access to services, and livability of their existing home (such as having a master bedroom and other necessities on the first floor when stairs are no longer manageable) are reason enough to leave the house, the town, or even the state.

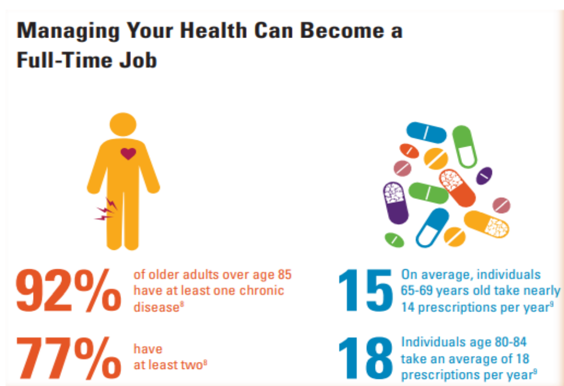
Changing Income Sources Retirees in the second retirement phase are drawing a greater share of their income from different sources. Social Security-only (40%), pension and Social Security (15%), and defined contribution and Social Security (15%) are the top three income sources.

Financial decisions, such as whether assets from savings should be converted to annuities, whether insurance is worthwhile, and so forth, become time sensitive, as does the need to create an estate plan.

Part Three: The Navigating Longevity Phase In the third retirement phase, the logistics of health management may become a full-time job with increased medical appointments, medication management, and increasing mobility challenges. Spending per capita on healthcare increases steeply after age 65.

A Bitter Pill to Swallow It's estimated that 92% of older adults are managing at least one chronic condition and 77% are managing the complexities of two or more chronic conditions. Chronic conditions can make handling other health issues more difficult or make health, in general, more complex to manage.

For example, what may seem like a straightforward routine, medication adherence, becomes a key and challenging aspect of managing health. A look at the numbers (see graphic) shows how increased age leads to juggling more medications.



I'll Be There for You Due to changes in health, individually or as a couple, social well-being may change. Fewer opportunities to join friends and family may be available. Additionally, friends in the same age cohort managing their own health- related issues make maintaining connections a greater challenge.

Complexity also arises in the need for suitable housing and occasional or daily assistance from a friend or family member to help run routine errands and maintain the home. While many legal affairs haven't yet come into play, such as a health care proxy or power of attorney, this phase of retirement often highlights the growing importance to have these legal contingencies established so that they are available when necessary.

In such scenarios, trusted people are selected to make decisions on one's behalf, and it is in one's best interest to put these plans in place while cognitive and physical functions are adequate and desires can be communicated clearly.

Part Four: The Solo Journey Phase
In the fourth retirement phase, health or physical issues can abruptly come to the forefront. A single catastrophic event, such as a fall or stroke, can immediately change needs and lifestyle. Serious illness or disability of a spouse will greatly impact the wellbeing and safety of the household.

Health events or illness dictate the need for caregiver help on an occasional or daily basis to run errands, provide transportation, or help with other activities of daily living (ADLs) and instrumental activities of daily living (IADLs).

Going the Distance Women typically outlive men. So they may need to take additional steps to ensure adequate resources and manage risk. Consider this: of women ages 65–74, 26% live alone while 42% of women over 75 live alone. One-person households are likely to make issues that were once simple a burden. Consequently, rethinking living arrangements may be necessary, e.g., considering moving in with a family member or into an assisted-living or long-term care facility.

A Helping Hand The fourth retirement phase may result in conflict between family members. For example, disagreements may surface between older adults and their adult children because a well-meaning son or daughter is concerned about the safety of their parent's driving or even their capacity to live alone.

For this reason, clear intentions and plans previously put in place, such as a power of attorney, health care proxies, and, more broadly, one's preferences for care, can help make this period run smoothly and comfortably. This can also decrease the burden placed on adult children who would otherwise feel compelled to make decisions for, and sometimes, against the will of their parents.

Though it may seem counterintuitive, even though we see a depletion of physical, financial, social, and perhaps cognitive resources, emotional well-being in older adulthood is high in comparison to other stages of life. This suggests that with proper planning despite lower resources, aging individuals can feel optimistic about increased longevity. You can also use this period of time to reinvent yourself.

It's Important That You Write Your Retirement Story Understanding retirement not as one chapter, but rather as four phases, ensures that realistic plans are in place so that a couple's or an individual's well-being does not suddenly, nor greatly, change due to controllable factors.

Considering retirement as something that changes shape throughout older adulthood prevents an outlook such as, "I will either be healthy or suffering," or "I will either be able to do what I want or I won't." Planning

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 See disclaimer on final page

As always, we encourage investing with your goals in mind, keeping a reserve for emergency needs.

We are available for in person, phone or zoom reviews. Give the office a ring and we can discuss your investing goals and needs.

allows people to contextualize, understand, and ultimately prepare for thriving in retirement.

A Coauthor for Your Journey What these different phases are meant to show is that retirement is big and complex and overwhelming—but it's not the end. It's not what stereotypes would have us think. Everyone will face these phases in retirement, but there is no formula for when or how the timeline will unfold.

Effective preparation can reduce the stress of uncertainty and boost prolonged independence and control in the lives we'll lead tomorrow. Your financial professional, while still maintaining their core competency and value as your financial expert, can help you create a story of retirement where you will be the main character. He or she can also serve as a guide to the options and costs of various lifestyles in this yet largely uncharted phase of life.

Next Steps

1. Within one week, review the four phases of retirement outlined here and decide which phase you're in. If you're helping a friend or family member as they age, decide which phase they're in.
2. Within two weeks, download the 8,000 Days workbook at hartfordfunds.com/days and complete the section most relevant to your situation.
3. Within three weeks, schedule an appointment with your financial professional to discuss workbook answers.

IRS Changes to Retirement Plans

The IRS announced that the 2022 contribution limit for 401(k) plans will increase to $20,500. The catch-up contribution remains the same at $6,500.

The contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased to $20,500. Limits on contributions to traditional and Roth IRAs remains unchanged at $6,000.

Taxpayers can deduct contributions to a traditional IRA if they meet certain conditions. If neither the taxpayer nor their spouse is covered by a retirement plan at work, their full contribution to a traditional IRA is deductible. If the taxpayer or their spouse was covered by a retirement plan at work, the deduction may be reduced or phased out until it is eliminated. The amount of the deduction depends on the taxpayer's filing status and their income.

Retirement Plan Limits

	2022	2021
Deferral Limit - 401k,403b,457	$20,500	$19,500
Catch-up Contribution Limits	$6,500	$6,500
DC Annual Addition Limit	$61,000	$58,000
Annual Compensation Cap	$305,000	$290,000
Taxable Wage Base	$147,000	$142,800
DB Annual Limit	$245,000	$230,000
457(b) Contribution Limit	$20,500	$19,500
Highly Compensated Threshold	$135,000	$130,000
SIMPLE 401(k) Limit	$14,000	$13,500
SIMPLE 401(k) Catch-up	$3,000	$3,000
Maximum ESOP Balance	$1,230,000	$1,165,000
ESOP 5-year Distribution Period Limit	$245,000	$230,000
Key Employee	$200,000	$185,000

Content courtesy of
Capital Group – Understanding Market Volatility
Hartford Funds – Military Conflict and Market Fluctuation
Hartford Funds and MIT AgeLab – 8,000 Days

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