Quarterly Newsletter

Roth FINANCIAL PARTNERS

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Welcome to 2023!

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There is no sugarcoating the obvious: 2022 was a challenging year for markets. For the first time in history, both the S&P 500 Index and Bloomberg Aggregate Bond Market Index (the most well-cited bond benchmark, also known colloquially as “the Agg”) ended with double-digit percentage losses. Inflation took a big bite out of the recent trend of negative-to-no correlation between the two asset classes (as well as out of many folks’ budgets.) The interest rate impact of the Federal Reserve’s fight against hardening inflation expectations both (i) increased the discount rate at which stocks are valued, driving valuations/prices lower and (ii) increased yields on bonds (with a representative price decline.)

In the short-term, it was rough from a return and volatility perspective. Unfortunately, when markets become more volatile, we tend to look (or at least are tempted to look) at our portfolios much more frequently. Over the past twelve months, this type of “peeking” would have brought some unwelcome surprised.

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As an example, since 2000 the Agg has an annual standard deviation of 4% (this compares to a standard deviation of almost 20% for the S&P 500). In 2022, bonds were about twice as volatile as the recent average (almost 8% annualized standard deviation). Also, since 2000 the Agg has had 19 days in which the index moved at least 1% (in either direction). This represents less than half of a percentage point of total trading days (aka very rare). As another example of the extreme volatility of 2022, more than half of those days occurred this past calendar year! Markets were scrambling to react to expectations for interest rates and that uncertainty shook up daily prices.

As noted in previous newsletters, we do not believe in short-term market forecasting. It is quite comical to look back at what market analysts predicted at the beginning of 2022 for how markets would do and compare to how they performed (but it does not stop those hopeful soothsayers from trying again for 2023!) Short-term markets are a crapshoot and are at the mercy of emotion and/or large investor positioning. Fundamentals are only expressed over long periods. We believe that in the long-term, both bond and stock markets are positioned to provide higher returns going forward than they were at this time last year. That statement may seem like a given due to the drawdowns of 2022, but from a rebalancing and future investment perspective, things look a lot rosier.

The Debt Ceiling

Here is a quick note regarding the unnecessary drama regarding the "debt ceiling." The aggregate debt limit (the total amount that the federal government is allowed to borrow) was first set up in 1917 and, per JPMorgan, has been raised or suspended 102 times since World War II (I'm sure my wife would love it if I snoozed my early morning alarm 102 times before waking up…).

The point of this arbitrary ceiling, instead of incentivizing fiscal responsibility, seems to be solely political gamesmanship (like the recent battle within the Republican party over the Speaker of the House.). Regardless of whether you believe there should be spending cuts or tax increases (the two main levers offered by the rival political parties to "fix" our nation's balance sheet), the debt ceiling is a diversion from the actual hard work that Congress is tasked with regarding the nation's spending.

We are not worried about there eventually being an agreement, just as it doesn't make sense to, as an example, not pay your spouse's credit card bill (and put your whole family and their assets at the mercy of debt collectors) to make a point about his or her future spending patterns.

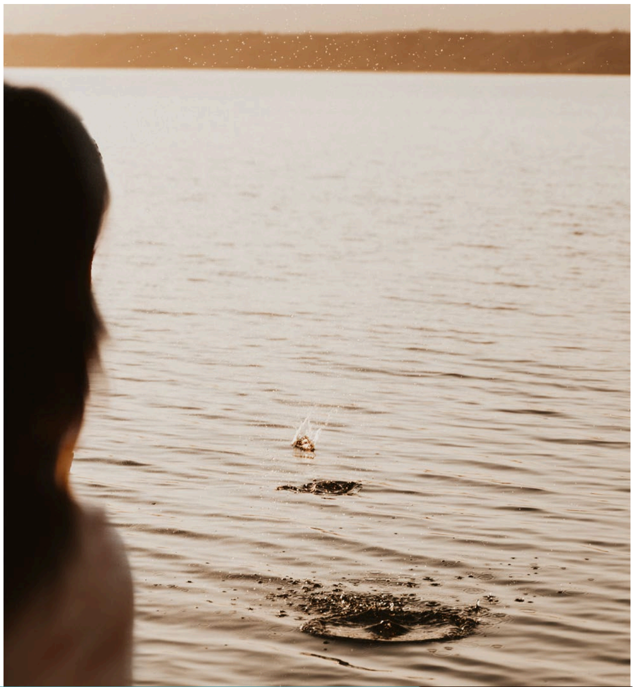
While there continues to be two political parties, I'm certain this will not be the last time we have this issue, and I look forward to seeing "2023 Debt Ceiling Drama" on the "Wall of Worry" charts we show you in meetings that display the continued growth of the equity markets. Our recommendation: turn off the television, go on a walk (or an electric bike ride!), and tune out the voices trying to rile you up.

The "SECURE Act 2.0"

Whether we like it or not, Congress continues to keep us on our toes. In late 2022, an omnibus spending bill to fund the federal government was passed by Congress and signed by President Biden that includes multiple items that could impact financial plans.

Below are a couple of key provisions of what is being called the "SECURE Act 2.0" that we are reviewing as we continue to digest the new legislation.

RMDs Are Pushed Back (For Some)



Required minimum distributions (RMDs) from qualified retirement accounts (like 401(k)s and IRAs) were first established with legislation passed in 1986. Though the age is seemingly random, turning 70 ½ became the starting age for which individuals were required to begin making a certain percentage of distributions from their retirement accounts. Congress was great with using age 70 ½ for almost thirty-five years until the first SECURE Act (passed in 2019) moved the beginning age out to age 72 starting in 2020. Now, only three years later, we get another adjustment.

If you turn 72 (or younger) this year, you do not have to begin taking your RMDs until you turn 73, which becomes the magic age through 2032. Then, starting in 2033, RMDs begin at age 75! Below is a handy cheat sheet:

- Born 1950 and earlier – unfortunately, you have already started your RMDs (because you turned at least 72 in 2022), and there is no change for you.
- Born 1951 through 1958 – RMDs begin at age 73.
- Born 1959 or later – RMDs begin at age 75.

Why does the two-year jump from age 73 to age 75 happen in several years instead of right now? It comes down to budget math. The U.S. government gets more tax revenue by having individuals begin drawing from their IRAs earlier, so by only initially pushing out the RMD age by one year, the estimated revenue from those RMDs gets to offset some of their spending priorities (remember, this legislation was included in an omnibus spending bill.) Then, they get to tell constituents that they're looking out for their retirement needs with a later starting age for RMDs… but also kicking the can for a future Congress to figure out how to reconcile lower near-term tax revenues and higher government expenditures.

Changes to 401(k) Catch-Up Contributions

At the end of a calendar year, Individuals who are 50 or older can add additional amounts to their 401(k) on top of the annual limit as a way of "catching up" their retirement savings. In 2023, any individual can contribute up to $22,500 to their 401(k) plan, and if you're 50 or older, you can add an additional $7,500 (for a total of $30,000 in 2023.) Starting next year (in 2024), if you have wages in excess of $145,000 in the previous calendar year from your employer (who is the 401(k) plan sponsor), your catch-up contributions will be required to be "Roth contributions," meaning you will not receive a tax deduction in the year of contribution. As with any quickly drafted and passed legislation, there are some questions still outstanding, and clarifications needed (such as the treatment of self-employed individuals who do not receive "wages" or the impact of changes of job in the middle of the year.)

Speaking of catch-up contributions, beginning in 2025, if you are of the ages of 60-63 (but not younger and not older!), you will be able to make catch-up contributions to your 401(k) of at least $10,000 or 150% of the regular catch-up amount, whichever is greater. This provides another opportunity to stash more away as employees approach retirement.

529-to-Roth IRA Conversions

One of the potential drawbacks of contributing to a 529 college savings plan is the fear of having funds left over in the account due to either (i) saving too much in the account compared to needed tuition, or (ii) the beneficiary of the account not attending post-secondary education (i.e., community colleges or universities). With SECURE Act 2.0, a pathway is created to transfer funds from a 529 plan to the beneficiary's Roth IRA, albeit with plenty of particulars. This could reduce some of the anxiety in making the decision to contribute to a 529 if the worst thing that could happen is that you're jumpstarting the retirement fund of the 529 account beneficiary. The following are just some of the limitations included with this option (which is set to begin in 2024):

- The 529 plan must have been maintained for at least 15 years.
- Contributions made in the last five years (and applicable earnings) are ineligible to move to the Roth IRA.
- You must take the beneficiary's own IRA contributions into consideration, as the annual transfer is limited to the annual limit for contributions.
    - An example: If the annual limit for Roth IRA contributions was $7,000 and the 529 beneficiary had already contributed $2,000 to his Roth IRA, then you would only be able to transfer the difference of $5,000 in that year.
- The maximum amount that can be transferred, in total, from the 529 to the Roth IRA is $35,000 (so it could take 5 to 6 years of making the maximum annual transfer to make the full transfer).

A Couple of Quick Housekeeping Items

1. Mailing dates for tax forms
    a. Composite Forms 1099 (for brokerage accounts) will be mailed in three groups – the first mailed by 2/15, the second mailed by 2/28 and the third mailed by 3/15. Please let us know if you'd like us to directly send the forms (when available) to your CPA.
    Forms for retirement (Forms 1099-R and 5498) will be mailed by 1/31.

2. If you have an ACH profile set up between your Raymond James accounts and your bank account, or if there are automatic monthly journals/withdrawals from your accounts, you received a paper letter in the mail from Raymond James confirming your "money movement profile." As noted on the form, no action is required on your part – they just have a rule that they must send the letter via paper even if you are set up for all electronic delivery.

As always, we're excited to catch up with you in this new year!

Around The Office Updates

Looking Into Q1

Preparing for Tax Season

Round one of 2023 tax documents (i.e., 1099s) will be sent by February 15th. If necessary, rounds two and three will be on February 28th and March 15th, respectively.

Pete has been very busy! As you may have heard, we are in the process of building our own new office building. The entire process has gone surprisingly fast, and we are hopeful to make our move sometime in the Spring. We will keep you posted as we get closer!

Jimmy and Sandi are officially on baby watch! Sandi's due date for their son, Casey James Roth, is February 8th, but seeing as this is baby number three, there is good reason to believe he could arrive any day. If you ask their two daughters, Kaylee (5), and Maggie (3), what they are most excited about with welcoming home a baby brother, they will tell you that they are excited to give him tattoos. Awesome.

We know it's hard to believe, but Eric and Ellie's two boys are already driving. Life goes fast! Santa brought Abe (3) and Jonah (1) their very own Jeep for Christmas and you better believe they have already covered many miles in this bad boy. It is now their preferred mode of transportation!