INVESTOR'S EDGE

Looking ahead, CDs and bonds more attractive

A new law will significantly affect investments, taxes and retirement accounts.

"I don't know where I'm going from here, but I promise it won't be boring."
— David Bowie

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Guest columnist

Last month, I took a contrarian view to the general bearishness on Wall Street, presenting the case that 2023 could be a solid year for stocks.

As I write this, the S&P 500 is having its second-best January since the turn of the century, surging more than 5%. Falling inflation, the likelihood of a Fed pause on raising interest rates, and oversold market conditions are fueling the recent rally. Granted, we still have 11 months to go, but the last four weeks are an encouraging sign for the year and remind us of the importance of staying invested — at all times.

Readers of this column know I recommend constructing a straightforward, diversified portfolio to hold for many years. That said, there are several investment themes developing in the new year that offer tactical opportunities for readers to take advantage of.

First, after 10+ years of almost zero interest rates, individual corporate bonds and certificates of deposit are offering attractive yields again. In fact, you can get a one-year CD yielding more than 4%, or a three-year corporate bond yielding close to 5%. If you are taking distributions from your investments, need income, or seek a buffer from volatility in the equity markets, these fixed income investments can be a smart place to look.

Second, after years of underperforming the United States, international stocks are on a tear, up 24% over the last four months, over twice the return of the S&P 500 Index. Furthermore, international stocks outperformed the S&P 500 in 2022 for the first time in 11 years.

I believe this is a solid investment opportunity and I encourage readers to have exposure to international stocks in their portfolios. The fund I would recommend is the Vanguard International High Dividend Yield (VYMI) which pays an attractive dividend of over 4% and is comprised of quality companies overseas. Another way to get international exposure is simply to own the Vanguard Total International Stock Index (VXUS) which also provides some emerging market exposure.

Third, the last decade has been dominated by U.S. large cap technology stocks. I continue to like and recommend many of these great growth companies for the long term.

I wouldn't bet, however, on another 10 years of total dominance from the tech sector. In fact, I believe there is significant value in the often overlooked small and mid-cap stock areas. Two funds I recommend are i-Shares Mid Cap Core (IJH) and i-Shares Small Cap Core (IJR) for diversified, low-cost exposure to these sectors of the broad stock market.

Finally, it should be noted that while January was a big month for the stock market, it was also a big month for legislation that could improve your personal finances.

NEW LEGISLATION

In late December, Congress passed The Secure Act 2.0, part of an enormous $1.7 trillion spending package. Taking effect this year, the new law builds on the original Secure Act passed in 2020 and contains a variety of important changes that will almost certainly impact your investments, taxes, and retirement plans.

Starting in 2023, owners of any traditional IRAs, SEP's, Simples, etc. now can wait until age 73 to begin taking Required Minimum Distributions. In 2033, that age will jump to 75. This is good news for retirees who can wait a little longer before having to give a bite of their retirement to Uncle Sam.

The Secure ACT 2.0 increases flexibility for the retirement plans employers can offer and how employees can make and receive contributions. This year, employers can offer after-tax (or Roth) SEP and SIMPLE IRA plans in addition to typical pre-tax plans.

Furthermore, employees will now have the flexibility in many plans to choose to have their employer match made on either a pretax or after-tax basis.

Additionally, more than 20 million 401k participants have an estimated $1.5 trillion sitting in old, "forgotten" accounts with previous employers. That's sinful.

The Secure ACT 2.0 will create resources for employees to find old retirement accounts and consolidate them into their current plans. If you have changed jobs more than a couple times, make sure all your retirement money is accounted for and take advantage of these resources once they go live.

Finally, the Secure ACT 2.0 has a variety of other provisions that will take effect in 2024 and beyond. These include automatically enrolling new employees in their employer's retirement plan, expanding access to retirement plans for part-time workers, permitting employer assistance with student loan repayments, and increased limits for 401k catch up contributions. These are positives for employees that you should take advantage of, if able.

This month's column has a lot of actionable information that should be useful to you as you plan the year ahead.

As for the market, Yale Hirsch, the founder of the Stock Trader's Almanac said it best: As goes January, so goes this year." Since 1950, that statement has been accurate 85% of the time. Only time will tell.

Stay invested.

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