# BEDELFINANCIAL

## Fall 2021
# Reset Your Expectations

*By: Jonathan Koop, CFA*
*Sr. Portfolio Manager and*
*Manager of Investment Management*

The world has been on a tremendous journey over the past eighteen months, with the effects of the coronavirus pandemic touching nearly every facet of our everyday lives. Yet, despite the volatility, investors who stayed committed to a well-designed financial and investment plan through last spring did not see their portfolios get turned upside down. After the initial dramatic drop in the previous spring, investors have enjoyed nearly a year and a half of uninterrupted market gains.

Since the S&P 500 bottomed on March 23, 2020, the index has more than doubled. It took only about four months for the market to recover from the losses it experienced in February and March 2020 – a recovery magnitudes faster than any other significant market decline in history. Through August, the year-to-date return for the S&P 500 was over 22%. The Dow Jones Industrial Average, perhaps a more common metric, is up almost 17%. These returns have already surpassed many experts' predictions for all of 2021. And, they are not showing any signs of slowing down.

## In This Issue



It is easy for the speed and intensity of the recovery to make investors feel complacent. Some might even begin to expect such strong returns every year. However, understanding just how unique this period has been is an important lesson to learn when properly setting expectations for the future.

Neither the Dow Jones nor the S&P 500 have experienced a pullback greater than 5% since October 2020, when a brief bout of volatility interrupted the markets' post-Covid rebound. This is the longest sustained upward movement since June 2016 through February 2018. But it's not just a lack of large declines that makes this market abnormal. Strong rebounds followed even smaller market declines.

For instance, on July 19, the S&P 500 fell by 1.6%. However, that day's closing price was a mere 2.9% off the record close from earlier that week, and the market immediately reversed course and went up five straight days until it reached a new record high. In fact, through the end of August, the S&P 500 has closed at an all-time high 53 times this year, the most ever for the first eight months of a year.

But what does all this mean to you as an investor? In the past fifty years, there have only been three years in which the market did not experience a 5% pullback. Therefore, investors should keep in mind that the market does not usually go up in a straight line and should mentally prepare for what a return to normal volatility would mean.

Given the large increases in the market, a normal pullback may alarm some investors because of how large it will be in absolute terms. For example, the Dow Jones finished the month of August with a value of 35,361. That means a drop of merely 1% would result in a decline of over 353 points. A decline of 1,000 points would only take a market decline of 2.8%--which, while meaningful, is certainly not abnormal. Gone are the days when a triple-digit decline in the Dow was noteworthy!

Stocks inevitably encounter rough patches and periods of increased volatility. While investors have benefited from seven straight months of increases in the equity markets, it is important to remember the cyclical nature of markets. Any number of variables could potentially reign in this rally—and they can occur without warning. We know that clients get sick of hearing us talk about the importance of having a solid investment plan, but we firmly believe in its importance. It may not seem too important when the markets only go up, but that won't last forever, and you are much better off having a plan before markets go bad on you.

If you would like to know more about how we have prepared portfolios for future market volatility, please reach out, and we would be happy to discuss in more detail.

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

# BLT Corner

## The End (of the year) is Near

Who's ready for Halloween, Thanksgiving, and Christmas décor to line the store shelves? As we prepare for the holiday season, it's also time to prepare for year-end planning season!

Heading into the fourth quarter, we are preparing for our annual staff retreat and adding new software to improve security, client services, and efficiencies. In some very exciting employee news, our very own Mat Ryan, CFP®, passed the IRS Enrolled Agent three-part exam, which demonstrates his proficiency in personal and business tax issues. We recently celebrated the fifteenth anniversary of Senior Portfolio Manager Ryan Collier, CIMA®, and we will soon celebrate the fifth anniversary of Sarah Mahaffa, CFP®, Senior Wealth Advisor and Manager of Financial Planning. We are so fortunate to have them on our team and look forward to many more anniversaries to come.

Join us in giving newcomer Nicki Kuhn, Administrative Assistance and Receptionist, a warm welcome when you call or visit our office. She just joined our team in July, and we are thrilled to have her.

If you have been curious about what to expect from your portfolio going forward, be sure to check out Jonathan Koop's article. Or maybe you have been thinking about investing in Bitcoin – Evan Bedel's article will help you look at all angles. Finally, Mat Ryan reviews the importance of Wealth Transfer Strategies given the potential changes in estate tax law, and Anthony Harcourt addresses year-end tax deadlines.

Do you have any financial plans or investment deadlines? Bring them to us so you can cross off your year-end planning projects!

*The Bedel Leadership Team*

**OFFICE CLOSURE**

*November 4, 2021*

The Bedel Financial office will be closed on November 4th for our annual staff retreat.

# Generation NeXt

## Should I Invest in Bitcoin or Other Cryptocurrencies?

*By: Evan Bedel, CFP®*
*GenNeXt Advisor & Director of Finance and Strategy*

Similar to politics, investing in cryptocurrency can be a controversial topic with passion and unwavering certainty on both sides of the issue. The more you research and understand an investment idea, the more you recognize the risks associated with that investment.

**Why Everyone Should Own Bitcoin**

The reasons why you should invest in Bitcoin have changed over time. The original story was extreme: "You should own Bitcoin because the US dollar will be worthless in the future due to unlimited printing (money supply)." Since Bitcoin is limited in supply, the value will increase as demand increases while providing currency stability. Some first adaptors viewed it as the only currency accepted by merchants in the future. This story has refined itself over time. Now supporters of digital currency view it as an alternative investment, similar to gold. Some refer to it as digital gold, highlighting it as a non-correlated investment to stocks and an inflation hedge.

The refined story is far easier to accept. No matter your political view, most can agree the US government has no plans to stop printing money. However, suppose Bitcoin gains momentum as an accepted form of digital payment by most retailers, and the US dollar begins to devalue. In that case, we could see a stable currency with longevity in our economy. If that is the case, maybe we should consider buying now while the currency is still in an infancy stage.

**Why No One Should Own Bitcoin**

It's not tangible. Unlike gold, you cannot hold it or store it in your safe at home.

It's new. This digital currency started in 2008 but was unknown to most investors until 2017.

It's considered less secure than other investments. If your account gets hacked, your value could disappear.

The pricing is speculative. Unlike a stock, you cannot value the asset based on revenue or other income generated.

**Enough is Enough!**
**So Should I Buy Bitcoin or Not?!**

Every investment has a different level of risk and potential reward. Once you understand the risk level as an investor, you can determine its place in your portfolio more comfortably and confidently.

**Summary**

Bitcoin should be considered a higher than average risk investment. If you plan to add to your portfolio, we suggest proceeding with caution with a smaller than normal allocation. You will find strong opinions on both sides relating to this investment, but no one has a crystal ball.

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

# Industry News

## Wealth Transfer Strategies

*By: Mathew Ryan, CFP®, EA*
*Financial Planning Specialist*

The impact taxes can have on your estate when you pass, if not addressed appropriately, can wreak havoc..

The current lifetime gifting and estate tax exemption amount is $11.7 million per person (2021), meaning estates valued below this threshold would not be subject to estate taxes. The Biden administration, though, has proposed lowering this amount to $3.5 million per person.

There are several ways in which to reduce your taxable estate to limit your estate tax liability. For example, you can donate to charities, gift to family members, or incorporate estate reduction strategies through the utilization of specific trusts.

### Common Gifting Strategies

The IRS allows for gifts up to $15,000 per donor per beneficiary annually without tapping into the lifetime exemption amount.

Also, payments for qualified tuition and medical expenses can be made without tapping into the lifetime exemption as long as the payments are made directly to the school/health care provider.

### Charitably Inclined Approaches

One approach to charitable gifting is gifting appreciated securities. This entails giving stock that has increased substantially in value to a charity. For example, if you had stock that you paid $25,000 and it grew to $100,000, you remove $100,000 from your estate, you could avoid capital gains on $75,000 of growth by gifting the stock to a charity.

Consider making Qualified Charitable Distributions (QCDs) directly to charities from your IRA or 401(K). The IRS allows for distribution of up to $100,000 to be made annually to a charitable entity tax-free. Along those lines, another strategy involves naming a charity as a beneficiary of a retirement plan. This removes the fair-market value (FMV) from your taxable estate.

### Not-So Common Strategies

You might also consider a Qualified Personal Residence Trust (QPRT). This irrevocable trust involves transferring ownership of your residence into trust to avoid future appreciation being included in your estate. The value of your home is discounted using a specified formula, and that amount is used for gift tax purposes. You remain in the house, and at the end of a predetermined period of time, ownership of the home is transferred, and you would begin paying rent to the trust's beneficiaries.

For estates that consist of assets expected to increase substantially in value over time, a Grantor Retained Annuity Trust (GRAT) may be a viable option. A GRAT allows for the asset(s) to be transferred irrevocably into a trust, while retaining the right to receive annuity payments based on the value of the assets and a rate of return over a specified time. The goal is to set the value of the accumulated annuity payments equal to the original value of the property funding the GRAT to ultimately "zero" it out. This allows for a "zero-value" gift and does not detract from your lifetime exemption amount. Once that term has lapsed, assets remain in the trust to pass free of gift tax to the selected beneficiaries. Like the QPRT, however, if you die before the term ends, the assets in the trust become part of the taxable estate.

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

# Ask Bedel

## Year-end Tax Deadlines

*By: Anthony Harcourt, CIMA®*
*Portfolio Manager*

**QUESTION:** Do I need to take a required minimum distribution (RMD) from my retirement accounts before 12/31/21?

**ANSWER:** The SECURE Act became law on 1/1/2020 and made significant changes to RMD rules. A few months later, the CARES Act became law on 3/27/2020 and waived all RMDs for 2020. Let's review a few age-based situations to help determine what you need to do in 2021.

- If you reached age 70.5 on or before 12/31/2018, you should have taken your first RMD in 2019 and will resume your RMD schedule with a 2021 distribution.
- If you reached age 70.5 during 2019, you would typically take your first RMD by April 1 of the following year (4/1/2020). However, since the CARES act waived RMDs for 2020, your first RMD should have been taken before 4/1/2021 and your second RMD is due before 12/31/2021.
- If you didn't reach age 70.5 before 12/31/2019, you are on the new schedule, and your RMDs begin the year you turn 72.
- If you reach age 72 during 2021, your first RMD is due by 4/1/2022 and your second by 12/31/2022.

**QUESTION:** What are the other year-end deadlines?

**ANSWER:** The following may not apply to everyone, but here are some deadlines to help keep your year-end checklist in order:

**November-December**

- Capital gain distributions: These vary by fund, and there may not be any action to take as a shareholder, but you need to account for taxable capital gains distributions when projecting your tax liability for the year.

**Mid-December**

- Charitable donations are technically due by 12/31, but best practice is to avoid waiting until the last minute. Processing times can vary by method and organization.

**December 31, 2021**

- Employee retirement plan contributions for the current year
- Conversions from IRA to Roth IRA
- Tax-loss harvesting in taxable investment accounts
- 529 Plan contributions (to receive the Indiana state tax credit on your 2021 tax return)

**April 15, 2022**

- IRA/Roth IRA contributions (to be counted for 2021)
- Health Savings Account (HSA) contributions (to be counted for 2021)

Another noteworthy change from the SECURE Act is the Solo 401(k) establishment deadline. Before the SECURE Act, a Solo 401(k) plan had to be adopted by December 31 of the tax year to accept contributions for the year. You can now establish a Solo 401(k) plan up until the tax filing date of the business, including extensions, and will be able to make employer contributions for the prior tax year. Note that this only applies to employer contributions. Employee contributions must be made before December 31 of the tax year.

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

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## Corporate Calendar

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

| | |
|---|---|
| **Nov. 25** | **Thanksgiving** |
| **Nov. 26** | **Day after Thanksgiving** |
| **Dec. 24** | **Christmas Day (Observed)** |
| **Dec. 31** | **New Year's Eve** |



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