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This Issue:

Distracted America

Consumer habits are changing as we spend more time at home.

Over the last year, many have seen their lives impacted by the COVID-19 pandemic. The ways in which we work, live, and communicate have drastically changed, to say the least.

It's difficult to predict what other aspects of life may alter before we're through this period of history. Still, data has emerged that suggests the way we relax has already adapted. In response to a steady media diet of troubling or sad news, it seems we're all looking for a distraction.

Your Own Silver Screen - Consumer spending on subscription streaming rose by 21% to $12.2 billion in the first six months of 2021, suggesting we're watching more media at home than ever.[1]
A Nation of Gamers - Video game sales at brick-and-mortar stores hit $5.6 billion in March, an 18% increase over a year ago. Digital sales are expected to push this startling figure even higher.[2]
Stay in for Takeout - Due to the increased number of us ordering delivery, the online food delivery services market is expected to grow from $115.07 billion in 2020 to $126.91 billion in 2021.[3]

are finding as we all work toward happier, healthier, and safer times. As always, let me know if you'd like to chat about the above, the economy, or any other topics you're pondering. I'm always here to help.

-IWM PARTNERS TEAM

Direct Indexing

An old way to manage a portfolio is getting some new attention

"Indexing" is a familiar phrase in investment jargon, and a familiar concept. Money managers structure certain investment vehicles to contain all of the stocks within a particular Wall Street index, such as the Standard & Poor's 500 stock index. This equity exposure may fit the investment strategy for some investors depending on their risk tolerance, time horizon and goals.

"Direct indexing" is a variation on this idea. The goals are the same: to match the performance of an index. The methodology differs, however. Instead of buying one investment designed to mirror the composition of an index, the investor buys shares of each stock within the index.

Why would an investor go to such lengths? To start, the pursuit of tax efficiency. Direct indexing can also lead to a more customized portfolio, giving an investor more ability to add and subtract companies that do or do not align with that investor's values or market objectives.[1]

This article is for informational purposes only. It's not a replacement for real-life advice, so make sure to consult your tax or accounting professionals before modifying your tax strategy if you are considering direct indexing.

Technological advances have put direct indexing within reach of more investors today. Years ago, it was largely the domain of hands-on types with considerable assets in their portfolios. Now, there are firms that can help with this approach.

Direct indexing can encourage more trades. A hands-on investor closely scrutinizing performance may want to consider a direct indexing strategy, especially when the equities market turns turbulent. But that can lead to more fees, which may offset the potential benefits of the approach.[2]

This article is strictly an explanation of the basics of direct indexing, and not an endorsement or recommendation of the strategy. If direct indexing interests you, feel free to explore the approach by consulting a professional before attempting it.

Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. The S&P 500 Composite Index is an unmanaged index that is considered representative of the overall U.S. stock market. Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Past performance does not guarantee future results. Consult your financial professional before making any investment decision. This information is designed to provide general information on the subjects covered. It is not, however, intended to provide specific legal or tax advice and cannot be used to avoid tax penalties or to promote, market, or recommend any tax plan or arrangement.

- Shawn

Are Your Taxes Going to Change?

Wise investors take the "big picture" view.

Most likely, you've heard what's brewing in Washington, D.C., called by one of these names.

The Build Back Better Act. Or the $3.5 trillion budget reconciliation bill. Or the Jobs and Economic Recovery Plan for Working Families.[1]

Regardless of what name you've heard, one fact is clear: It is likely to be months before any action is taken.

When bills are being worked on—especially one that's this size—it's a good time to take a quick Civics refresher. Right now, the bill is "in committee" with both the House of Representatives and the Senate. The committees are filling in the policy details and the exact financial figures, which can be a long process.[2]

It will then be up to the House and Senate to vote on an identical

How U.S. Savings Bonds Work

How to keep track of your savings bonds' maturity dates.

Did you buy U.S. Savings Bonds decades ago? Or did your parents or grandparents purchase them for you? If they're collecting dust in a drawer, you may want to take a look at them to see if any of your bonds have matured. If your bonds have matured, that means they are no longer earning interest, and it also means you may want to consider cashing them in.[1]

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You want to keep track of the maturity dates, the yields and the interest rates on your bonds, as that will help you to figure out what bond to redeem when. Fortunately, you're able to check the maturity dates online now so it's relatively easy to determine if it's time to cash-in your bonds.[2]

Use savings bonds for educational purposes. If you've been holding onto Series EE or Series I savings bonds, the interest paid is tax-exempt, so long as the money is used to pay for qualified educational expenses. There are other considerations,

There are other considerations, so if you discover you have these types of bonds to cash in a tax professional may be able to provide some guidance.[3]

Interest accumulated over the life of a U.S. Savings Bond must be reported on your 1040 form for the tax year in which you redeem the bond or it reaches final maturity. This must be done even if you (or the original bondholder) chose to have the interest on the bond accumulate tax-deferred until the final maturity date. Failure to report such interest may lead to a federal tax penalty.[2]

Remember, U.S. Savings Bonds are guaranteed by the federal government as to the payment of principal and interest. However, if you sell a savings bond prior to maturity, it could be worth more or less than the original price paid.

U.S. Savings Bonds are taxed in one of two ways. Bondholders choose to defer the tax until the bond matures. Once they redeem the bond, they report the interest through a 1099-INT form. Some choose to pay the tax annually prior to cashing the bond in, reporting the increase in the value of the bond as taxable interest each year.[2,3]

What if you find out you have held a U.S. Savings Bond for too long? Another note about reporting interest: if a U.S. Savings Bond has matured and you have failed to redeem it, you will not find a Form 1099-INT for it in your records. Only redemption will bring that 1099-INT your way. (The accumulated interest for the bond should have been reported to the IRS regardless.) After you cash in that old bond, you will thereafter receive a 1099-INT. It will record that the interest on the bond was earned in the year of the bond's final maturity.[2]

Plan ahead & keep track. U.S. Savings Bonds were issued on paper for decades and were often purchased on behalf of children and grandchildren. Now, U.S. Savings Bonds are issued electronically. While the interest on U.S. Savings Bonds is taxed by the IRS, it is exempt from state and local taxes.[1,2]

- Mico

Could Custodial IRAs Help Young Adults Buy Homes?

Some parents and grandparents have that possibility in mind.

Individual Retirement Arrangements (IRAs) are for retirement saving, right? Absolutely. Is that their only purpose? Not necessarily.

Imagine using an IRA not only to save, but to facilitate a home purchase. This would obviously be a tall order for an adult, given current home values, yearly IRA contribution limits, and the priority of amassing retirement savings. How about for a child, though? Could an IRA help them out?

This thought has led some families to open custodial Roth IRAs. You can start a Roth IRA on behalf of a child, as long as that child has "earned income" (that is, income from either a W-2 job or some kind of self-employment). The IRA belongs to the child, but until the child becomes an adult, you (or some other adult) act as the IRA's custodian.[1,2]

The annual contribution limit on that Roth IRA is $6,000 (this limit may be adjusted up in future years due to inflation). Say your kid has made $4,000 from freelance web design, or serving up lattes at the local coffeehouse … or working at your business. All $4,000 could go into that IRA. That might not be the case, but whatever the amount, it may benefit from potential compounding over the next several years.[3]

You might want to consider this possible use for a Roth IRA.

What about taxes that come with taking the money out? After-tax dollars go into Roth IRAs, and if the account is at least five years old, up to $10,000 of the account balance (including earnings) may be withdrawn without being taxed, as long as the withdrawn amount is used for a home purchase and the IRA owner has not bought a home in the past two years. In doing this, you can even avoid the 10% tax penalty that normally comes when you take assets out of a Roth IRA before age 591/2..

Plans may change, though. When a child turns 18 (or 21, in some states), a custodial IRA started on his or her behalf is no longer custodial. He or she is now the legal owner of that IRA. At that time, will the idea of using those IRA funds to buy real estate in the future seem worthwhile? Maybe, maybe not.[5]

That young adult may just elect to keep contributing to the Roth IRA and use it as a retirement savings account. Or maybe the IRA is suddenly drained to enable the purchase of a new truck, or to fund a year abroad, or to pay for college. Choices will emerge, and parents and grandparents must be mindful of them. There is also the fact that when you withdraw assets from a tax-advantaged account, you are reducing not only the account balance, but also the account's potential degree of compounding for the future. These factors must be considered if you embrace this idea.

Limitations and restrictions may apply. Also, tax rules are constantly changing, and there is no guarantee that the tax treatment of Roth (or traditional) IRAs will remain the same.

-Barbie

version of a final bill—if both can agree to a final version.[2]

Right now, it would be hasty to make any portfolio changes based on what's being discussed and debated. An ambitious investor would have to guess at what policies will be in the final bill, estimate the financial impact, and determine what portfolio changes should be made. That's a tall order.

So as difficult as it may be, the best approach is to wait-and-see. We work with professionals who are watching every twist and turn. If something starts to take shape, we will evaluate the impact.

We also understand that some of you may have concerns about whether your taxes are going to change. If that's the case, please reach out. We would welcome the chance to speak with you.

-Jim

2021 Facts about Finance

- The average Credit Card debt in America is $6,270
- Around 40% of Americans have less than $300 in savings.
- The U.S Median Household income in 2020 was $78,500.

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"As much as you can, as EARLY as you can"

Examples of starting investing at 25 vs 35...

With an average of 5% growth/annually a client who started investing $100/month at age 25 will have roughly $162,000 by age 65, while the client who starts investing $100/monthly at age 35 will have roughly $89,000 in that same timeframe.

A $73,000 difference while the 25 year old only put in $12,000 more.

Give us a call about automatic contributions, and building your wealth today!