Market Insights & Planning Highlights

Q4-2022

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MARKET OUTLOOK

Stock Market bounce? Be aggressive, conservative or neutral

by Robert Koscik

If you tune in to the TV talking heads, you've probably heard them say "the market is going to keep dropping." What you may not recall is that these are the same Monday morning quarterbacks who said stocks had bottomed out in June. Nice job if you can get it! That said, it's understandable for average investors to consider lowering their exposure to stocks. When the market is wildly overvalued from a mathematical standpoint, long-term returns will almost certainly be lower than normal. However, after the most recent drop, a defensive strategy brings an opportunity cost. To illustrate that cost, let's look to history:

- From March 11th 2003 through June 17th 2003, the S&P 500 advanced 26.25% (and from there, off to the races).
- From March 9th 2009 through Aug 21st 2009, the S&P 500 advanced by 50.9%.

These numbers represent the returns the markets generated off the bottom of bear markets. In other words, the risk of being too conservative now could prove costly in the long run. But keep in mind that our strategy of significantly lowering risk across our clients' accounts since late last Summer has paid off very well (in the minimization of losses versus what otherwise would have been experienced). It also only works if you

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MARKET OUTLOOK

Stock Market bounce? Be aggressive, conservative or neutral (cont.)

complete the circle; With inflation, and wage inflation especially, still as much as a year off from being resolved (in my opinion), we'll remain in a trading range for the foreseeable future – a volatile trading range at that. That being said, let's set the crystal ball aside. After all, an appropriate investment strategy right now is resetting allocation to an individual's targeted long-term norm (ever cognizant of opportunity costs as per the historical numbers referenced above).

The Bond Market Mess

Let's change gears to what is most top of mind for me today: bond funds…or in my humble opinion maybe the industry's worst invention. Why? If nothing changes between now and New Year's Day, 2022 will go down as history's worst year ever for bond market performance (by a wide margin, based on Bloomberg Aggregate Bond Index). It's frustrating to watch because, in my opinion, the industry has had years, if not decades, to get its act together on bonds. In 2010 there were 2.6 trillion in bond funds. In 2020 there were 5.2 trillion in bond funds. (Source: Investment Company Institute)

Fortunately for DLAK clients, past year performance has differed wildly from the index. When I started in this field nearly thirty years ago, my negative opinion of bond funds formed pretty quickly. I had an advance degree background in the fixed income area and especially enjoyed the straightforward nature of individual bond investments: if X occurs, Y is the outcome. Simple. But bond funds? Without the maturity date of an individual bond or fixed annuity, they can carry as many outcome variables as stocks.

MARKET OUTLOOK

The Bond Market Mess *(cont.)*

To see my thoughts in numbers as to what has occurred here is a breakdown. Year to date through October 31st , the Bloomberg Aggregate Bond Index was down 14.47%. Over the past 5 years your average annual return was .35% per year. If you purchased a fixed annuity 5 years ago and your yield was 3%, you would have made 3% per year, and YTD, your return would be just shy of a positive 3%. When the stock market is down as much as it is, I would say that it's nice to have your safe money making money vs. being down 14.47%.

Bottom line: there was a great opportunity for professionals in my industry to educate Clients on different ways to invest your money outside of the stock marketed in the last 10 years and, in my opinion, too many of my peers failed.

Stay Educated

Individual investors can gain value by working with a quality wealth management group. At DLAK, we strive to deliver great value through our commitment to ongoing education and proactivity when it comes to your portfolio.

RETIREMENT PLANNING

Secure Your Kids' Future with a Custodial IRA

by Matt Ringle

When parents begin planning their children's future, a college fund is typically their first and *last* step. But if they really want to secure a prosperous life for their kids, starting them early on a retirement plan can have a profound impact.

The numbers don't lie. If you opened a Custodial Roth IRA for a 16-year-old and invested the maximum amount, the account has the potential to be worth $3 million by age 65 (assuming an average return of 8% a year). For perspective, an adult starting an IRA at age 35, would net just $600,000 by age 65.

Getting Started

An adult can open a Custodial Roth IRA for a child under the age of 18 (and even some under the age of 21). All that is required is that your child have "earned income." Earned income as defined by the IRS "includes all the taxable income and wages you get from working for someone else, yourself or from a business or farm you own." So, if your child has a summer job, or part-time work during the school year it might be a good idea to start talking to them and encouraging them to start saving for retirement.

As a parent you also have the option to fund a custodial Roth IRA for your child from a UTMA or UGMA account. This provides a nice way for parents to convert money that otherwise will owe capital gains tax to completely tax-free money.

Some people worry about liquidity when it comes to saving for their children. There are some restrictions on tapping the earnings within the Roth, but the beauty of Roth IRAs is that you can always have access to the amount you contribute into the account.

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IN THE NEWS

Understanding Student Loan Forgiveness - by Matt Ringle

If you have been watching the news, you're probably aware of President Biden's executive order that forgives student loan debt. Whether you're for or against the controversial decision (which has been held up by litigation), it's our job to provide you with the details of the order. If you or your older children are dealing with student debt, it's especially important to know what might lay ahead.

Who is eligible?

- Those earning less than $125,000 annually as a single filer
- Those earning less than $250,000 as a Married Filing Joint filer.
- Note: these income thresholds are not phase outs (like you would see with certain types of retirement plan contributions) they are cliffs. If you make $1 more…you aren't eligible.
- You must have originated the loan prior to June 30th, 2022.

What loan types eligible?

- Basically, any type of federal student loan qualifies for forgiveness including: direct subsidized, unsubsidized loans, graduate loans, or even parent PLUS loans.

How much debt can be forgiven?

- Up to a maximum amount of $10,000.
- For example, if you are eligible for $10,000 in relief but have an $8,000 balance, you'll receive $8,000 in relief.
- However, if you are the holder of a Pell Grant (Pell Grant is a form of need-based federal financial aid that typically does not have to be repaid), you can qualify for up to $20,000 in forgiveness.

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IN THE NEWS

Understanding Student Loan Forgiveness (continued)

Do you have to apply for forgiveness?

- The answer to that question is still a bit convoluted. The Department of Education has income data on roughly eight million student loan debt holders. For those they have information on, there is no need to file, however, in my opinion, it is better to be safe than sorry.
- In order to submit your income information via a simple application online, you can follow the following link: Federal Student Aid
- Once the application is complete, cancellation will take place within four to six weeks. Several sources recommend that your application be filed by November 15th if you are planning to have the debt forgiveness take place prior to debt payments resuming in January of 2023.

What taxes, if any, will be owed on forgiven debt?

- None. Forgiven student loans aren't taxable. A provision in the new bill exempted student loan forgiveness from taxation until 2025.
- As it pertains to state taxes, it's a different story. Depending on where you live, certain states are requiring that you do pay tax on any loans forgiven.

What if you already paid off all or part of your loans?

- If you made payments on your federally held student loans after the CARES Act debt freeze started on March 13, 2020, you're eligible to request a refund on the amount paid and have the debt be forgiven. In order to request the refund, you will have to call your loan servicer.

Here to help

DLAK is happy to answer any additional questions you might have about the debt forgiveness order or any other federal programs that may be relevant to you.

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TAX MATTERS

The Future of Taxes to 2026: SALT, Sunsets & TCJA

by Jason Phipps

In December 2017, the Tax Cuts and Jobs Act (TCJA) was passed, resulting in significant changes to the tax code. If Congress fails to extend the TCJA, many of those changes will sunset after 2025. Without more policy changes, the tax year 2026 will include many changes to the current code…

Tax Brackets: Brackets will revert back to 2017 levels . The current 12% bracket will go up to 15%, the 22% bracket to 25%, and the 24% will rise to 28%. The top bracket is 37% and will rise to 39.6% for individuals, estates and trusts.

Itemized Deductions & Standard Deduction: The TCJA repealed many exemptions but increased the standrd deduction to $25,900 for joint filers and $12,950 for single taxpayers. We cannot be certain what the new standard deductions will be because of inflation adjustments, but the TCJA nearly doubled the prior standard. The standard deduction for single filers went from $6,500 to $12,000 and joint filers rose to $24,000 from $13,000. Expect the same percentage decrease to the standard deduction in 2026. The TCJA capped state and local tax deduction (SALT) to $10,000. This cap would go away in 2026, resulting in more taxpayers taking itemized deductions over the standard. The TCJA repealed the phase-down number of allowable itemized deductions. In 2026, those single filers making $266,700+ and joint filers making $320,000 + will again be phased down for itemized deductions.

Estate & Gift Taxes: The TCJA doubled the estate and gift tax exemption to $11.2 million for single filers, and $22.4 million for couples (indexed for inflation). In 2022, these exemption amounts are $12.06 million for singles and $24.12 million for couples. In 2026, these amounts will be cut in half. It’s possible to “lock in” the higher levels prior to the TCJA sunsetting by utilizing estate planning strategies now. This issue gets complex, so we would work with estate planning attorneys.

The TCJA sunsetting will impact nearly everyone. This is why we spend time to understand your income and tax situation. Future taxation is always an uncertainty, so we strive to direct your savings to vehicles that minimize your taxes.

It's Never Too Early to Talk Estate Taxes - by Matt Ringle

Ever since the raising of the personal estate tax exemption to $12 million, fewer individuals have had to worry about estate taxes. However, that Trump-era exemption boost will sunset in 2025. Barring an extension, the threshold will return to its former level in the range of $6 million. There have even been proposals to lower it to $3.5 million per person, levels not seen since 2009.

We at DLAK have been watching this very closely given that many clients may have to once again consider what estate taxes will mean to their future. We are always looking ahead and want to be at the forefront of saving you money. In this case, that means how to save you from paying a possible 40% tax on your estate assets.

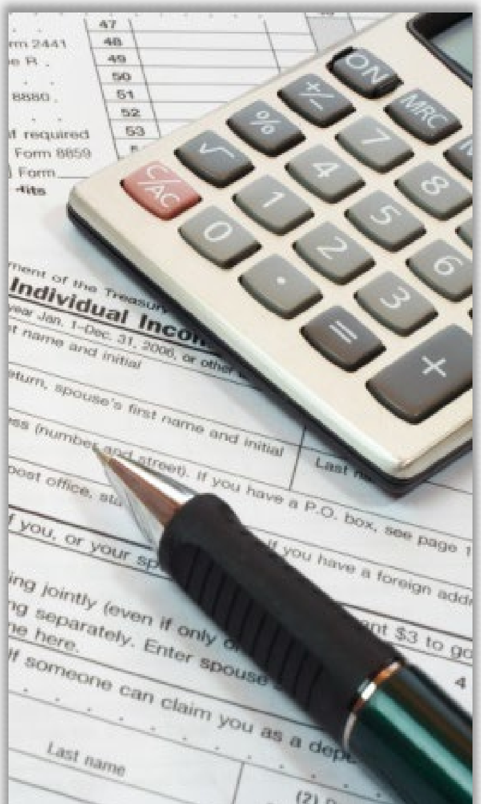
Portability is Paramount

In order to better your situation today and better prepare you for the future, there is a concept in estate planning known as portability. Portability in this setting means (in the most basic of terms) a spouse's ability to carry over their deceased spouse's remaining lifetime exemption.

In 2022 this would mean if one's spouse passed having $4 million in their individual estate, they would have about $8.06M (of their total $12.06M) lifetime exemption remaining that would go unused. If the surviving spouse elects portability on their estate tax filing, the deceased 's $8M unused exemption will be added to their own— making their new total life exemption $20.6M.

ESTATE PLANNING

It's Never Too Early to Talk Estate Taxes (continued)



To give a contrasting example here, what if someone had a spouse that passed away young with a $10M estate? They would pay no estate taxes and still have $2.06M left over of their exemption. This time, let's say the spouse does not file for portability. If those assets continued to grow at a conservative 6% return for another fifteen years, the assets would be worth $24M. The surviving spouse then passes and would have to include $14M in their estate ($10M was already in the first spouse's estate). Remember she did not file for portability, so the lifetime exemption is only $12.06M. This means the surviving spouse will now owe 40% on $2M or $800,000! Instead, if the spouse who passed second would have filed for portability, her lifetime exemption would have been $14.12M ($12.06M + $2.06M carryover from the first deceased spouse) and she would have paid $0 in taxes. (This example is for informational purposes only and is not a recommendation or tax advice. Please consult your tax professional regarding your specific situation.)

Don't Overlook It

Failing to file for portability is a common mistake. Typically, most assets transfer between spouses and an estate filing is never even completed. However, it may be a good strategy to file the estate filing if only for the sole purpose of selecting portability. Luckily, the deadline to file an estate tax return has been increased to five years, so the pressure of time is off for most people.

Estate taxes are no joke. Being proactive can save you and your heirs a ton of money that would otherwise go right into Uncle Sam's pockets.

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TIPs: I Bonds Cousin– by Robert Koscik

According to the Wall Street Journal, The composite rate for I Bonds issued from November 2022 through April 2023 is 6.89%. Savers loaded up on I Bonds when the rate leapt to 9.62% in May, the highest interest rate since the securities were introduced in 1998.

TIPs

There is a close relative to I Bonds and these are TIPs. DLAK has used TIPS both individually and through ETFs for many years, and I have used them a lot in the last couple of years as the fear of inflation began rearing its ugly head. TIPs are Treasury Inflation-Protected Securities. They will have a much higher level of liquidity if used within an ETF being they can be sold at any time on the open market, and the yield also adjusts to the CPI, like I Bonds. The downside is that the price floats like a bond fund. The fact that the price goes down at the same time that the yield goes up offers some consolation.

The current rules on I Bonds are:

- $10,000 maximum purchase
- 1st year no liquidity
- Year 1-5: Three-month interest lost if you surrender
- Yield resets basis on CPI every 6 months
- Current nominal yield is -0- and at the discretion of the Treasury Secretary

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WORK & LIFE TIPS

It's a Great Time for Job Hunters

By Jenny Cyrus

At one time or another, we've all been in the market for a new job. Whether it's for a career change, a more flexible schedule, or even a move to a new state, the reasons for looking are many. But more often than not, the motivating factor for those seeking new employment is…more money!

Well guess what? Now is one of the best times ever to switch jobs if higher compensation is your primary goal. Here's why…

Show Me The Money

According to the Federal Reserve Bank of Atlanta, the gap between wage increases from staying in your current job versus landing a new one is the largest it's been in twenty years. On average, individuals who have changed jobs have increased their income by 6.4%. Meanwhile, those who stayed in their jobs saw just a 4.7% wage increase last year.

For someone making $100,000 a year that is a difference of nearly $2,000 more on an annual basis!

With food and gas prices on the rise, ordinary wage gains just aren't keeping up with inflation. That said, more and more workers may be turning their attention to the job listings. Are you next?

Source: https://www.wsj.com/articles/inflation-switch-jobs-more-money-fed-atlanta-data-11658699425

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NEWS TO USE

Did You Know?

The Standard Deduction Is Up

The standard deduction levels have been increased for 2022 to account for inflation. Married couples get $25,900, plus $1,400 for each spouse age 65 +. Singles can claim a $12,950 standard deduction—or $14.700 if they're 65+.

Home Prices Falling Fast

A report from mortgage technology and data provider Black Knight shows that median home prices fell 1.05% in July and 0.98% in August. That's two straight months of pullbacks after two+ years of record-breaking growth. The housing market hasn't seen a two-month drop in prices this large since the 2008 financial crisis.

Higher Utility Bills Coming…But Ohioans Can Save

With utility bills expected to rise 10-20%, consumers are scrambling. Ohioans can shop for energy options from a diverse group of suppliers certified by the Public Utilities Commission of Ohio. As more suppliers offer their services , you can choose one that delivers electricity or fuel more cheaply. See https://energychoice.ohio.gov/

Take Advantage of QCDs

If you are 72 or older, a QCD (Qualified Charitable Distribution) allows you to direct Required Minimum Distributions straight to a qualified charity—avoiding taxation on that money (up to $100k/year).

Walking Decreases Dementia Risk

Walking can lower your risk for dementia by half! In a study of 80,000 individuals:

- Walking 3,800 steps a day lowers your risk of developing dementia by 25%.
- Walking 6,000 or more steps a day for 30 minutes reduces the likelihood by 62%.

Social Security Gets a Raise

In the biggest Cost of Living Adjustment in four decades, Social Security benefits will increase in 2023 by 8.7%. Don't spend it all in one place!

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