LENOX ADVISORS, INC

WEALTH MANAGEMENT ADVISOR

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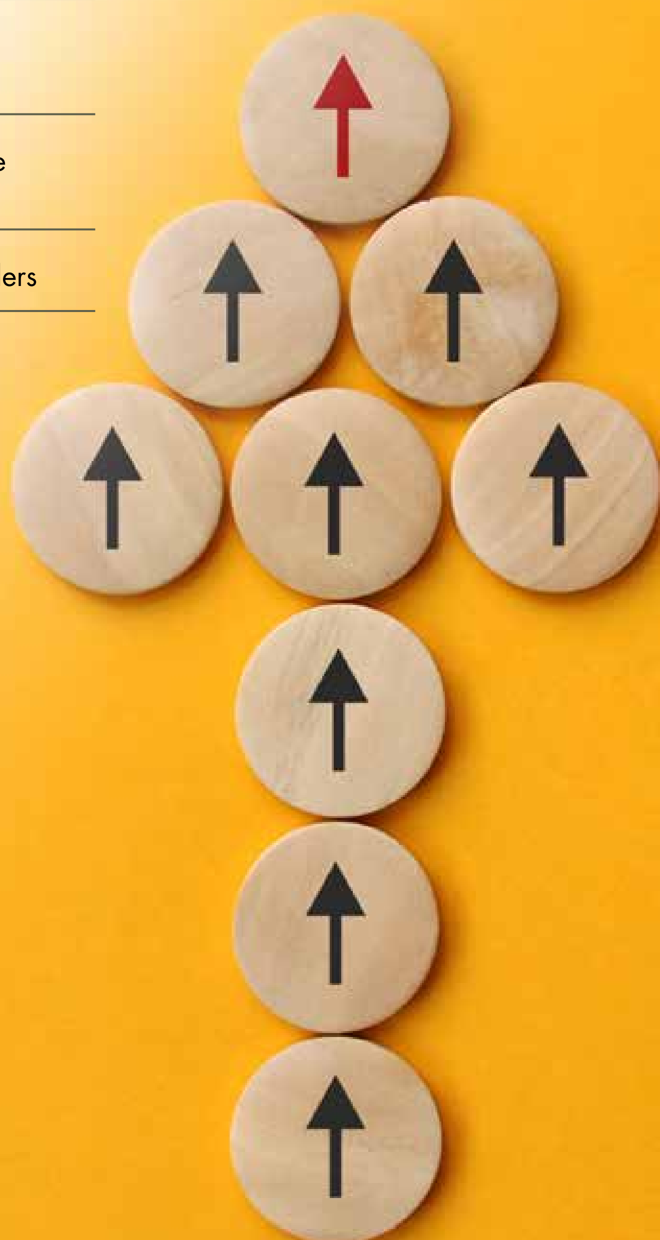


Dividend growth investing as a long-term strategy

There's no one way to invest. Every investment strategy offers potential rewards and poses certain risks. The appropriate strategy or strategies for you depends on your personal goals, financial circumstances and risk tolerance. However, one strategy worth considering is dividend growth investing — or investing in companies with a solid record of paying regular, increasing dividends.

Although there are no guarantees, dividend-paying companies are often viewed as more stable and less volatile than other companies. Stock prices generally fluctuate, often as a result of factors unrelated to a company's underlying performance. Dividend growth can be a better way to determine a company's financial strength and future outlook.

SIGNIFICANT CONTRIBUTION TO RETURNS

When evaluating market returns, many investors focus exclusively on price appreciation. But historically, dividends have been a significant component of total returns.

A recent study by Hartford Funds examined the impact of dividends on the S&P 500 Index from 1960 through 2021. Over that period, the contribution of dividend income to total returns averaged 40%. The study also revealed that 84% of the S&P 500's total return over the same period is attributable to "reinvested dividends and the power of compounding." Hartford also reported that, going back to 1973, the stocks of companies that consistently grow their dividends exhibited higher returns and lower volatility than stocks of other companies.

GROWTH VS. YIELD

It's important to understand the difference between dividend growth and dividend yield. Yield is the annual dividend per share as a percentage of a stock's price per share. So, for example, if a company's annual dividend is $5 per share and its stock price is $100, its dividend yield is 5%. Dividend growth, on the other hand, measures the percentage change in dividend payouts from one year to the next. If a company pays a dividend of $5 per share in year one and $5.50 in year two, dividend growth is 10%.

Dividend yield can be an important metric, but dividend growth usually is a better indicator of dividend trends over time. Suppose, in the above example, that the company's stock price falls to $50 in year two and that its dividend per share drops to $3. In that case, the company's dividend yield actually increases to 6%, but its dividend growth rate falls to –40%. Typically, companies that regularly increase dividends also regularly increase earnings

BEHIND THE NUMBERS

Healthy dividend growth can be a good indicator of a stock's

whether a company has a strong balance sheet, healthy cash flow and a management team that's committed to maintaining dividend growth while reinvesting in the company. According to Hartford, "Corporations that consistently grow their dividends have historically exhibited strong fundamentals, solid business plans, and a deep commitment to their shareholders."

One useful metric in evaluating dividend growth potential is the payout ratio. This is the percentage of a company's net income that's paid out in the form of dividends. A company with a high payout ratio — one that's earning barely enough to cover its dividend payouts — may be vulnerable to economic or competitive pressures down the road.

potential. But there are no guarantees that dividends won't be cut or that stock prices won't drop in the near future. Rather than relying on dividend growth statistics alone, it's important to look behind the numbers to assess

THINK LONG TERM

Dividend growth investing isn't for those looking for quick profits. It's a long-term strategy that seeks to invest in stable companies with consistently increasing dividends and to take advantage of the power of compounding. And if you choose not to reinvest dividends, they can be an additional source of income. For this reason, many retirees invest in dividend-paying stocks.

Like any investment strategy, there are risks associated with dividend growth investing, including the risk of losing your original investment. But it can also be a valuable component of a well-balanced, diversified investment portfolio.

Estate planning

Steer clear of these 5 common mistakes

Wealth management and estate planning go hand in hand. A well-designed estate plan can help ensure that you share your hard-earned wealth according to your wishes and protect it from creditors and tax liability. As you develop your plan, or review an existing one, be aware of these five common mistakes.

1. FAILING TO FUND YOUR REVOCABLE TRUST

A revocable or "living" trust is the centerpiece of many estate plans. This type of trust can help you avoid probate and manage your assets in the event you're incapacitated. For a revocable trust to do its job, however, you must "fund" it. That means transferring title to your assets to the trust.

Your advisors may help you fund the trust at the time it's created, but as you acquire new assets, you need to transfer title to your trust. Otherwise, those assets may be subject to probate upon death.

2. NEGLECTING TO REVIEW AND UPDATE YOUR PLAN

It's critical to review your plan periodically and update it to reflect any changes in your goals or financial circumstances. A review is particularly important after major life changes, such as marriage, birth of a child, divorce or death of a loved one.

These changes often require adjustments to your plan to ensure that it continues to meet your wishes. For example, if you neglect to update beneficiary designations, you may inadvertently leave assets to an ex-spouse or deceased person's estate rather than to your children, parents or siblings.

3. NOT PLANNING FOR INCAPACITY

Much of estate planning focuses on what happens when you die. But it's equally important to have a plan for making financial and health care decisions should you become too ill or incapacitated to make them yourself. Execute a financial or property power of attorney as well as a health care power of attorney (sometimes referred to as a living will, advance directive or health care directive). These documents allow you to name someone you trust to manage your financial affairs and make health care decisions on your behalf in the event you're unable to. They also provide guidance on making those decisions (including your preferences regarding life-sustaining medical treatment).

Revisit your health care directives periodically and update them to reflect changing circumstances. It's also a good idea to execute new ones every few years, even if nothing has changed, because financial institutions and health care providers sometimes are reluctant to honor older documents.

4. HOLDING ASSETS JOINTLY WITH A CHILD OR OTHER FAMILY MEMBER

When you own real estate or other assets as "joint tenants with right of survivorship," they pass to your co-owner automatically without probate or the need to set up a trust. But this strategy has some big disadvantages. For example, when you add someone to the title as

CHOOSE TRUSTEES WITH CARE

A trust is only as effective as the trustee you appoint to make critical investment and financial decisions. Many people name a spouse or other family member as trustee, but there are several drawbacks to such choices. Unless the person is a financial professional, he or she may not be qualified to manage the trust assets. And a family member who's also a beneficiary of the trust may have a conflict of interest.

Another option is to name a disinterested third party, such as a CPA, attorney or Lenox Advisor or an institutional trustee, such as a trust company or bank trust department. These third parties are more likely to be free of conflicts of interest, specialize in trust management, and have investment and tax expertise. For the best of both worlds, consider naming two co-trustees: a trusted family member and a professional or institutional trustee.

joint owner, an asset is exposed to claims by that person's creditors.

What's more, with certain assets, such as bank or brokerage accounts, your co-owner can sell or dispose of them without your consent. And you won't be able to sell real estate or pledge it as collateral without your co-owner's written authorization. This type of ownership can also trigger higher estate, gift and income taxes.

5. FORGETTING TO MAKE CONTINGENCY PLANS FOR BENEFICIARIES

What happens if a beneficiary predeceases you? To avoid having state law dictate who receives your property, name contingent beneficiaries on retirement accounts and insurance policies. And be sure your will or trust is clear on what happens if an heir predeceases you.

Suppose you're splitting your assets equally between your two children. If one of them dies, what happens to his or her share? If your plan (or state law) provides for assets to be distributed per capita ("by the head"), they will go to the surviving child, potentially disinheriting your grandchildren. In contrast, if assets are distributed per stirpes ("by the branch"), then half will go to your surviving child and the other half will go to the deceased child's family.

AVOID PITFALLS

These pitfalls are just a few of the many estate planning mistakes that can trip up even financially sophisticated individuals. To avoid errors, work with qualified advisors who will design and maintain a plan that meets your financial goals as they evolve.

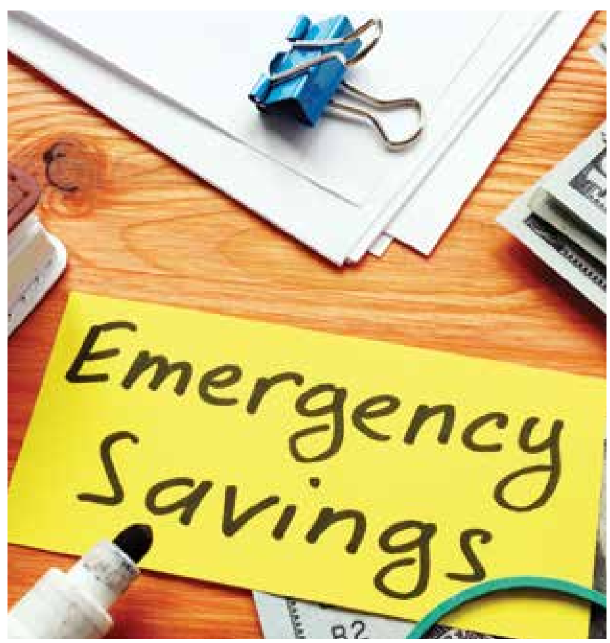
No emergency fund? What are you waiting for?

Even if you and your family weathered the crises of the past couple years, you probably know people who haven't fared as well. Health problems, business shutdowns, lost jobs and inflation have all exerted extreme financial pressure on Americans. But an emergency savings fund has kept some people afloat.

A cache of cash can help if you lose your job, experience health problems, or face emergency home repairs and other unexpected expenses. But you need to make sure you're saving enough, given your income and lifestyle.

COVER NONDISCRETIONARY EXPENSES

You may have heard that you need cash savings of three to six months of living costs. But this rule isn't as straightforward as it may sound. Some experts say you need to save enough to cover three to six months of expenses. Others believe you should save three to six months of take-home pay. Depending on your family's financial and other circumstances, you



may need to save an amount at the lower end or aim for the six-month target.

Emergency fund savings targets often are expressed in terms of take-home pay, but most people are better off focusing on expenses, particularly nondiscretionary expenses. During a temporary emergency, you can always eliminate spending such as vacations, entertainment, dining out and nonessential shopping. Your emergency fund really needs to cover mortgage and property taxes or rent, utility, phone and Internet bills, car payments, food, health care, insurance, and credit card or other debt payments.

FOCUS ON YOUR TARGET

Determine the target size of your emergency fund by totaling nondiscretionary expenses over the time period you anticipate it would take to find a new job or cover another emergency. Be sure to subtract other income sources, such as a spouse's salary or rental property income.

Keep in mind that reasonably foreseeable expenses aren't emergencies and should be saved for separately. For example, you may expect you'll need to replace your roof in two years. Or you may be planning an elective medical procedure or a family celebration in the near future. Don't dip into emergency funds for these planned events.

At the same time, try not to save too much. If you save substantially more than you'll reasonably need in a low-interest savings account, you may actually lose money to

inflation over time. Plus, you might miss out on opportunities to invest those funds in tax-advantaged retirement accounts or in other assets.

TAKE IMMEDIATE ACTION

If you don't have an emergency fund, you're not alone. According to the Consumer Financial Protection Bureau, 24% of Americans have no emergency savings, 39% have less than a month's worth of expenses saved and 37% have more than a month's worth. If you land in one of the groups that would be forced to turn to credit cards, subprime loans or other undesirable methods to finance an emergency, start building your cash cushion immediately.

You might arrange for a portion of every paycheck to be deposited automatically in a savings account. Also consider reducing certain expenses, such as entertainment subscriptions and restaurant meals. Or adjust your tax withholdings, so you receive more currently instead of a tax refund when you file your annual return.

A SECONDARY ISSUE

People who don't have adequate savings usually suffer from another issue: They lack a household budget. Make a realistic expense plan now and stick to it so you'll be able to put money aside for an emergency. If you're having trouble budgeting or finding funds to save, contact your Lenox Advisor.

Tax planning: Investors vs. traders

If you buy and sell securities for your own account, classifying yourself as a trader rather than as an investor may offer significant tax advantages. However, it's difficult to qualify as a trader — simply calling yourself a "trader" or "day trader" isn't enough. Here's what you need to know to help prevent IRS scrutiny and adverse court decisions.

POTENTIALLY FAVORABLE RULES

Traders enjoy more favorable tax rules when it comes to deducting investment expenses and the treatment of gains and losses. The Tax Cuts and Jobs Act eliminated most investment expense deductions for investors from 2018 through 2025. Traders, on the other hand, can fully deduct their expenses as ordinary business expenses.

Investors can deduct only up to $3,000 in net capital losses from their ordinary income, such as wages and interest (with any excess carried forward to future tax years). But again, traders have more latitude. A valid mark-to-market election (available only to traders) isn't subject to the $3,000 limit. Note that in exchange for these benefits, all of a trader's securities gains and losses — including unrealized gains and losses as of the last day of the tax year — are treated as ordinary income or loss.

TRADING AS A BUSINESS

Generally speaking, investors buy and sell securities and hold them for a longer term with the expectation that they'll earn income from dividends, interest or capital appreciation. In contrast, traders typically seek to earn quick profits based on short-term market fluctuations. To show that they're conducting a trade or business, traders must participate in sufficiently substantial, continuous and regular trading activities.

Unfortunately, there's no bright line test for distinguishing between traders and investors, such as a minimum number of hours, days or trades per year. The IRS and the courts look at factors such as:

- The amount of time you devote to buying and selling securities,
- Typical holding periods,
- The frequency and dollar amount of trades, and
- The extent to which you rely on these activities for a livelihood.

By default, the IRS considers individuals who buy and sell securities investors.

WEIGH TAX BENEFITS

If you devote a substantial amount of your time to buying and selling securities, talk to your advisors about whether you qualify as a trader. If you think you do, weigh the tax benefits of filing as a trader against the risk that the IRS will challenge your trader status.