

# LET'S TALK MONEY®

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Investors who are looking for a low-cost investment that offers diversification and tax efficiency may want to consider exchange-traded funds (ETFs)\*. ETFs consist of a diversified basket of securities that typically track an index, such as the S&P 500. Purchasing an ETF can give you exposure to an entire industry or sector of the economy. There are many considerations to understand before investing in this or any particular investment.

## Sounds Like a Mutual Fund

Both ETFs and mutual funds are managed by SEC-registered investment companies that allow investors to pool their money to buy a professionally managed fund consisting of stocks, bonds, or other assets. Both require a low minimum investment. Investors make money through dividend payments, capital gains distributions and increases in the value or market price of the fund, less sales charges, fees, and expenses.

## A Major Difference

The biggest difference between ETFs and mutual funds is in the way they're bought and sold. ETFs trade on a stock exchange at market prices throughout the trading day. As with individual stocks, you must have an account with a brokerage firm to buy and sell ETF shares. Investors are not charged a fee to purchase or sell ETF shares; however, there may be other transaction costs, such as brokerage commissions.

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Mutual fund shares are purchased from and sold back to the fund at their net asset value (NAV), which is calculated at the end of the trading day. You won't know the exact share

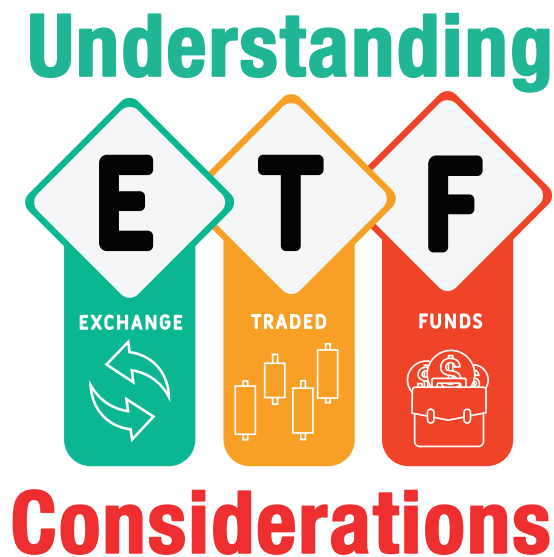
price until after the markets close. Fees and expenses for buying, selling, or exchanging shares are charged directly to investors.

## An ETF Drawback

Since they're traded like stocks, ETFs typically can't be held in an automatic investment account, such as a 401(k). Your

financial professional can help you determine if investing in an ETF makes sense for you.

*\*Investors should consider the investment objectives, risks, charges and expenses of the fund carefully before investing. Contact the issuing firm to obtain a prospectus which should be read carefully before investing or sending money. Because fund values fluctuate, redeemed shares may be worth more or less than their original value. Past performance won't guarantee future results. An investment in ETFs may result in the loss of principal.*



**OnMark Asset Management, LLC**  
525 3rd Street  
Suite 235  
Lake Oswego, OR 97034

**Tel:** 503-726-5963  
**Email:**  
info@onmarkam.com  
**Website:**  
[www.onmarkam.com](http://www.onmarkam.com)

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# Inflation and Your Tax Bill

Inflation is measured by changes over time in the price of a fixed basket of goods and services that represent the everyday purchases of U.S. households. Each year, the IRS makes adjustments for inflation to certain items used to prepare your income tax return.

These items include income-tax brackets, standard deductions, capital gains income thresholds, the earned income tax credit, and retirement plan and IRA contribution limits, among others. All are adjusted to reflect inflation during the previous year, based on the Chained Consumer Price Index for All Urban Consumers (Chained CPI-U).

But some items that can have an impact on your tax bill are not adjusted for inflation.

## Social Security Benefits

Although Social Security benefits generally receive a cost-of-living adjustment each year, the income thresholds at which benefits are taxed have remained the same: \$25,000 for single filers and \$32,000 for married taxpayers filing jointly. Depending on your income, up to 85% of your benefits could be taxed.

## Home Sale Tax Exclusion

The amount of gain on a home sale that can be excluded from tax remains at \$250,000 for single filers and \$500,000 for married joint filers, despite increases in housing prices.



You must have lived in your home for at least two of the last five years before the sale to claim the exclusion and haven't claimed an exclusion in the previous two years.

## Surcharge on Investment Income for High Income Individuals

A surcharge of 3.8% on net investment income, such as dividends, interest, and capital gain, applies to single filers with modified AGI over \$200,000, and married joint filers with modified AGI over \$250,000. In addition, the 0.9% surtax on earned income, including wages and self-employment income, is not inflation adjusted.

Your tax professional can help you make the most of any deductions and credits you may qualify for that can lower your tax bill.

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# A Financial Wellness Checkup

How are your finances doing? If you're not sure, it may be time to take steps to assess your financial health.

**Find your net worth.** Net worth is what you own — savings, investments, cars, property, valuables — minus what you owe — loans, credit card balances, car payments, mortgage, etc. The result is your net worth.

**Review your budget.** See where your money is going and make adjustments.

**Start an emergency fund.** Set aside money from each paycheck for unexpected expenses.

**Contribute to a retirement plan.** Join an employer's plan or open an IRA.



# Don't Put Off "The Talk"

How much have your parents shared with you about their finances and estate plan? It's a difficult subject for most families. Parents often don't want to discuss their personal finances, and adult children may be reluctant to initiate the conversation. Even when parents are active and in good health, it's important for children to have information about their financial situation and the plans they have in place.

## A Beginning

Although not a comprehensive list, parents should share the following information with their adult children:

- ❖ Estate planning documents, including wills, powers of attorney for finances and health care, and any trusts they've created
- ❖ Names, contact information and account numbers for financial institutions, brokerage firms and insurance companies
- ❖ Information on retirement and investment accounts, pensions and annuities
- ❖ Contact information for their attorney, financial advisor and accountant/tax preparer
- ❖ Loans or other outstanding debts
- ❖ A list of credit cards with account numbers
- ❖ Location of safe deposit box and keys
- ❖ Logins and passwords for all accounts (including social media)
- ❖ Vehicle titles/registration/insurance
- ❖ Location of deeds to property and cemetery plots
- ❖ Funeral arrangements and/or final wishes

## It's Time to Ask

When parents aren't forthcoming about their situation, adult children may have to take the first step. Framing the discussion around something you're doing, such as making your own will or designating a power of attorney, can get the conversation started. Asking their advice on some aspect of finances or investing may encourage parents to share their financial information.



## Assess Their Abilities

Keeping in touch with parents is the best way for adult children to pick up on any decline in their ability to handle their finances. If you're concerned, offer to help with financial tasks, such as banking, investing and paying bills. Monitoring their accounts online can help protect them from fraud and scammers.

# Understanding APR

If you apply for a loan or open a savings or investment account that pays interest, the documents you sign will include the annual percentage rate, or APR. APR is the yearly interest rate charged for borrowing money or the annual interest rate earned on an investment.

The APR offered to a borrower will depend on several factors, including competing rates offered in the market, the prime rate set by the central bank, and the borrower's credit score. Typically, borrowers with the highest credit scores are offered the best rates.

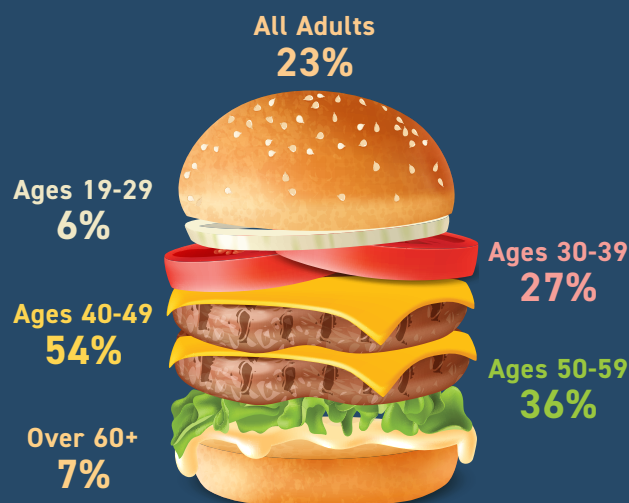
APR may be fixed or variable. A fixed APR loan has an interest rate that's guaranteed not to change over the term of the loan. A variable APR may change at any time. Lenders may charge different rates for purchases, balance transfers and cash advances.

Consumers can use APR to compare lenders, credit cards or investment products. Do your research to find the best rates.

## Welcome to the Sandwich Generation

Approximately one quarter of U.S. adults are members of the "sandwich generation" — individuals who have parents older than 65 and who either are raising at least one child younger than 18 or have provided financial support to an adult child.\* Adults in their 40s are the most likely to be part of the sandwich generation.

### THE SANDWICH GENERATION (Percentage of adults)



\*Source: Pew Research Center, Survey of U.S. adults conducted October 18-24, 2021

## Stable Value Funds: A Layer of Protection

Stable value funds contain a diversified portfolio of fixed-income securities designed to help reduce overall portfolio risk while earning returns that mirror those of an intermediate-term bond fund. Stable value funds offer minimal volatility and low correlation to other asset classes.



## The Benefits

Stable value funds typically invest in high-quality short-term and intermediate-term government and corporate bonds. Investors receive specified interest payments. Although bonds in the fund won't increase dramatically in value over time, the expectation is that they won't lose principal.

Stable value funds can be used to help reduce the volatility of a portfolio. They represent a possible alternative to lower yielding investments, such as money market funds, since stable value funds tend to offer higher returns.

## Two Components

Stable value funds are composed of two parts: bonds and insurance contracts issued by insurance companies and banks. The insurance component offers the potential that the value of the fund won't decline, no matter what interest rates are doing. Funds may spread insurance contracts among multiple insurers or banks to add diversification.

## Four Types

- ❖ Individually managed accounts are offered by an investment manager and managed for a specific plan's participants.
- ❖ Pooled funds are offered by an investment manager and combine the assets of unaffiliated plans into one fund.

- ❖ General account products are guaranteed by a single insurance company and backed by their general fund.
- ❖ Separate account products are offered and guaranteed by a single insurance company from a separate account. Each insurance company has its own fees, charges and limitations so refer to their prospectus.

## The Downsides

Funds may come with extra management costs and fees, potentially reducing yields. Funds generally are available only to participants in certain 401(k) and other defined contribution retirement plans. Some college savings plans may also offer stable value funds as an option. If you're thinking of rolling over a 401(k) to an individual retirement account (IRA) in the future, you won't find a stable value fund offered by a brokerage.

Stable value funds in your 401(k) plan may have names such as principal preservation, capital accumulation, or guaranteed income funds. Talk to your financial professional before you invest.

*\*A stable value investment is neither insured nor guaranteed by the U.S. government. There is no assurance that the investment will be able to maintain a stable net asset value, and it is possible to lose money in such an investment. All investing is subject to risk, including the possible loss of the money you invest. Diversification does not ensure a profit or protect against a loss.*

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