# Smart Money
## NEWSLETTER

**Thomas H. Payne**
**Financial Advisor & Founder**
**Prosperitas Wealth Management LLC**
1009 Oakwood Lane, Unit 120803
Arlington, TX 76012
817-725-7373
tpayne@prosperitaswm.com
www.prosperitaswm.com

**12.0%**

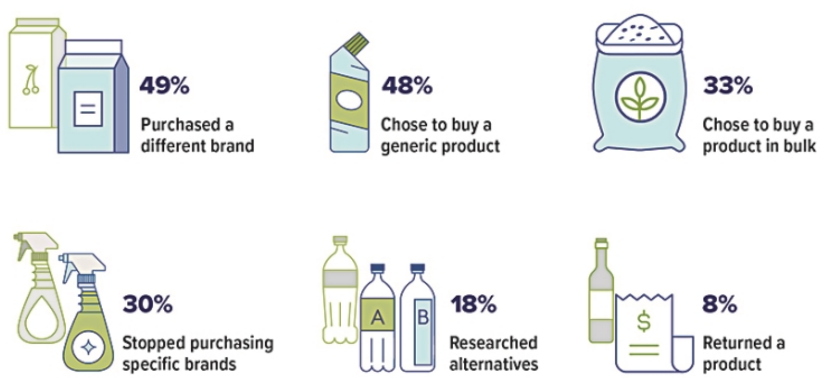
Percentage increase in prices for food at home (primarily groceries) for the 12-month period ending November 2022. By comparison, prices for food away from home increased 8.5% and general inflation ran at 7.1%.

Source: U.S. Bureau of Labor Statistics, 2022

# Honey, They Shrunk the Groceries

Have you noticed that packages are smaller at the grocery store? If so, you're not alone. A majority of U.S. adults have noticed shrinkflation — products shrinking in size while prices stay the same or increase. And about two out of three are very or somewhat concerned about the trend.

Consumers were most likely to say they noticed shrinkflation with snack items, followed by pantry items and frozen food. Shoppers also noticed it with meat, bread, beverages, dairy, produce, and other items. Here's what consumers did when they noticed shrinkflation.




Source: Morning Consult, August 29, 2022 (multiple responses allowed)

# Diversifying with Market Caps

The U.S. stock market struggled in 2022, with the S&P 500 index ending the year down more 19.4%.[1] The S&P 500, which includes stocks of large U.S. companies, is generally considered representative of the U.S. stock market as a whole, and it is a good benchmark for broad market performance. But there are thousands of smaller companies, and many of those held onto their stock value better during the market conditions of 2022.

The S&P MidCap 400, which includes midsize companies, ended the year down 14.5%, while the S&P SmallCap 600, which includes smaller companies, was down 17.4%.[2] Although these were losses, it was the first year since 2016 that midsize and small companies outperformed large companies (in this case, by having smaller losses). While large companies have registered the highest average annual returns over the last decade, midsize and small companies have been stronger over longer periods (see chart).

## Extending Your Reach

As these trends demonstrate, companies of different sizes tend to perform differently in response to market conditions. This suggests that holding stocks in companies of varied sizes could help diversify the stock portion of your portfolio and allow you to pursue a broader range of growth opportunities. Diversification is a method to help manage risk; it does not guarantee a profit or protect against investment loss.

The most convenient and comprehensive way to diversify by size is through mutual funds or exchange-traded funds that track indexes based on *market capitalization,* calculated by multiplying the number of outstanding shares by the price per share. There is no standard classification system, but Standard & Poor's indexes offer a helpful comparison and are used as benchmarks for many funds.[3]

**S&P 500:** $14.6 billion or more

**S&P MidCap 400:** $3.7 billion to $14.6 billion

**S&P SmallCap 600:** $850 million to $3.7 billion

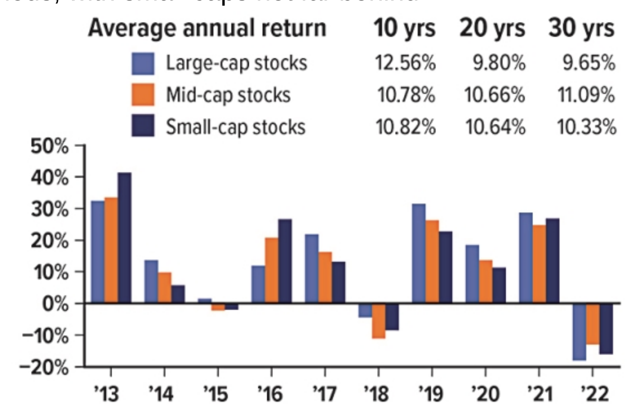
Russell indexes are also commonly used to construct funds based on market capitalization. The Russell 1000 includes large and midsize companies, while the Russell 2000 is a comprehensive small-cap index. Actively managed funds focusing on market capitalization typically include stocks chosen by the fund manager rather than following an index.

## Stability, Growth, and Volatility

Stocks of larger companies, or large caps, are generally considered more stable than the stocks of smaller companies, because their size can help them weather rough economic times — as demonstrated by their strong performance during the pandemic. Large caps may provide solid long-term returns, but they typically have lower growth potential, because they have already experienced substantial growth. Many large U.S. companies have heavy overseas exposure, which makes them more sensitive to global economic forces, one reason they struggled in 2022.

### Performance in Three Sizes

Even with poor performance in 2022, large-cap stocks have provided the highest returns over the last decade. However, mid caps were the leader over the last 20- and 30-year periods, with small caps not far behind.




Source: Refinitiv, 2023, for the period 12/31/2012 to 12/31/2022. Large-cap stocks are represented by the S&P 500 Composite Total Return Index, mid-cap stocks by the S&P 400 MidCap Total Return Index, and small-cap stocks by the S&P 600 SmallCap Total Return Index. Expenses, fees, charges, and taxes are not considered and would reduce the performance shown if they were included. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

Mid caps may have greater growth potential than large caps, and midsize companies might react more nimbly to changes in the business environment. Mid caps are associated with higher risk and volatility than large caps, but are considered more stable than small caps.

Small-cap stocks might offer the highest growth potential of the three classifications, because they have the furthest to grow and are more likely to react quickly to market opportunities. However, they are typically the most risky and volatile class of stocks.

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

*Mutual funds and ETFs 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. You should read the prospectus carefully before investing.*

1-3) S&P Dow Jones Indices, 2023

# Are You Eligible for Any of These College-Related Federal Tax Benefits?

College students and parents deserve all the help they can get when paying for college or repaying student loans. If you're in this situation, here are three federal tax benefits that might help put a few more dollars back in your pocket.

## American Opportunity Credit

The American Opportunity tax credit is worth up to $2,500 per student per year for qualified tuition and fees (not room and board) for the first four years of college. It is calculated as 100% of the first $2,000 of qualified tuition and fees plus 25% of the next $2,000 of such expenses.

There are two main eligibility restrictions: the student must be enrolled in college at least half-time, and the parents' modified adjusted gross income (MAGI) must be below a certain level. To claim a $2,500 tax credit in 2023, single filers must have a MAGI of $80,000 or less, and joint filers must have a MAGI of $160,000 or less. A partial credit is available for single filers with a MAGI between $80,000 and $90,000, and joint filers with a MAGI between $160,000 and $180,000. The same limits applied in 2022 (and would be used when completing your 2022 federal tax return).

One key advantage of the American Opportunity credit is that it can be claimed for multiple students on a single tax return in the same year, provided each student qualifies independently. For example, if Mom and Dad have twins in college and meet the credit's requirements for each child, they can claim a total credit of $5,000 ($2,500 per child).

## Lifetime Learning Credit

The Lifetime Learning credit is worth up to $2,000 for qualified tuition and fees for courses taken throughout one's lifetime to acquire or improve job skills. It's broader than the American Opportunity credit — students enrolled less than half-time as well as graduate students are eligible. The Lifetime Learning credit is calculated as 20% of the first $10,000 of qualified tuition and fees (room and board expenses aren't eligible).

Income eligibility limits for the Lifetime Learning credit are the same as the American Opportunity credit. In 2023, a full $2,000 tax credit is available for single filers with a MAGI of $80,000 or less, and joint filers with a MAGI of $160,000 or less. A partial credit is available for single filers with a MAGI between $80,000 and $90,000, and joint filers with a MAGI between $160,000 and $180,000. The same limits applied in 2022.

One disadvantage of the Lifetime Learning credit is that it is limited to a total of $2,000 per tax return per year, regardless of the number of students in a family who may qualify in a given year. So, in the previous example, Mom and Dad would be able to take a total Lifetime Learning credit of $2,000, not $4,000. Two other points to keep in mind: (1) the American Opportunity credit and the Lifetime Learning credit can't be taken in the same year for the same student; and (2) the expenses used to qualify for either credit can't be the same expenses used to qualify for tax-free distributions from a 529 plan or a Coverdell education savings account.

---

### Student Loan Debt Statistics

Outstanding U.S. student loan debt in 2022:
**$1.745 trillion**

Loan source breakdown:
**92.7% federal**
**7.3% private**

Number of borrowers with federal student loan debt:
**42.8 million**

Average federal student loan balance:
**$37,787**

Source: EducationData.org, 2022

---

## Student Loan Interest Deduction

Undergraduate and graduate borrowers can deduct up to $2,500 of interest paid on qualified federal and private student loans during the year if income limits are met. In 2023, a full $2,500 deduction is available for single filers with a MAGI of $75,000 or less, and joint filers with a MAGI of $155,000 or less. A partial deduction is available for single filers with a MAGI between $75,000 and $90,000, and joint filers with a MAGI between $155,000 and $185,000. In 2022, the income limits were slightly lower: a full deduction was available for single filers with a MAGI of $70,000 or less, and joint filers with a MAGI of $140,000 or less; a partial deduction was available for single filers with a MAGI between $70,000 and $85,000, and joint filers with a MAGI between $145,000 and $175,000. The 2022 limits would be used when completing your 2022 federal income tax return.

If you paid at least $600 in student loan interest during the year, your loan servicer should send you a Form 1098-E showing how much you paid. If you don't receive a 1098-E, you can still claim the deduction. You just need to call your loan servicer or log in to your online account to find the amount of interest you paid.

# Keep an Eye Out for IRS-Related Scams

The IRS warns that although scams are especially prevalent during tax season, they also take place throughout the year.[1] As a result, it's important to always be on the lookout for suspicious activity so that you don't end up becoming the victim of a scam.

One of the more common IRS scams involves phishing emails. These scams involve unsolicited emails that pose as the IRS to convince you to provide personal information. Scam artists then use this information to commit identity or financial theft. Another dangerous type of phishing, referred to as "spear phishing," is targeted towards specific individuals or groups within a company or organization. Spear phishing emails are designed to get you to click on a link or download an attachment that will install malware in order to disrupt critical operations within your company or organization.

Another popular IRS scam involves fraudulent communications that appear to be from the IRS or a law enforcement organization. These scams are designed to trick you into divulging your personal information by using scare tactics such as threatening you with arrest or license revocation. Be wary of any email, phone, social media, and text communications from individuals claiming they are from the IRS or law enforcement saying that you owe money to the IRS.

***The IRS will not initiate contact with you by email, text message, or social media to request personal information.***

A relatively new IRS scam involves text messages that ask you to click on a link in order to claim a tax rebate or some other type of tax refund. Scammers who send these messages are trying to get you to give up your personal information and/or install malware on your phone. Watch out for texts that appear to be from the IRS that mention "tax rebate" or "refund payment."

The IRS will not initiate contact with you by email, text message, or social media to request personal information. The IRS usually contacts you by regular mail delivered by the U.S. Postal Service. Here are some steps that may help you avoid scams.

- Never share your personal or financial information via email, text message, or over the phone.
- Don't click on suspicious or unfamiliar links or attachments in emails, text messages, or instant messaging services.
- Keep your devices and security software up to date, maintain strong passwords, and use multi-factor authentication.

1) Internal Revenue Service, 2022