

December 2021

Dear Client,

As 2021 comes to an end, we look ahead with renewed hope to a New Year filled with Health and Happiness! Financially it has been a good year for many, with stock market returns in the S&P500 Index nearing 27%, while some specific sectors of the market have done even better. But for many of us, peace of mind is still missing. COVID has changed so many things, whether it may be your ability to travel without worry, freely visit with family and friends, or simply enjoy a dinner out. In my day-to-day meetings I have seen the toll it has taken on many of us.

But I feel that it's important for all of us to remember that this is just part of the puzzle of life – as we all seek to make the most out of our time here. I mention this because the daily news flow of politics, divided government, misguided agendas, inflation, taxes, mandates, supply shortages, the latest Fed speak, virus numbers, daily hospitalization numbers, variants of concern, etc. are enough to leave most of us feeling anxious and worried about the future.

We mentioned in the last letter that it was just a matter of time before volatility crept back into the stock market, as it's uncommon to have such a long period of very low volatility. And while I don't see a recession in the short term, I do see even more volatility as inflation has made the forecast more uncomfortable. Since we have been in a prolonged environment of easy money, we have closely watched inflation, as that would determine how quickly the **Fed** would take action. Now, the most recent **Federal Reserve** meeting has made forecasts of 3 interest rate increases for 2022. In the past it's usually been the **Federal Reserve's** "tightening" that has put the brakes on an economic expansion and chances are this time will be no different. As the **"Sevens Report"** notes, "what will need to be watched is how much pressure the new interest rate hikes will exert on the economy." Yet it's important to note that the last two interest rate hike cycles had still produced strong market returns.

All told, it's hard to envision the next five years of stock market returns matching the performance we have seen over the previous five years. Please keep in mind, re-balancing your portfolio is a great strategy to reduce risk and take a bit of profit. We continue to stress the importance of considering this in the year ahead.

As I cover the current thinking on the overall economy, I want to clarify the tax changes that are going into effect for the Tax Year 2022 – according to David Rae of **Forbes**. Although additional tax proposals are still being discussed to further modify things, listed below are changes that went into effect January 1, 2022.

- The top Federal Tax bracket remains at 37% for 2022; and since most income -tax ranges are being increased by roughly 3%, it's possible you may avoid being pushed up into the next tax bracket (if you were on the edge last year).

- The new standard deduction for married couples in 2022 will be \$25,900, (increased by \$800) and \$12,950 for single tax filers, (increased by \$400.)
- IRA and Roth IRA contribution limits are staying the same at \$6,000 for 2022, and at \$7,000 (with the \$1,000 catch-up contribution) for those age 50 and older.
- 401K plan employee contributions are increasing to \$20,500, along with an additional \$6,500 catch up contribution for those age 50 and older. The maximum combined contribution between employee and employer increased to \$61,000 per year.
- Annual gift tax exclusion amount will increase to \$16,000 for the Tax Year 2022, (up from \$15,000 in 2021).

Interesting to note, earlier in 2021 there were proposals to make increases in individual tax rates and capital gains, as there were in the estate tax, either by ending the step up in basis or by reducing the amount of Estate Tax Exemption. Yet in the end, the latest version of the Build Back Better Act, approved by the House, removed all those proposed changes.

Now that we have covered the January 1, 2022 changes, let's take a quick look at some of the latest future tax law proposals, according to Michael Townsend with **Charles Schwab** (and a few of them actually look positive):

- The \$10,000 cap on deduction for state and local taxes looks to be increased, with the latest version capping the deduction at \$80,000, (but that figure could come down should it come to be law).
- The House bill prohibits Roth IRA conversions for wealthy taxpayers (individuals earning more than \$400,000 or couples earning more than \$450,000) beginning in 2032. This should have zero effect on anyone doing partial conversions annually, and the lead time is such that any high-income earner would have sufficient time to convert should it make sense.

It's important to remember that there will probably be more changes to the above proposals as negotiations continue as we write!!

As many of you already know, **Schwab** completed its acquisition of our custodian, **TD Ameritrade**, in October, 2020. We expect to hear more details on the **Schwab** and **TD Ameritrade** integration process in the second half of 2022. According to John Tovar, managing director of Wealth Management Services for **TD Ameritrade Institutional**, the actual conversion date, (when assets will be moving from **TD Ameritrade** into the **Schwab** platform), is still targeted for the second half of 2023. With this merger we are anticipating enhancements to monthly statements and on-line access, with minimal, if any, disruption in service to our clients' accounts. Please do not hesitate to reach out to us with any questions or concerns that you may have regarding this merger.

As always, we look forward to hearing from you any time that you feel we can be of service!

Sincerely,



Bryan Bastoni, CFP
CERTIFIED FINANCIAL PLANNER, TM