ALBITZ/MILOE & ASSOCIATES, INC.

REGISTERED INVESTMENT ADVISER

FINANCIAL NEWSLETTER

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SPRING 2022

THE CRYSTAL BALL

We need to play the hand we have been dealt. The year 2022 has started in a most undesirable manner. Economically, inflation is the highest it's been in forty years and interest rates are on the rise. A misstep here, a policy error there, and the next thing you know, we are in a recession. Geopolitically, war rages on in Ukraine, anxiety of an affiliation between China and Russia runs rampant, and the fear of WWIII has forced itself into everyone's consciousness. In addition, there are countless other uncertainties ranging from Covid outbreaks to food shortages to skyrocketing fuel costs. We all know the markets don't like uncertainty, so it is no surprise we are seeing incredible volatility in all things financial. The path forward is not obvious and will likely take many detours before we reach a stable destination.

What to do now? That's a tough call because the cards we've been dealt don't look like they will provide a winning hand, and we are in no position to bluff. The first thing we must do is recognize the situation. Unintended consequences of government actions via sanctions and pronouncements are a major concern. Things can get messy. However, recognize what can go wrong, but realize that just because it can happen doesn't mean it will happen. Things can go right, too. Of course, having a plan B in any case is a wise choice.

What about stocks? We've been in a stealth Bear market for six months. At one time recently, over ½ the companies in the S&P 500 were down over 20%. Many companies have fallen in price by 50% to 60%. Does this massive crash in prices create opportunity? Sure it does, but not across the board. Plenty of these companies will never come close to the heights they achieved during the bull run of mid-2020 to mid-2021. Most likely, most won't. Yet quality companies, with strong balance sheets, profitability now, good products, and strong management will likely be the winners in the future. That is where you want to be positioned.

Many call for investment in commodities. Various commodity prices have skyrocketed well above their production cost levels. Historically commodity prices will invariably revert to the mean. In this case the mean is the cost of production. The higher the prices go, the more will be produced, but consumption won't necessarily increase, thus causing the reversion and lower prices. Of course, the baseline production costs have increased. Still, don't fall into the mindset that investment in commodities is a sure thing because it's not.

And bonds? Another tough call…the Fed is in a box, choosing to raise interest rates (causing bond prices to fall), yet not raising them too high to cause a recession. Or maybe that is going to be the plan: to zap the inflation genie back into the bottle? We'll see soon enough if Jerome Powell channels his inner Paul Volker. We see bonds as a ballast but not as a means to grow wealth. In fact, bonds have been lousy investments thus far in 2022. Tread cautiously here and in the near future.

Bottom Line…this is going to be a tough year in the investment arena. In this kind of year, just when you think things are settling down, and we are out of the woods, something out of left field hits the headlines. Those who panic will lose. Those who don't panic will still see valuation volatility in their portfolios but will recognize that this is the price we must pay to get investment returns over and above taxes and inflation. Don't believe anyone who tells you in a loud voice that they know what the future holds. No one does. And lastly, no matter what you hear, never bet on the end of the world, because even if you are right, who are you going to collect from?

BE SURE TO READ ABOUT CLETE, CFA® ON THE LAST PAGE…

Overheard: ***"Last year I joined a support group for procrastinators. We haven't met yet."***

CA BUSINESS OWNERS WITH 5 OR MORE EMPLOYEES: *CALSAVERS DEADLINE IS JUNE 30TH!*

Since 2020, we have been sharing information about the CalSavers program and the mandates it imposes on businesses within California. CalSavers was established to provide a retirement savings program for workers in the private sector. When CalSavers was created, CA also set a mandate for all employers to offer a plan. For those with 25 or more employees, the deadline passed in June 2021. As of June 30, 2022, the bar is significantly lower, and any business with 5 or more employees must offer a retirement plan. Businesses can comply with the mandate by offering a plan of their choice (like an IRA, SIMPLE, SEP, 401(k), etc.) or by using the CalSavers plan offered via the state of CA.

As part of the mandate, businesses must register with CalSavers using their Federal ID Number (EIN or TIN) and their CalSavers Access Code. The Access Code required for enrollment will be sent by CalSavers via the mail, or one can be requested in advance directly from CalSavers. Visit this site for more information: https://employer.calsavers.com/home.html

On the CalSavers website, businesses can either claim an exemption (by having an existing plan) or start the process of utilizing the plan offered by CalSavers. Failure to comply can result in penalties of $250/employee up to 90-days out from receiving a notification of non-compliance, and that fine increases to $500/employee if your business remains non-compliant after 180 days from being notified.

In many cases, a traditional employer-sponsored plan may provide more robust benefits and unique plan design options with more appeal for employees versus the plan from CalSavers. The CalSavers plan is simply an employer-sponsored Roth IRA. The CalSavers plan, like all Roth IRAs, has income limitations that can restrict the ability of some employees to make contributions to the plan.

For those using the CalSavers plan, it requires the employer to provide employee census data and “opt in” each employee for automatic enrollment. CalSavers then notifies each employee and provides them with an option to “opt out,” but if an employee fails to, contributions will automatically begin (even if they’re not eligible to make a Roth contribution). As the employer, you must remit all contributions to the plan on a per payroll basis. The FAQ page from CalSavers has more information.

If you have questions, we have the resources and expertise to help. Give us a call.

[A Roth IRA offers tax-free withdrawals of after-tax contributions, but contribution limitations and tax penalties for early distributions may still apply. For complete details, consult with your tax or legal advisor.]

SOCIAL SECURITY BENEFITS ARE BECOMING TAXABLE FOR HIGHER PERCENTAGE OF U.S. HOUSEHOLDS

If your combined income exceeds certain thresholds, Social Security Benefits are taxable at the federal level. Some states (Colorado, Connecticut, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, Rhode Island, Utah, Vermont, and West Virginia) may also tax your benefits. The dollar thresholds at the federal level where this tax applies have not been adjusted for inflation since 1993, gradually increasing the percentage of U.S. households subject to taxes on their benefits.

The determination of whether your benefits are taxed is based on what is termed “combined income”. Combined income is your adjusted gross income, plus nontaxable interest, plus ½ of your Social Security benefits.

If you file as an individual in 2022, and have combined income between $25,000 and $34,000, 50% of your benefits may be taxable. If your combined income is above $34,000, 85% of your benefits may be taxable.

If you file a joint return in 2022, and have combined income between $32,000 and $44,000, 50% of your benefits may be taxable. If your combined joint income is above $44,000, 85% of your benefits may be taxable.

If you fall near one of these thresholds, it is important for you to manage your sources of income to ensure you do not slightly eclipse one of the thresholds inadvertently causing your Social Security Benefits to go from being tax-free to 50% or 85% of your benefits being taxed. For example, taking a distribution from an IRA will increase your adjusted gross income, potentially causing more of your benefits to be taxed, whereas a distribution from a taxable account, or Roth IRA, will not increase your adjusted gross income. An ill-timed capital gain or Roth IRA conversion could also push you beyond this threshold.

For those who have retired, and have not yet filed for Social Security benefits, considering Roth IRA conversions in low-income years is a great way to build up a tax-free income source. This type of account provides flexibility for better management of the taxability of your Social Security benefits as well as enhanced overall tax bracket management. Until the thresholds are adjusted for inflation, Social Security benefits will become increasingly likely to be taxed in more U.S. households. Be aware.

New Rules for RMDs

As we proceed into 2022, note there have been changes to the Required Minimum Distribution (RMD) rules affecting what you may be required to withdraw from your retirement accounts each year. RMDs had a prior change that pushed the start date out to age 72 (from 70 ½). If you are age 72, or will attain age 72 during the year, you will need to take an RMD for that tax year. There is a realistic chance that the RMD age may increase further up to age 75. We'll see if it occurs.

One major change in 2022 is that the tables published by the IRS to determine RMDs were updated and now extend life expectancy to age 120. The material effect of the new tables is a decrease in the RMD. The tables to be used are found in IRS Publication 590-B, but, ironically, the IRS has not updated that publication as of this writing. The tables are available via other sources, so be sure to find the current table or check with your advisor prior to moving on your RMD to ensure the distribution calculation is correct. Our experience is that most financial custodians have implemented the new tables.

If you have an Inherited IRA account that you received prior to January 1, 2022, and are not the spouse of the deceased IRA owner, then you must recalculate your RMDs this year. For those using the Single Life Table, you must do a one-time "reset" on your calculation. Here, you need to go back to the year following the year of the owner's death and find your life expectancy within the new table (not the deceased's life expectancy). You then need to subtract 1 year from the updated life expectancy for every year since the initial distribution (RMD) to get to the proper divisor (factor) for 2022 and beyond. If you're in this scenario, be sure to work closely with your advisors (tax and financial) to ensure this is done correctly.

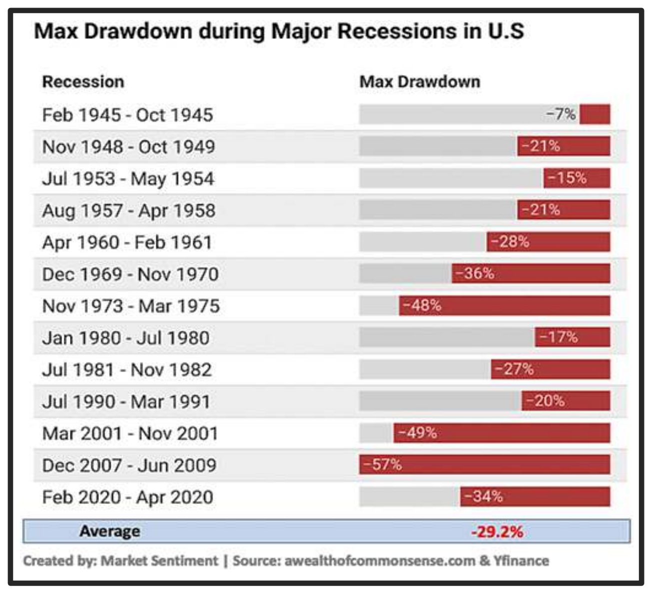
Changes to available deductions this year have enhanced the tax advantages of making Qualified Charitable Distributions (QCDs). QCDs allow those over 70½ or with RMDs on IRAs to gift those funds to a qualified charity and avoid taxation on the income otherwise received. In 2022, the ability to claim a $300 (individual) or $600 (married) tax deduction on your return for those who don't itemize was eliminated. That was a one-off deduction available in 2021. Likewise, in 2022, you can now only claim a deduction up to 60% of your Adjusted Gross Income (AGI) if you itemize (2021 permitted 100% of AGI). With these changes in place, the value of making a QCD has increased as the tax savings on the gifted funds can offset the lost deductions. QCDs are another area that require careful planning and should involve your advisors.

In Case You Ever Get Lost…

If you are ever lost in the woods,
start talking to yourself about politics.
Soon, someone will show up to argue with you.

HERE'S WHAT THE STOCK MARKET AS MEASURED BY THE S&P 500 LOOKS LIKE IN A RECESSION*

*A recession is defined as a fall in gross domestic product (GDP) for two successive quarters. GDP is a broad measure of economic production and is a good scorecard for economic health. The obvious worry is this: If the Federal Reserve raises interest rates too fast and too far, it could put the country in recession. Stock and bond prices could fall, leading to economic malaise and falling asset prices. While not many people want to see a recession, it is not an uncommon occurrence. On average, they last about 11 months. The bottom line is that the business cycle has not been repealed. So, if we get a slowdown in the economy, history tells us that it is unlikely to be a long term disaster. It won't be pleasant, but we've always survived.



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PERSONAL NOTES

Double O – Stay strong…take it a day at a time.

Sue V. – We go back a long way…it's always good to hear your voice.

Neil N. – I have to get that lemon meringue pie to you this year.

Joyce S. – What a great spirit you have; always kind and upbeat.

CONGRATULATIONS, CLETE, CFA®

This is a big deal. Clete Albitz recently earned the prestigious **Chartered Financial Analyst®** (CFA) designation. CFA® is a globally recognized professional designation given by the CFA Institute, which measures and certifies the competence and integrity of financial analysts. To earn the title of CFA®, candidates are required to pass three levels of exams covering areas, such as accounting, economics, ethics, money management, and security analysis.

The CFA® charter is one of the most respected designations in finance and is widely considered to be the gold standard in the field of investment analysis. Passing the CFA® Program exams require discipline and a wide-ranging amount of study time (estimated 300 hours for each of the three levels). Historically, the pass rates on each exam have been below 50%, making this series of tests one of the most difficult sets of financial certifications. In 2020, there were approximately 167,000 CFA® charterholders worldwide in 164 countries and regions. It's an honor to have a Chartered Financial Analyst® at our firm.

A STORY

A man was walking down a country road when he heard a voice coming from behind a tree…but all he could see was a horse.

"Hello, remember me?" the voice asked. "I won the Kentucky Derby two years go."

"A talking horse!" the man exclaimed, so he rushed to a nearby field where the farmer was working and asked, "What would you take for the talking horse?"

"That darned horse is no good; you can have him for 20 dollars."

Twenty dollars! I'll give you $2,000."

The farmer replied, "Has that old haybag been giving you the baloney about winning the Kentucky Derby? Listen, I happen to know for a fact that he came in dead last."

Phil's Opinions and Judgments…

On What to Believe…

Everybody makes mistakes, and government officials aren't excluded from this harsh reality. However, wouldn't it be great if when an error in judgment was made or a decision which in hindsight didn't work, they would just admit it, explain how they were going to fix it and move forward? I'd sure respect that. This quote attributed to Friedrich Nietzsche sums it up: "It's not that you lied to me, but that I no longer believe you, and that has shaken me."

On the Baseball Strike…

There is too much money involved for that work stoppage to have continued. No big surprise that each side gave in a little to settle. We'll see how the fans react. My guess is by early May, the only strike they'll remember is a called third strike on a knee-high fastball that painted the corner and ended the game.

On the Upcoming Midterms…

It has been said, "The party that controls the chamber controls the agenda." Historically, the party of the incumbent president tends to lose ground during midterm elections. We'll know soon enough whether past is prologue. No matter what, it sure would be nice if we could see a higher degree of bipartisanship between the parties on important issues in the future. Wishful thinking? Probably.

On Music…

If you get a chance, check out Bettye Swann's rendition of "Then You Can Tell Me Goodbye." The 60's hit written by John Loudermilk and performed by the Casinos in 1967 was terrific, but Bettye makes the song even cooler and more soulful. There is a lot of good music out there for all of us to find. Keep listening and if you come across something good, please share.

Until next time,

Phil Paul Clete Vance Sylvia