

the BENCHMARK

BCS Wealth Management's Quarterly Newsletter



04

Quarter Review

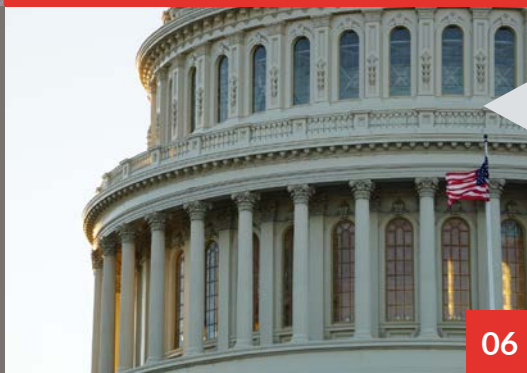
How is the bear market faring as the quarter comes to a close? Myra addresses the root of the recent market havoc.



02

The Financial Year Wrap-Up

Philip provides six helpful financial planning reminders as we approach year-end.



06

What's going on in Washington?

Nick expounds on several ways the Inflation Reduction Act might impact your financial future.



By Philip Bachman

The Financial Year Wrap-Up

It's almost time for the busyness of year-end! My to-do list seems to grow this time of year. The same may be true for you. It might revolve around gearing up for the holidays, squeezing in commitments, or buttoning up a hopefully fruitful year of work. Whatever year-end stresses – I mean rituals – you have, here are six financial planning reminders to consider.

Required Minimum Distributions

If you will be age 72 or older by December 31, you must take a 2022 Required Minimum Distribution (RMD) from qualified retirement accounts. Also, if you own an inherited IRA as a non-spouse beneficiary, you may be subject to a RMD even if you're younger than 72.

RMDs are due to be taken by December 31. The exception is if you turned 72 in 2022, in which case the initial withdrawal from your own retirement account can be deferred until April 1, 2023. (Be aware, however, that if you wait to take your first RMD between January 1, 2023 and April 1, 2023, you

still must take your regular 2023 RMD in 2023. That would double the tax implication next year.)

Failing to take your RMD will cost you a 50% penalty of the RMD amount not taken. The RMD requirement applies to IRAs, 401(k) plans, and most other retirement accounts, but not to Roth IRAs.

Contributions to Retirement Plans

Although the contribution deadline for IRAs is Tax Day of the following year, the contribution deadline for 401(k) and similar plans is December 31. This is a good time of year to review your contribution amounts. Aim to contribute as much as you're able, and strive to increase your contributions over time. If you have a retirement plan sponsored by your employer, contribute at least the minimum amount required to receive the full employer match.

If you don't have access to an employer-sponsored plan, you may be able to contribute to an IRA or Roth IRA.

You might be able to contribute to an IRA or Roth IRA even if you have an employer-sponsored retirement plan. Check with your tax advisor or financial advisor to confirm that you're eligible for an IRA or Roth IRA.

Roth Conversions

Withdrawals from traditional retirement accounts are taxable, whereas Roth withdrawals are tax-free as long as you meet certain criteria. Retirement planning often targets having a mix of traditional and Roth savings. Tax diversification may help you manage retirement income in a way to stay in the lowest possible tax bracket.

One method to boost your tax-free savings is to "convert" some money in traditional accounts (either within your workplace plan or an IRA) to a Roth. Doing so will trigger income taxes in the year of the conversion. Ideally, you'll need cash available from an outside source to cover the tax. Paying the tax from the traditional account is like a regular distribution; it's subject to tax and the 10% early withdrawal penalty if under age 59 ½.

Roth conversions may make sense in some years more than others. For example, if you're in a lower tax bracket one year, perhaps due to a gap in employment or other life event, it may be attractive to do a Roth conversion. Roth conversions must happen by year-end. The tax-filing deadline (typically April 15) for Roth IRA contributions doesn't apply to Roth conversions.

HSAs and FSAs

A Health Savings Account (HSA) is a unique, tax-advantaged vehicle that can be used for current or future healthcare expenses. HSAs have a rare, triple tax advantage: deposits are deductible, growth is tax-deferred, and withdrawals are tax-free for qualified medical expenses.

Consider maxing out HSA contributions if you're eligible.

For 2022, if you are not on Medicare and have a high-deductible health insurance plan you can contribute as much as \$3,650 (single) or \$7,300 (family).

If you are 55 or older you can contribute an additional \$1,000. The account can accumulate, and even be invested, for future years.

Unlike HSAs, Flexible Spending Accounts (FSAs) do not carry over year-to-year. Any funds in your FSA are typically forfeited at the end of the year, so if you have eligible

health and medical needs make sure to take advantage of the accumulated dollars. Confirm your plan's deadlines with your employer.

Tax-Loss Harvesting

Tax-loss harvesting refers to the practice of selling investments at a loss in order to offset the amount of capital gains tax due on the sale of other investments at a profit. Due to many asset classes' poor performance this year, it's a textbook year for many investors to tax-loss harvest.

This can be done while preserving your investment allocation and diversification. Even if your account has no realized capital gains that need offsetting, it's possible to deduct up to \$3,000 of realized losses from ordinary income on your tax return. IRS rules allow additional losses to be carried forward into the following tax years.

Series I Savings Bonds

Series I savings bonds issued by the U.S. Treasury lived on the fringes of the financial planning world for many years. The yield on these nearly risk-free investments is tied to the rate of inflation. Given low inflation, the yield was below 3% (and often below 2%) since 2012. However, I bonds started gaining popularity last year as inflation spiked.

New Series I bonds purchased now through October 2022 are set to yield 9.62% for the first six months.

The last day to buy an I bond at the 9.62% rate is October 28. The 9.62% isn't a fixed rate. The rate varies every six months. It's based on changes in the non-seasonally adjusted Consumer Price Index for all Urban Consumers (CPI-U) for all items.

You have to hold onto the bond for at least a year, and if you liquidate before five years, you'll lose three months of interest. You generally can't buy more than \$10,000 each calendar year, and the purchase needs to be made by December 31. You could buy another \$10,000 early next year if you wish to take advantage of the November-April rate. To buy I bonds, see the Treasury Direct website at treasurydirect.gov.

I hope you have a great conclusion to 2022, even if it's hectic! Thank you for the opportunity to work with you and your BCS Wealth Management team this year.



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By Myra O'Dell

Quarter Review

After a dire second quarter, in which the S&P 500 Index entered bear market territory in June, the third quarter began with a much-needed breath of fresh air. Stocks enjoyed a strong rally thanks to good corporate earnings reports and a positive response to Federal Reserve policy.

The index returned 9.22% for the month of July, marking its eighth highest monthly return since 1988.

The encouraging trend continued into the first half of August. The S&P 500 gained 4.3% through August

16th, bringing the rally to double digits. I wish I could end my letter here. Unfortunately, the second half of the quarter did not fare as well as the first half.

Spooked by Fed Chair Jerome Powell's speech at the Jackson Hole Economic Symposium where he commented that interest rates would need to remain higher for longer, the S&P 500 fell by

8.1% to close out August, making the total return for the month -4.1%. An increase in interest rates also put downward

Major Stock Indexes	3rd Quarter 2022	YTD
DJIA	-6.7%	-20.9%
Nasdaq Composite	-4.1%	-32.4%
S&P 500	-5.3%	-24.8%
Russell 2000	-2.5%	-25.9%
Global Dow	-9.5%	-23.4%
Japan: Nikkei 225	-1.7%	-9.9%
Stoxx Europe 600	-4.8%	-20.5%
UK: FTSE 100	-3.8%	-6.6%
Major Bond Index	3rd Quarter 2022	YTD
Bloomberg US Aggregate (Total Return)	-4.1%	-14.4%

pressure on bond prices throughout the month. The 10-Year Treasury yield increased from 2.65% to 3.19% in August, causing the Bloomberg U.S. Aggregate Bond Index to decline by -2.8%. At the end of August, the index was down by 10.8% for the year, which is the worst start to a calendar year since the inception of the index in 1976.

The bad news continued into the month of September. The S&P 500 closed the books on its steepest September decline in two decades. Furthermore, the third quarter of 2022 marks three quarterly declines in a row, the longest losing streak for the S&P 500 and the Nasdaq since 2008 and the Dow Jones Industrial Average's longest quarterly slump in seven years. Ugh.

I think at this point, you get my message that it has been a rough quarter, not to mention a rough year. What's causing all of this havoc in both the equity and bond markets? Well, there are many factors, but the root of the problems rhymes with the infamous real estate saying, "location, location, location." The underlying culprit is inflation, inflation, inflation.

The question now is how fast can inflation fall, and where does it come to rest?

Recession is a growing risk as the Fed remains focused on combating inflation through higher rates, which tend to hamper economic growth.

As expected by many, the Federal Reserve announced a third consecutive 75-basis-point rate hike at its recent meeting in September. What wasn't expected was that the Fed's target keeps rising for where it thinks rates will need to go. The new target is expected to be above 4.5%, which implies another 150

basis points of rate hikes later this year and early in 2023. Fed Chair Jerome Powell has been very clear that the Fed's goal is to reduce inflation, regardless of whether it causes a recession.

Other notable activities of the third quarter include the soaring dollar against major foreign currencies and the passage of the Inflation Reduction Act.

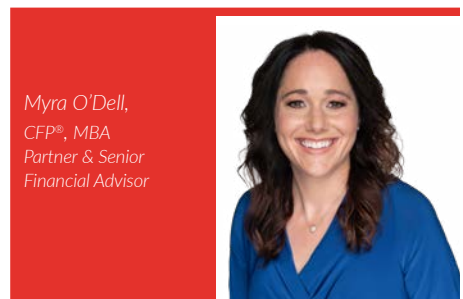
The dollar is up about 7% for the quarter against other currencies and stands near its highest level since May 2002.

Check out Nick's article in our newsletter for details on the Inflation Reduction Act.

The ongoing transition in the economy and markets is likely to be bumpy. However, for long-term investors, we believe this difficult economic environment has created opportunities for investors willing to live with some short-term discomfort. We believe those who were able to either stay invested, rebalance, or add to their existing

holdings will eventually be rewarded. We encourage you to maintain a long-term viewpoint as the present environment is very volatile. Given all the uncertainty, we are maintaining a disciplined approach while continuing to look for opportunities to tax loss harvest, reposition and rebalance portfolios, and selectively put money to work for clients that have recently made contributions to their accounts.

Thank you so much for allowing us to serve you. We take our role in your financial journey very seriously and are honored to be a part of it. As we head into the final months of the year and the holiday season, we wish many blessings for you, your family, and friends.



Make sure to visit Founders Park and King Commons in Downtown Johnson City this holiday season for another year of Candy Land Christmas! Keep an eye out for the BCS Wealth Management tree and make sure to vote for your favorite.



By Nick Clay

What's Going on In Washington?

This summer Congress passed a healthy amount of legislation with the Inflation Reduction Act being the headliner in August. The bill cleared the Senate through the reconciliation process, enabling Democrats to proceed without any Republican support. The bill attained party-line votes of 51-50; Vice President Kamala Harris cast the tiebreaking vote. The bill cleared the House with party-line votes of 220-207.

The Inflation Reduction Act started out as the \$3 trillion “Build Back Better Act” (or as some called it, the “Build Back Broke Act”). The newly titled \$750 billion bill includes a number of major healthcare, energy, climate change, and tax provisions. By name, the legislation claims to target and reduce the ever-present inflation issue, but estimates show the bill likely won't make a dent in the inflation rate. Nonetheless, there are many initiatives that you may want to be aware of in this significant piece of legislation.

I realize the title to this article could invite all sorts of opinions. Believe me, I've heard a lot of them! It's a loaded question because of all of the day-to-

day “noise” coming out of the country's capital. But for the purpose of this article, what specifically is in the Inflation Reduction Act that could impact your financial life?

Tax Incentives

There are a handful of previous tax credits that have been expanded upon for homeowners. The new law allows homeowners to claim up to 30% of the costs for eligible home improvements during the year with a limit of \$1,200 in credits starting in 2023. The credits are targeted at home improvements that are “energy-efficient” and include upgrades to items like windows, appliances, HVAC units, and solar panels. Tip – You can claim the maximum tax credit in more than one year, so spreading out your improvements over multiple tax years can enhance your tax bottom line each year.

Electric vehicles (EVs) continue to make their way into the mainstream as price tags have decreased and oil prices have generally risen. If you've considered purchasing an EV you might be in luck, but you have to be careful. Here's what I mean: The Inflation Reduction

Act maintains a \$7,500 credit for the purchase of an EV, but it imposes additional caveats. There are income limitations, caps on the price of the vehicle, and many outright restrictions on which vehicles are eligible. Tip – Do your homework if you're open-minded about which EV to buy... it could save you \$7,500.

Remember, a tax credit is a dollar-for-dollar amount that you can subtract directly from taxes owed. It's different than a deduction. It's much more favorable because credits reduce tax owed, not just taxable income.

Corporate Taxes

As the Inflation Reduction Act has morphed, so have the tax targets. The original version(s) of the bill aimed to focus on the taxation of the wealthy, but this never received bipartisan traction. Eventually the focus turned to corporations.

Going forward, there will be a 15% minimum tax that will apply to corporations with more than \$1 billion in annual profits for a three-year period.

This is similar to the Alternative Minimum Tax (AMT) that individuals can be subject to. Per estimates from the Joint Committee on Taxation, there are at least 100 companies in the S&P 500 that could fit into this category.

In addition to the minimum tax, there will be a 1% tax on stock buybacks of corporations. A stock buyback is when a public company uses cash to buy shares of its own stock on the open market. A company may do this to return money to shareholders that it doesn't need to fund operations and other investments. This move by corporations creates value to shareholders and causes the share price of the stock to rise.

There are many ways companies can manage their financial statements. It will be interesting to see how these targeted tax implications change investment and corporate behavior.

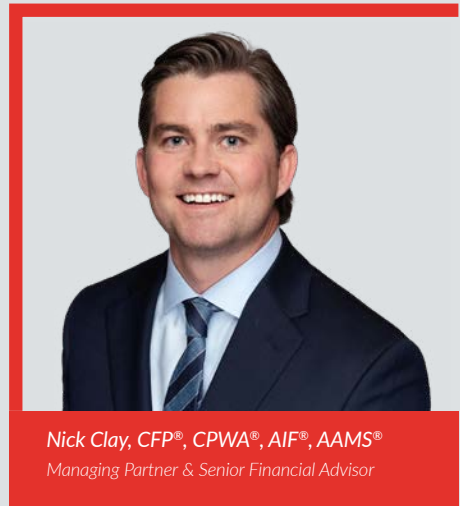
Tax Enforcement

The new bill will increase the IRS budget by \$80 billion over the next 10 years. While many in opposition have sounded the alarm that this will lead to auditors targeting the middle class, the IRS claims the funds are for a variety of purposes. The funds will certainly be used to hire additional employees, but they will also be used to upgrade the IRS' technology in an effort to be more efficient, catch up on a backlog of over 20 million unprocessed tax returns, and increase customer service.

After the upgrades, the remaining funds will be used to strengthen the IRS' enforcement efforts. Their stated goal is to close the "tax gap", which is the difference between taxes owed and taxes collected. Treasury Secretary Janet Yellen has said that taxpayers earning less than \$400,000 will not see any increase in the rate of audits.

Changes to the law – especially in the

areas of tax and estate – can provide planning and strategizing opportunities. Legislation changes and announcements can be confusing and sometimes misleading, which is why it's important to talk with your financial advisor or tax advisor if you think new legislation may affect your financial life.



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Managing Partner & Senior Financial Advisor

BCS Wealth Management Creates Scholarship for College Students

by Nathan Goodwin

In celebration of the firm's upcoming 25th anniversary, the partners of BCS Wealth Management are excited to announce the BCS Wealth Management Scholarship. The program will award \$2,500 scholarships to rising juniors or seniors at both Milligan College and East Tennessee State University. Applicants must be business majors with a preference towards finance. The selection process will prioritize students from the Tri-Cities region and surrounding counties.

The partners created the scholarship to show appreciation for 25 years of community and client support, and to help local students who desire to enter the business of financial services.

Interested students may contact BCS Wealth Management at 423-283-9821 for more information.



BCS Wealth Management is an independent financial planning firm in Johnson City, TN. We help individuals, families, and businesses reach goals important to their financial wellbeing. We provide investments and financial planning, insurance, and group benefits.

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Client Event at Johnson City Country Club

We had a great time hosting our clients and friends at our appreciation event at Johnson City Country Club. It was a wonderful day of powerful speakers, good discussions, and golf!



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