



THE RETIREMENT PLANNERS



SECOND QUARTER NEWS LETTER

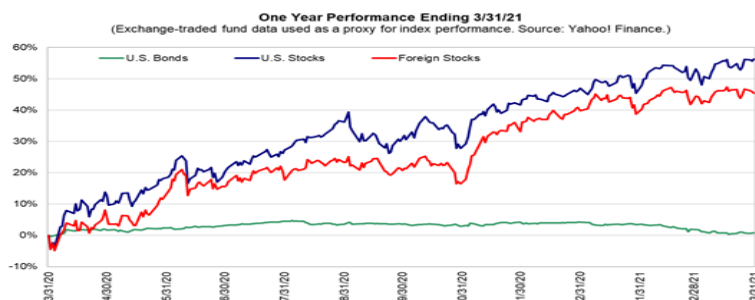
FINANCIAL TOPICS

ADDRESSING THE NEEDS OF INDIVIDUAL INVESTOR AND PLANTING THE SEEDS FOR A SECURE FUTURE

MARKET WATCH

The sun is shining, the birds are happy and everywhere we look our eyes delight in the new leaves and unfolding flowers, Happy Springtime 2021! Somehow this spring seems especially sweet as we get closer to the end of this tough time of the pandemic. And we're all looking forward to a better world as the vaccinations become widespread and the number of new cases fall.

In addition to the seasonal growth and the longer days of spring there seem to be green shoots wherever we look in the markets and economy. Granted there was some pruning in a few areas with tech stocks trimmed a bit and bonds of all kinds trimmed back as rates increased. Overall though we've seen continued strong growth in the equity markets and good things happening economically as more sectors open up and more folks go back to work.



As surprising as the reach and scope of the economic pain from the pandemic has been the market reaction. A sharp selloff in the spring turned into a robust rebound in share prices as investors lifted their attention from the all too grim present and began to concentrate on the shape of the future. If there was ever a compelling set of events to use as caution against trying to time the market this year provided just that. Folks that tried to sell on the way down were confounded by the sheer velocity of the downturn and those that sold in March missed an awful lot of gains before events would lead them to feel comfortable enough to re-enter the market.

As is our tradition for this time of year, we will take a couple of pages to give you a blow-by-blow of the major asset classes in your portfolio; what they have done, what we anticipate going forward, and how we have approached each. Whether you are a long-time client or a recent addition to our extended client family, we hope you will find this helpful.

Bonds

Taking a page from their playbook during the Global Financial Crisis over a decade ago, the U.S. Federal Reserve decided to again engage in maximum monetary accommodation in an effort to stem economic damage caused by the Covid-19 pandemic and help with an eventual recovery. This took short-term interest rates down to zero and kept the bond-buying program in place to restrain long-term rates as well. The bellwether 10-year treasury note yield fell from 1.9% at the year-end 2019, to just under 1.0% by the end of this year. Despite starting with already-low yields in relative terms, this further decline in yields and tightening of interest rate spreads for corporate bonds resulted in strong total returns for most portions of the fixed income market.

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Stocks can more easily tolerate higher interest rates if the reason for the higher rates has to do with increased economic growth. Stand-alone inflation in an otherwise stagnant economy is very different from modest inflation that might occur during a period of rapid economic growth and growing corporate profits. Remember, the most important component of valuing a stock or stock market is the projected growth in profits for the company or for the market as a whole. In this way the stimulus measures, along with the natural rebound from the declining effects of the pandemic, have brought cheerful prospects of significant growth in the economy and the potential for a rising tide that will lift most boats. That has seemingly allowed stock investors to discount higher interest rates and instead look to earnings estimates that have been upgraded as the economy improves.

There are concerns about overall market valuations. Stocks are trading at higher-than-normal prices when measured against future earnings estimates. As we've mentioned before there are a couple ways that markets can deal with this. The first is a good old-fashioned selloff that brings valuation down to a level folks can feel comfortable with. The second, though less dramatic, can also be effective. Share prices can either move sideways or grow more slowly as corporate earnings catch up with current valuations.



So far this year the latter scenario has seemed to play out. According to information compiled by The Daily Shot from Bloomberg data, the last couple year's price movement in equities has mostly come from "multiple expansion", the willingness of investors to pay a higher price for a dollar of earnings. So far this year though, the increase in prices has mostly come from upgrades to earnings estimates as the stronger economic expectations translate into an improved earnings outlook. It seems somewhat safe to assume a significant recovery in the economy from here.

We've come a long way, but we have quite some ways to go to get back to the level of economic growth and employment enjoyed before the pandemic wreaked its havoc. Just how the various markets will react to the many inputs in play is anyone's guess. We do have a clear idea about the most sensible investment strategy to weather the as yet unknown ups and downs in the future. Staying broadly diversified will continue to be the most effective strategy to both participate in the upside and have meaningful protection against the inevitable market declines along the way.

In addition to overall diversification our investment philosophy includes implementing steps to take advantage of valuation changes in the various asset classes on a relative basis. As growth stocks continue to look a bit expensive relative to value stocks and the broader market we're taking steps to trim back those holdings a bit and gain some additional exposure to value stocks. In addition, we're in the process of making some adjustments to your holdings of international bonds to better align that part of the portfolio and reduce potential volatility.

We're sure glad it's spring, both seasonally and also figuratively, coming after this long pandemic induced winter hunkered down in safe places. We're pleased to see the economy gaining ground and hopeful that the recovery will continue to gain steam and move us back towards the freedoms and opportunity that come with further vaccinations and businesses able to reopen. It has been a long tough slog and we're excited about the prospect of an easier road ahead.

"The worst thing that happens to you may be the best thing for you if you don't let it get the best of you."

Will Rogers



WHO MUST TAKE THE YEAR-OF-DEATH RMD

By Sarah Brenner, JD
The Slot Report

Required minimum distributions (RMDs) were waived for 2020 but they are back now for 2021. This includes the RMD for the year of death of the IRA owner. The rules for this RMD can be tricky. One question that comes up a lot is who must take this RMD.

It is an all-too-common scenario. An IRA owner has passed their required beginning date and is required to take an RMD for the year. However, prior to taking this RMD, the individual dies. Who must take this year-of-death RMD? This is an area of great confusion!

The answer is really pretty straight forward. If the year-of-death RMD was not already taken by the IRA owner, it must be taken by the beneficiary. It is not paid to the IRA owner's estate, unless the estate is named as the beneficiary. Due to the continued confusion on this point, the IRS confirmed this rule in regulations and in Revenue Ruling 2005-36. By law, the minute the IRA owner dies, the balance in the IRA belongs to the beneficiary, NOT the estate.



The estate could have different beneficiaries than those listed on the IRA beneficiary designation form. The fact that the beneficiary does not have to withdraw the entire account the minute after the IRA owner dies does not make the account any less his. The beneficiary will also pay the tax on the year-of-death RMD. It will be reported on the beneficiary's personal tax return (Form 1040), NOT on Form 1041 (the estate's income tax return).

The SECURE Act changed many parts of the RMD rules, but it did not change the rule that requires the beneficiary to take the year-of-death RMD. If the beneficiary is one of the many beneficiaries now subject to the 10-year rule under the SECURE Act, that payout period would apply after the year-of-death RMD is satisfied.




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By Jeff Stimpson
Source: Financial Magazine

Inherited Retirement Accounts Can Lead To Hefty Tax Bills

The Setting Every Community Up for Retirement Enhancement (SECURE) Act has a detail that should concern wealthy clients who want to leave money to special beneficiaries.

According to the act, individuals who are not eligible designated beneficiaries (EDBs) and who inherit a qualified retirement account, such as any type of IRA, must empty the account within 10 years.

“There is no annual withdrawal requirement until the 10th year. With the exception of Roth IRA accounts and Roth 401(k)s, distributions from such accounts are generally all taxable as ordinary income,” said Robert N. Polans, a CPA at Drucker & Scaccetti in Philadelphia. “Delaying these distributions until the last year or last few years to maximize the tax deferral will cause a bunching of income [that] for most people will drive them into a much higher tax bracket.”

There are five categories of individuals who can be EDBs: the owner’s surviving spouse; children of the owner who are younger than 18; disabled individuals; chronically ill individuals; and any others who are not more than 10 years younger than the deceased. Clients especially need to understand the nuances of who’s considered a disabled or chronically ill individual, Polans said.



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