Breed's Hill Newsletter

Planning Your Financial Future

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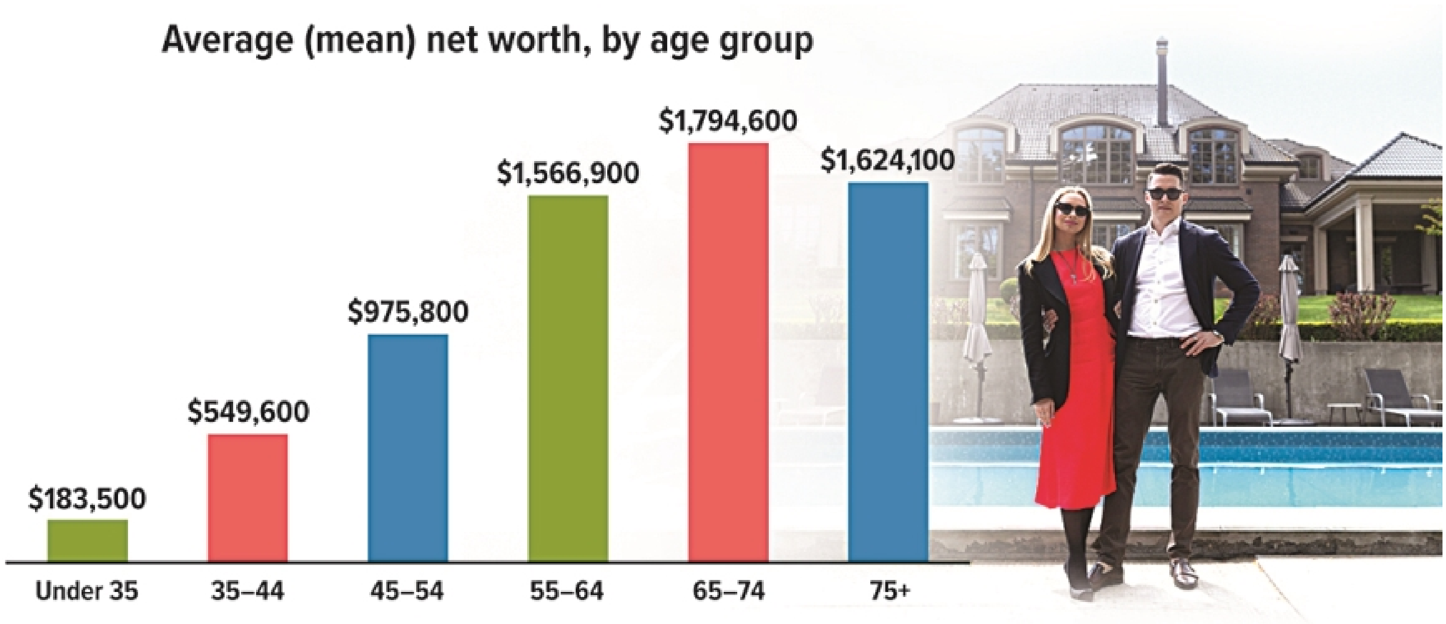
Just Your Average Millionaire

The average net worth of U.S. families surpassed $1 million ($1,063,700) for the first time in 2022, after increasing 23% from 2019. (A family's net worth is the total of their financial assets minus their liabilities, or debts.) Unfortunately, this milestone does not mean the typical American is a millionaire, because a small number of very wealthy households skews the average. The median net worth ($192,900 in 2022) was much lower than the average, but its growth was by far the largest on record. Still, the net worth of U.S. families varies greatly depending on housing status, education, income level, and age — which shows that it usually takes time and diligence to build wealth.



Source: Federal Reserve, 2023

Eight Great Investing Quotes

Investing can be daunting, whether you are experienced or a beginner. Even if you feel confident about your investing strategy, it can be easy to lose focus or make decisions based on emotion. Here are eight quotes from successful investors, economists, and other insightful thinkers that may help provide perspective and focus for your own investing strategy.

"The individual investor should act consistently as an investor and not as a speculator."[1]
— Benjamin Graham, investor, author, and teacher known as the "father of value investing." A speculator takes large risks in the hopes of making large quick gains. An investor focuses on risk-appropriate strategies to pursue long-term goals.

"Don't try to buy at the bottom and sell at the top. It can't be done except by liars."[2]
— Bernard Baruch, investor and presidential adviser. Trying to time the market may be tempting, but it rarely works, because no one really knows when the market has reached its top or bottom.

"If you aren't willing to own a stock for 10 years, don't even think about owning it for 10 minutes."[3]
— Warren Buffett, investor, businessman, and philanthropist. Buffett, a former student of Benjamin Graham, is perhaps the most famous proponent of patient "buy and hold" investing.

"Take measured risk."[4]
— Doris P. Meister, investment manager and business leader. All investing involves risk, but risk can be managed through careful research and proven strategies such as asset allocation and diversification.

"Regardless of what happens in the markets, stick to your investment program. Changing your strategy at the wrong time can be the single most devastating mistake you can make as an investor."[5]
— John Bogle, investor and mutual fund industry pioneer. A sound investment strategy should be designed to carry you through market ups and downs.

"Know what you own, and know why you own it."[6]
— Peter Lynch, investment manager, author, and philanthropist. Your portfolio should be assembled with an eye toward meeting your long-term financial goals, not by rushing to own the "flavor of the month."

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas."[7]
— Paul Samuelson, 1970 Nobel laureate in economic sciences. Investors often make poor decisions when they are driven by adrenalin; patience is more likely to produce positive results in the long run.

"Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it."[8]
— Albert Einstein, 1921 Nobel laureate in physics. Even though this and similar quotes are often attributed to Einstein, it's uncertain whether he ever said them. Either way, one of the most powerful tools for investors is reinvesting interest, dividends, and capital gains.

There is no guarantee that any investing strategy will be successful. All investments are subject to market fluctuation, risk, and loss of principal. When sold, they may be worth more or less than their original cost. Investments seeking to achieve higher returns also involve a higher degree of risk. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

1, 6, 7) Investopedia, September 15, 2023

2, 5) BrainyQuote, accessed March 28, 2024

3, 8) Goodreads, accessed March 28, 2024

4) *U.S. News & World Report,* March 11, 2024

Insurance Gaps May Pose Risks for High-Net-Worth Households

Serious accidents don't happen very often, but when they do, the impact can be devastating. And unfortunately, you could be held legally responsible if a member of your household causes a car wreck or if someone is injured on your property, even if you go to great lengths to help make your home and the surrounding area safe for visitors.

If you have teenagers who drive, employ household workers, own a pool or trampoline, entertain often, coach youth sports, or are a public figure, the odds are even higher that you could become the target of a lawsuit. Of course, the wealthier you are, the more you stand to lose if a liability claim is filed against you. It's important to reassess your liability coverage periodically and make sure it's sufficient based on your family's financial situation, lifestyle, and the related risks.

Is your umbrella big enough?

Standard homeowners and auto insurance policies generally cover personal liability, but you may not have enough coverage to protect your income and assets in the event of a high-dollar judgment. That's where an umbrella policy comes into the picture, providing an extra layer of financial protection against lawsuits claiming that you or a member of your household is liable for bodily injury or damage to the property of others (up to policy limits).

To purchase an umbrella policy, you must first have a certain amount of liability coverage in place on your homeowners/renters and auto insurance (typically $300,000 and $250,000, respectively), which serve as a deductible for the umbrella policy. An umbrella policy will commonly provide liability coverage worth $1 million to $10 million.

One general guideline is to have liability coverage in place that matches your net worth. This includes assets such as savings and investment accounts, cars, valuable art and collectibles, plus the equity in your home and/or any other real estate that you own. You may want to add the value of your projected stream of future income. (Qualified retirement plan assets may have some protection from civil liability under federal and/or state law, depending on the plan and jurisdiction.)

What's covered and what isn't?

An umbrella policy may help pay legal expenses and compensation for time off from work to defend yourself in court. It might also cover some nonbusiness-related personal injury claims that are typically excluded from standard homeowners policies, such as libel, slander, invasion of privacy, and defamation of character.

A personal umbrella policy won't cover your own injuries or damage to your property; nor will it cover liability associated with your business — for that, you may need a commercial umbrella policy. You generally won't be covered if you hurt someone on purpose, commit a crime, or breach a contract. Read your policy carefully for other possible exclusions, such as injury claims involving some breeds of dogs.

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Do these situations apply to you?

Household help. If you have a nanny, housekeeper, or other employees who work at your home, workers compensation insurance is typically required by law. A type of coverage known as employment practice liability insurance, which covers claims such as harassment, wrongful termination, and discrimination, may also be available.

Special events. If you host parties where alcohol is served, always take steps to moderate guests' drinking and don't let anyone drive home intoxicated. Consider purchasing a special event policy designed to help limit your exposure if you host a costly event, such as a wedding, at your home or another venue.

Proper names. If you establish a trust or limited liability company (LLC) for the ownership of certain assets, make sure the named owner is accurately reflected in insurance policies meant to protect those assets. To ensure coverage for an automobile, for example, the name on the policy should match the registration. Property purchased through an LLC should generally be insured by the LLC, with the individual as an additional named insured.

The IRS Wants More Info About Your Gig Income

If you earn money through a payment app or online marketplace, you may be affected by a tax reporting change enacted by the 2021 American Rescue Plan. The law requires third-party settlement organizations to report business transactions totaling over $600 per year by issuing a Form 1099-K to the taxpayer and the IRS. The previous reporting threshold was much higher ($20,000 and 200 business transactions).

This change was delayed for the 2023 tax year because it could trigger frustrating unintended consequences. According to the Internal Revenue Service, an estimated 44 million taxpayers might have received unexpected 1099-K forms — with amounts that may not have been taxable. To provide more lead time, the agency announced plans to drop the threshold from $20,000 to $5,000 in 2024 (without regard to the total number of transactions) as part of a phase-in of the $600 threshold.

Here are a few more things that may be helpful to know about this far-reaching new rule.

It's not personal. Business transactions are payments for goods or services, including tips. Money received from the online sale of personal items (like old clothing or furniture), which are normally sold at a loss, is not taxable and generally doesn't need to be reported. However, those in the business of reselling goods for a profit should carefully track the original costs of their purchases. Payment apps are not required to report personal transactions intended as gifts or to split costs. The payer will typically be asked to note nonbusiness transactions.

It's not a tax change. Taxpayers who sell goods, rent out a vacation home, walk dogs, or perform any other type of freelance work through digital platforms were already responsible for self-reporting all income on their tax returns regardless of the threshold. But now the IRS can cross-reference the information sent by third parties with the reported amounts.

It's not foolproof. This change could still cause confusion and costly mistakes. If a payer (such as a roommate making a shared rent payment) accidently clicks on the wrong box, the recipient could receive a Form 1099-K in error. A freelancer might receive a Form 1099-K from the payment processor and a Form 1099-MISC from the client for the same transaction. In such cases, the taxpayer may need to contact the issuer, and if a discrepancy is not corrected, the reported amount can be adjusted with a notation on the tax return.

Using separate accounts for business and personal digital transactions and keeping organized records will help ensure that your tax return is accurate, so you don't overpay or raise red flags with the IRS. If you have questions about how the new rule might affect you, don't hesitate to consult a qualified tax professional.