ARBORETUM

WEALTH & TRUST MANAGEMENT

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Despite a series of intertwined employment, supply chain, inflation, and Covid headwinds, domestic equity markets turned in another strong year of returns. The pushback of the Build Back Better Act seems to have spurred the Fed into action on tackling the inflation issue we have seen brewing throughout 2021. The change in mindset is notable and welcome, even if it does incur some market unease, as stability in our economy is the foundation for future growth.

Our portfolios remain positioned well, both for the expected changes and rotations in the markets and to meet our clients' individual needs, which is always the paramount concern.

Thank you for your continued confidence and support, and please always feel welcome to reach out to any of our team with any questions of comments you might have.

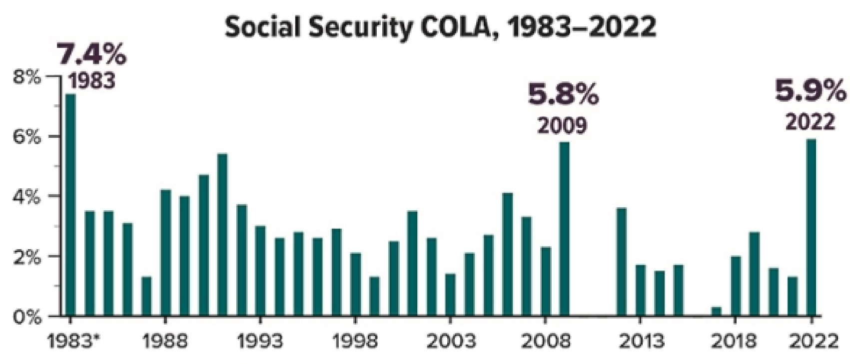
David M. Richter CFA

Chief Investment Officer

Big Boost for Social Security Payments

The Social Security cost-of-living adjustment (COLA) for 2022 is 5.9%, the largest increase since 1983. The COLA applies to December 2021 benefits, payable in January 2022. The amount is based on the increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from Q3 of the last year a COLA was determined to Q3 of the current year (in this case, Q3 2020 to Q3 2021).

Despite these annual adjustments for inflation, a recent study found that the buying power of Social Security benefits declined by 30% from 2000 to early 2021, in part because the CPI-W is weighted more heavily toward items purchased by younger workers than by Social Security beneficiaries.



There was no COLA in 2010, 2011, and 2016.

*The 1983 COLA was applied to benefits payable from July 1982 to December 1983.

Sources: Social Security Administration, 2021; The Senior Citizens League, August 11, 2021

P/E Ratios Offer Multiple Perspectives on Value

Many factors go into decisions on buying or selling shares of a particular stock, but the price/earnings (P/E) ratio can be a helpful starting point for evaluating whether a company's stock is under- or overpriced. The P/E ratio is calculated by dividing a stock's current price per share by the company's earnings per share over a 12-month period. This ratio quantifies what investors may be willing to pay for one dollar of earnings.

For example, a P/E of 20 means an investor would pay $20 for every $1 the company earns over the 12-month period. By this standard, a stock with a P/E of 25 could be considered more "expensive" than a stock with a P/E of 20, regardless of the share price. A higher multiple also indicates that investors may expect higher growth from the company compared to the overall market.

Past and Future

There are two main types of P/E ratios. *Trailing P/E* is based on the company's actual reported earnings per share for the previous 12 months. Because earnings are reported quarterly, that part of the equation will generally remain the same for the entire three-month period, but the stock price may change every trading day.

Forward P/E is based on the company's projected earnings over the next 12 months. The forward P/E can also fluctuate with stock prices and as earnings projections are updated.

Trailing P/E is generally considered a more objective metric than forward P/E, because earnings projections are essentially opinions that may not turn out to be accurate. However, some investors prefer to focus on forward P/E, because a company's past performance may have little to do with its future prospects.

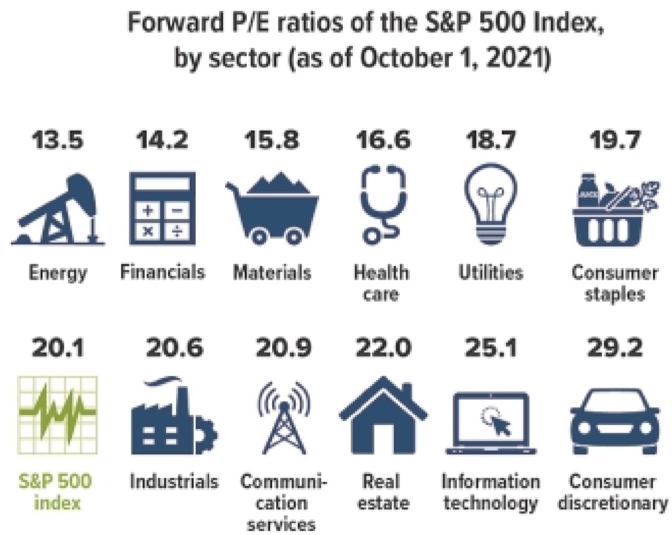
Use Ratios Wisely

Knowing a company's P/E ratio may provide some insight, but only if you use it to make appropriate comparisons. It is generally more meaningful to compare ratios of companies in the same industry or one company against the industry average. This is because P/E ratios can vary widely among industries and may also change for an entire industry as it faces challenges or goes in or out of favor with investors.

You might also compare a company's current and past performance, but keep in mind that P/E ratios typically rise and fall with stock prices; if prices rise and earnings stay about the same, P/E ratios increase, and vice versa. So an increase or decrease in a company's P/E ratio that moves with the broader market may not tell you much about the company's performance.

On the other hand, a substantial change in a company's P/E ratio that is not in step with the market could be caused by an unexpected increase or decrease in reported or projected earnings, or by a shift in investor confidence in the company.

Different Industries, Different Ratios



Source: FactSet, October 1, 2021. The S&P 500 is an unmanaged group of securities that is considered to be representative of the stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. A portfolio invested only in companies in a particular industry or market sector may not be sufficiently diversified and could be subject to a significant level of volatility and risk.

As of October 1, 2021, the average forward 12-month P/E ratio for stocks listed in the S&P 500 was 20.1. This is significantly higher than the five-year average of 18.3 and the 10-year average of 16.4.[1] But that may or may not mean that the market as a whole is overpriced.

It's possible that earnings projections could be off by a wide margin — and that P/E ratios could be more difficult for investors to interpret — until the disruptive effects of the pandemic are well behind us. In fact, it's generally a good idea to consider additional types of data, such as dividends and longer-term growth expectations, when evaluating potential stock investments.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

1) FactSet, October 1, 2021

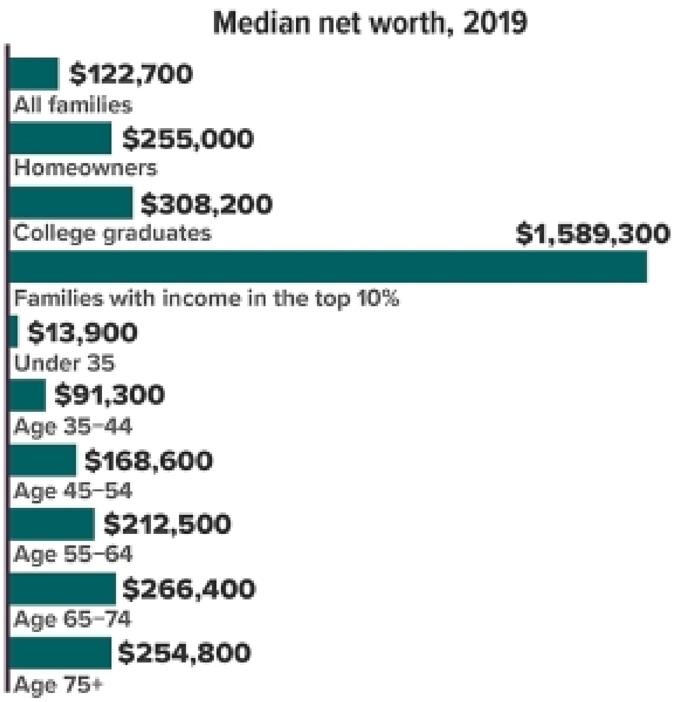
Are You a HENRY? Consider These Wealth-Building Strategies

HENRY is a catchy acronym for "high earner, not rich yet." It describes a demographic made up of young and often highly educated professionals with substantial incomes but little or no savings. HENRYs generally have enviable career prospects, but many of them feel financially stretched or may even live paycheck to paycheck for years, especially if they are working in cities with high living costs and/or facing large student loan payments.

If this sounds like you, it may be time to shed your HENRY status for good and focus on growing wealth — even if it means making some temporary sacrifices. One simple metric that can be used to gauge your financial standing is your net worth, which is the total of your assets (what you own) minus your liabilities (what you owe).

Wealth Snapshot

The net worth of U.S. families varies greatly depending on housing status, education, and income level. But it also takes time to build wealth, so there are significant differences by age.



Source: Federal Reserve, 2021

Pay Attention to Your Spending

It's virtually impossible to increase your net worth if you don't live within your means. After studying long hours and working your way into a good-paying job, you may feel that you deserve to spend some money on fashionable clothes, the latest smartphone, a night on the town, or a relaxing vacation. However, if you can't pay for most of your splurges without relying on credit — or wiping out your savings — then you may need to rein in your lifestyle. Budgeting software and/or smartphone apps can help you analyze your spending patterns and track your financial progress.

Utilize a Workplace Retirement Plan

Making regular pre-tax contributions to a traditional 401(k) plan is a no-nonsense way to accumulate retirement assets, and it helps reduce your taxable income by the same amount. Experts recommend saving at least 10% of your income for future needs, but if that's not possible right away, start by contributing 3% to 6% of your salary to your retirement plan and elect to escalate your contribution level by 1% each year until you reach your target (or the contribution limit). The maximum you can contribute to a 401(k) plan in 2022 is $20,500 ($27,000 if you are age 50 or older).

Many companies will match part of employee contributions, and free money is a great reason to save at least enough to receive a full company match and any available profit sharing. Some plans may require that you remain employed by the company for a certain amount of time before you can keep the matching funds.

Assess Your Housing Situation

Paying rent indefinitely may do little to improve your financial situation. Buying a home with a fixed-rate mortgage could help stabilize your housing costs, and you can build equity in the property over time as your loan balance is paid off — especially if the value appreciates. A home purchase may also afford tax advantages, but only if you itemize rather than claim the standard deduction on your tax return. Interest paid on up to $750,000 of mortgage loan debt is deductible, as are the property taxes, subject to a $10,000 cap on state and local property taxes.

Homeownership is a worthwhile financial goal if you plan to stay put for at least several years. And in many places, owning a home can be less expensive than renting, thanks to low interest rates. But there could be hurdles to overcome, including a hot real estate market, high prices, lingering student debt, and the large chunk of money required for a down payment.

When shopping for a home, resist the temptation to buy more house than you can afford, even if the bank says you can. And don't forget to factor property taxes, insurance, and potential maintenance costs into your buying decisions and household budget.

How to Correct an Error on Your Credit Report

According to the Consumer Financial Protection Bureau (CFPB), credit report errors more than doubled during the coronavirus pandemic. In addition, the CFPB found that many pandemic protections which were designed to help consumers, such as loan forbearance periods on federal student loans and federally backed mortgages, ended up negatively impacting their credit reports as a result of complications such as processing delays and suspended payments being marked incorrectly.[1] This is a significant issue for many consumers, because credit report errors may negatively impact creditworthiness and potentially lead to negative financial consequences, such as being offered higher mortgage interest rates or being turned down for a job or an apartment lease.

Fortunately, changes made during the pandemic have made it easier to stay on top of your credit report. Under new expanded rules, you are now eligible to obtain a free weekly credit report from each of the three nationwide credit reporting bureaus until April 20, 2022. To obtain free reports, go to AnnualCreditReport.com where you can fill out an online form, choose the reports you want, and, after answering some security questions, review your reports online.

If you find an error on your credit report, there are steps you can take to correct it. First, contact the credit reporting agency to dispute the error. You can do this online or by mail. Explain why you are disputing the information and be sure to include documentation that supports your dispute. The credit reporting bureau generally has 30 to 45 days to investigate the disputed information. Once the investigation is complete, the credit reporting bureau must provide you with written results. If the credit reporting bureau confirms that your credit report does contain errors, the information on your report must be removed or corrected.

If you do not agree with the credit bureau's investigation results, you can ask that a statement of the dispute be included in your file and in future reports. You can also contact the creditor that reported the information to the credit reporting bureau and dispute it with the creditor directly. If the creditor finds that the information is inaccurate, it must notify each credit bureau to which it has reported the information so the information can be updated or deleted. If you believe the error is the result of identity theft, you may need to take additional steps to resolve the issue, such as placing a fraud alert or security freeze on your credit report.

Keep in mind that correcting a credit report error can often be a time-consuming and emotionally draining process. If at any time you believe that your credit reporting rights are being violated, you can file a complaint with the Consumer Financial Protection Bureau at consumerfinance.gov.

1) Consumer Financial Protection Bureau, 2021

IMPORTANT DISCLOSURES