



THE RETIREMENT PLANNERS



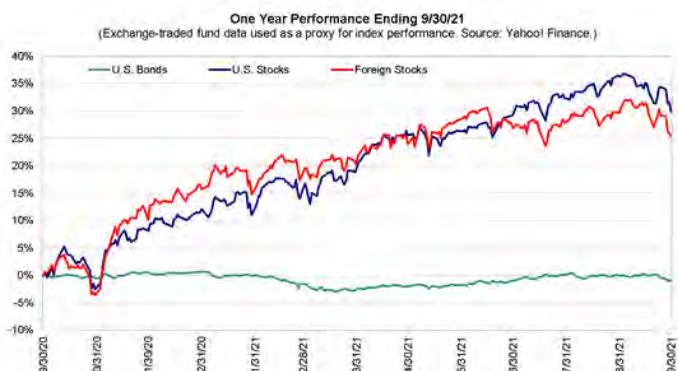
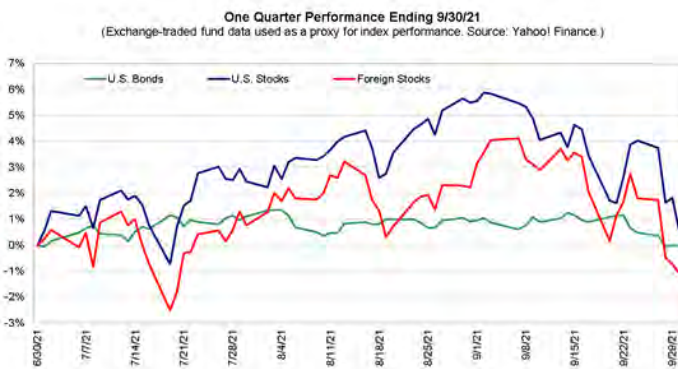
FOURTH QUARTER NEWS LETTER

FINANCIAL TOPICS

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

MARKET WATCH

Fall is in the air and Halloween is just around the corner. This is the time of year that spooky spirits seem to become emboldened by the longer nights and when the “madness of crowds” can take a turn from manic to depressive. Will it be tricks or treats for the markets during this autumn season? Only time will tell and, as usual, there are reasons aplenty for both Bull and Bear to make their case. This last quarter continued the movement of the prior quarters with stocks merrily higher until September, when increased pandemic worries and fears of inflation caused a modest downturn in both equity and bond prices. By the time the dust had settled we saw the bellwether S&P 500 index close the quarter



just a bit higher than it had started, international stocks with a small decline and bonds ending awfully close to where they had begun. It wasn't a particularly noteworthy quarter by any measure but, after the string of gains we've had since March of last year, that isn't necessarily a bad thing. Breaking with tradition we're including two charts this time, the first showing the results of this last quarter and the second showing our traditional one-year trailing movement of the same three indexes. As we mentioned earlier, two of the things causing market angst are the potential for inflation and the effect of the pandemic on the economy. Interestingly it is the first of these, inflation, that is causing more anxiety currently, perhaps because we've been living with and speculating about the former for far longer. Let's address inflation and in doing so we will cover the economy as well. We've all heard about and most likely experienced the effects of higher inflation. This higher inflation we have been experiencing has been and is still considered transitory and thought to be the result of supply constraints and bottlenecks which have led to higher prices for those currently scarce items. Semiconductors and other vital part supply disruptions have caused a shortage of all sorts of goods, from cars to appliances and the higher prices of those sorts of items have caused inflation to rise. In addition, low interest rates and easy monetary policy have enabled more money to chase those (temporarily) scarce goods. Those same low interest rates have helped fuel the bull market in equities and provided a boon to bond investors as well. Low interest rates justify higher stock market valuations since investors are always comparing the expected rates of return from different asset classes. With the paucity of return in bond investments due to those low rates, investments in stocks have looked sensible.

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What happens though if interest rates rise? It all depends on why rates are rising. If rates rise because of healthy demand and a growing economy, stock investors will be happier accommodating higher rates, figuring higher quarterly profits will come along with those higher rates. Companies will also be able to take the higher cost of borrowing in stride because of the growth in their business. If, however, rates are rising to fight ‘unjustified inflation’ caused by supply constraints or other measures, rising rates will be perceived differently and stock investors won’t be nearly as sanguine. The Federal Reserve Open Market Committee meets regularly to discuss these very issues. In their last meeting on Sept 22nd their released statement touches on and is instructive as to their current thinking on the status of the economy and inflation. The formal statement language noted specifically that a rise in Covid cases has slowed the recovery since the June meeting. More importantly, it mentioned that a ‘moderation in bond-buying pace may soon be warranted.’ This refers to the bond buying regimen the Fed has been involved in since the pandemic began and the timing of starting to “taper” back that program. The committee had been looking for ‘substantial further progress’ in the economy to warrant such a change. Half of current FOMC members see at least one rate increase by 2022, based on the data released with the statement. In the economic growth projections, the members downgraded GDP growth assessments by a full percent (moving 2022 higher by a half-percent), increased their estimate almost a percent higher in inflation, and eased back unemployment rate projections for 2021. Improvement in employment is expected through 2022-23, however, before reverting to the long-term (normal) trend around 2024. The Fed’s evaluation metrics however continue to point to an overall economic recovery. Let’s look at their summary in three key areas:

Economy: GDP growth in the recovery appears to have peaked in Q2, at 6.6%. Estimates for Q3-Q4 have fallen to a few percent below this pace, to around 4-6%. The Fed has been expecting a slowdown of the growth rate for some time due to slowing of the heady pace of growth as the recovery matured but now threats from rising Covid delta variant cases seem to have delayed stronger activity by a few months, (including travel plans and office reopening even as otherwise strong demand has been held back by supply shortages). Regardless, economic growth has rebounded sharply from last year, and remains at an above-average pace. This strength alone would have likely coerced the Fed to pull back on accommodative policy traditionally, as it appears to be less needed.

Inflation: Price inflation has remained one of the more discussed data points of the year, largely because it’s felt more tangibly by almost everyone.. The Fed has stuck to an interpretation of rising inflation remaining temporary this year, blamed on Covid-related supply shortages and demand ramp-up in certain areas. The Fed has softened the language a bit, not on the causes, but on the timing, implying this inflation state could last a bit longer than initially expected. Inflation running too hot for too long, despite being desired for a time by the Fed, may have a growing negative influence on consumer demand (which is currently strong).

Employment: Labor markets have improved, but not to the degree the Fed would like. The Covid situation still weighs on month-to-month jobs numbers, although the unemployment and job openings rates have continued their improvement. This trend would also traditionally point to an eventual pulling back of monetary easing.

It is important to remember that investors will continue to debate the timing of both a tapering of the Fed bond buying program and the beginning of interest rate increases in the marketplace, buying and selling shares. As such we would not be at all surprised to see additional volatility as these “discussions” play out! Longer term, continued growth in the economy, even if accompanied by modest rate changes, should bode well for diversified portfolios over time. Needless to say, the growth we’ve enjoyed in our portfolios over the last two years isn’t likely to continue unabated forever. It has been a spectacular rise from the pandemic low in the spring of last year and we’re grateful to see that significant progress in portfolios over that time. We did want to touch on one more item this quarter. The growth we’ve seen this year has come with some tax consequences for investors with taxable portfolios. There has been some capital gain realization from the sale of securities. In addition, there have been some capital gain distributions from some of the investments in the portfolio and we will see additional gain distributions as the year progresses. We’ll have a much better idea of where we stand later this year, and we’ll send out our offer for gain and loss information in late November as usual. If you would like YTD information at any time, give a call and we’re happy to put together some reports for your review. Just like we do every year we’ll also be taking a hard look at projected distributions from the various investments to see if there are any position changes that could result in a more favorable tax outcome for the year. Each year brings a fresh set of circumstances to the puzzle of overall portfolio management and tax efficiency. We do our best to achieve the most favorable overall result, weighing performance advantage and tax implications. We’re always happy to see the performance in our portfolios and sooner or later some of those gains spill over onto our tax return! As the year winds down, we’ll hope for a continued abating of the pandemic and an easing of some of the supply shortages that have plagued us for the last little while. In the meantime we hope you enjoy the lovely fall weather and all that this time of year has to offer. We appreciate your trust and confidence in us and we remain.



Christmas Word Search

- CHRISTMAS
LIGHTS
MERRY
WREATH
- ORNAMENTS
STOCKINGS
TREES

S	C	D	C	F	N	T	G	I	P
T	O	H	N	D	M	G	H	Z	M
O	N	Y	R	N	M	S	G	H	S
C	S	U	B	I	O	U	T	O	T
K	Z	E	F	X	S	A	W	J	H
I	N	B	E	H	E	T	W	U	G
N	O	M	E	R	R	Y	M	R	I
G	K	I	W	Z	T	G	D	A	L
S	T	N	E	M	A	N	R	O	S
U	V	U	H	E	Y	H	U	S	F




OCTOBER

SUN	MON	TUE	WED	THU	FRI	SAT
					1	2 8:00am WPNN PENSACOLA'S INFORMATION STATION 103.7FM @ 790AM
3	4 John Out of Office	5	6	7	8	9 8:00am WPNN PENSACOLA'S INFORMATION STATION 103.7FM @ 790AM
10	11  Columbus Day John Out of Office	12	13	14	15	16 8:00am WPNN PENSACOLA'S INFORMATION STATION 103.7FM @ 790AM
17	18 John Out of Office	19	20	21	22	23 8:00am WPNN PENSACOLA'S INFORMATION STATION 103.7FM @ 790AM
24	25 John Out of Office	26	27	28	29	30 8:00am WPNN PENSACOLA'S INFORMATION STATION 103.7FM @ 790AM

November

SUN	MON	TUE	WED	THU	FRI	SAT
31 Happy halloween	1 John Out of Office	2 	3	4	5	6 8:00am WPNN PENSACOLA'S INFORMATION STATION 103.7FM @ 790AM
7	8 John Out of Office	9	10	11  Office Closed VETERANS DAY	12	13 8:00am WPNN PENSACOLA'S INFORMATION STATION 103.7FM @ 790AM
14	15 John Out of Office	16	17	18	19	20 8:00am WPNN PENSACOLA'S INFORMATION STATION 103.7FM @ 790AM
21	22 John Out of Office	23	24	25  Office Closed	26 Office Closed	27 8:00am WPNN PENSACOLA'S INFORMATION STATION 103.7FM @ 790AM
28	29 John Out of Office	30				

DECEMBER

SUN	MON	TUE	WED	THU	FRI	SAT
			1	2	3	4 8:00am WPNN PENSACOLA'S INFORMATION STATION 103.7FM @ 790AM
5	6 John Out of Office	7	8	9	10	11 8:00am WPNN PENSACOLA'S INFORMATION STATION 103.7FM @ 790AM
12	13 John Out of Office	14	15	16	17	18 8:00am WPNN PENSACOLA'S INFORMATION STATION 103.7FM @ 790AM
19	20 John Out of Office	21	22	23	24  Office Closed	25 8:00am  WPNN PENSACOLA'S INFORMATION STATION 103.7FM @ 790AM
26	27 John Out of Office	28	29	30	31  Office Closed	1 8:00am  WPNN PENSACOLA'S INFORMATION STATION 103.7FM @ 790AM
2	3 John Out of Office	4	5	6	7	8 8:00am WPNN PENSACOLA'S INFORMATION STATION 103.7FM @ 790AM

What the New Tax Proposals Mean for Roth Conversions

By Sarah Brenner, JD
Director of Retirement Education

It's hard to keep up with the news out of Washington these days! We have been getting a ton of questions on how the new tax proposals recently passed by the House Ways and Means Committee would impact Roth conversions. Here is the rundown.

After-Tax Conversions

Congress is looking to slam the door on the so-called "back door Roth IRA" and "mega back door Roth IRA" strategies. The key point to understand here is that these strategies involve conversions of after-tax dollars. For example, currently the back-door Roth IRA conversion allows an individual to make a nondeductible after-tax contribution to a traditional IRA and then convert it tax-free to a Roth IRA. This is a way that higher earners can avoid the Roth IRA contribution limits and fund a Roth IRA.

The current proposal would end this strategy. It would also shut down the strategies of funding an employer plan with after-tax dollar and converting them to a Roth IRA or converting them to a Roth account within the plan.

These types of conversions would be outlawed beginning next year. This would apply to everybody, regardless of income.

Pre-Tax Conversions

Many conversions do not involve after-tax dollars at all. Instead, they involve pre-tax funds that when converted result in a tax bill. These types of conversions would be allowed to continue next year. Congress loves the revenue they bring in and is not ready to quit them yet. Instead, pre-tax conversions would be subject to income limits beginning 10 years down the road, starting for 2032. The ability to convert pre-tax dollars would be eliminated for taxpayers with income over \$400,000 if single and over \$450,000 if married.

IRA owners with long memories may remember that Roth IRA conversions had an income limit in the aughts. Congress is looking to return to the bad old days and bring it back.... But not for ten years.

What You Can Do Now

First, take a deep breath and remember that right now we only have proposals. As anyone who watched School House Rock on Saturday mornings as a child can tell you, it is a long path before a bill becomes a law.

However, it is smart to recognize that Roth conversions are on Congress's radar. If you have been on the fence about converting to a Roth, 2021 may be your year. For back-door Roth conversions, it may be your last chance. For pre-tax conversions, the time might be right too. Congress is taking aim at the tax code, and current rates and rules may not be around for long.



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