ISSUE
26
April 2021

QUARTERLY JOURNAL

IWM Quarterly

This Issue:

The Emergence of ESG Investing

How generational and societal change is influencing companies and the markets

ESG: what does that acronym stand for? Those three letters stand for "Environmental, Social, and Governance" and signify an investment that has particular merit to investors of all ages.

A recent Morgan Stanley Bank survey found that almost 90% of millennials would prefer to have investments that suit their values. With young adults, ESG investing could become more and more of an element in investing strategies.[1]

You may recall how the phrase "socially responsible investing" became part of the stock market vocabulary a generation ago. Socially responsible investing (SRI) was often about *not* investing in certain companies – businesses….

Retirement Questions That Have Nothing to Do With Money

Think about these factors before you leave work for the last time.

Retirement planning is not entirely financial. Your degree of happiness in your "second act" may depend on some factors that don't come with an obvious price tag. Here are some non-monetary factors to consider as you plan your retirement.

What will you do with your time? Too many people retire without any idea of what their retirement will look like. They leave work, and they cannot figure out what to do with themselves, so they grow restless. It's important to identify what you want your retirement to look like and what you see yourself doing. Maybe you love your career, and can't imagine not working during your retirement. There's no hard and fast rule to your dream retirement, so it's important to be honest with yourself. An EBRI retirement confidence survey shows that almost 74% of retirees plan to work for pay, whereas just 27% of retirees report that they've actually worked for pay.[1]

While this concept doesn't have a monetary value, having a clear vision for your retirement may help you align your financial goals. It's important to remember that your vision for retirement may change—like deciding you don't want to continue working after all.

Where will you live? This is another factor in retirement happiness. If you can surround yourself with family members and friends whose company you enjoy, in a community where you can maintain old friendships and meet new people with similar interests or life experience, that is a definite plus. If all this can transit and senior services, all the better. Moving away from the life you know to a spread-out, car-dependent suburb where anonymity seems more prevalent than community may not be the best decision for you.

How are you preparing to get around in your eighties and nineties? The actuaries at Social Security project that the average life expectancy for men is 84 years old, and the life expectancy for women is 86.5 years. Some will live longer. Say you find yourself in that group. What kind of car would you want to drive at 85 or 90? At what age would you cease driving? Lastly, if you do stop driving, who would you count on to help you go where you want to go and get out in the world?[2]

How will you keep up your home? At 45, you can tackle that bathroom remodel or backyard upgrade yourself. At 75, you will probably outsource projects of that sort, whether or not you stay in your current home. You may want to move out of a single-family home and into a townhome or condo for retirement. Regardless of the size of your retirement residence, you will probably need to fund minor or major repairs, and you may need to find reliable and affordable sources for gardening or landscaping.

- Barbie

...whose products or services seemed distasteful to this or that investor. ESG investing focuses more on corporate behavior. Is a corporation managing natural resources sustainably? Does it treat workers well? Is its culture inclusive and diverse?

Corporate values count, perhaps now more than ever. Today, you have companies pledging to commit to environmentally sustainable practices and leadership initiatives designed to include women and members of minority groups in the C-Suite.

Some corporations now include ESG metrics in financial and annual reports. This is more than a nod to investors; it represents a trend in corporate communication and behavior. One notable ESG metric is CEO pay. Some S&P 500 firms have gotten bad publicity over the last decade for the degree of executive compensation their leaders receive, and investors are watching.

Tax Efficiency in Retirement

What role should taxes play in your investment decisions?

Will you pay higher taxes in retirement? Do you have a 401(k) or a traditional IRA? If so, you will receive income from both after age 72. However, if you have saved and invested much of your life, you may also end up retiring at a higher marginal tax rate than your current one. In fact, the income alone resulting from a Required Minimum Distribution could push you into a higher tax bracket.

While retirees with lower incomes may rely on Social Security as their prime income source, they may pay comparatively less income tax than you in retirement; some, or even all, of their Social Security benefits may not be counted as taxable income.[1]

What's a pre-tax investment? Traditional IRAs and 401(k)s are examples of pre-tax investments. You can put off paying taxes on the contributions you make to these accounts until you start to take distributions. When you take distributions from these accounts, you may owe taxes on the withdrawal. Pre-tax investments are also called tax-deferred investments, as the invested assets can benefit from tax-deferred growth.[2]

Under the SECURE Act, once you reach age 72, you must begin taking required minimum distributions from a traditional IRA, 401(k), and other defined plans in most circumstances. Withdrawals are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. Contributions to a traditional IRA may be fully or partially deductible, depending on your adjusted gross income.

What's an after-tax investment? A Roth IRA is a classic example. When you put money into a Roth IRA, the contribution is made with after-tax dollars. As a trade-off, you may not owe taxes on the withdrawals from that Roth IRA (so long as you have had your Roth IRA at least five years and you are at least 59½ years old). With distributions from a Roth IRA, your total taxable retirement income is not as high as it would be otherwise.[2]

Should you have both a traditional IRA and a Roth IRA? It may seem redundant, but it could help you manage your tax situation. Keep in mind that tax-free and penalty-free withdrawal from a Roth IRA also can be taken under certain other circumstances, such as the owner's death.

Smart moves can help you manage your taxable income and taxable estate. If you're making a charitable gift, giving appreciated securities that you have held for at least a year is one choice to consider. In addition to a potential tax deduction for the fair market value of the asset in the year of the donation, the charity may be able to sell the stock later without triggering capital gains.[3]

Remember, however, that this article is for informational purposes only and is not a replacement for real-life advice, so make sure to consult your tax, legal, and accounting professionals before modifying your charitable giving strategy.

You may give up to $15,000 to as many individuals as you wish without paying federal gift tax, so long as your total gifts keep you within the lifetime estate and gift tax exemption of $11.58 million for the year 2020 and $11.7 million for 2021.[4]

Are you striving for greater tax efficiency? In retirement, it is especially important – and worth a discussion. A few financial adjustments may help you manage your tax liabilities.

- Jim

Should You Consider Refinancing Your Mortgage?

What to consider.

Are you considering refinancing your mortgage? Perhaps you want to shorten the term of your home loan. Maybe you have an adjustable-rate mortgage now and want to refi into a fixed rate. Or maybe you want to tap into home equity or consolidate debt. Whatever your reason(s), you must weigh two questions. One, how long do you want to stay in your home? Two, how much money are you expected to save?

Refinances break down into three types: rate-and-term, cash-out, and cash-in. Rate-and-term refinances (also known as refis) simply adjust the term and/or the interest rate of your existing loan. Even though interest rates are rising now, they still make up the bulk of refinances. The no-cash-out variety adds closing costs to the loan balance, relieving you from having to pay those costs out of pocket.

A cash-out refi gives you an opportunity to tap home equity and pay off your existing mortgage. In a cash-out mortgage, the loan balance on the refinance is at least 5% more than the balance on the original loan. As you just owe the balance of your original loan to the lender, the overage is either paid out as cash at closing or routed to your creditors to help you whittle down other debts.

A cash-in refi is the inverse of a cash-out refi. You bring cash to the closing to lower the outstanding principal of the loan, pursuant to a shorter loan term or a lower interest rate available at lower loan-to-values (LTVs). You may be able to cancel mortgage insurance premium payments as part of the move.

How much will a refi cost? In ballpark terms, the answer is often $2,000-$5,000. In percentage terms, think 3-5% of the loan amount. The price of a refi may be notably cheaper in one state than another, thanks to variations in closing costs. Of course, certain closing costs may be negotiable, like app and processing fees. Sometimes you can save on title searches, title insurance, and inspections by turning to a third party for those services. If your last appraisal was conducted recently, you might be able to negotiate your way out of a new one.[1]

Sometimes you can refinance without an appraisal. The Federal Housing Administration (FHA) and Veterans Administration (VA) offer streamlined refinancing programs to homeowners with existing FHA or VA-backed home loans. The underwriting process is less demanding than it would be otherwise. Besides usually waiving the appraisal, these programs also commonly waive credit score and income verifications.[2]

In some situations, refinancing may not be "the answer." If you are stretching the term of your loan out with a refi, you will carry mortgage debt for years longer than you originally planned, complete with thousands more paid out in interest. If you are using home equity to fund a remodel or upgrades, your home's value may not rise as much as you anticipate from the work. Then there are the little curveballs life throws at us, such as potential job changes and relocations. If you sense you might have to move before you can recapture the closing costs of the refi, is it even worth the trouble to try?

Hopefully, you will be able to lower the interest rate on your loan, shorten its term, or find a way to reduce your monthly payments through refinancing. Online calculators and a conversation with a trusted mortgage professional may help you determine the potential break-even points for a refi and find paths to a home loan more suitable to your needs.

- Shawn

Philosophically, ESG investing asks two questions. An ESG investing proponent's answers may differ significantly from those of an investor uncompelled by the ESG approach.

One, should social responsibility matter more than a company's financials when you are considering an investment? Two, can positive environmental and social news about a corporation influence its stock's value more than its earnings and guidance?

If you want to explore the world of ESG investing, consult your financial professional for the insight and information that can help you identify your choices.

-Mico

Finance Today: What is a SPAC?

- A special purpose acquisitions company is essentially a shell company set up by investors with the sole purpose of raising money through an IPO to eventually acquire another company.
- Due to unknown underlying company, sometimes referred to as "Blank Check Companies"
- Recent companies to go public via a SPAC merger...DKNG, PSTH, SPCE, CCIV)

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Taxes Filed?

Not to Worry!

Due to the impacts of COVID-19, the tax filing deadline has been extended from **April 15th** to **May 17th.**

Be sure to work with your tax professional in getting yours filed before the deadline.