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# FINANCIAL OUTLOOK

FALL 2023

## TAXES AND YOUR INVESTMENTS

One of your portfolio's largest expenses is probably taxes. Ordinary income taxes on short-term capital gains and interest income can go as high as 37%, while long-term capital gains and dividend income are taxed at rates not exceeding 15% to 20% (0% if your income falls under certain limits). One way to help keep your portfolio growing is to invest in a tax-efficient manner. Some suggestions include:

○ **CONTRIBUTE TO YOUR 401(K) PLAN.** Contributions are made on a pre-tax basis, so you don't pay income taxes currently (Social Security and Medicare taxes are paid) and earnings grow on a tax-deferred basis until withdrawn. In 2023, you can contribute a maximum of

\$22,500 to a 401(k) plan, although plans typically limit your contributions to a certain percentage of your pay to ensure the plan complies with nondiscrimination rules. Individuals over age 50 may be able to make an additional catch-up contribution of \$7,500 in 2023. Many employers also match your contribution, so you get additional funds at no cost to you.

○ **MAKE CONTRIBUTIONS TO AN INDIVIDUAL RETIREMENT ACCOUNT (IRA).** In 2023, you can contribute a maximum of \$6,500, plus those over age 50 can make an additional \$1,000 catch-up contribution. Investigate whether you're eligible to contribute to a traditional deductible IRA or a Roth IRA and

then decide which option is best for you. While you can't deduct your contributions to a Roth IRA, your earnings grow tax free as long as you make qualified distributions from the IRA. With a traditional deductible IRA, your contribution is deductible on your current-year income tax return and earnings grow tax deferred until they are withdrawn.

○ **DECIDE WHICH INVESTMENTS TO HOLD IN TAX-ADVANTAGED AND TAXABLE ACCOUNTS.** Gains from investments held in retirement accounts, such as 401(k) plans and traditional IRAs, are taxed at ordinary income tax rates when withdrawn, rather than the lower capital gains tax rates. While it may make sense to hold investments that produce ordinary income or that you want to trade frequently in retirement accounts and investments that generate capital gains in taxable accounts, factors such as your investment period should also be considered.

○ **ANALYZE THE TAX CONSEQUENCES BEFORE REBALANCING YOUR PORTFOLIO.** Portfolio rebalancing is a taxable event that may result in a taxable gain or loss. In general,

## RULES FOR RETIREMENT INVESTING

When you start planning for retirement, you will need to determine the lifestyle you want to live and the income you will need. That way, you can define specific goals for how you are going to get there. You can increase your chances of living the retirement you want by being informed and engaged in your retirement planning process. Following are some basic

rules that can help you prepare for retirement planning.

### INVESTMENT OPTIONS

The first step is to understand your investment options. When building a retirement portfolio, you should take advantage of plans offered by your employer as well as individual investments. You will want

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## YOUR INVESTMENTS

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avoid selling investments from your taxable portfolio for reasons other than poor performance. Bring your asset allocation in line through other methods. For instance, when purchasing new investments, select ones from underweighted categories. Or rebalance through your tax-deferred accounts.

- **CONSIDER MUNICIPAL BONDS OR STOCKS GENERATING DIVIDEND INCOME IF YOU ARE IN A HIGH TAX BRACKET.** Since municipal bond interest is exempt from federal, and sometimes state and local, income taxes, your marginal tax bracket is a major factor when deciding whether to include municipal bonds in your portfolio. Thus, you should determine how a muni bond's yield compares to the after-tax yield of a comparable taxable bond. Since dividend income is taxed at rates not exceeding 15% to 20%, stocks that generate significant dividend income may be a good choice.
- **LOOK INTO TAX-ADVANTAGED WAYS TO SAVE FOR COLLEGE.** If you are saving for college, look at education savings accounts (ESAs) and Section 529 plans. The annual contribution limit to ESAs is \$2,000. While you can't deduct the contribution on your tax return, earnings grow tax free as long as funds are used for qualified education expenses. With Section 529 plans, you can contribute up to \$85,000 to a qualified plan (\$170,000 if the gift is split with your spouse) in one year and count it as your annual \$17,000 tax-free gift for five years. However, if you die within the five-year period, a pro-rata share returns to your estate. Distributions from 529 plans to pay qualified higher-education expenses are excluded from income.
- **CONSIDER OWNING A HOME.** Own-

## WHEN SHOULD YOU SELL STOCKS?

**M**ost of the information you read about stock investing seems to discuss buying, but to actually profit from a stock investment, it must be sold. For many investors, selling a stock is the most difficult decision.

The reason selling is so difficult for some investors is the fear of missing out on future profits. A good selling decision may leave some profit on the table, but it should be determined by a rational analysis of valuation and price. The most successful investors do not focus on market timing by trying to sell at the highest price, instead they focus on buying at one price and selling at a higher price.

If you have a difficult time with selling, you should consider using a limit order. This type of order will automatically sell the stock when it reaches your target selling price.

Following are times when you should consider selling based on your personal financial situation, as well as warning signs with the companies you are invested in:

- If you are losing sleep over a particular investment, it may be worth reducing your emotional distress to sell it.
- If you need money in the next three years to purchase a home or send a child to college, you should pull the money out while you know you have it.
- To help you reduce the taxes you will pay, you may want to look

for investment losses to offset other gains.

- If your portfolio is shifting from your original asset allocation, you will want to rebalance it to get back on track.
- Watch your stocks for a high price/earnings (P/E) ratio, which compares the company's recent earning to its stock price. If the P/E ratio is high, it can be an indicator that the stock is overpriced.
- Keep an eye on the company's competitive advantage. If others have come up with a new product or technology, they can take their market share.
- If the company makes a drastic change in direction or management, it may indicate a problem with their business model. Research the changes and follow your instincts about the company's future.
- If a company's sales are falling, it may be signaling a problem. While all companies will go through slumps, if other competitors are experiencing growth during the same time period, it may be time to sell.
- When there is a trend of shrinking profits, it means the company's expenses are rising faster than their revenues, and they are having a hard time keeping profits up.
- If a company cuts its dividend payment, it may be a signal they are expecting lower earnings and less growth. ○○○

ing a home has significant tax advantages. Mortgage interest and property taxes can be deducted on your tax return. Mortgage interest is deductible on up to \$750,000 of home debt (\$1,000,000 if the mortgage existed on December 15, 2017). When you sell your home, you can exclude up to \$250,000 of gain if you are a single taxpayer

and up to \$500,000 of gain if you are married filing jointly, provided the home was your primary residence in at least two of the preceding five years. You no longer have to purchase another home for the exclusion.

If you'd like to review other options, please call. ○○○

## RETIREMENT INVESTING

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to make sure you understand both the risks and the rewards of various types of investments and how they fit in your portfolio. Here are the retirement vehicles to consider:

- **401(K) PLANS AND ROTH 401(K) PLANS** are employer-sponsored plans that offer tax advantages, and in many cases, matching contributions from your employer.
- **A TRADITIONAL IRA** is a retirement savings account that allows you to invest with pretax income and grows tax deferred until you take distributions.
- **A ROTH IRA** is also a retirement savings account allowing you to invest with after-tax money, and then qualified distributions can be withdrawn tax free.
- **A SEP** is a plan for self-employed people where investments are immediately 100% vested.
- **A SIMPLE IRA** is a retirement plan for small businesses with fewer than 100 employees.

### START INVESTING EARLY

The sooner you start investing for your retirement, the greater chance you have of building a significant portfolio. Time is your friend when it comes to investing because you have many years to invest, you have time to rebound from losses, and most importantly, you have the power of compounding.

For example, let's say you are 20 years old and make a \$10,000 investment that grows at 5% per year until you retire at 65 years of age. If you reinvest your gains, your investment will be worth almost \$90,000. If you invested the same amount of money at age 40 assuming the same growth rate, your investment would be worth about \$21,000. This is a simple example, but it illustrates that the longer you have to invest, the more money you could have at retirement.

If you are younger, you should consider higher-risk investments,

such as stocks, because of the potential for higher returns. You will also have a longer period of time to recover from any losses.

### KNOW YOUR NUMBERS

To make good financial decisions, you need to know where you stand financially, and also where you need to be by retirement. You should regularly calculate your net worth, which is the difference between your assets and your liabilities. Your assets should include cash, investments, property and personal property, such as jewelry, art, cars, etc. Liabilities include the debt you owe, such as mortgages, auto loans, credit cards, student loans, and medical bills. Once you understand your financial position, it will help you determine what you will need to do to reach your retirement goals.

### SET GOALS

When setting goals for your retirement, you'll want to be as specific as possible so you can measure your progress. Examples of goals include:

- I want to retire at 65 years of age.
- I want to take one large vacation per year.
- I want to move to a smaller home by the time I am 60 years old.
- I will need \$50,000 per year to cover bills and expenses.
- I will need \$1,000,000 to cover 20 years of retirement.

You should review your goals on a regular basis, because they may change over time as your life takes twists and turns and your financial

situation changes.

### DON'T LET EMOTIONS RULE

Emotions are probably the biggest nemesis to investing. When your investments are doing well, you may become greedy and underestimate risks. When your investments perform poorly, fear may cause you to pull out of the market so you can't take advantage of any recovery.

It is important to keep your emotions under control during periods of volatility so you can make good decisions and rebound from losses. Try to maintain a balanced portfolio that will better weather both the ups and downs of the market.

### READ THE FINE PRINT

Make sure you understand the fees associated with your investment and retirement accounts, including transaction fees, expense ratios, administrative fees, and loads. Your account statements will show the fees you are paying and the prospectus for the funds you own will show information on expense ratios. While a prospectus is not necessarily a fun read, you should take the time to review it carefully because it provides a lot of important information about your investments.

### ADMIT WHEN YOU NEED HELP

Investing is not easy. Don't take risks with your retirement by not seeking help when you need it. Please call if you'd like to discuss this in more detail. ○○○



## FINANCIAL DATA

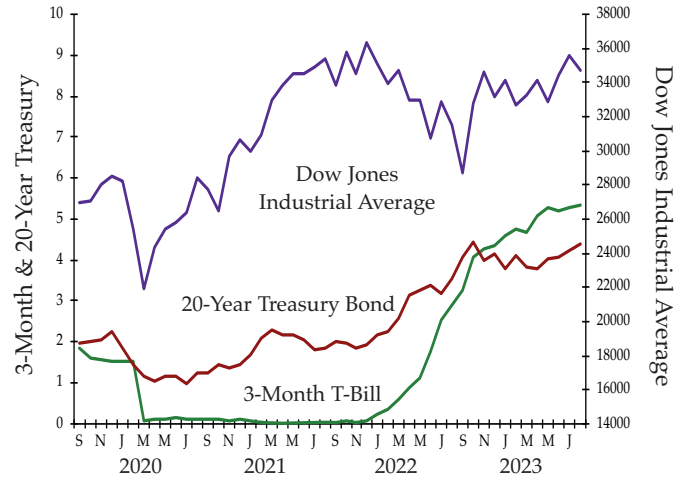
Indicator	Month-end				
	Jun-23	Jul-23	Aug-23	Dec-22	Aug-22
Prime rate	8.25	8.50	8.50	7.50	5.50
Money market rate	0.54	0.56	0.57	0.33	0.15
3-month T-bill yield	5.18	5.28	5.34	4.35	2.88
10-year T-bond yield	3.81	3.97	4.09	3.88	3.15
20-year T-bond yield	4.06	4.22	4.39	4.14	3.53
Dow Jones Corp.	5.54	5.54	5.78	5.54	4.76
30-year fixed mortgage	7.24	7.38	7.66	6.80	6.03
GDP (adj. annual rate)#	+2.60	+2.00	+2.40	+2.60	-0.60

Indicator	Month-end			% Change	
	Jun-23	Jul-23	Aug-23	YTD	12-Mon.
Dow Jones Industrials	34407.60	35559.53	34721.91	4.8%	10.2%
Standard & Poor's 500	4450.38	4588.96	4507.66	17.4%	14.0%
Nasdaq Composite	13787.92	14346.02	14034.97	34.4%	18.8%
Gold	1912.25	1970.65	1942.30	7.2%	13.2%
Consumer price index@	304.13	305.11	305.69	2.7%	3.2%
Unemployment rate@	3.70	3.60	3.50	-5.4%	0.0%

# — 4th, 1st, 2nd quarter @ — May, Jun, Jul Sources: *Barron's*, *Wall Street Journal*

## 4-YEAR SUMMARY OF DOW JONES INDUSTRIAL AVERAGE, 3-MONTH T-BILL & 20-YEAR TREASURY BOND YIELD

SEPTEMBER 2019 TO AUGUST 2023



Past performance is not a guarantee of future results.

## NEWS AND ANNOUNCEMENTS

### PLANNING YEAR ROUND

Many people confuse tax planning with tax preparation and only think about the subject when preparing their annual tax return. However, there is little you can do to actually lower your tax bill when preparing your return. If your goal is to reduce income taxes, you need to be aware of tax planning opportunities throughout the year.

Take time early in the year, perhaps as part of the tax preparation process, to assess your tax situation, looking for ways to reduce your tax bill. Consider a host of items, such as the types of debt you owe, how you're saving for retirement and college, which investments you own, and what tax-deductible expenses you incur. It often helps to discuss these items with a professional who can review

strategies you might not have considered.

During the year, consider the tax consequences before making important financial decisions. This will prevent you from finding out later that there was a better way to handle the transaction for tax purposes.

Look at your tax situation again in the fall, which gives you plenty of time before year-end to implement any additional tax planning strategies. At that point, you'll also have a better idea of your expected income and expenses for the year. You may then want to use strategies you hadn't considered earlier in the year, such as selling investments at a loss to offset capital gains.

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