JFR

Financial Stuff

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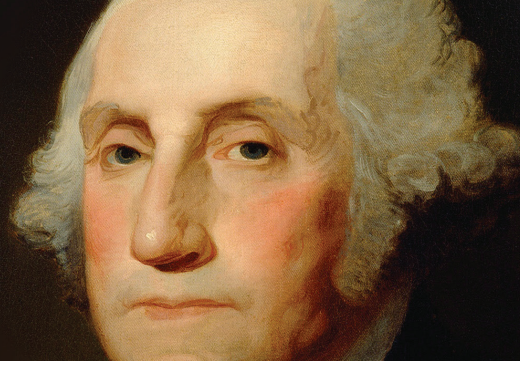


INSIDE

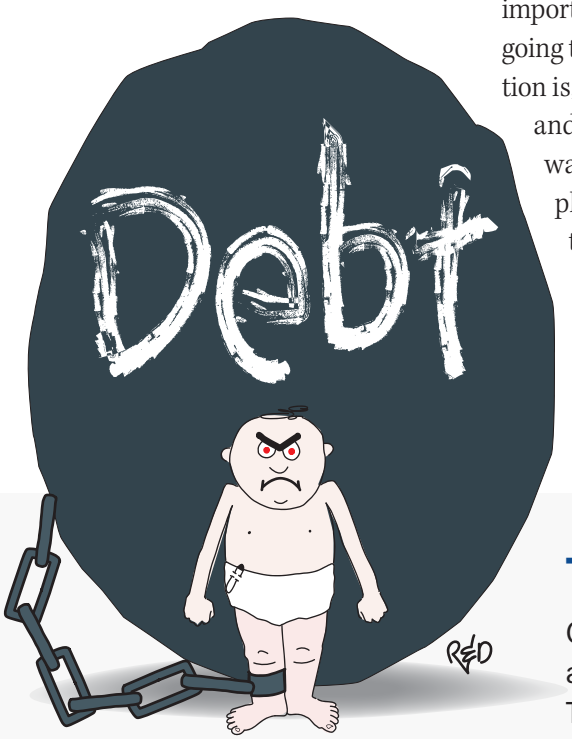
CJ – Social Chairman

QCD = QUALIFIED CHARITABLE DISTRIBUTIONS FROM AN IRA

Like all tax laws, there are plenty of *"If/Then"* possibilities. **BUT!** Nearly all are good! If you make charitable contributions each year, are 70 1/2+, and have an IRA, then let's review your taxes to see how you would benefit from a QCD. Lower taxable income can reduce the taxation of your Social Security. Giving from your IRA increases the value of your standard deduction. Charitable contributions are not deductible on most state returns, but a QCD reduces your state taxable income. Lower income can reduce your Medicare premiums. Lower income can reduce your capital gains tax. If you have deductible medical expenses, then lower income can increase their value on your Federal return. If you qualify for any tax credits, then lower income increases the value of same. *(Source: IRS, AAII)*

SPEAKING OF "IF/THEN," WHAT ABOUT TRADITIONAL VERSUS ROTH?

This is a little more hazardous than the QCD. Why? It requires assumptions. Most importantly, will my taxes be higher tomorrow than they are today? How long am I going to live? What if I need the money sooner rather than later? The basic question is, should I pay the IRS now or later? What if you make QCDs after 70-1/2 and avoid taxes completely? In this case, the traditional IRA would be worth way more since the contributions are tax-free. What about the retirement plan contribution credit? Most Americans pay less tax in retirement than they do while working. There are exceptions, but as a rule it usually costs ~$0.75 to contribute $1.00 to a traditional IRA today versus ~$1.25 to a Roth IRA. The ~$0.50 savings is in the IRA making money. The longer it makes money, the more it's worth tomorrow to help pay the taxes. On a Roth, the IRS gets their money today. What to do? Ask us to crunch the numbers. ***It's what we do!***



BORN IN THE USA.

THE NATIONAL DEBT

On December 30, 2020 the United States owed $27.56 trillion, an increase of $4.36 trillion from 2019. The yield on the 10-year Treasury Note was 0.91%, the lowest close ever since they were first traded in 1790. Yes, that's 230 years! *(Source: US Treasury)*

NEED TO REPLACE A TRUSTEE?

Say a local bank was bought out by a regional bank who was then purchased by a national bank. The local trust department that your grandparents knew and trusted is long gone. The new trust department may be thousands of miles away. Oh well. ***But wait!***

1. If trust language allows, simply initiate removal and replacement of the trustee with a trust amendment.
2. Simply ask the current trustee to resign. Some will. Some won't.
3. Modify the trust with the consent of the settlor and beneficiaries.
4. Petition the court. This is a ***"brute force"*** option, but can work if all the beneficiaries agree and a suitable successor trustee is available. Even without 100% agreement, a court can still remove and replace a trustee if the court is satisfied that the modification is consistent with a material purpose of the trust.
5. Change trustees using a nonjudicial settlement agreement (NJSA). With an NJSA, an irrevocable trust that in the past was incapable of being updated can now be modified without court action. Therefore, an NJSA can be used to remove and replace a corporate trustee with a suitable replacement. If you cannot remove the trustee under the terms of the trust or convince the trustee to resign, using an NJSA may be the most desirable way to effect a change in trustee. An NJSA is a form document. It is valid to the extent it includes terms and conditions that could be properly approved by a court and must be signed by all interested persons. The NJSA must be signed by all the qualified beneficiaries and accepted by the nominated successor trustee. The executed form would then be presented to the incumbent trustee to notify them of their replacement and removal.

WHAT IF MY CHILD HAS PROBLEMS?

There are always problems. Planning for how best to leave money behind to someone who can't manage money is a challenge. Many or most will have a beneficiary who will need help managing their inheritance for one reason or the other. Address the situation as an illness as opposed to a weakness. All of us are vulnerable to mistakes and problems. Throwing money at it is rarely the best option. Arrange your affairs in a way that offers incentives. When they are good, they get more money. When they are not, the money can go to someone else or charity. Another important consideration is if the family member has a higher risk of being sued, or going through a divorce, then the trust must be created in a way to avoid your money going to someone or something you don't want it to. The trustee must be able to provide support even when the benefits are cut due to the beneficiary violating the trust requirements. Look at the trust as a form of insurance. Hopefully, there will never be a claim, but if there is it could save a family member's livelihood as well as prevent your hard earned wealth from being squandered. *(Source: Financial Planning, Financial Advisor)*

> *How wonderful it is that no one needs to wait a single moment before starting to improve the world.*
> ANNE FRANK

DOW INDUSTRIAL AVERAGE MILESTONES

YEAR	AVERAGE	CHANGE
1972	1,000	
1987	2,000	15 years to double
1995	4,000	8 years to double
1997	8,000	2 years to double
2013	16,000	16 years to double
2021	32,000	8 years to double

PREPARE, DON'T PREDICT

"Unfortunately, there seems to be far more opportunity out there than ability... We should remember that good fortune often happens when opportunity is met with preparation." Thomas Edison said this 100+ years ago. It applies to life in general, but consider caregiving. According to a Harvard Study, as many as 33% of American workers leave the work force because of caregiving responsibilities. As many as 33% of those leaving is to care for an elderly relative. Note that 67% are leaving to care for someone other than an elderly relative. Those in this situation shouldn't look to their employer or Washington for help. We have to plan and prepare for it ourselves. We have seen good and bad situations. From a financial standpoint, we can best help by preventing you from making bad decisions. In a crisis, most don't think clearly. *(Source: Harvard, Wall Street Journal)*

BENEFICIARY MISTAKES

Avoiding probate is good, ***but*** it is not the only consideration.

1. **No Beneficiary.** This virtually guarantees the asset will likely end up in probate and someone may end up getting money that you want to go to someone else.

2. **No Contingent Beneficiary.** If your primary beneficiary predeceases you, or if you die together, then the same situation as having no beneficiary will be the result.

3. **Not Keeping Beneficiaries Up-to-Date.** If you get divorced, then remove your ex-spouse if you don't want them to get the money. My favorite example here is a loser son-in-law. If your daughter dies first, then it is possible he will get the money instead of the grandkids.

4. **Naming Minors as Beneficiaries.** Most parents establish testamentary trusts to cover this situation. However! If the minor is the direct beneficiary, then the money can/will pass to them outside of the estate and a stranger may be put in charge of the money and/or the money will be handed to the child when he/she turns 18. Since nearly all inheritances are spent in 18 months or less, the odds of an 18 year old doing what you want them to do with your money is very, very low!

5. **Naming Special Needs Individuals as Beneficiaries.** Under the current rules, money received by individuals on Supplemental Security Income (SSI) or medical disability are disqualified from their benefits until the money is spent. In these instances, a special needs trust or supplemental needs trust can protect the money without them losing their benefits.

6. **Naming Financially Irresponsible Beneficiaries.** Many of us have loved ones who are not good with money. Leaving them money directly could virtually guarantee someone else ends up with the money. Even worse, they may end up in bankruptcy. A spendthrift trust can protect the assets.

7. **Real Estate Mistakes.** If your home is the only asset without a beneficiary, then it will end up in probate and your beneficiaries may not want to pay for having it maintained and sold. Or, they may argue over who is responsible. Adding your children to the deed exposes your home to lawsuits against them even though you had nothing to do with what they did or didn't do. It may be necessary to have your other assets go into probate to protect your home.

8. **Lady Bird Deed.** The State of Michigan does recognize these. Not all states do. Lady Bird Deeds allow you to assign beneficiaries to your home/real estate. They work in most situations. However, keep in mind the more beneficiaries there are; the greater the risk of discord! If you believe there will be problems - discuss a trust with your attorney.

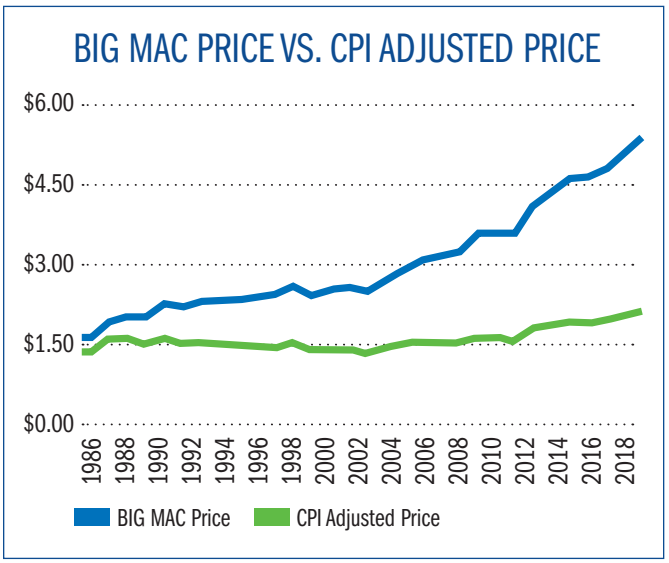
9. **Joint Ownership with Children.** This remains a common option. **BUT!** It can cause problems. Technically they own an assigned share of whatever account or asset you add their name to. They could take their share and run. Their share could be taken by a creditor they owe money to. If your intent was for the money to be used to bury you, the child or children have no legal obligation to honor your wishes. Other arrangements may be needed. There is also the issue of step-up in basis to consider. Before making this change, review the tax consequences with your tax advisor. Another popular alternative is Transfer on Death (TOD). This assigns beneficiaries and they have no authority until you die.

10. **Naming One Child.** Another common arrangement is to have one child inherit everything with the instructions to split it up evenly with their siblings. They have no legal obligation to do so.

11. **IRA Beneficiary Trust.** This can be a good option, but it may be more trouble than it's worth. Consider all the possibilities before settling on having your beneficiaries exposed to the risks and complexities of a trust. Beneficiaries are a critical component of your estate. Plan accordingly! And review periodically. *(Source: Financial Planning, AAII, AIER*

THE BLACK SHEEP

Nearly every family has one. ***Or two!*** It's important to consider every individual in your estate plan. Whether it's poor money management, addiction, marital problems… A well drafted estate plan can handle them all. Not dividing the estate equally is becoming the norm rather than the exception. It often has nothing to do with your disappointment and/or disapproval. For example, disability. There's no reason to treat them equally when the government will simply take any money they receive. Whatever the reason, it is good to explain why in the estate documents. It's also important to remember nothing is set in stone until you die. Review your estate documents every few years to ensure they are up to date and say what you want them to say. You can control money from the grave! It can be expensive, but not necessarily. It is all dependent on your goals. Paying for trust administration may be the only option, but simply distributing the money over time or after a certain goal is reached is not complicated. It is also possible for each beneficiary's inheritance to be managed separately. Professional trustees can be very expensive, but sometimes they are necessary. We are here and have excellent attorneys to refer you to. Like investing, estate planning involves preparing for the future, not predicting it. It's not fun to think about death, but it is coming for all of us. Better for you to dictate what happens to your assets than a stranger. The current pandemic serves as a reminder of having your affairs in order. ***Just in case!***



TIME IS MONEY

Since 1950, the S&P 500 Stock Market Index has been up 54% of 17,866 trading days, 60% of 852 months, 67% of 284 quarters and 73% of 71 years. The most common percentage mentioned is the market being up 70% of the time, but on any given day it is 54%. The average return since 1991 was 10.7%. Remove the 24 best days and the average return drops to 5.3%. Remove the 24 worst days and the return improves to 17.1%. *(Source: BTN Research)*

GAMESTOP? AMC? BLOCKBUSTER?

The Reddit crowd, an online posterboard with 4 million participants, has been causing quite a stir teaching Wall Street a lesson or two in moving the market. There's plenty of information out there on short selling, etc. My comments revolve around what it means for us. The market is not broken. This activity proves it is working just fine. The millions of new investors are responding to what they're reading/hearing. There is no question it is a bubble. All bubbles eventually pop. Money will be lost as easily as it was made. Best to avoid it all, but if you can't resist, then probably best to do the opposite of the herd. The best word to describe it all is **"GREED."** Another important word is **"GOVERNMENT."** The Federal Reserve and other government bodies set the table with decades of printing too much money. The poor become poorer and the rich become richer with weak dollars. More recently, the pandemic has doubled the number of people in poverty around the world from 250 million to 500 million. There is also the wealth gap forming between the remote economy and the in-person economy. The promise of cheap dollars forever is pushing more people into the market. Another twist to this situation is there are more adult millennials today than baby boomers. They are connected constantly and becoming a mob of 24/7 investors. This isn't a new situation. It's been developing for months. At some point there will be 4 million new investors to learn that the best way to financial success is ***spend<earn*** and invest regularly, neither of which are taught in schools!

STILL WORKING WHILE COLLECTING SOCIAL SECURITY?

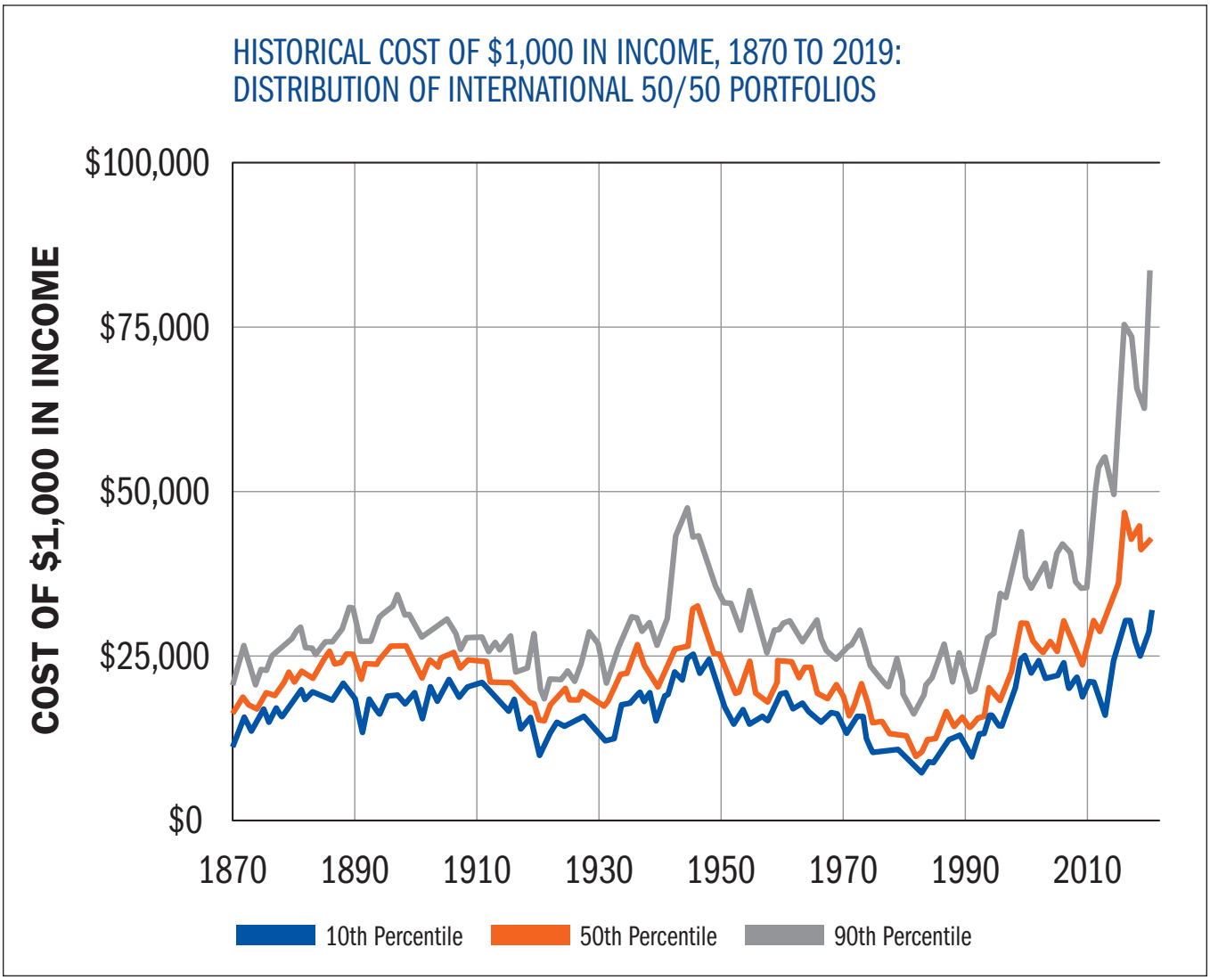
Who comes up with all this? Oh well. The maximum amount one can earn without incurring penalties in 2021 is $18,960 prior to reaching full retirement age (FRA). In the year you reach FRA, the amount increases to $50,520. In all years after FRA, there is no earnings limit. If one is collecting Social Security Disability (SSDI), then the maximum amount they can earn is $1,310 without jeopardizing their benefits. The average benefit for all retired workers in 2020 was $1,523. The average benefit for someone on SSDI in 2020 was $1,261. *(Source: Social Security Administration)*

RETIREMENT INCOME

Below is a chart revealing the cost of $1,000 in income from a balanced (50% stocks/ 50% bonds) portfolio *(Source: Jordà-Schularick-Taylor Macro history)* from 1870 to 2019.

The global average to generate $1,000 of income from 1870 to 2019 required an investment of ~$23,000. **BUT!** The chart reveals the cost to generate income has recently increased dramatically, with the average at ~$43,000 at the end of 2019. The cost will be significantly higher when the 2020 values are added. Investors need to take significantly more risk to achieve the same income as a high-quality portfolio could produce for much of the 20th century. When it comes to retirement income, few retirees (22%) plan to spend down their assets. Most (33%) want to maintain their principal. A few (22%) want to increase their wealth. 23% have no plan! Until interest rates go back to their historical averages, income planning will be interesting. One example, the 10-year US Treasury yield is close to 1% today, compared to its historical 5% average.

Limiting the income on a $500,000 account to $400 per month won't work! Many are already taking too much risk to increase their income. One example is high yield bonds. While they provide more interest, their risk and volatility is similar to stocks. They provide little diversification. What about high dividend stock funds? Or convertibles? They are options, but they are as volatile as the stock market averages and have not performed as well the past 10 years. We hear the word "unprecedented" often in 2020. This is certainly true for the current income environment as we face the highest cost of income since 1870 here in the USA as well as all over the world. What is referred to as ***"reaching for yield"*** rarely ends well. Thankfully, there are investment strategies working well today. We are sending close to $1,000,000 per month to retired clients. We know retirement income planning. And don't forget principle number 1: ***"Spend Less Than You Earn."***



DON'T BE A VICTIM!

It's not just the government after our money. ***Or the kids!*** Just about everyone wants our money. We all are vulnerable to mistakes and those wanting our money know which buttons to push. Thankfully, there are ways to avoid making financial mistakes. Most importantly, ask questions. If they don't want to answer your questions, then that's a big warning sign. Do your research. Criminals don't think we will. Beware of Unsolicited Offers. Don't let them rush you. Why did they contact you in the first place? Sleep on it. Don't get rushed. Reputable business people are rarely in a hurry. Know what you are getting into. The old adage of ***"let the buyer beware"*** works very well.

- **No emotion** The best athletes learn how to control their emotions so they can focus. ***Do not*** make important decisions when your emotions are running high.
- **Check their ID** No reputable businessperson should rush you into anything. ***"Look at those returns!"*** Nothing goes straight up.
- **Free Meal** Especially if it's costing them $25 or more to feed you at a nice restaurant. When someone gives you something for free, you are more liable to try and return the favor. They often play nice at the seminar, but then they follow up hard after.
- **Show me your badge!** When a police officer comes to the door he identifies himself. Professional business people will be happy to show you their credentials and licenses. If not, then run!
- **What are they hiding?** If they are elusive or don't want to answer questions, then the alarms should be going off.
- **Too Complicated?** If you don't understand what they are talking about, then don't assume they are more intelligent than you. If they are good at what they do, they will communicate in a way you can understand and comprehend.

THE MORE THINGS CHANGE...

In 33 A.D. Rome experienced a financial crisis very similar to today. It all started when the emperor Tiberius got tired of politics and moved to the island of Capri. Physically absent, it set the stage for a power grab. With murders, betrayals and the help of some in the Roman Senate, Sejanus climbed to the center of power. Tiberius laid low for awhile, but then ambushed Sejanus, threw him in prison and had him executed. He then used a decades old law to punish the followers. Money lenders were required to keep a percentage of their capital in Italian land. Many of Sejanus' allies were speculating without the required collateral. By forcing money back into land, Rome thought it would restore order to the markets. Like today, they were engaging in Quantitative Easing (QE)! The other goal was to keep more gold at home as Romans were spending too much on imports. The Roman elites were being sued for lending without sufficient land ownership. Hundreds of Roman Senators were involved. Tiberius was forced to implement an 18 month grace period, which led to a credit crisis. Creditors called in loans to buy land. Debtors were forced to sell their land to pay off the called in loans. Land sales caused a glut and prices plummeted. A shift in government policy created a market crisis. How did it end? Tiberius was rich and Rome had plenty of cash. Tiberius gave money to banks who then loaned it at zero interest for 3 years. Today, we have Uncle Sam and other governments around the world creating money without collateral. Across time, eras, cultures, exploding technology and knowledge, booms and busts have the same characteristics. **Why?** ***Human nature hasn't changed.***

BITCOIN 101?

It is a form of ***"cryptocurrency,"*** which is an alternative to the US dollar and other ***"traditional"*** currencies. Bitcoin was created in 2009. It is the largest and oldest ***"crypto."*** The creator is unknown. His false name is Satoshi Nakamoto. The daily price swings are very volatile, which violates one of the basic tenets for ***"currency"*** or ***"medium of exchange."*** Bitcoin is created when programmers solve complex computations that are added to the blockchain; a public ledger that records all Bitcoin transactions. ***"Mining"*** requires time and significant computing power. Many argue that the value of Bitcoin is tied to the cost to maintain the blockchain. There was one miner near the Hoover Dam who shut down as his need for power increased exponentially and the utility company was demanding he pay for a costly expansion. The maximum number of Bitcoins is 21 million. ~2 million Bitcoins are left to be mined. The limited supply is why some believe Bitcoin will increase in value. Bitcoins are digital and stored electronically in ***"wallets"*** that are secured by passwords. Once you transfer Bitcoin to someone else, there's no way to get it back. Without the password, there is no way to retrieve the Bitcoin. Approximately 20% of Bitcoin is lost forever at the moment due to forgotten passwords. The IRS treats Bitcoin as property. If you receive Bitcoin, then it is considered taxable income. When you sell it, you need to calculate your gain or loss. Sales in less than 1 year are short-term. Sales after 1 year are long-term. PayPal and Square accept payments in Bitcoin, but it must be converted to currency before the payment settles. Institutions and wealthy investors are beginning to take positions in Bitcoin as an

alternative to gold. The Bitcoin Bulls say it can't be manipulated by central banks who devalue their currencies by printing more money. The bulls say the limited supply will increase demand and Bitcoin will eventually become a fiat currency. The bulls say if a few wealthy individuals and institutions allocate money to Bitcoin, and/or the US government accepts Bitcoin, then the demand will soar. The Bitcoin Bears say Bitcoin has no intrinsic value and will eventually become worthless. The bears say a better option will come along, which will decrease the value of Bitcoin. The bears say the likelihood of governments around the world accepting it is very low. The bears say a handful of people own a large percentage of Bitcoin. If/when they decide to sell, then the value will drop. The UK banned cryptocurrencies and other nations could follow. *(Source: Morningstar, Stansberry, NYSE Bitcoin Index)*

ECONOMIC UPDATE?

What is happening today? Washington is hoping that the $1,400 stimulus sent to 110 million households will ***"multiply"*** as the money circulates through the economy and result in $2,100 of total economic activity. Since the beginning of the pandemic, 13 months ago, Congress has passed six bills totaling $5.6 trillion. For each $1 trillion that is about $3,000 per American citizen. The Congressional Budget Office estimates that ~43% of the ***"American Rescue Plan Act of 2021"*** will go directly to Americans. The other 57% is being spent on something else. The $1,400 stimulus checks represent 8% of the $1.9 trillion of spending. 2020 was the 10th year between 1951 and 2020 that the American economy contracted. Based on the last 70 years, the economy will likely grow in 2021 and possibly 2022. 50% of the 154 million individual tax returns filed in 2018 had incomes of $40,000 or less. The global fertility rate has dropped by 50% over the past 50 years, from 4.9 births per woman to 2.4.

STOCK MARKET CYCLES

Time versus timing is a never ending debate. Since 1950, the split between ***"up"*** and ***"down"*** days for the S&P 500 index were 54% up and 46% down. By month the totals are 60% up and 40% down. By quarter 67% up and 33% down. By year 73% up and 27% down. By five year rolling time periods 79% up and 21% down. By 10 year rolling time periods 89% up and 11% down. *(Source: BTN Research).*

AN OVERDUE TAX INCREASE?

The federal gas tax is 18.4 cents per gallon today. It has not been raised since 1993. 37 states have raised their respective state gas tax since 2010. Gas taxes are used to ***"fix the damn roads."*** *(Source: American Society of Civil Engineers).*

JFR FINANCIAL SERVICES: 2 – MONROE BANK AND TRUST: 0

WELCOME AMY STRZESINSKI!

Please join us in welcoming Amy to the JFR Financial Services team. She brings more than 27 years of solid experience in the financial industry; including developing and managing MBT's customer service center, auditing, coaching and compliance. Amy is an avid supporter of Ida Athletics. In her free time she enjoys being with her husband and 3 sons. We are very excited to have Amy working with us to serve you by using her experience to improve our operation.

Welcome Amy!

A LATE WELCOME TO VICKI MILOSCH!

Let's blame it on her starting during the shut down. Happy 1st anniversary Vicki! I even forgot to order her business cards. Vicki brings 30+ years of experience in the financial industry, most recently as Second Vice President, Portfolio Manager at Monroe Bank and Trust's Wealth Management Department. Vicki jumped right in to help with managing the money and helping clients. Many of you have already met Vicki and/or talked to her on the phone. Vicki has experience with Fidelity Investments and is helping with the implementation of same at JFR. In her spare time, Vicki can be found sailing, golfing, biking, knitting or with her husband, 3 children and other family. Like her mom, she loves to cook for large gatherings of family and friends.

Financial Services, Inc.

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APRIL 2021

HOW JFR FINANCIAL SERVICES CAN HELP YOU.

We are in business to serve you! More specifically, we are in business to help you work toward your lifelong financial goals. Services available through JFR Financial Services include:

Financial Planning and Consulting	Stocks*, Bonds*, Brokered CD's*, Money Markets*	College Funding Programs
Retirement Planning	Public Speaking and Educational Seminars	Management Training Classes and Consulting
Personal Coaching	Insurance: Life, Health, Disability, Long-Term Care	Fee-Only Investment Consulting and Asset Management
Business Planning and Development	Estate Planning	Employee Sponsored Retirement Savings Plans
Real Estate Investment Trusts	Asset Management	Retirement Plans: IRA, SEP, 401k, Keogh, 403b
Mutual Funds*	Annuities, Fixed and Variable*	Full-Service Brokerage Accounts*

We have the knowledge, tools and experience to help. Call us today at 800/315-2945 or 734/692-1421.