SAMALIN WEALTH

FINANCE FOCUS

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IN THIS ISSUE

Dividends for Income and Total Returns

John D. Rockefeller, one of the wealthiest Americans in history, loved receiving stock dividends. "Do you know the only thing that gives me pleasure?" he once asked. "It's to see my dividends coming in."[1]

There may be many things other than money that give you pleasure, but you can still appreciate the stabilizing role that dividends might play in your portfolio.

Steady and Dependable

Dividends can be a dependable source of income for retirees and others who want an income stream without selling their underlying investments. If you do not need your dividends for current income, reinvesting these relatively small payments can become a powerful growth engine (see chart). Because dividends are by definition a positive return, they can boost returns in an up market and help balance declining stock prices in a down market.

Whereas stock prices are often volatile and may be influenced by factors that do not reflect a company's fiscal strength (or weakness), dividend payments tend to be steadier and more directly reflect a company's financial position. Larger, well-established companies are more likely to pay dividends, but many midsize and smaller companies do as well. Stock funds usually pay dividends based on the dividends of the stocks held by the fund. Some funds focus specifically on dividend stocks.

Quarterly Payments

Dividends are typically paid quarterly but quoted by the annual dollar amount paid on each share, so your annual income from an individual stock can be estimated by multiplying the dividend payment by the number of shares you own. Of course, the income will change if the dividend increases or decreases, or you obtain additional shares.

Dividends are also expressed as yield — the annual dividend income per share divided by the current market price. By this measure, the yield increases as the share price decreases, and vice versa, assuming the dividend payment remains the same. Current dividend yields can be helpful in deciding whether to invest in a stock or stock fund, and historical yields can provide insight into what you might expect from dividends over the long term.

At the end of June 2022, the average yield of dividend-paying stocks in the S&P 500 (about 79% of companies) was 2.18%, but the yield of the S&P High Dividend Index, which focuses on 80 stocks that pay higher dividends, was 4.11%.[2]

Some Caveats

The flip side of dividend power is that dividend-paying stocks may not have as much growth potential as non-dividend payers that plow their profits back into the company. And there are times when dividend stocks may drag down, not boost, portfolio performance. Dividend stocks can be particularly sensitive to interest-rate changes. When rates rise, as in the current environment, higher yields of lower-risk, fixed-income investments may be more appealing to investors, placing downward pressure on dividend stocks. As long as a company maintains its dividend payments, however, lower stock prices could be an opportunity to buy shares with higher dividend yields.

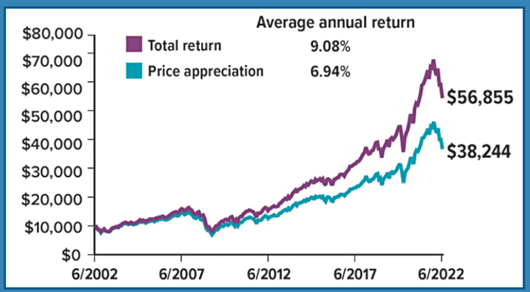
Investing in dividends is a long-term commitment. Dividends are typically not guaranteed and could be changed or eliminated. The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. The return and principal value of all investments fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments offering the potential for higher rates of return also involve higher risk.

Stock funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) BrainyQuote.com, 2022; 2) S&P Dow Jones Indices, 2022; 3) Source: Refinitiv, 2022, for the period 6/30/2002 to 6/30/2022. The S&P 500 index is an unmanaged group of securities considered representative of U.S. stocks. Expenses, fees, charges, and taxes are not considered and would reduce the performance shown if included. 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. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

The Power of Reinvestment

Growth in value of a hypothetical $10,000 investment in the S&P 500 index for the 20-year period ending in June 2022, comparing price appreciation and total return, which includes reinvesting dividends.[3]



Finding Forgotten Funds

As a child, you may have dreamed about finding buried treasure, but you probably realized at an early age that it was unlikely you would discover a chest full of pirate booty. However, the possibility that you have unclaimed funds or other assets waiting for you is not a fantasy.

Billions of dollars in unclaimed property are reported each year, and 10% of people have some form of property waiting to be returned by state unclaimed property programs.[1] So how do you find what is owed to you, even if it's not a fortune? One of the challenges of finding lost property is knowing where to look.

State Programs

Every state has an unclaimed property program that requires companies and financial institutions to turn inactive account assets over to the state if they have lost contact with the rightful owner for a period of time. In most states, this dormancy period is three to five years, but may be shorter or longer depending on the type of property and on state law. It then becomes the state's responsibility to locate the owner.

For state programs, unclaimed property might include financial accounts, stocks, uncashed dividends and payroll checks, utility security deposits, insurance payments and policies, trust distributions, mineral royalty payments, gift cards, and the contents of safe-deposit boxes. State-held property generally can be claimed in perpetuity by original owners and heirs.

Most states participate in a free national database sponsored by the National Association of Unclaimed Property Administrators called MissingMoney.com. You might also check specific databases for every state where you have lived. For more information and links to individual state programs, see the National Association of Unclaimed Property Administrators at unclaimed.org.

Even if your search isn't fruitful the first time you look check back often because states regularly update their databases.

$30+ billion
Total value of matured unredeemed savings bonds[1]

$3+ billion
Unclaimed funds returned by states annually[2]

$1.5 billion
Amount of unclaimed federal income tax refunds[3]

$16 million
Total value of unused gift cards turned over to New York State[4]

$12 million
Largest claim ever paid by the state of Texas (abandoned stock)[5]

Sources: 1) U.S. Department of the Treasury, 2022 (as of December 2021); 2) National Association of Unclaimed Property Administrators, 2022; 3) Internal Revenue Service, 2022 (data for 2018 tax year); 4) Office of the New York State Comptroller, 2022 (data for 2021); 5) Texas Comptroller of Public Accounts, 2022

Federal Programs

Unclaimed property held by federal agencies might include tax refunds, pension funds, funds from failed banks and credit unions, funds owed investors from U.S. Securities and Exchange Commission enforcement cases, refunds from mortgages insured by the Federal Housing Administration, and matured unredeemed savings bonds. There is no single searchable database for federal agencies, but you can find more information and links to sites you can search at usa.gov/unclaimed-money.

Submitting a Claim

To claim property, follow the instructions given, which will vary by the type of asset and where the property is held. You'll need to verify ownership, typically by providing information about yourself (such as your Social Security number and proof of address), and submit a claim form either online or by mail. What if the listed property owner is deceased? A claim may be made by a survivor and will be payable according to state or federal law.

Avoiding Scams

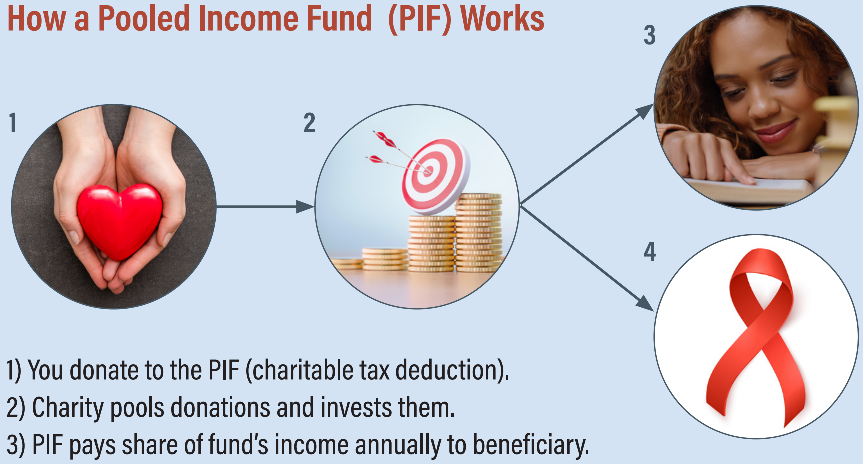
Finding and receiving any unclaimed property to which you are entitled should not cost you money. Some states allow legitimate third-party "finders" to offer to help rightful owners locate property for a fee, but you do not need to pay them in order to receive the property. Be on the lookout for scammers who pretend to have unclaimed property in order to trick you into revealing personal or financial information. Before you sign any contracts or give out any information, contact your state's unclaimed property office.

1) National Association of State Treasurers, 2022

Pooled Income Fund: A Charitable Gift That Provides Income to You

A pooled income fund is a trust with both charitable and noncharitable beneficiaries. It is established and run by a public charity, not by you. The charity "pools" the irrevocable contributions of many people, invests the money, and then distributes to you (or your designated beneficiary) a periodic income payment (usually quarterly or annually) for life, prorated to match your contribution to the fund. When you die or your designated beneficiary dies, your remaining share in the fund passes to the charity.

How a Pooled Income Fund (PIF) Works



1) You donate to the PIF (charitable tax deduction).
2) Charity pools donations and invests them.
3) PIF pays share of fund's income annually to beneficiary.
4) Charity keeps what is left after beneficiary dies.

Charitable Deduction

If you itemize deductions, you receive an immediate federal income tax charitable deduction for the present value of the remainder interest that will pass to charity. Your deduction is limited to 50% or 30% of your adjusted gross income (AGI), depending on the type of property contributed. Amounts disallowed because of the AGI limitations can be carried over for up to five years, subject to the AGI limitations in the carryover years. The transfer of the remainder interest to charity would also qualify for the federal gift tax or estate tax charitable deduction.

The amount of the income tax deduction is generally based on the fair market value of the property contributed to the pooled income fund, the beneficiary or beneficiaries' age(s), and the fund's highest rate of return in the last three taxable years.

Noncharitable Income Interest

Trust payments can last for the life or lives of one or more noncharitable beneficiaries. For example, you could name yourself, yourself and your spouse, or even someone else as the noncharitable beneficiary.

If you retain a noncharitable interest, the pooled income fund interest will be included in your gross estate for federal estate tax purposes. If your spouse receives the noncharitable interest as your survivor, that interest should qualify for the estate tax marital deduction (and the balance should qualify for the estate tax charitable deduction).

If you transfer a noncharitable interest to someone else while you are alive, you may have made a gift or generation-skipping transfer (GST) to that person of the income interest. (A GST is a transfer to a person two or more generations younger than you.) A portion of the gift may qualify for the annual gift tax exclusion, but not for the GST tax annual exclusion. A transfer to your spouse would generally qualify for the gift tax marital deduction. You may also have a federal gift and estate tax applicable exclusion amount or a GST tax exemption to shelter any transfer from tax.

Donors generally have limited choices in investment strategy. The amount of income received by the noncharitable beneficiary is not guaranteed; it may increase or decrease depending on the performance of the fund. If the investments in the fund perform poorly and the actual income earned by the fund declines, the charity is prohibited from invading the principal to increase the payment to the noncharitable beneficiary.

Other Considerations

Income distributed to the noncharitable beneficiary is usually taxable at ordinary income tax rates. It may also be subject to the 3.8% net investment income tax.

One of the biggest advantages of choosing a pooled income fund over a charitable remainder unitrust or charitable remainder annuity trust is that you avoid the hassle and cost of establishing your own trust. Another advantage is that if the property you are donating to charity is relatively small, a pooled income fund makes the most of your assets by commingling them with the property of others. The fund can then use the increased assets to diversify among investments, thus helping reduce your investment risk. Also, the large size of the fund (compared to your own charitable trust) may translate into lower operating costs and more experienced management. By contrast, it may not be economically feasible for you to establish a charitable trust with a small investment. Even if you do, it may be impossible for the trustee to spread this money over a variety of investments. (Diversification does not guarantee a profit or protect against investment loss.)

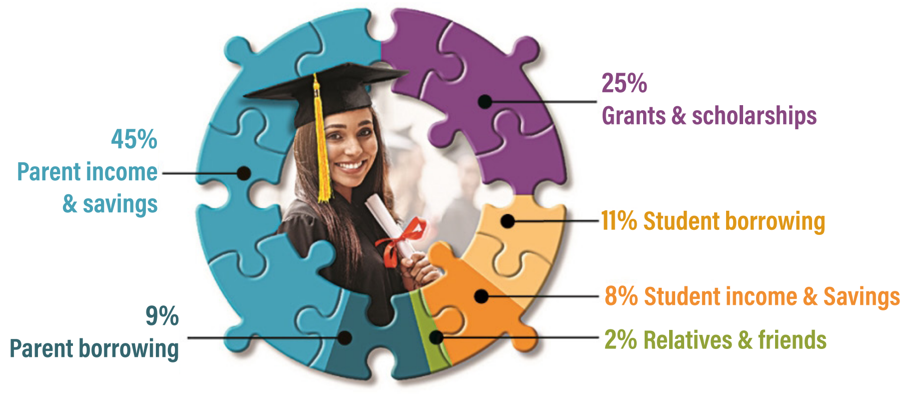
In general, you can donate any type of property to a pooled income fund that the charity is willing to accept. A noncash donation will generally cause the 30% AGI limitation to apply to your charitable deduction. A fund cannot accept or hold tax-exempt securities.

Paying for College: Pieces of the Funding Puzzle

The typical family uses a combination of income, savings, borrowing, and grants/ scholarships to pay for college. Not surprisingly, the largest source of funding — 45% — comes from parents in the form of current income and savings.

Starting a college fund as early as possible and aggressively looking for grant aid at college time can help families reduce the amount they may need to borrow, giving students greater flexibility when making decisions. Colleges are usually the best source of grant aid. A net price calculator (available on every college website) can help students estimate how much grant aid they might receive at specific colleges.

College funding sources for the 2020–2021 school year

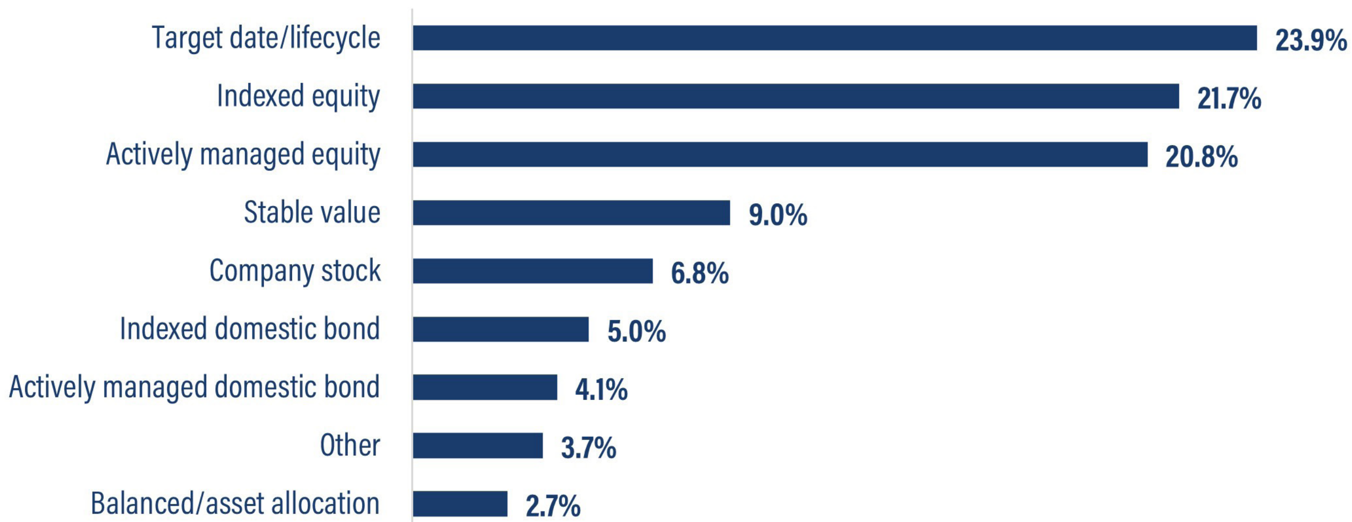


Source: How America Pays for College, 2021, Sallie Mae

How are 401K Plan Participants Investing Their Money?

Created in 1996, National 401(k) Day has historically been celebrated on the Friday following Labor Day to shine a spotlight on this important employee benefit. Since the late 1990s, plans have evolved substantially, and most participants can now choose from a diverse variety of investments. The chart below shows how 401(k) and profit-sharing funds were invested in 2020.

Total plan assets by fund type



Source: Plan Sponsor Czouncil of America, 2021

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

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based on research and a defined investment strategy. Thus, actively managed funds offer the potential to outperform the broader market, although historically most of them have not.

According to investment analyst Morningstar, 45% of active funds outperformed the average comparable index fund in 2021, a slight drop from 49% in 2020. Both of these years were relatively successful for active funds, possibly because active managers were able to respond to rapidly changing market conditions during and after the pandemic. Over the 10-year period ending in December 2021, only 26% of active funds outperformed the average of their passive counterparts. However, performance varied widely for different underlying investments.[1]

An actively managed fund may be more diversified than an index fund holding stocks in the same asset category, because the manager can choose to weight the securities to meet the fund's objective rather than following the market-capitalization or price-weighted structure of an index. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

Active managers also have more flexibility and may use a variety of trading strategies to help manage risks. For these reasons, some actively managed funds might offer defensive benefits when markets are falling, and they may be able to take advantage of specific market movements that might not be captured in an index fund.

Passive and active funds each have potential strengths and weaknesses, and there is no guarantee that any investing strategy will be successful. But holding both types of funds in your portfolio may provide a helpful balance.

Passive, Active or Both?

Index funds, which try to match the performance of a particular market index, have drawn increasing interest from investors, but traditional actively managed funds still hold more assets (see chart). There is ongoing discussion in the financial media about which approach is most effective, but there may be good reasons to hold both in a well-diversified portfolio.Here are some pros and cons to consider.

A Simple Approach

Index funds typically hold the same securities in the same proportions as the index the fund is tracking (or in some cases a representative selection of securities). After assembling the fund, the fund manager generally makes adjustments only as necessary to track the index, so these funds are called passively managed.

The primary appeal is cost-efficient simplicity. Because index funds have less managerial involvement, fees are often lower than they are for actively managed funds. Index funds may also buy and sell assets less frequently, and lower turnover can help reduce capital gains distributions, which could be important when funds are held in taxable accounts.

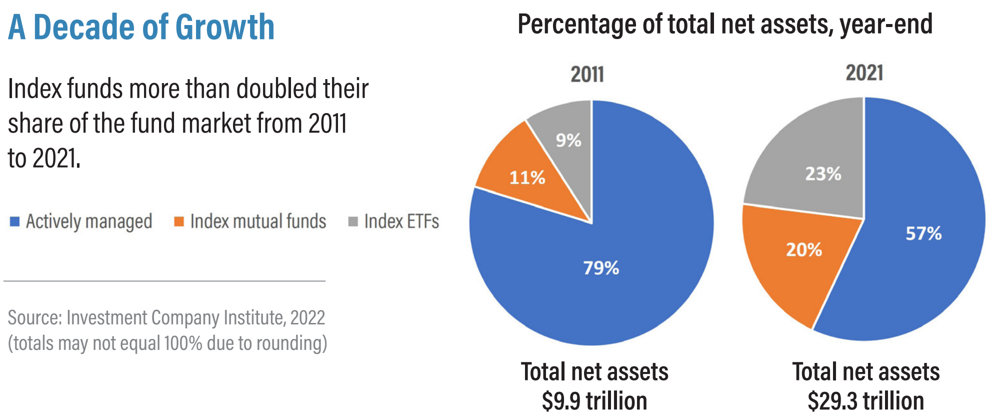
However, this simplicity can also be a negative. Many well-known indexes commonly tracked by index funds are broad based and weighted by market capitalization, a company's value based on the number of outstanding shares multiplied by share prices. Some are price-weighted, meaning the price per share determines the weighting of the security. In either case, index investing may place heavy emphasis on a relatively small number of large companies in the index. And an index fund holds securities in the index regardless of the potential performance of an individual company.

Hands-On Strategies

Active fund managers strive to outperform benchmarks by hand-picking securities

A Decade of Growth

Index funds more than doubled their share of the fund market from 2011 to 2021.



Source: Investment Company Institute, 2022 (totals may not equal 100% due to rounding)

The return and principal value of mutual funds and exchange-traded funds (ETFs) fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index. Past performance does not guarantee future results. Actual results will vary.

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1) Morningstar, February 2022

SAMALIN WEALTH

297 King Street
Chappaqua, New York 10514

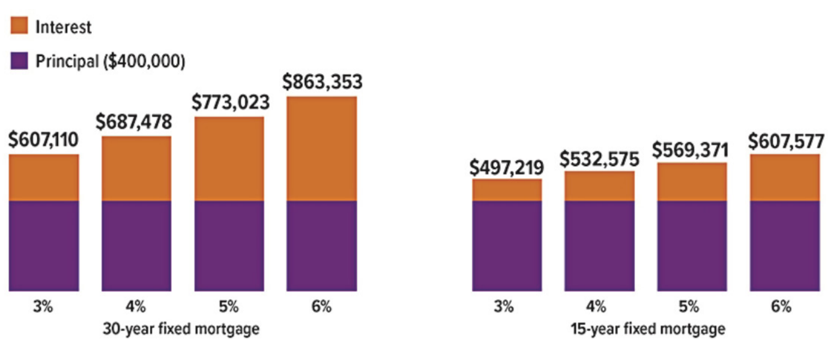
THE SAMALIN WEALTH TEAM

WESTCHESTER & THE HUDSON VALLEY | NEW YORK | PHILADELPHIA | DALLAS | 914.666.6600 | SAMALINWEALTH.COM

The Cost of Borrowing

In April 2022, the average interest rate for a 30-year fixed mortgage surpassed 5% for the first time since April 2010, and it was still above 5% in August. With higher rates, it's more important than ever to understand how interest increases the total cost of a mortgage.

The chart below shows the total cost for a $400,000 conventional 30-year fixed mortgage and an accelerated 15-year fixed mortgage (typically used for refinancing) at different interest rates. A $400,000 mortgage would enable a buyer to purchase a $500,000 home with a 20% down payment.



Source: Freddie Mac, 2022.
This hypothetical example of mathematical principles is used for illustrative purposes only. Actual results will vary.

Existing home sales in June 2022--5.12 million--is down 14.2% from June 2021. Rising mortgage rates and general inflation have cut into purchasing power for homebuyers, while the national median existing-home price reached a record $416,000, up 13.4% from one year ago. A recent increase in homes on the market may help to ease prices, but that remains to be seen. Source: National Association of Realtors, 2022