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REGISTERED INVESTMENT ADVISER

FINANCIAL NEWSLETTER

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SPRING 2026

THE CRYSTAL BALL

Purportedly, Vladimir Lenin, the Russian revolutionary, made this statement: "There are decades where nothing happens; and there are weeks where decades happen." Add to that Bob Dylan's verse, "there is something happening here, but you don't know what it is, do you Mr. Jones?" Doesn't this time in history make you feel like it's déjà vu all over again?



Right now, it appears that we are at inflection points on so many issues. We are speaking only of financial issues (not the human toll from any war). The economy is slowing but inflation persists...a paradox for the Federal Reserve regarding what to do with interest rates. If they raise rates, it will hurt the economy; if they don't, inflation may get out of hand.

Oil prices seem to be the sole concern of the stock market, jumping ahead of the previous worry of AI spending and its effect on taking over the world. If anyone tells you how this latest Middle East war will turn out, tune them out as no one can know. Unintended consequences of this conflict include food shortages due to fertilizer scarcities, jet fuel price increase causing large surges in air transportation costs, and a global recession possibility, just to name a few. Even after the fighting stops (hopefully sooner rather than later), things will take a while to unwind. We can't get too complacent in the event of a ceasefire.

That said, it doesn't mean that everything that can go wrong will go wrong. We've seen this movie before where a pessimistic mindset which scares and intimidates everybody turns out to be totally mistaken. Sure, pessimism sounds profound and optimism sounds superficial, but managing your money while constantly worried about what might occur will leave an investor out of the market all of the time because there is always something for which to be nervous.

Here's what we see. None of what is going on now is good for stock indexes. While many of the pundits still see double digit positive moves for all of 2026, it is wise to invest in the market we have instead of the market we want. The chances are now higher than they were at the beginning of the year that we will have a recession in 2026. But just because they are higher doesn't mean it will happen. A surge in oil prices has generally occurred prior to economic slowdowns. If these slowdowns turn into recession, the stock market won't benefit. At the time of writing, the indexes are in a corrective mode, and many experts are saying a bear market is around the corner. Maybe they are right. If they are and you are worried, you should build up "sleep-at-night" money in your portfolio. But what if oil prices come down from the \$100/barrel they are flirting with currently? The market will respond.

The conflict in the Middle East may have been the accelerant to move stock markets down to a level to which they were heading already. Remember that the past three years have provided excellent investment results. Time for a breather. Sometimes it's best to just "sit on your hands" until things reveal themselves. We think that this is one of those times.

POINTS OF VIEW

A pessimist is someone who complains about noise when opportunity knocks.

Michael Levine

An optimist is a man who starts a crossword puzzle with a fountain pen.

Anonymous

PAYING TOO MUCH FOR MEDICARE?

IRMAA AND THE FORM MOST RETIREES DON'T KNOW ABOUT

If you're a higher-income retiree, you may already know that Medicare charges you more. What many people don't realize is that there's a straightforward way to reduce those surcharges if your financial situation has changed.

What Is IRMAA?

IRMAA stands for Income-Related Monthly Adjustment Amount. It's a surcharge added to your Medicare Part B and Part D premiums when your Modified Adjusted Gross Income (MAGI) exceeds certain thresholds. For 2026, those thresholds are \$109,000 for single filers and \$218,000 for married couples filing jointly. The surcharges range from roughly \$1,150 to nearly \$6,940 per person, per year. The catch: IRMAA is based on a two-year lookback. Your 2026 surcharge is determined by your 2024 tax return. That means if you retired in 2025 but earned a full salary in 2024, Medicare is still billing you as if you're a high earner.

Form SSA-44: The Life-Changing Event Appeal

This is where Form SSA-44 comes in. Officially titled the "Medicare Income-Related Monthly Adjustment Amount – Life-Changing Event" form, it allows you to ask Social Security to recalculate your IRMAA using your current, lower income instead of the outdated figure from two years ago. Qualifying life-changing events include retirement or work stoppage, reduction in work hours, marriage, divorce or annulment, death of a spouse, loss of income-producing property, and loss or reduction of pension income. You'll need to provide documentation of the event (such as an employer separation letter or death certificate) along with evidence of your reduced income. If approved, the adjustment applies retroactively for the current year, and any excess premiums already paid are refunded.

The Bottom Line

If your income has dropped significantly due to a major life event but your Medicare premiums haven't caught up, don't wait for the two-year lookback to correct itself. Filing Form SSA-44 can eliminate or reduce the surcharge and result in a refund of any excess premiums already paid. If you'd like help determining whether this applies to your situation, we're happy to walk you through it.

(Data sourced from medicare.gov)

LOANS VS GIFTS WHEN IT COMES TO THE FAMILY

Currently, there is a bifurcated reality for first-time homebuyers: while some can purchase independently, many face upfront capital constraints that make parental assistance essential. Whether structured as a gift or a loan, this support must be treated as a formal financial transaction. Poor execution can create unintended tax consequences or jeopardize mortgage approval. Here are some things to consider:

Route 1: The Outright Gift

When funds are provided with no expectation of repayment, IRS offers specific exemptions for tax-free transfers:

- **2026 Annual Exclusion:** Individuals may gift up to \$19,000 per recipient annually without tax consequences. Married parents can combine their exclusions to gift \$38,000 to a child. If the child is married, that amount increases to \$76,000 per couple without IRS reporting.
- **Exceeding the Limit:** Amounts above these thresholds typically do not trigger out-of-pocket taxes. Instead, the excess is simply reported on IRS Form 709 and applied against your \$15 million lifetime exemption (2026 limit).
- **Gift Letter Requirement:** Mortgage lenders require a signed "Gift Letter" legally certifying that the funds are a gift and repayment is not required.

Route 2: The Formal Family Loan

If repayment is expected, the arrangement must be structured as a bona fide loan. Lending money on a "handshake" or 0% interest risks IRS reclassification as a "disguised" taxable gift. To help comply:

- **Charge Minimum Interest:** Apply the IRS Applicable Federal Rate (AFR), which is generally much lower than traditional mortgage rates.
- **Execute a Promissory Note:** Clearly document loan terms, including principal, interest rate, repayment schedule, and default provisions.
- **Secure the Loan:** Recording a lien helps protect the lender and may allow the borrower to deduct interest, subject to tax rules.
- **Report Interest Income:** Any interest received by the parents must be reported as taxable income.

In summary, parental assistance can be a powerful tool in helping first-time buyers enter the market—but only if structured correctly. Proper documentation and adherence to IRS guidelines are essential to help protect both parties and to better ensure a smooth closing process.

(Data sourced from IRS.gov)

GIVE YOUR CHILD A HEADSTART ON RETIREMENT SAVINGS

Earlier this year, we posted an article on our website about the upcoming Trump Accounts for children. That post provided information on how these new accounts will work and how they compare to a traditional UTMA (custodial) account. Here, we'll look at a means to use the Trump Accounts to your child's advantage via a maximization technique.

While children born between January 1, 2025, and December 31, 2028, can qualify for the free, \$1,000 seed funding in a Trump Account, parents (or family) may want to consider funding the account as well. The \$1,000 from the government and any contributions made by an employer would be done with pre-tax dollars, and additional funding (subject to a \$5,000 cap) is made with after-tax dollars. That \$5,000 limit is not offset by the \$1,000 seed funding. Since Trump Accounts can be opened for any child under 18, this provides a new and unique opportunity for all children.

With outside funding to a Trump Account made with after-tax dollars, there will be non-taxable basis built up within the account (similar to a non-deductible IRA). Whereas an IRA or Roth IRA would require the child to have earned income to establish and continue to fund the account, the Trump Accounts do not. Now, parents (or family) can help



fund a form of retirement savings very early on and give the child a huge head start on their future savings. If the plan is maximized at \$5,000 for say 15 years, that would be \$75,000 the child would have for retirement savings before they've reached adulthood. If held to age 65, the future value of that \$75,000 head start could be significant. Not requiring the child to have earned income is a big plus to these new accounts.

Funding the \$5,000 of after-tax dollars through age 18 is something to consider for any child as we rarely see investors having over-saved for retirement. However, there are many important considerations. These include saving directly for college, having a custodial account (like UTMAs) and cash reserves, and the unique way Trump Accounts are taxed.

While any after-tax funds would be non-taxable upon distribution from a Trump Account, the earnings

. . . . (continued in right column)

are taxed as ordinary income. After age 18, the full Trump Account could be converted to a Roth IRA, but that would trigger taxation of all the earnings and any other pre-tax funds.

Partial conversions are also permitted, and those would be taxed on a pro-rata basis. After reaching age 18, and if the young adult is in a low tax bracket, converting to the Roth could further maximize their future retirement benefits (even after paying tax upon conversion). If you want to give a child a huge headstart on retirement, this new opportunity may be a great tool. We're here to help, so please let us know of any questions. If you'd like to learn more about Trump Accounts and to register to open one, visit: <https://www.trumpaccounts.gov>.

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HOW TO CHOOSE A SUCCESSOR TRUSTEE

When drafting a living trust, selecting a successor trustee is one of the most frequently underestimated decisions in estate planning. While trusts are important tools for wealth transfer, their success often depends on the individuals responsible for managing them. The successor trustee has a fiduciary responsibility to administer and settle the trust after the death or incapacity of the creator.

Successor trustees should understand that they are required to act in the best interest of the trust beneficiaries. To avoid potential conflicts, it is advisable to detail the duties of the trustee within the trust document. Additionally, some education can help ensure that the successor trustee understands and accepts their responsibilities.

Legal intervention is sometimes required when successor trustees are family members who are unable to be objective in their decisions regarding beneficiaries who disagree with the grantor's intentions. Parents who anticipate the possibility of conflict among their children might consider appointing an objective third-party or institution to serve as successor trustee.

Choosing the right trustee is not only a procedural step, but also a strategic decision that shapes the future of a trust. The ideal trustee combines competence, integrity, availability and understanding of the grantor's intent. By evaluating these factors carefully and seeking professional guidance from a competent estate planning attorney, individuals can help ensure that their trust fulfills its intended purpose, potentially for generations to come.

A STORY

There are several men in a locker room of a private club after a round of golf. Suddenly a cell phone lying on one of the benches rings. A man picks it up and the following conversation ensues: "Hello, honey, it's me. Are you at the club?" "Yes" he replies. "That's great, I'm at the mall I saw a beautiful mink coat. It's absolutely gorgeous, can I buy it?" "How much is it, honey?" "It's only \$6,000!" "OK, go ahead and get it if you like it that much." "Thanks! I also stopped by the Cadillac dealership and saw the latest models. The salesman gave me a really good price on a trade-in for our current car. You will just love it, sweetheart!" "How much is the new Caddie going to cost?" "Only \$125,000." "OK, but for that price I want it with all the options." "Of course, but before I go there's something else." "What is it sweetheart?" "I stopped by the real estate office and saw the house we looked at last year with the pool, an acre of English gardens, and views of the beach and now it's for sale!" "Wow, how much are they asking?" "It's just \$3,000,000! What do you think?" "I think we should buy it. It sounds like a fantastic deal. Go in and make an offer." "Thank you, sweetheart. I love you so much." "Love you too." Then the man hangs up the phone, and asks all those who are present, "So does anybody know who this phone belongs to?"

PERSONAL NOTES

Alan A. – Your insights into the real estate market have always been valued.

Colette S. – It is so great to work with you over the many years.

Nanci L. – Your photos are fantastic! Keep up that great work.

Dan and Colleen S. – We go back a ways, don't we?! We enjoy working with you.

Phil's Opinions And Judgments...



On The Potential California Wealth Tax...

I think the likelihood of this passing is small, but if it does pass, I believe that we need to recognize that this type of tax aimed at a certain class of people might create a slippery tax slope that one day might hit the middle class right in their pocketbook.

On Elections...

Here's a question: If Congress has a 14% approval rating, why is it that 95% of incumbents are re-elected? If anyone has an answer to this paradox, I'm all ears.

On The World Baseball Classic...

Of course, I was rooting for the USA to win the title. However, Venezuela beat the USA in the championship game by a score of 3 - 2. Seeing the excitement, joy, and happiness that the Venezuelan players exhibited after their victory made me smile and it took away any disappointment I had from seeing the USA lose. That's baseball.

On Market Gurus...

Anyone who calls himself a market guru does so because he can't spell "charlatan".

On Music...

This song came out in 2004. I would be willing to bet you've never heard it or heard of it. I would also say that I can't think of any song that has moved me more. I get a chill every time I listen to it. It's called "Baseball" and it is by Sam Baker. It's not about baseball.

Until next time,


Phil Paul Clete Vance Sylvia

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