HCM WEALTH ADVISORS
HENGEHOLD FINANCIAL GROUP
HG CPAs

Quarterly Newsletter April 2021

Tribute to Don "The Tax Man" Hengehold

We are sad to announce that Don "The Tax Man" Hengehold passed away in February of 2021. Don founded Hengehold Group CPAs in 1965. He was an invaluable mentor to his children, Mike and Steve, teaching them to honor the trust our clients place in us and to work hard every day to earn and keep that trust.

A skilled tax advisor, Don was a valued counselor to his many clients over six decades of service. Don graduated from Xavier University in 1955, after which he served our country as an Artillery Officer in the U.S. Army. Following his tenure in the military he earned his CPA license and started Hengehold Group, which he ran for sixty years. In 2020 he oversaw the successful transition of HG to the next generation of CPAs who continue to take care of his beloved clients.

Everyone who met Don enjoyed his wicked sense of humor. He will be missed dearly by his friends, family, colleagues, and clients. We will be forever grateful to him for his strong work ethic, technical knowledge, and boldness in founding what has become HG CPAs.

Looking for Yield in a Low-Interest World

Warren Buffett pulled no punches in his most recent annual shareholder letter when he told investors that "retirees face a bleak future." Buffett was referring to the distressingly low interest rates that dominate fixed income investments (such as bonds and annuities) today. "In September 1981," he writes, "investors could buy a 10-year US government bond yielding nearly 16%."

Inflation was hotter in the 1980s than it is today. But even after adjusting for inflation, the real (after inflation) yield for an investor who held that 1981 bond to maturity over the next decade would have been 5.7% per year.

Today, that same 10-year bond yields just 1.63%. With inflation running between 1.5-2% and expected to go higher, real yields for bond purchasers today who hold those bonds to maturity will be zero or possibly less after adjusting for taxes. And don't forget that when interest rates rise, as they likely will, the value of bonds decline creating another opportunity to lose money on what is supposed to be a "safe" investment.

Historically, retirement portfolios were built from three primary asset classes: stocks, bonds, and cash. Each of these three asset types had a job to do in creating dependable income: cash is used to fund immediate spending needs (6 months to a year out), bonds are for medium-term needs (2-5 years), and stocks are for long-term growth and future spending (more than 5 years). This balance also helps mitigate investment risk: there is essentially no market risk in cash, high risk in stocks, and bonds fall somewhere in between.

At least, that's how it was until recently. With the COVID-19 pandemic and resulting economic contraction, the Federal Reserve responded by slashing interest rates to essentially zero in March of last year and has pledged to continue that stance through at least the end of 2023.

How Has HCM Responded to This?

While bonds still have a role to play in managing portfolio risk, as Warren Buffet pointed out, traditional fixed income

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RMDs are Back

Required Minimum Distributions (RMDs) are in effect again in 2021, and Congress is showing no signs of allowing taxpayers to forgo RMDs as they did in 2020. RMDs are required to be taken from tax-deferred retirement accounts, typically Traditional IRAs. Note that Roth IRAs are not subject to RMDs, but Roth 401(k) plans are. Generally, a retirement plan account owner must withdraw and pay tax on RMDs annually starting with the year that he or she reaches 72 (70 1/2 if you reached 70 1/2 before January 1, 2020), or later if continuing to work for, and owning less than a 5%, of the sponsoring company.

How Much is My RMD?

For most people, your RMD is your account balance at the end of the previous calendar year divided by a factor from the IRS's "Uniform Lifetime Table." The distribution periods range from 25.6 for people aged 72 to 1.9 for individuals who are 115 and older. A different table is used for account holders whose spouses are more than 10 years younger who are the IRA's sole beneficiaries. Other considerations exist for inherited IRAs.

It's important to note that RMDs are taxed as ordinary income (your highest marginal rates). When planning your distribution be sure think about the RMD and the taxes you'll be required to pay.

How Can I Reduce My RMDs?

The first step to minimizing your RMD is to ensure you're not assessed a penalty on top of the required distribution. To do this, you must make sure you withdraw the full RMD on time (before the end of the calendar year). Failure to do so will result in a fine of 50% of the amount not distributed on time. To avoid surprises, HCM recommends clients have a plan for their RMDs. Many people choose to wait until the end of the year to withdraw their RMD to accrue the most tax-deferred gains possible in their account. This is good if you are planning to take the distribution to live on. However, if you're interested in moving your money into a Roth IRA for family wealth planning, you may want to take your RMD earlier.

If you have multiple IRA accounts, you can calculate the RMD for each account, add them up, and pay it out of any of them. This is not the case for 401(k) accounts.

Qualified Charitable Distributions

QCDs are a great way to meet your philanthropic goals and make the most out of the new tax laws as well. A Qualified Charitable Distribution (QCD) is a donation made to a qualified charity directly from your IRA in leu of your RMD. Once you turn 70 1/2 you can make a QCD. In addition to the usual benefits of giving to charity, a QCD excludes the amount donated from adjusted gross income, potentially decreasing your Social Security tax, Medicare premiums, and state and federal income tax even if you don't itemize deductions.

Delaying Social Security

One option to save taxes is to opportunistically draw down your IRA. This requires some long-range planning, but a common strategy involves using funds from your tax-deferred accounts between the ages of 59 1/2 (55 for distributions from employer sponsored plans after separation) and 72 in lieu of Social Security, which could allow you to delay taking Social Security.

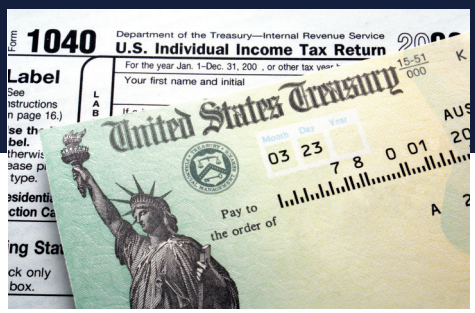
Why would you do this?

By making distributions from the tax-deferred accounts while you are in lower income years, you may be able to pay less tax per dollar of income than you would in the future. If you can reduce your tax-deferred balance before you are required to take RMDs, you may be able to reduce your future RMDs, avoiding the full impact tax increases later in retirement. And remember that Social Security income is taxed advantageously, so if you can delay claiming Social Security, not only will your annual benefit increase by about 8% each year you delay, but that extra income will be tax-favored, inflation-adjusted income for the rest of your life.

Asset Location

One final strategy involves locating ordinary income assets, like bonds, in your IRA while placing capital gain and qualified dividend paying assets in your taxable accounts. This placement utilizes the differences in tax environments while leaving your overall asset allocation intact. By shifting your account holdings in this manner, you will receive ordinary income in a deferred environment, moving untaxed appreciation from your IRA to your taxable accounts, increasing your ability to harvest losses and better control your annual tax bill.

What to Do with Your Tax Refund



Your tax refund isn't a gift from the government. It's money you earned that you loaned, interest-free, to Uncle Sam. Now that it's yours again, what should you do with it?

1. **Invest it.** There is poetic justice in putting you tax refund into an IRA that will save you taxes in the future. Also, buying dividend-paying stocks that will give you growing income at a preferred tax rate is a good way to help yourself and beat the tax man at his own game.
2. **Pay off debt.** The same way interest compounds positively in your investment accounts, interest expense on debt compounds negatively. Paying off high-interest debt is a great investment in your future financial well-being.
3. **Add to your emergency fund.** The past year has been tough on all of us, and you might have had to dip into your emergency funds to make ends meet. Now is the time to replenish your reserves.
4. **Invest in yourself.** This can be an excellent opportunity to broaden your horizons and learn a new skill. It can be something you hope to turn into income or do simply for your own fulfillment.
5. **Home Improvements.** Use your refund to upgrade your kitchen or fix that thing in the bathroom that's been annoying you for too long. It doesn't have to be about improving your home's resale value; if it improves your quality of life, that's money well-spent.
6. **Pay it forward.** A charitable donation could do good in the community. It could also be a part of a comprehensive tax planning strategy to minimize your long-term burden.

Looking for Yield in a Low-Interest World

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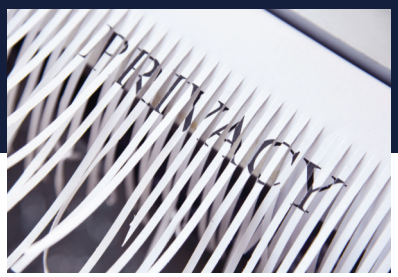
investments simply can't do the entire job. If retirees hope to achieve their total return objectives, it is clear they will need to include different types of securities in their portfolios and accept more market volatility. There are a number of alternative investments that HCM utilizes currently to help buffer stock risk while trying to capture a higher yield than is available from traditional bonds.

- **Dividend-paying stocks:** If you know anything about HCM's investment strategy, you know we're big believers in dividend-paying stocks to provide retirement income. Dividend-paying stocks allow you to generate income without having to sell the stocks. Although investing in equities is associated with higher risk and more volatility than bonds, dividend-paying stocks are historically less volatile than the market as a whole, reducing some equity risk.
- **Treasury Inflation Protected Bonds (TIPS):** HCM's Investment Committee employs an approach with an ETF that is constructed of about 85% TIPS and 15% derivatives that hold a basket of inflation swaps and rate volatility options. This strategy is constructed to take advantage of rising inflation and/or the possibility of higher volatility in the interest rate market. This strategy has a trailing 12-month yield of 3.48%.
- **Global Macro:** here we are using two separate outside managers to oversee a portion of our portfolios invested in currencies, bonds, fixed income strategies and rate options. These strategies have a blended trailing 12-month yield of about 4.2%.

The goal of these alternative solutions is to provide a total return (interest plus capital appreciation) that exceeds what bonds offer over the foreseeable future while only increasing overall portfolio risk by a minimal amount.

Out and About



Spring Cleaning = Spring Shredding

Spring has finally sprung! Thank goodness!

While you're doing your usual spring cleaning, don't forget to clean up old documents you may have. Be sure to follow proper retention rules (if you have questions, ask us), but there's no reason to let old, unneeded documents clutter up your home.

We want to do our part to help you with this! We contract with an on-site shredding service to destroy our disposable documents. Feel free to bring in your disposable documents and drop them in our bin for their safe and secure shredding. Just give Kacidee a call at 513-598-5120 to let her know that you plan to stop by.

Dan Got Married!!!

Congratulations to Dan on his wedding to Kelsey on New Year's Eve, 2020. They were happy to report the day went off perfectly, even with the stress of a global pandemic on top of all the regular wedding planning challenges. Unfortunately, they had to cut the guest list by 75% to keep everyone socially distanced and COVID safe. Many who couldn't attend in person received a "Wedding in Box" kit to still partake in the festivities, albeit remotely and via broadcast. To add another twist, in lieu of a dance floor, they hired four comedians to delight and entertain the attendees, a memorable wedding for sure! Congratulations to you both, and we wish you many years of wedded bliss!

Welcome Cameron Stalf, CPA, to HG CPAs

HG CPAs is excited to welcome Cameron Stalf as its newest member. Cameron comes to us with 12 years of experience in both large and small CPA firms. He's skilled in business accounting as well as individual and corporate tax work. Working with the Wealth Advisory Team, Cameron helps clients optimize and minimize their tax burdens over both the short and long-term. Cameron double-majored in Accounting and Finance at Xavier University and is a Certified Public Accountant. He continues to be a part of Xavier's Mentor Program. He is a member of the American Institute of Certified Public Accountants and the Ohio Society of Certified Public Accountants.

Winter Coat Drive Huge Success!

Wow! When we put out the request for donated winter coats and other winterwear, we had no idea the response would be as great as it was. You filled 12 barrels full of coats, sweatshirts, hats, and other winter clothing for vulnerable community members right here in Cincinnati.

The Winter Coat Drive was organized by St. Vincent de Paul. Over 70 organizations partnered with St. Vincent de Paul this year to gather winter clothes for neighbors in need. As of early March, more than 1,600 coats had been distributed.

St. Vincent de Paul in Cincinnati has been working for over 150 years to provide necessities to the poor and vulnerable in our city. You can learn more about them on their website at https://www.svdpcincinnati.org/.