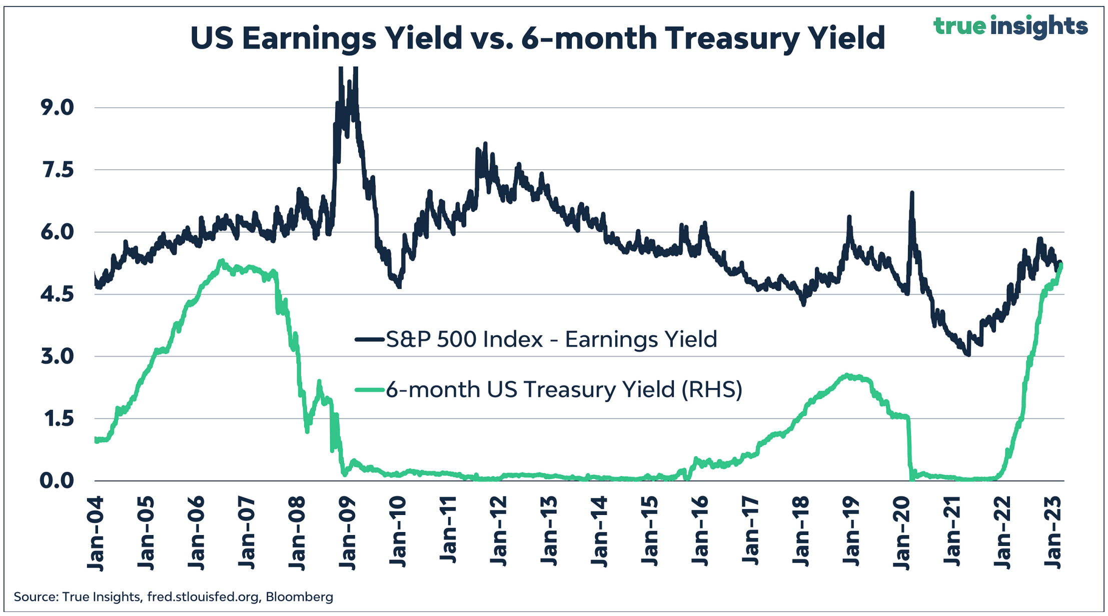
# Wealth Care LLC April 2023 Commentary

## Why is this chart important?




The more interest bonds pay, the more they are increasingly attractive as an alternative to stocks.  The long term return of stock investments is expected to be in the range of high single digits annually, so if you can make almost the same return with fixed income-why risk the volatility?

Two answers currently.  First-you can only earn the highest interest on bonds for short periods of time.  We have what is called an "inverted yield curve" as the Federal Reserve is pushing up short term rates in an attempt to slow the economy and reduce inflation. Note the red line in the chart below shows higher interest rates at 2 years than at 30 years (unusual). Typically, if they succeed, they will then lower rates-which might leave bond investors hanging with lower future returns and potentially having missed out on stock market returns in the meantime.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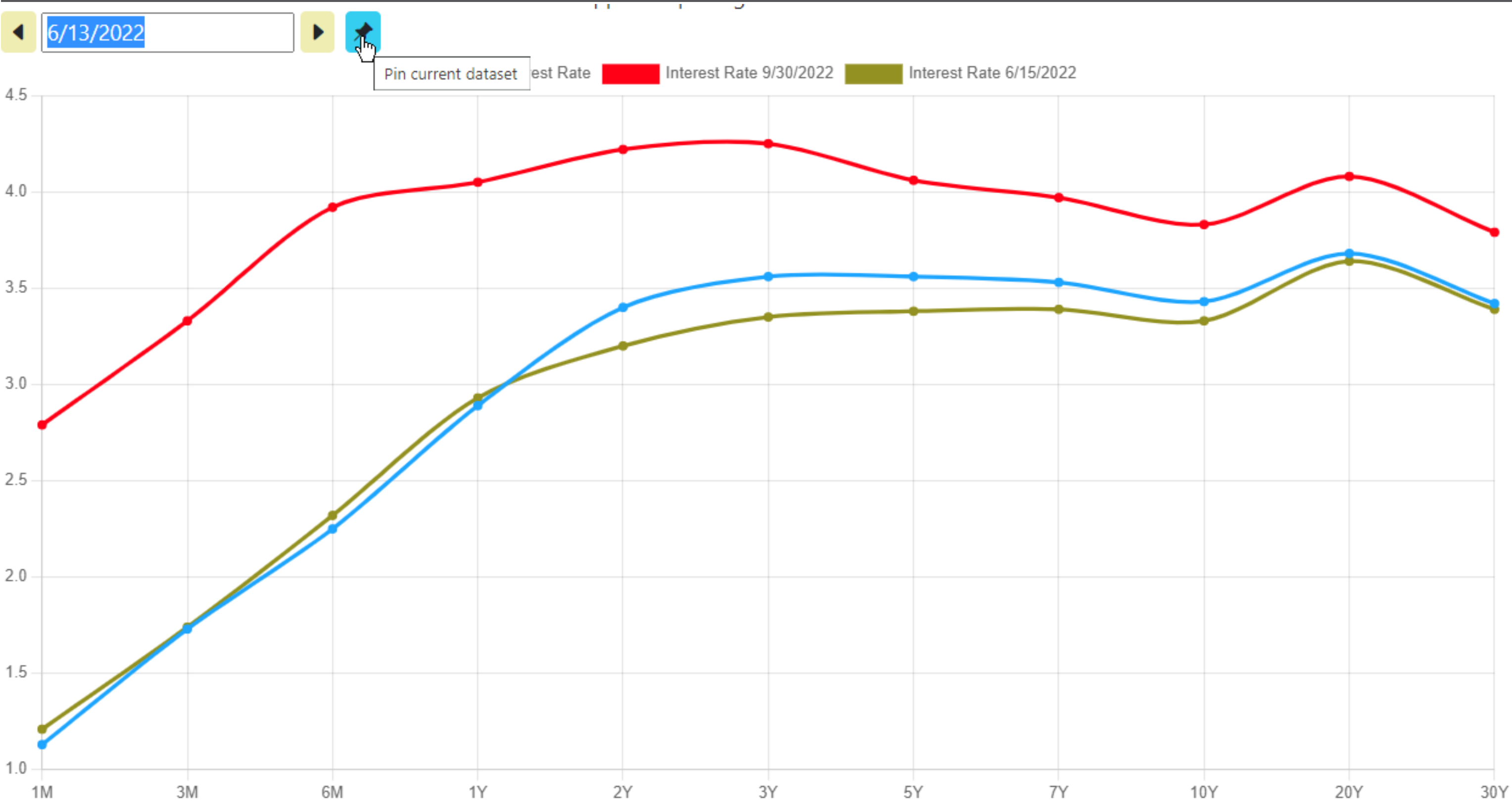


The second answer relates to the uncertainty of inflation. Official numbers indicate that the loss of purchasing power still exceeds these fixed income interest rates, meaning that we continue to lose wealth by holding fixed income.

## Diversification Reduces Volatility-Why is This Desirable?

Most people think about their investments in arithmetic returns, i.e., the return measured in one period. For example, investment A might have a return of 10% in the first year and 10% in the second year. If you invest $100 in that asset, you will have an average return over two years of 10% and your $100 will have grown to $110 after the first year and $121 ($110 x 1.1) in the second year.

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Now assume investment B has a return of -50% in the first year and 70% in the second year. The average annual return is still 10% but if you invest $100 in asset B, you will end up with $50 after the first year and $85 after the second.

The difference between investment A and investment B is that investment B has volatile returns and that costs you money over time because you must dig yourself out of a hole (aka a bear market) from time to time.

You see that the higher the volatility of an investment, the more it acts as a drag on the geometric return. This is why diversification is so powerful.-Joachim Klement

## Secure Act 2.0

We covered the change in age for required distributions in February and March. Also we covered the 529 plan to Roth conversion idea in March. This month:

High wage earnings must use Roth contributions for salary deferral “catch-up”.

Everyone is allowed to add a “catch-up” salary deferral contribution at age 50 (and older) to their 401k/403b/governmental 457 retirement plan. This catch-up amount varies with time ($7500 in 2023, later to be indexed to inflation), and was always allowed to be on a deductible pre-tax basis. Beginning in 2024, anyone with W2 wages over $145,000 (to be inflation adjusted) can only make Roth catch-up contributions, which will be a taxable event up front. Existing retirement plans that don’t allow this option will not be able to have “catch-up” ability for any participant. Note two exceptions: self-employed income (1099 and other pass through) does not count for wages, and changing jobs in mid-year might allow catch-up contributions at lower wages for a new plan. This change is a way to force higher income taxpayers to pay some “up front” taxes for a larger retirement plan contribution.

## Long Term Returns:


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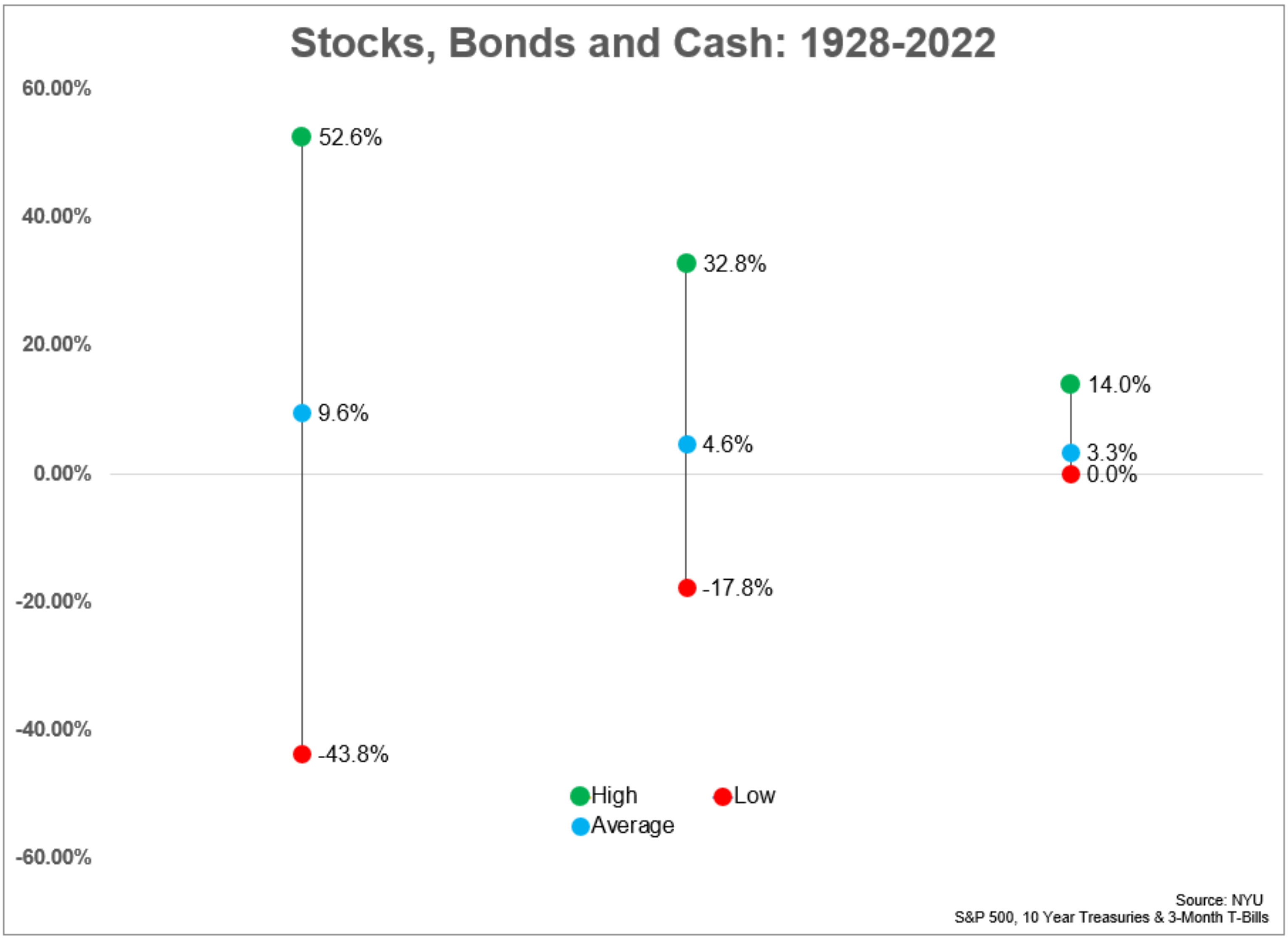
We've talked about this before. Stocks are the most volatile of the three main asset classes, but with the highest returns. The chart below compares both maximal price swings and average returns for the last hundred years.




## Fee Increase for New Families

We are so very thankful for all of your referrals and we worry that we are reaching the upper limit in the number of clients we can serve. We had not changed our fees since 2002 but are doing so now ONLY for new families who have not yet started with us (details on the web page). Thank you again!

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## What are the tax brackets for 2023?

The U.S. taxes income at progressively higher rates as you earn more. Those rates—ranging from 10% to 37%—will remain the same in 2023. What's changing is the amount of income that gets taxed at each rate.

For example, in 2023, an unmarried filer with taxable income of $95,000 will have a top rate of 22%, down from 24% in 2022. That shakes out to tax savings of $429, assuming no changes in income between the two years.

Here's how the math works: The first $11,000 of income will be taxed at 10%; the next $33,725 will be taxed at 12%; the last $50,275 will be taxed at 22%. That equals a tax bill of $16,207 for 2023, compared to $16,636 for 2022.

Here's where the income thresholds fall for the upcoming year. If you are single:

**2023 Income Tax Brackets for Single Filers**

| Tax rate | For incomes above |
|---|---|
| 37% | $578,125 |
| 35% | $231,250 |
| 32% | $182,100 |
| 24% | $95,375 |
| 22% | $44,725 |
| 12% | $11,000 |
| 10% | $11,000 or less |

Source: IRS

And if you are married and file a joint return:

**2023 Income Tax Brackets for Married Joint Filers**

| Tax rate | For incomes above |
|---|---|


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| Tax rate | For incomes above |
|---|---|
| 37% | $693,750 |
| 35% | $462,500 |
| 32% | $364,200 |
| 24% | $190,750 |
| 22% | $89,450 |
| 12% | $22,000 |
| 10% | $22,000 or less |

Source: IRS

**What is the standard deduction for 2023?**

All tax filers can choose to take the standard deduction or itemize deductions. This reduces the amount of their income that's taxable for the year. The bulk of filers claim the standard deduction, in part because it's easier—it doesn't require tallying up select expenses like charitable donations, major medical bills, and state and local taxes.

Like the income tax brackets, the standard deduction gets an annual adjustment for inflation. But next year's bump is one of the biggest yet.

The standard deduction is increasing by $900 to $13,850 for singles in 2023 and by $1,800 to $27,700 for couples.

**2023 Standard Deduction Amounts**

| Filing status | Amount |
|---|---|
| For single filers | $13,850 |
| For heads of household | $20,800 |
| For married joint filers | $27,700 |

Source: IRS


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FDIC Insurance

We had some questions this month about the topic. This article from the WSJournal was excellent:

www.wsj.com /buyside/personal-finance/fdic-insurance-35613321

**What Is FDIC Insurance?**



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Bank failures—like the recent collapse of Silicon Valley Bank—can be scary, raising the prospect of losing your savings overnight. Fortunately, thanks to the Federal Deposit Insurance Corp., you most likely don't have to worry.

This entity, established by Congress in 1933 after a series of bank runs helped spark the Great Depression, is designed to protect the assets of middle-class depositors. The idea is that, by assuring depositors their money is safe, the government can prevent the kind of panic-driven race for withdrawals that can otherwise sink even healthy banks.

While the FDIC officially covers only up to $250,000 in deposits, fortunately there are easy (and perfectly legitimate) ways to multiply that amount, so all of your savings are FDIC-protected.

The upshot: If the news about Silicon Valley Bank—or Signature Bank, which also recently ran into trouble—has you wondering whether you should take money from your own bank, relax. The answer is almost certainly, "no."

Read on to find out how the FDIC works and exactly what is covered.

**What is FDIC insurance?**

The Federal Deposit Insurance Corp. is a federal regulator funded by the deposit insurance premiums paid by member banks. The FDIC monitors banks' financial health and makes sure they comply with consumer protection and lending laws. But its most well-publicized function is right in the name—providing a backstop for depositors in case of an emergency bank failure.

The deposit insurance it offers kicks in to make customers whole (up to stipulated limits, typically $250,000) in the unlikely event of a bank failure. FDIC insurance coverage is automatic, as long as your money is held in an account at an FDIC-member bank—you don't need to apply for it.

**FDIC Insurance coverage limits**

If you have a checking, savings or other deposit account, the FDIC insurance limit is $250,000. For most bank customers, that's more than adequate—but there are a few caveats around FDIC coverage you should keep i mind.


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The deposit coverage limit is per bank, per depositor and per "ownership category." Ownership category classes include singly-held and joint accounts, different types of trust accounts, corporation and government accounts, and some benefit and retirement accounts.

All this means it's possible for a single person to receive coverage well above $250,000. If you have $250,000 in two separate savings accounts at two different banks, the entire $500,000 should be fully covered. However, if you have $500,000 split between a checking account and a savings account at one bank, chances are you will only be covered up to $250,000.

One way to boost your coverage limits without dealing with multiple banks: If you have a savings account in your own name and joint account you share with your spouse, your family will be covered up $750,000. That's because the FDIC regards joint accounts as being in a different "ownership category" from single accounts and also insures them at up to $250,000 per depositor. You can use the FDIC's Electronic Deposit Insurance Estimator tool online to plug in your specific circumstances and find out how much coverage you would have.

One other tip to make sure you are covered: Look beyond your bank's brand name, especially if you have a high-yield savings account or CD.

Many digital banks are actually brands of traditional banks. For instance, BrioDirect is the digital brand of Webster Bank, and UFB Direct is a brand of Axos Bank. While these digital banks carry FDIC insurance, if you have deposits in account at both the online brand and the bricks-and-mortar parent, they may be subject to the same $250,000 FDIC coverage limit.

If you are unsure, you can check the name of FDIC-member bank for your account using the FDIC's BankFind tool.

You also should conduct due diligence around FDIC insurance of your deposits if you choose to keep money with a nonbank fintech company. Although many of these neobanks partner with FDIC-member banks to offer deposit coverage, the FDIC tells savers to be cautious. Make sure you understand the terms under which your money is insured, including how, when and where your money is deposited with the firm's FDIC-member bank partner.

### What does FDIC insurance cover?

FDIC insurance covers what we tend to think of as everyday bank accounts—specifically, checking and savings accounts, both interest-bearing and non-interest-bearing. FDIC insurance also covers other types of deposit products including money market deposit accounts and CDs.

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Deposit insurance does not cover stocks or bonds (including municipal bonds), mutual funds, life insurance, annuities or crypto assets, although your interests may be covered by a different kind of insurance. FDIC insurance also does not cover U.S. Treasurys, although the agency notes on its website that these instruments are backed by the U.S. government, which is why they're considered safe-haven investments the world over.

Here is a rundown:

**Are money market accounts FDIC insured?**

FDIC coverage includes money market deposit accounts, although it does not cover money market mutual funds, which you buy through a broker.

**Are CDs FDIC insured?**

Certificates of deposit are FDIC insured, subject to the overall coverage limits. The exception to this rule is brokered CDs: These products are purchased through brokers, which places them outside the purview of FDIC coverage.

**Are credit unions FDIC insured?**

FDIC insurance does not cover deposits held at credit unions, but there is a parallel agency, the National Credit Union Administration, that offers equivalent deposit insurance—with the same $250,000 limit as the FDIC insured amount—on accounts and certificates held by credit union members.

If you're comparing NCUA versus. FDIC, you really won't find any difference from a customer perspective. Like FDIC insurance, you get automatic NCUA insurance coverage if you bank with a member institution.

**Are brokerage accounts FDIC insured?**

Investment products such as stocks, bonds (including municipal bonds) and mutual funds are not covered by FDIC insurance. If you have a brokerage account and it loses value, that's a risk you have to be willing to expect as an investor.

The Securities Investor Protection Corporation, an independent organization for broker-dealers, offers coverage for lost cash and securities if you have a brokerage account at a SIPC-member


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company that fails. The coverage limit is up to $500,000 per customer, per institution (that limit remains in place even if you have multiple accounts with the same brokerage), including $250,000 maximum coverage for cash.

**Are crypto exchange accounts FDIC insured?**

Since the FDIC doesn't insure any nonbank assets, cryptocurrency is not covered by the agency's deposit insurance. It also doesn't protect consumers from losses they may incur as the result of fraud or theft.

The cryptocurrency market operates in a regulatory gray space, and consumers don't get the kind of protection they would if they held cash in a bank or credit union. Cryptocurrency exchanges, brokers, custodians and wallet providers all fall outside the umbrella of FDIC supervision and coverage.

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## Miscellaneous

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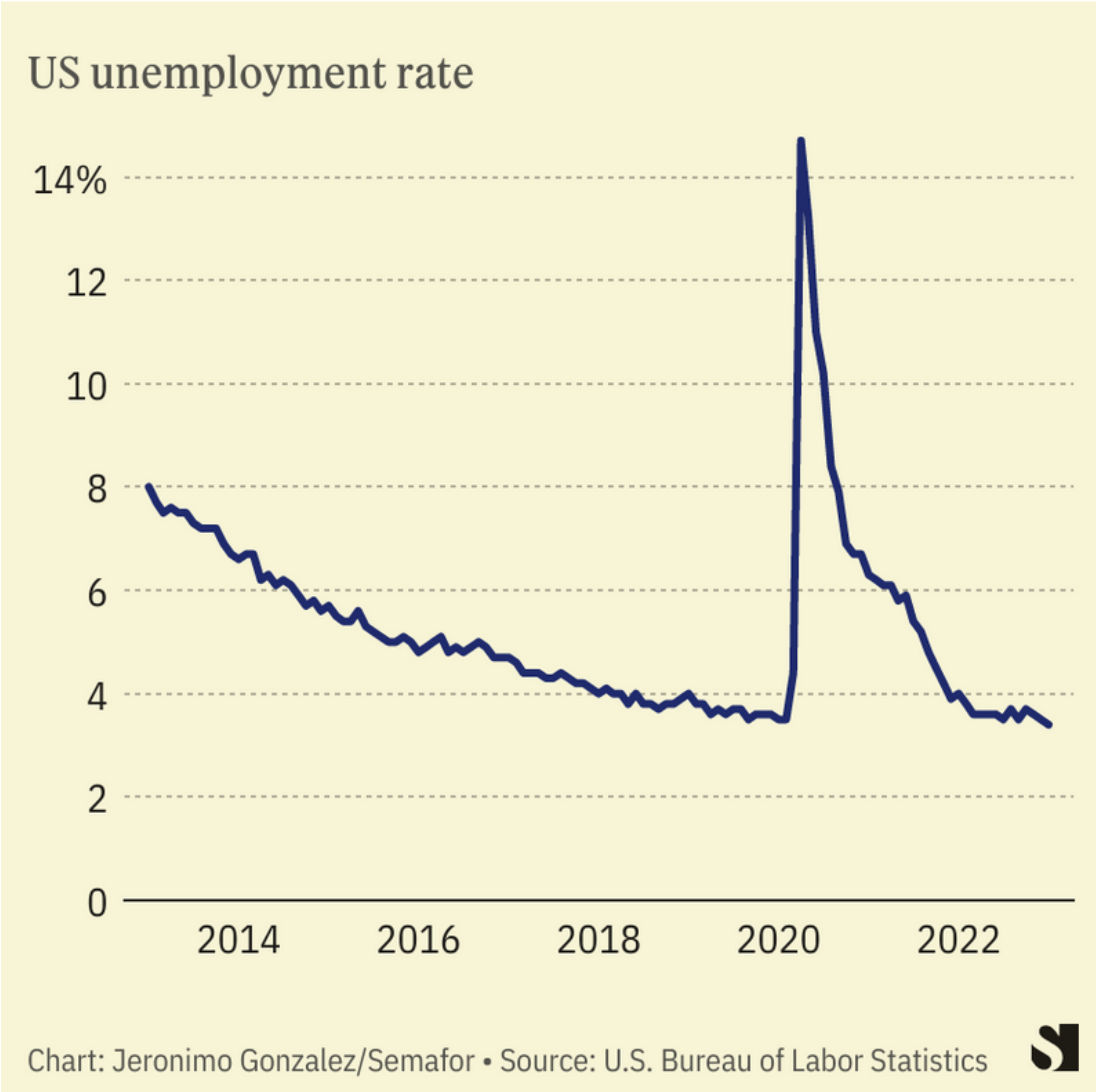


Company Spin Outs from SpaceX


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| Company | Current value of 10'000$ invested | Performance since peak |
|---|---|---|
| CARVANA | 103 USD | -99% |
| PELOTON | 503 USD | -95% |
| BEYOND MEAT | 519 USD | -95% |
| coinbase | 798 USD | -92% |
| TELADOC. | 765 USD | -92% |
| Lemonade | 743 USD | -93% |
| robinhood | 931 USD | -91% |
| Snap Inc. | 1'030 USD | -90% |
| zoom | 1'108 USD | -89% |
| DocuSign | 1'686 USD | -83% |
| Spotify | 1'956 USD | -80% |
| TESLA | 2'776 USD | -72% |
| NETFLIX | 4'147 USD | -59% |

December 27th 2022 update - Chart by Vincent Galan

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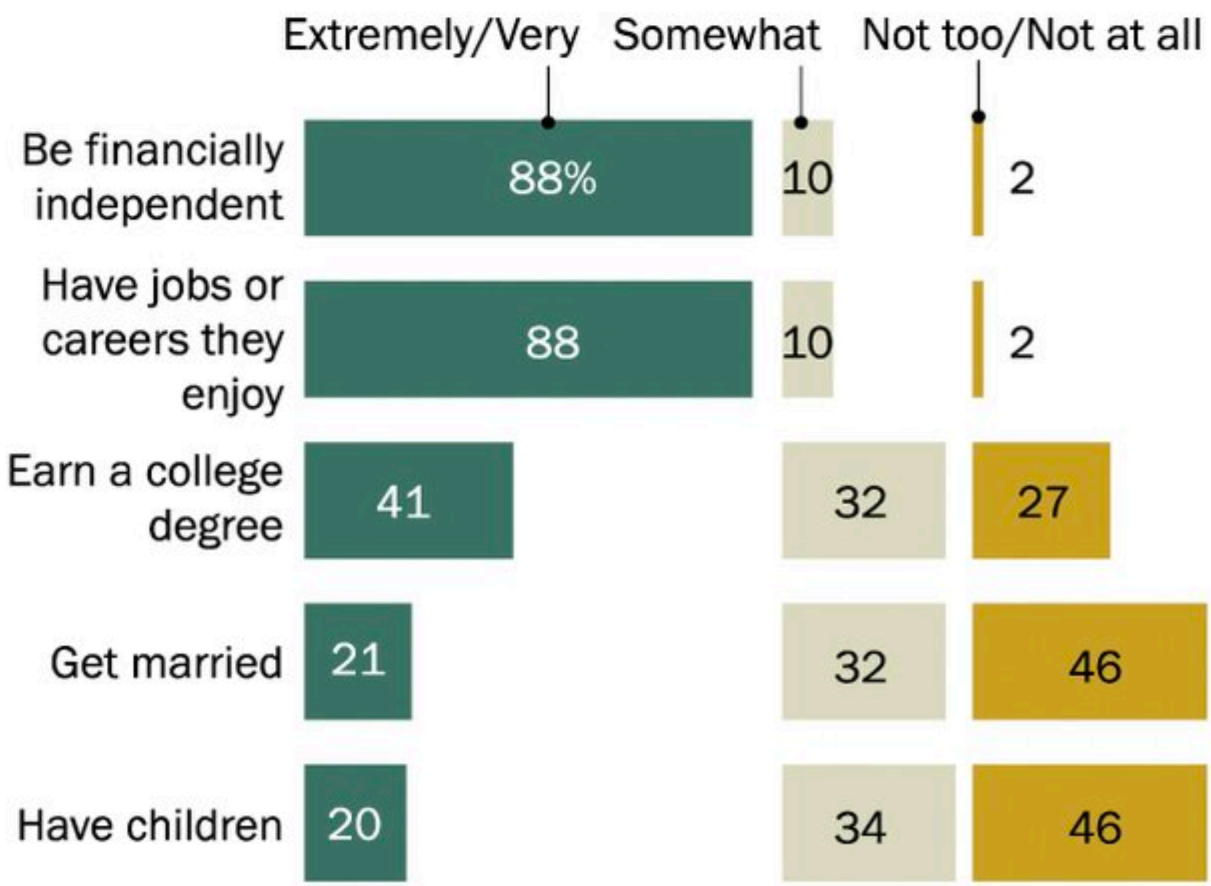
# Parents prioritize financial stability, job satisfaction for their children when they reach adulthood

*% of parents saying it is ____ important to them that their children do each of the following as adults*




Note: Share of respondents who didn't offer an answer not shown.
Source: Survey of U.S. parents conducted Sept. 20-Oct. 2, 2022.
"Parenting in America Today"

**PEW RESEARCH CENTER**

## Random Notes

What you do on your bad days matters more than what you do on your good days.

People like weekends because it's when they have the most control over their time; financial goals should keep this in mind.-Morgan Housel

At funerals, people don't talk about the accomplishments of the deceased. They talk about their character. -Rob Henderson

The highest form of wealth is the ability to wake up every morning and say, 'I can do whatever I want today.'"
-Morgan Housel

# April 1, 2023 from the Wealth Care LLC Team

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