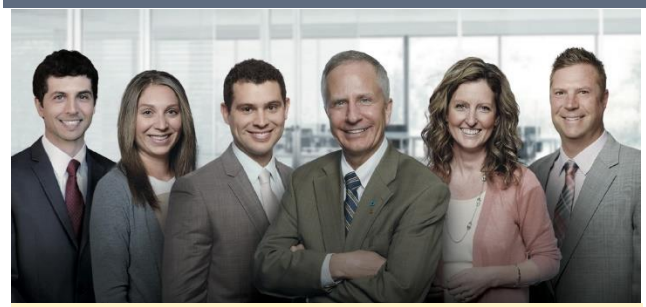
NEWSLETTER 4th Quarter 2021



Pictured left to right:

Ross Aho, Financial Advisor

Amanda Zorza, Registered Client Associate

Joe Jeeves, CFP®, CIMA®, Financial Advisor

Mark Aho, MBA, CFP®, CIMA®, President, MAFG, Financial Advisor

Nicole Burony-Noble, Registered Executive Assistant

Eric Froberg, AAMS, Financial Advisor

Dear Friends,

As you may know, each January I provide you with a review of the previous year which repeats the general principles of our beliefs as well as some current observations. This past year certainly did provide positive equity returns as you can see on the tables in the next few pages. It is always nice to see our accounts appreciate in value. I've said in the past, equity markets do not move up or down in a straight line. The sometimes abrupt changes in the direction of equites is what we call volatility. I do expect volatility to return in the future. Knowing this will occur, but not when it will occur, can sometimes stretch our investment emotions. Many times these emotions cause us to make irrational decisions. This happens to all of us. No one completely escapes these sometimes fearful emotions. To be a successful investor however, it is necessary to get through difficult markets without getting scared out of them. Now, I am not saying

we will have negative markets in 2022. But I do want you to know that these type of markets will most likely face us sometime in the future.

To endure these future times we all need a shot of Vitamin "Investment behavior" C from time to time. Our bodies cannot store vitamin C and therefore we must re-load regularly from our food intake and supplementation. This is why once or twice a year I repeat our "General principles" to you.

General Principles

- We are long-term, goal focused, plan-driven (think of your Goal Plan) equity investors. We believe your lifetime success in equity investing is to act continuously only on a specific and written plan (Goal Plan). Therefore, we believe substandard returns and potentially investment failure generally happens when we react or try to anticipate current economic/market events.
- We are convinced the economy cannot be forecast, nor the markets timed. Therefore we believe there is only one way to capture the full long-term return of equities. We must ride out their frequent but historically always temporary declines.
- Taking a look at the last four decades or so, the average annual price decline from peak to trough in the S&P 500 exceeded 14%. Also, about one year in five, the average decline averaged about twice that. As you may remember on two recent occasions (2000-03 and 2007-09), The S&P 500 index was cut almost in half. Yet the S&P 500 came into the year 1980 at 106, and went out of 2021 at 4,766; over those 42 years, its average annual compound rate of total return (with dividends reinvested) was more than 12%.
- Knowing the above data, it is my conviction that the primary challenge to successful investing is neither intellectual nor financial. It is temperamental! It boils down to how we react or choose not to react to market declines. Therefore these fundamental principles will continue to govern the behavioral advice we give you this next year and beyond.

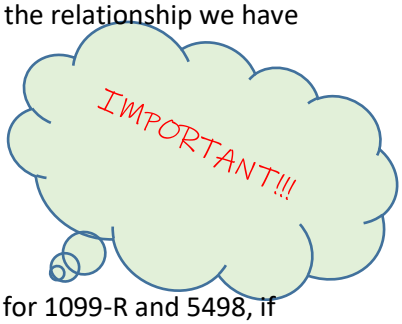
Current Observations

- We cannot look at the past 12 months in isolation. This time period is actually the second act of the drama that began in early 2020, the greatest global health crisis in a hundred years.
- The world reacted to this pandemic by virtually shutting down the global economy, sort of like placing it in a medically induced coma. Our country experienced the fastest economic recession ever, and a one third decline in the S&P 500 which took only 33 days.
- To combat this situation, Congress and the Federal Reserve responded immediately with a wave of both fiscal and monetary stimulus which was and remains to be without historical precedent. I cannot stress this enough, for we are in the midst of a monetary experiment which has no direct antecedents. Therefore all economic forecasting and all investment policy based on such forecasts are hugely speculative. So….if there were ever a time to just work your existing investment and financial plan, ignoring all of the noise, this is surely it!
- It appears to me that 2020 was the year of the virus and 2021 has been the year of the vaccines. Therefore, if you consider all the vaccines given and the fact that natural immunity continues to ascend, no matter how many variants are discovered (all be it weaker variants) we are in a much better position no matter how much the media broadcasts to the skies a new and worse apocalypse. This fact, seems to me, to be the key to a coherent view of 2022.

- In general, it seems reasonable to me that we may experience in the next year (1) the hospitalizations and deaths associated with the virus will continue to decrease, (2) the world economy will continue to open up, (3) corporate earnings will continue to increase (4) the Federal Reserve will begin to start draining the excess liquidity from the banking system, with most likely some interest rate increase, (5) inflation will hopefully start to subside some, (6) barring some other unknown variable, equity prices continue to increase at a moderate pace and most likely at slower rate than we have had since the drop in March of 2020.
- Please know this is not a forecast, the above points just seem to be reasonable. If any of the points above do not occur, it would not change any of my recommendations for you, since our investment policy is entirely driven by your long-term financial plan. Remember in our general principles, we are plan driven and not current economic/market driven.
- One more personal observation. The past two years have been some of the most shocking and somewhat terrifying years since the Global Financial Crisis of 2008-09. First the pandemic outbreak, than a bitterly partisan election, then the pandemic's second wave, and most recently an inflation spike which has not been seen for 40 years. These current event shocks have been of great concern. You might not be human to not experience some serious volatility fatigue. I know I have.
- But fortunately we have all seen this movie before. What has mattered most is not what the economy or markets did, but what the investor did. If the investor fled the equity markets during the past two crisis (Global Financial Crisis, Pandemic) heaven forbid, their investment results seem unlikely to ever recover. If on the other hand the investor did not react to current events but rather followed their written long-term financial plan, they sailed along to positive outcomes. So, let us have faith in the future by looking positively at the long-term history of the markets. Of course you need to continue to be patient and disciplined.

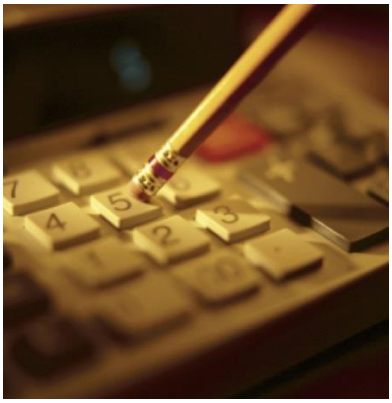
As always we welcome your comments, questions and concerns. Our continued message is we cannot predict, but we can always plan. Please know we are always so thankful for the relationship we have with you and your family and we consider it a privilege to work for you.

God Bless you always,
Mark



TAX TIME! DATES TO REMEMBER!

- **January 31st** – Raymond James mails year-end retirement tax forms for 1099-R and 5498, if applicable
- **February 15th** – Raymond James begins mailing 1099 tax statements.
- **February 28th** – Raymond James mails amended 1099s and those delayed due to specific holdings and/or income reallocation.
- **March 15th** – is the final day to mail any original 1099s and continued amended 1099s as needed.



The Numbers

For a full analysis of the Quarter, please go to our web site at www.markahofinancialgroup.com. Then click on Resources> Education> Investment Strategy Quarterly. Below is a brief snapshot from the report:

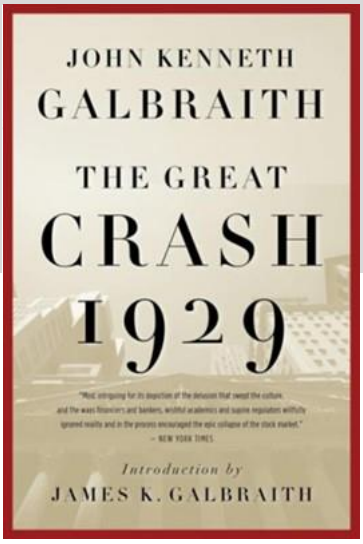
Capital Markets Snapshot

Index		12/31/2021	2020	Last 10 years
Dow Jones Industrial Average		18.73%	7.25%	11.52%
S&P 500 Index		26.89%	16.26%	14.25%
NASDAQ Composite Index		21.39%	43.64%	19.63%
Russell 1000G	Large Cap Growth	27.60%	38.49%	19.79%
Russell 1000V	Large Cap Value	25.16%	2.80%	12.97%
Russell 2000G	Small Cap Growth	2.83%	34.63%	14.14%
Russell 2000V	Small Cap Value	28.27%	4.63%	12.03%
MSCI EAFE	Developing International	11.78%	8.28%	8.53%
MSCI EM	Emerging Markets	-2.22%	18.69%	5.87%
DJ US Select REIT	U.S. Real Estate	45.91%	-11.20%	10.70%
Barclays US Intermediate Govt/Credit		-1.46%	6.53%	2.38%
Citigroup World Government Bond Index		-6.97%	10.11%	0.96%

*Russell 1000 Growth Index – Measures the performance of the 1,000 largest companies in the Russell 3000 Index, with higher price-to-book ratios and higher forecasted growth values. Russell 1000 Value Index – Measures the performance of the 1,000 largest companies in the Russell 3000. Index with lower price-to-book ratios and lower forecasted growth values. Russell 2000 Growth Index –Measures the performance of the 2,000 smallest companies in the Russell 3000. Index with higher price-to-book ratios and higher forecasted growth values Russell 2000 Value Index – Measures the performance of the 2,000 smallest companies in the Russell 3000. Index with lower price-to-book ratios and lower forecasted growth values. MSCI Emerging Markets Index – A market capitalization weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Dow Jones U.S. Select REIT Index intends to measure the performance of publicly traded REITs and REIT-like securities. Barclays Capital U.S. Intermediate Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year and less than ten years. The Citigroup WGBI G7 x U.S. (USD) is an unmanaged market value weighted index comprised of debt issued by countries in the group of 7 (Canada, France, Germany, Italy, Japan, United Kingdom, United States) excluding the United States. The MSCI EAFE is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The **Dow Jones Industrial Average** (DJIA), commonly known as "The Dow", is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The **NASDAQ** composite is an unmanaged index of securities traded on the NASDAQ system. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.*

FALL CLEANING? SHRED!

Do you have documents or personal information that should be shred versus placed in the garbage? Protecting personal information and your identity are very important in today's world. We offer a free shredding bin available for your use. It is locked, and our shredding service comes once a month to shred the contents of the bin on-site. You may stop at our office at any time during business hours to place **paperwork** in our shredder. We welcome you to take advantage of this free **and** valuable service.



Mark's Book Review – Looking for something to read?

The Great Crash of 1929 – by John Kenneth Galbraith

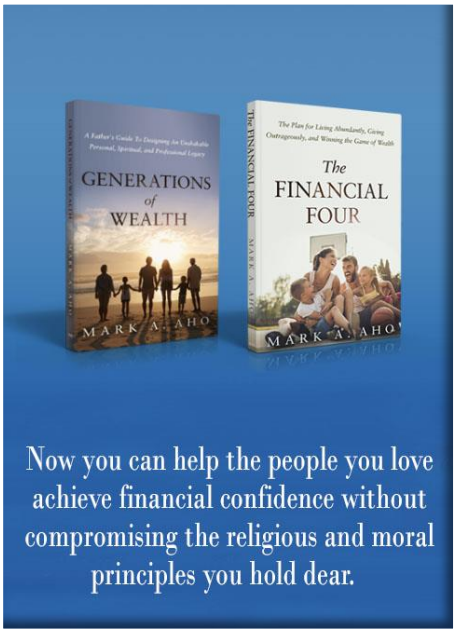
We have all heard about the "crash of 1929". However how many of us really understand the years prior, during, and after the crash. This book is easy to read and presents a solid depiction as to what caused the crash, and what our leaders did or for that matter did not do to soften the economic climate at this time. It is interesting to look back at the history showing the behavior of the business leaders in power and the population in large which caused the crash. The immense amount of leverage during this time allowed in brokerage margin accounts (the investor's ability to borrow against their securities) as well as the banks willingness to borrow large sums of money against securities was an obvious reason for the collapse. Think of when the price of a security falls, the brokerage house or the bank calls the investor to put more money into the account since it has fallen in value. Generally at this time, below the amount of the loan. If money is not put into the account, the securities are sold. This alone could cause a market selloff. There were other problems too, especially with the large holding companies and investment trusts. These corporate structures ended up in a reverse leverage situation. If you have an interest in the crash of 1929 this book is well worth your time. – Mark Aho

New Release!

The 2nd Edition of Mark's book (formerly "Building Wealth and Living in Faith") retitled as "Generations of Wealth" has been released and available. Please let us know if you are interested in a copy. Also available on Amazon.

Also, his 2nd book The Financial Four will be coming out soon as well!

We will let you know when it is available and ordering opportunities!



Considerations When Making Gifts to Children

If you make significant gifts to your children or someone else's children (perhaps a grandchild, a nephew, or a niece), or if someone else makes gifts to your children, there are a number of things to consider.

Nontaxable Gift Transfers

There are a variety of ways to make transfers to children that are not treated as taxable gifts. Filing a gift tax return is generally required only if you make gifts (other than qualified transfers) totaling more than $15,000 per individual during the year.

- **Providing support.** When you provide support to a child, it should not be treated as a taxable gift if you have an obligation to provide support under state law. Parents of minor children, college-age children, boomerang children, and special-needs children may find this provision very useful.
- **Annual exclusion gifts.** You can generally make tax-free gifts of up to $15,000 per child each year. If you combine gifts with your spouse, the amount is effectively increased to $30,000.
- **Qualified transfers for medical expenses.** You can make unlimited tax-free gifts for medical care, provided the gift is made directly to the medical care provider.
- **Qualified transfers for educational expenses.** You can make unlimited gifts for tuition free of gift tax, provided the gift is made directly to the educational provider.

For purposes of the generation-skipping transfer (GST) tax, the same exceptions for nontaxable gift transfers generally apply. The GST tax is a separate tax that generally applies when you transfer property to someone who is two or more generations younger than you, such as a grandchild.

Income Tax Issues

A gift is not taxable income to the person receiving the gift. However, when you make a gift to a child, there may be several income tax issues regarding income produced by the property or from sale of the property.

- **Transfer by Gift Versus Transfer at Death**

Difference in taxable gain when appreciated property is sold at fair market value (FMV) after the transfer.

Calculation Steps	Transfer by Gift	Transfer at Death
Sales price (FMV)	$100,000	$100,000
– Income tax basis	– $20,000 (carryover of donor's basis)	– $100,000 (stepped-up to FMV)
Taxable gain	= $80,000	= $0

- **Income for support.** Income from property owned by your children will be taxed to you if used to fulfill your obligation to provide support.
- **Kiddie tax.** Children subject to the kiddie tax are generally taxed at their parents' tax rates on any unearned income over $2,200 (in 2021). The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.
- **Basis.** When a donor makes a gift, the person receiving the gift generally takes an income tax basis equal to the donor's basis in the gift. The income tax basis is generally used to determine the amount of taxable gain if the child then sells the property. If instead the property were transferred to the child at your death, the child would receive a basis stepped up (or down) to the fair market value of the property.

Gifts to Minors

Outright gifts should generally be avoided for any significant gifts to minors. For this purpose, you might consider a custodial gift or a trust for a minor.

- **Custodial gifts.** Gifts can be made to a custodial account for the minor under your state's version of the Uniform Gifts/Transfers to Minors Acts. The custodian (an adult or a trust company) holds the property for the benefit of the minor until an age (often 21) specified by state statute.
- **Trust for minor.** A Section 2503(c) trust is specifically designed to obtain the annual gift tax exclusion for gifts to a minor. Principal and income can (but need not) be distributed to the minor before age 21. The minor does generally gain access to undistributed income and principal at age 21. *(The use of trusts involves a complex web of tax rules and regulations, and usually involves upfront costs and ongoing administrative fees. You should consider the counsel of an experienced estate professional before implementing a trust strategy.)*

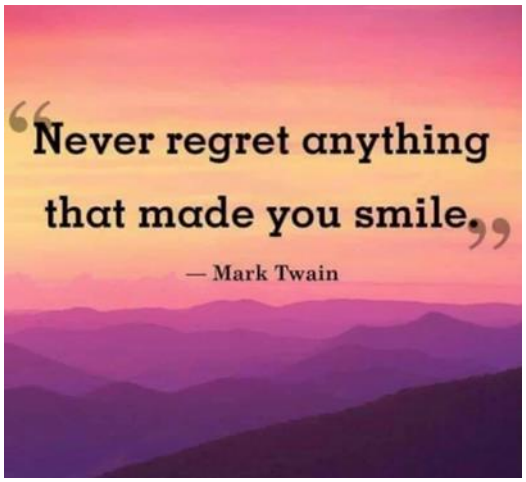
Baked Brie – who doesn't love cheese???

This recipe to me is the definition of comfort food. It's great for an afternoon snack on a cold day, and easy to take for a gathering and share.

- Cherry Pie Filling- or there are so many homemade jam ideas, such as hot pepper jam, apricot, etc.
- 1 Brie Wheel
- 1 sheet puff pastry

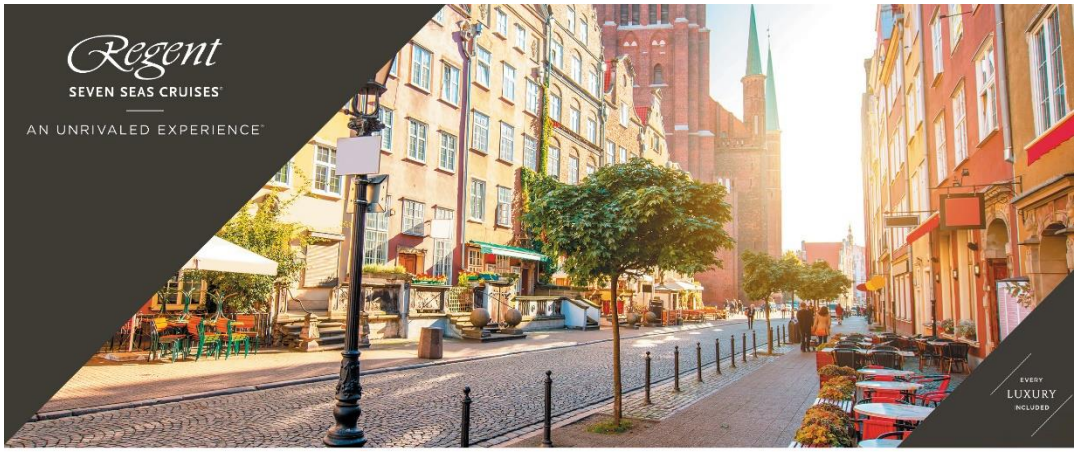
Directions:

1. Preheat oven to 400 degrees.
2. Roll out your sheet of thawed puff pastry. Spread out on counter top with flour under it if needed. Roll out the pastry until the edges are even, just enough to get the crinkles out at the ends.
3. Place brie in the center of the pastry. Add 2-3 tbsps of apricot preserves to completely cover the top of brie.
4. Wrap the brie up neatly - one side at a time.
5. Beat one egg. Brush onto pastry until fully covered.
6. Move onto lined baking sheet and bake for 35 minutes. Let it cool for 10 minutes.
7. Serve hot with crackers, fruit, or just eat with a fork! Enjoy.



TRAVEL IDEAS

We know many of you like to travel, but sometimes putting the “bucket list” trip together on your own can be overwhelming. From time to time, we would like to provide opportunities for you to talk with a friend who is an experienced travel agent and can help you find trips you might enjoy. Please see the below upcoming trip for 2023, and if any of you are interested in more information, please give our office a call and we will connect you with the travel group. This one certainly looks like a trip of a lifetime!



ROYAL LANDS

LONDON (SOUTHAMPTON), UK TO LONDON (SOUTHAMPTON), UK

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May 23, 2023 | 10 Nights

DATE	PORT	ARRIVE	DEPART
Tue	LONDON (SOUTHAMPTON)	6:00 AM	6:00 PM
Wed	SAINT-MALO	8:00 AM	7:00 PM
Thu	BREST	9:00 AM	7:00 PM
Fri	LORIENT	7:00 AM	5:00 PM
Sat	BORDEAUX	2:00 PM	9:00 AM
Sun	BORDEAUX	-	1:00 PM
Mon	BIARRITZ (SAINT-JEAN-DE-LUZ)	8:00 AM	11:00 PM
Tue	BILBAO	7:00 AM	11:00 PM
Wed	GIJON	8:00 AM	6:00 PM
Thu	CRUISING THE BAY OF BISCAY	-	-
Fri	LONDON (SOUTHAMPTON)	7:00 AM	6:00 PM

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* See below for Terms & Conditions.
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