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· HORWITZ · & ASSOCIATES

Taking Charge of Your Financial Life

Delegating responsibilities to others may lead to problems down the road

When you are putting together a household, it isn't unusual to delegate responsibilities. One spouse or partner may take on the laundry, while another takes on the shopping. You might also decide which one of you vacuums and which one of you dusts. This is a perfectly fine way to divvy up household tasks and chores.

One household task it's valuable for both partners to take part in, however, is your shared financial life. It's important, regardless of your level of wealth or stage of life. Counting on one spouse or partner to handle all financial decisions can create a gap for the other partner. Should the one in charge of the money separate, become severely disabled, or pass away, that may leave the other partner in a bind. A situation like that is probably difficult enough without adding additional stress.

Begin the conversation. If you are the partner who isn't steering the household finances, ask yourself why. It may be that you have preconceived notions about how difficult it might be to educate yourself to make informed decisions. Maybe you know how to do it, but you would simply rather not be bothered. It's also possible that you recognize that your spouse or partner has a particular expertise in these matters and doesn't need your help.

Regardless of the reason, it's probably a good idea that you should at least be able to hop into the driver's seat, should misfortune strike your household. In that unfortunate circumstance, you should feel confident that whatever the reason or the duration, you won't have any unnecessary concerns about managing your household's finances.

For example, what if you have insurance that covers extended care, in case of a severe injury that causes your spouse or partner to be away from work for an indefinite period? How will you be certain that the claim is made? Who will make sure the bills get paid? The job will fall to you.

Getting involved. The good news is that through communication, regular conversations, and a little effort, you can probably learn what you need to know in order to help yourself in these situations. Part of this, too, may be meeting and getting to know the financial professional who works for your household.

The more knowledge you have, the more confident you can become. Starting the conversation is just the first step. It may take you some time to become comfortable in taking a greater role in the decision-making, but when you do, you may feel more confident if the responsibility ever falls solely to you.

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Roth IRA Conversions

What are your choices? What are the benefits?

If you own an Individual Retirement Account (IRA), perhaps you have heard about Roth IRA conversions. Converting your traditional IRA to a Roth IRA might be a sound financial move depending on your situation.

But remember, this article is for informational purposes only, not a replacement for real-life advice. A professional should be consulted before attempting this type of strategy. Tax rules are constantly changing, and there is no guarantee that the tax treatment of Roth or Traditional IRAs will remain the same as it is now.

Also, Roth conversions have come under much scrutiny during the past few years. Congress has considered legislation that would prevent high-income Americans from Roth conversions. While no action has taken place, it is possible that Roth rules may change in the future.

Why go Roth? Every Roth IRA conversion is based on a belief: the belief that income tax rates will be higher in the future than they are now. If you hold this belief, then you may want to consider a Roth conversion.

Once you are 59½ and have had your Roth IRA open for at least five calendar years, withdrawals of the earnings from your Roth IRA are exempt from federal income taxes.
In addition, once five calendar years have passed, you can withdraw your Roth IRA contributions tax-free and penalty-free.[1]

Under current I.R.S. rules, if you are the original owner of a Roth IRA, you never have to make mandatory withdrawals from your account. And you can make contributions to a Roth IRA as long as you continue to have earned imcome.[2]

Currently, if your federal tax filing status is married filing jointly and your adjusted gross income (AGI) is $204,000 or less, you can contribute a maximum of $6,000 to your Roth IRA, $7,000 if you're age 50 or older. The maximum contribution is also available to single filers with an AGI of $129,000 or less. Depending on how high your AGI is, the amount you are able to contribute may change.[3]

Why not go Roth? There are many reasons, but here are two to consider: you have to be prepared for the taxable event and time may not be on your side.

A Roth IRA conversion cannot be undone. The I.R.S. regards it as a payout from a traditional IRA prior to that money entering a Roth IRA, and the payout represents taxable income. That taxable income stemming from the conversion could have tax consequences in the year when the conversion occurs.[4]

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In many respects, the earlier in life you convert a regular IRA to a Roth, the better. Your income may rise as you get older; you could finish your career in a higher tax bracket than you were in when you were first employed. Those conditions relate to a key argument for going Roth: it is better to pay taxes on IRA contributions today than on IRA withdrawals tomorrow.

On the other hand, since many retirees have lower income levels than their end salaries, they may retire at a lower tax rate. That is a key argument against Roth conversion.

You could choose to "have it both ways." As no one can reliably predict the future of American taxation, some people contribute to both Roth and traditional IRAs – figuring that they can be at least "half right" regardless of whether taxes increase or decrease.

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If you do go Roth, your heirs may receive tax-free distributions. Lastly, Roth IRAs can prove to be very useful estate management tools. If I.R.S. rules are followed, Roth IRA heirs may end up with a tax-free inheritance from the account. In contrast, distributions of inherited assets from a traditional IRA are taxed.[1]

Under the 2019 SECURE Act, most non-spouse beneficiaries of a Roth IRA are required to have the funds distributed to them by the end of the tenth calendar year following the year of the original owner's death.[5]

Citations

1 - U.S. News, January 27, 2022
2 - Internal Revenue Service, November 27, 2021
3 - Internal Revenue Service, November 5, 2021
4 - Investopedia, February 2, 2022
5 - Forbes, December 14, 2021

GETTING (MENTALLY) READY TO RETIRE

Even those who have saved millions must prepare for a lifestyle adjustment.

A successful retirement is not merely measured in financial terms. Even those who retire with small fortunes can face boredom or depression and the fear of drawing down their savings too fast. How can new retirees try to calm these worries?

Two factors may help: a gradual retirement transition and some guidance from a financial professional.

An abrupt break from the workplace may be unsettling. As a hypothetical example, imagine a well-paid finance manager at an auto dealership whose personal identity is closely tied to his job. His best friends are all at the dealership. He retires, and suddenly his friends and sense of purpose are absent. He finds that he has no compelling reason to leave the house, nothing to look forward to when he gets up in the morning. Guess what? He hates being retired.

On the other hand, if he prepares for retirement years in advance of his farewell party by exploring an encore career, engaging in varieties of self-employment, or volunteering, he can retire with something promising ahead of him. If he broadens the scope of his social life, so that he can see friends and family regularly and interact with both older and younger people in different settings, his retirement may also become more enjoyable.

The interests and needs of a retiree can change with age or as he or she disengages from the working world. Retired households may need to adjust their lifestyles in response to this evolution.

Practically all retirees have some financial anxiety. It relates to the fact of no longer earning a conventional paycheck. You see it in couples who have $60,000 saved for retirement; you see it in couples who have $6 million saved for retirement. Their retirement strategies are about to be tested, in real time. All that careful preparation is ready to come to fruition, but there are always unknowns.

Some retirees are afraid to spend. They fear spending too much too soon. With help from a financial professional, they can create a strategy.

Retirement challenges people in two ways. The obvious challenge is financial; the less obvious challenge is mental. Both tests may be met with sufficient foresight and dedication.

MARKET PERFORMANCE

01/01/2022 to 02/28/2022

DJIA ^DJI Down –6.91%

S&P 500 ^GSPC Down –8.49%

NASDAQ ^IXIC Down –12.86%

Russell 2000^RUT Down –10.33%

*Index performance does NOT include any fees (Gross of fees)

Source: http//finance.yahoo.com

A note from our Advisory team:
2022 Outlook – Community Bank Stocks

2021 was an outstanding year for your Community Bank Stocks. The NASDAQ Bank Index, which represents all publicly traded banks listed on the NASDAQ exchange, returned 39.7%. This compares to the 28.7% return of the S&P 500. As we are long-term investors in Community Banks, we are very pleased that you are benefitting from this outperformance. Many of your portfolios have a 25-35% allocation in bank stocks. The nearly 40% increase in bank stocks in 2021 was driven by improvement in fundamental bank operating results driven by balance sheet growth, stable to increasing net interest margins and improving asset quality. Investors in the sector are being rewarded with higher stock prices, increasing dividends, and in some cases merger and acquisition premiums in a continuing consolidating industry.

Fourth quarter earnings season has recently concluded for all of our bank holdings. As you know from our portfolio review meetings and previous editions of Ticker Talk, we do extensive homework and our own research on Community Banks. We study the earnings releases and regulatory reports of each of our bank investments. We follow-up with quarterly discussions and interviews with bank management teams to dig deeper into the quality of the reported results. Based on this work, we are happy to report that 2022 is shaping up to be another good year for your banks.

Geopolitical uncertainty and Fed tightening are currently adding to stock market volatility and concerns in early 2022. In this uncertain environment, the good news is investors are clearly expecting rising interest rates which are good for bank earnings as long as the economy stays strong. With unemployment at 4% and record job openings, we believe the near-term outlook is positive for the U.S. economy. Inflation is a concern to everyone, but it can fundamentally benefit banks as improving wages and asset values make it easier for borrowers to service their debt. Most of our banks are asset sensitive, which means that as interest rates rise, earnings rise. Higher earnings lead to strong capital generation which in turn leads to higher cash dividends and supports ongoing share repurchases, which should result in higher stock prices.

The Nasdaq Bank Index currently trades at 13.8X earnings while the S&P 500 trades at 19.3X earnings, a 71% relative P/E ratio. The long-term average of the NASDAQ Bank Index to the S&P 500 is 84%. This gives us comfort that our bank stocks continue to represent excellent value relative to the rest of the stock market. We will continue to monitor your portfolio and update you along the way. 2021 was a challenging year for all of us as we navigated the pandemic and we are so grateful for your support. We sincerely thank you for your business and continued belief and trust in our work.

Written by: Robert Youman

Horwitz & Associates

1650 Lake Cook Road
Suite 190
Deerfield, Illinois 60015

Phone: 224-632-4600
Fax: 224-632-4590
www.horwitzadvisors.com

EDWARD HORWITZ –ED@HORWITZADVISORS.COM
GERALD HORWITZ –GAH@HORWITZADVISORS.COM
ROBERT YOUMAN – RYOUMAN@HORWITZADVISORS.COM
JAKOB HORWITZ–JAKE@HORWITZADVISORS.COM
MARY KAY CARLETON–MKCARLETON@HORWITZADVISORS.COM
LESLEY WINSTON–LWINSTON@HORWITZADVISORS.COM
JODY ZIMNIEWICZ–JZIM@HORWITZADVISORS.COM
SILVIA LIU–SILVIALIU@HORWITZADVISORS.COM
SCOTT HEINILA–SCOTT@HORWITZADVISORS.COM
PATRICK BROEBECK–PBBROBECK@GMAIL.COM