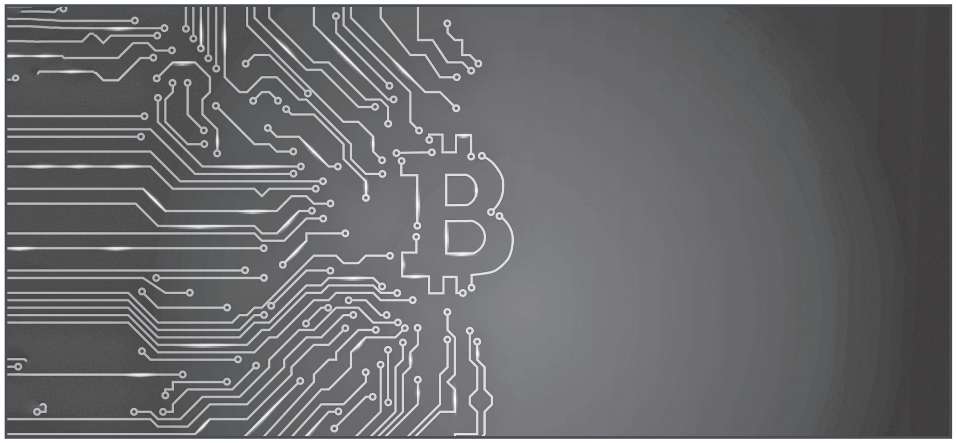
BEDELFINANCIAL

Winter 2021
Tales from the Crypt-o

By: Austin Stagman, CIMA®
Portfolio Manager



The Bitcoin hype is back! The cryptocurrency passed the $50,000 mark for the first time in its history on February 16, 2021, and three days later, Bitcoin surpassed a market value of $1 trillion. This is a significant milestone for the volatile cryptocurrency, which has had a wild ride over the past several years. Some asset managers say bitcoin is the future currency and has price targets at $1 million. Others say it's currently the biggest bubble in financial markets. Only time will tell how this plays out.

If you remember, Bitcoin saw a surge in price that pushed it close to $20,000 in December 2017. This increase was driven primarily by retail investors hoping to invest early in the "currency of the future." Investors liked it because it was unregulated and separate from the global financial systems. However, it fell roughly 80% over the following year to close out 2018 under $3,900. So why the resurgence over the past year?

There are several factors, but it seems the initial catalyst was fear of inflation due to massive global fiscal and monetary stimulus in reaction to the COVID-19 pandemic. Investors were afraid that central banks printing money for stimulus reasons would drive up inflation, so investors turned to Bitcoin as a store of value. Bitcoin has a finite and fixed supply. It was written into its code that only 21 million coins would ever exist. About 18.5 million are currently in circulation, and many millions of those are thought to be permanently lost, further increasing their rarity.

This current surge in price is different because of institutional investors' support, which shows additional confidence in the future of Bitcoin and cryptocurrencies. Square (SQ) announced in October 2020 that it bought approximately $50 million Bitcoin. Insurance giant MassMutual purchased $100 million Bitcoin at the end of 2020. Tesla (TSLA) disclosed, in February 2021, a $1.5 billion investment in Bitcoin and said it would start allowing customers to purchase their cars with Bitcoin. Other large firms have dabbled with Bitcoin, and more seem to be warming to the idea of Bitcoin in general.

Another reason for its recent climb in price is bitcoin is becoming easier to purchase through various apps and websites. For example, PayPal now allows customers to buy, hold, and sell bitcoin directly from their PayPal accounts. There are also Exchange Traded Funds (ETFs) that track the price of Bitcoin (and other cryptocurrencies). This allows individual investors to get exposure to cryptocurrency while not having to open a separate account to hold bitcoin.

Many of the same issues with cryptocurrencies in 2017 are still relevant today—it's quite volatile, unregulated, and not backed by any government entity. The volatility alone has to give merchants pause about accepting Bitcoin. For example, if I buy $100 worth of goods in bitcoin, there is a real possibility that the $100 bitcoin is only worth $90 a couple of hours later. Many companies that accept Bitcoin for their products immediately sell and convert them back to dollars or other more traditional currencies. Many will like that it is currently unregulated by any government; however, this makes actions such as money laundering, purchasing illegal goods online, and funding terrorist organizations much easier. Due to the current difficulty in regulating Bitcoin, it is doubtful that any government would want to acknowledge any cryptocurrency as a legitimate medium of exchange.

The best piece of advice with Bitcoin is probably; don't forget the past. No one knows where the cryptocurrency is heading. You can argue that Bitcoin is another way to diversify your portfolio, but it would most likely be the riskiest allocation that you have. Keep in mind that for most of the companies investing in Bitcoin, it is a very small allocation for them. For example, Square's $50 million investment is only about 1% of its total assets. Avoiding overly concentrated positions in any asset is important, especially one as volatile as this. Whether Bitcoin is suitable for your portfolio is something that you should discuss with your investment advisor.

Contact Austin if you have questions or want additional information regarding this topic.

In This Issue

BLT Corner

Goodbye 2020, Hello 2021!

Many of us were glad to have 2020 in the rearview mirror and to put our sights on 2021. As of the writing of this newsletter, more and more people are getting the Covid vaccine, March Madness is coming to Indianapolis, the ground is thawing, and the sun is shining; which brings to mind The Beatles singing, "Here comes the sun, and I say, it's all right."

We are ringing in the new year by adding new software to improve client services and efficiencies. We have implemented a new client management system, social security strategies software, and tax planning analyzer. And, more improvements are coming in 2021.

In exciting employee news, our very own Sarah Mahaffa, CFP®, was named a finalist for Indy's Best and Brightest in the area of Banking and Finance. The Junior Achievement of Central Indiana event applauds 100 of central Indiana's "most outstanding young professionals, age 40 and under, in ten different industries." This honor confirms what we have known about Sarah all along – she is a shining star for our firm and clients. This quarter, we celebrate the five-year anniversaries of Portfolio Manager, Austin Stagman, CIMA®, and Administrative Coordinator, Cindy Garman. We are so fortunate to have them on our team and look forward to many more anniversaries to come.

If you have been curious about the recent resurgence of cryptocurrencies, be sure to check out Austin Stagman's article. Or, maybe you have been thinking about purchasing a second home - Sarah Mahaffa's article will help you look at all angles. Kate Arndt discusses tax diversification advantages, and Mat Ryan reviews the importance of renters insurance.

Do you have any financial plans or projects to accomplish in 2021? Bring these projects into the sunlight, and your BFC team can make it all right!

The Bedel Leadership Team

CLIENT EVENT

Shred Day

April 24, 2021
9:00 am to 12:00 pm

8940 River Crossing Blvd., Suite 120
Indianapolis, IN 46240

Please RSVP:

RSVP@BedelFinancial.com

Generation NeXt

Tax Diversification

By: Kate Arndt, CFP®
Financial Planner

At Bedel, we preach the mantra "*invest early and often*" to our Generation NeXt clients because we understand the flexibility it gives the future you. Flexibility means different things to different people. For some, it's the ability to retire early or step away from a soul-crushing job to pursue a passion project; for others, it's the ability to help aging parents or purchase a vacation home. No matter how you define it, tax diversification is an important piece to "afford" flexibility.

Tax Now.

The most common example of a "Tax Now" account is a brokerage. Investment income, such as capital gains, interest, and dividends, is taxed annually. The upside to being taxed annually is that capital gains tax rates are more favorable than ordinary income tax rates. Another benefit to taxable accounts is that you can access the funds at any time, and there are no annual contribution limits or phase-outs.

Tax Later.

Like 401(k)s and IRAs, tax-deferred retirement accounts are prime examples of "Tax Later" accounts. You defer taxes or deduct income during your contributing years and pay Uncle Sam upon withdrawal. Every dollar exiting a tax-deferred account is taxed at ordinary income rates. There are several important rules to be aware of, including annual contribution limits, early withdrawal penalties, eligibility requirements.

Tax Never.

Roth IRAs and Roth 401(k)s make up the "Tax Never" accounts. Contributions are made with after-tax dollars, and the investments grow tax-free. Distributions from Roth accounts are not taxable, making them the ultimate account for tax-bracket management during retirement. Similar to the Tax Later accounts, there are several rules to keep in mind.

In order to showcase the benefits of a tax-diversified portfolio, let's look two examples:

Example One:

Michelle reached her ultimate goal of retiring by the age of 55. She needed $90,000 to live off during her first year of retirement. In order to avoid the 10% penalty for withdrawing from retirement accounts prior to the age of 59 ½, Michelle sold $90,000 worth of investments in her brokerage account, triggering $65,000 of long-term capital gains. All but $12,600 of the gains fell into the 0% long-term capitals bracket, leaving her with a $1,890 tax bill!

Example Two:

In December, Greg and Lisa talked about treating their extended family to a $10,000 vacation over the holidays. Having withdrawn nearly $170,000 from their IRAs that year, they were nervous to add to their modified adjusted gross income in fear of increasing their Medicare premiums. They settled on a $10,000 tax-free withdrawal from Lisa's Roth IRA and booked the vacation.

Too often, we see retirees with all their money tied up in their 401k, which can result in a ticking tax bomb. Plan while time is on your side and make an effort to add dollars to every bucket. Future tax rates and retirement account rules are unpredictable; the best you can do is to make intentional decisions based on the information you know to be true today. And remember, invest early and often!

Contact Kate if you have questions or want additional information regarding this topic.

Industry News

Thinking of a Second Home? Not So Fast.

By: Sarah Mahaffa, CFP®
Sr. Wealth Advisor and
Manager of Financial Planning

Spending more time in your house than out of it over the last year may have your wheels spinning on buying a second home. Mortgage rates are low, and the real estate market is thriving. But don't get caught up in the hype! The thought of having a place you can safely escape to is exciting, but make sure you are fully informed of the costs, tax impact, and estate planning considerations.

Total costs

Mortgages for non-primary residences can require a higher down payment and may carry higher interest rates. Don't forget to include additional insurance premiums such as flood, earthquake, and hurricane insurance. Insuring a vacation home can cost up to 20 percent more than insuring your primary residence. Some states also impose higher property taxes on non-residents than on residents.

Renting the property can offset some of these expenses. You may even generate a positive cash flow. However, renting also means carrying additional medical and liability coverage. If you decide to use a property manager, this will also increase your costs.

Tax Consequences

The tax treatment of rental income is based on the number of days the property is rented and the number of personal use days. If the home is rented for less than 15 days in a calendar year, the rental income is tax-free, and both property taxes and mortgage interest are eligible to be deducted. In this scenario, rental expenses such as utilities, advertising, and maintenance are not deductible.

If the home is considered an investment property, certain expenses and depreciation are deductible. However, annual personal use is restricted to 14 days or 10 percent of the total days rented, whichever is greater. If you meet these criteria, income is reported as rental income, and items such as mortgage interest, property taxes, insurance costs, and other rental expenses are eligible to be deducted. However, you must pro-rate the deductions relative to personal use versus rental use.

If you rent the home for more than 15 days each year and your personal use is greater than 14 days or 10 percent of total days rented annually, your income tax benefits are limited. Rental income is taxable and rental expenses are only deductible up to the amount of rental income. Any excess expenses can be carried over to offset future rental income.

Selling the property will generate a capital gains tax on the amount of proceeds over your purchase price, plus the cost of any improvements.

Estate Issues

Review your situation with an estate attorney if your vacation home is in a different state than your primary residence. If the ownership is in your name only, the vacation home could be subject to probate in its respective state.

As you can see, purchasing a second home should not be an impulse decision. It requires diligent research and financial commitment. While it would be enjoyable to escape to your vacation home at a moment's notice, it needs to fit into your overall financial plan.

Contact Sarah if you have questions or want additional information regarding this topic.

Ask Bedel

Does my grandson need renters insurance?

By: Mat Ryan, MBA, CFP®
Financial Planning Specialist

My grandson is moving into his first apartment. Does he need renters insurance?

Landlords often require their tenants to carry renters insurance, so you'll want to check into that first. That aside, even if not needed, I would strongly recommend your grandson look into a renters policy.

Currently, only 40% of renters in the US have renters insurance. The driving force behind such a paltry figure is the misconceptions surrounding such policies. Most renters assume their landlord's or property owner's policy will cover any potential losses they may incur; it will not. Many also assume the value of their belongings do not rise to a level necessary for insurance. A recent Allstate survey contradicts that sentiment by determining that the average value of a renter's contents is approximately $30,000, a substantial amount for most if forced to replace the majority of your belongings at a moment's notice. Another misunderstanding is the comprehensive nature of a renters insurance policy. While renters insurance protects your belongings in case of a catastrophic event, it also offers many other benefits.

A standard component of renters insurance is liability coverage, typically providing coverage around $100,000. Thus, if someone were to be injured on his property, he would be covered up to the policy limits. Without a renter's policy, he would be on the hook for these expenses out of pocket. Also, protection isn't confined to just the home. His personal belongings would also covered from theft while he travelled or if taken from his vehicle. A policy may also cover the cost of another dwelling if his current residence became inhabitable due to a covered peril. There are many additional benefits that, if so desired, could be incorporated into a renter's policy.

So, how much coverage would your grandson actually need? From a personal property standpoint, the best route is to have him list out all of his personal belongings and determine how much they would cost if he needed to purchase them brand new. This should provide him with a rough estimate on the amount of insurance coverage he should purchase. On the liability coverage side, as stated above, a typical renter's policy offers $100,000 in coverage but can go up to $300,000 or even $500,000 if so desired. He will want to consider what feels sufficient (and his agent can help assess this with him) in the case he is ever sued and deemed liable to an injured party.

Rental policies are also adjustable, providing flexibility if additional coverage is needed. If he were to acquire additional personal property, he could simply contact his agent and request that his personal property coverage be raised to a more suitable amount. Furthermore, they are also transferrable, so if he were to ever move, he could transfer the coverage to his new dwelling.

Lastly, policy premiums are inexpensive. According to the Insurance Information Institute, the average annual premium for an Indiana resident (in 2018) is around $172, or $14/month. So, for the coverage afforded by a renters policy, it would make sense for your grandson to contact his insurance agent and discuss the potential of obtaining a renters insurance policy.

Contact Mat if you have questions or want additional information regarding this topic.

Subscribe to the Weekly Bedel Blog:

bedelfinancial.com/blog

BEDELFINANCIAL

Presorted
First Class
U.S. Postage Paid
INDIANAPOLIS, IN
Permit No. 9395

Contact Us!

8940 River Crossing Blvd., Suite 120
Indianapolis, IN 46240
Phone: (317) 843-1358
Toll Free: (888) 843-1358
Fax: (317) 574-5999
Web: BedelFinancial.com
Twitter: Twitter.com/BedelFinancial
FB: Facebook.com/BedelFinancial
LinkedIn: Bedel Financial Consulting, Inc.

Corporate Calendar

Bedel Financial Consulting will be closed for business on the upcoming days:

May 31	**Memorial Day**
July 5	**Independence Day Observed**
Sep. 6	**Labor Day**
Nov. 25	**Thanksgiving**

Our Staff

Andriel Adams
Administrative Assistant
aadams@bedelfinancial.com

Kate Arndt, CFP®
Financial Planner
karndt@bedelfinancial.com

Elaine E. Bedel, CFP®
CEO & President
"Executive On Loan"
ebedel@bedelfinancial.com

Evan D. Bedel, CFP®
GenNeXt Advisor &
Director of Finance and Strategy
evbedel@bedelfinancial.com

Meredith Carbrey, CFP®
Sr. Wealth Advisor
mcarbrey@bedelfinancial.com

Ryan Collier, CIMA®
Sr. Portfolio Manager and Director of Investment Management
rcollier@bedelfinancial.com

Dave Crossman, CFA
Sr. Portfolio Manager
dcrossman@bedelfinancial.com

Cindy Garman
Administrative Coordinator
cgarman@bedelfinancial.com

Alex Golding
Operations Specialist and Investment Assistant
agolding@bedelfinancial.com

Anthony Harcourt, CIMA®
Portfolio Manager
aharcourt@bedelfinancial.com

Amy K. House
IT & Digital Marketing Specialist
ahouse@bedelfinancial.com

Kathryn J. Hower, CFP®
Senior Wealth Advisor and Director of Financial Planning
khower@bedelfinancial.com

Jonathan Koop, CFA
Portfolio Manager and Manager of Investment Management
jkoop@bedelfinancial.com

Sarah Mahaffa, CFP®
Sr. Wealth Advisor and Manager of Financial Planning
smahaffa@bedelfinancial.com

Nick Rosebraugh
Operations Specialist and Investment Assistant
nrosebraugh@bedelfinancial.com

Mathew Ryan, CFP®
Financial Planning Specialist
mryan@bedelfinancial.com

Austin Stagman, CIMA®
Portfolio Manager
astagman@bedelfinancial.com

Brad Stark
Chief Compliance Officer
bstark@bedelfinancial.com

Cassi Vanderpool
Director of Administration
cvanderpool@bedelfinancial.com

Abby VanDerHeyden, CFP®
Wealth Advisor and Generation NeXt Team Leader
avanderheyden@bedelfinancial.com

Chris Wakefield
Marketing Specialist
cwakefield@bedelfinancial.com

William J. Wendling, CFA
Sr. Portfolio Manager, CIO
bwendling@bedelfinancial.com