TENON FINANCIAL
RETIREMENT PLANNING & INVESTMENT MANAGEMENT

Retirement Planning Insights

March 2022

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Up Front

What's next for Tenon Financial?

It's with mixed emotions I announce to you that my retirement planning & investment management business, Tenon Financial, is no longer accepting new introductory calls.

When I started this business from scratch in November 2019, I knew what I was building toward; a solo practice (i.e. just me and no employees) where I would have 40-50 client relationships.

I originally thought it would take four or five years for that many clients and I to mutually find each other. However, it ultimately happened in just over two years.

So, what's next??? For everyone with whom I've already had a formal introductory call, I'm leaving capacity open on the assumption a few of you may decide to formally engage my services at some point. But for folks with whom I have not already had a formal initial conversation, sorry but I'm no longer accepting new introductory calls.

However, I do genuinely want to help ensure that everyone who is seeking services like mine can ultimately find someone who provides something similar.

With that said, I will soon be putting a freely-available list of referrals on my website. What you can expect from the advisors on that list will be that they all:

- Are "fee-only," meaning none of them will be able to sell any products for commissions or kickbacks
- Have a specialization in retirement-focused distribution planning
- Offer detailed tax planning around things like Roth conversions, Medicare surcharges, tax-efficient portfolio withdrawal strategies, etc.
- Provide a comprehensive planning and investment management service for a fixed flat fee that is NOT directly tied to the size of your investable assets

I expect to have this list up on the Tenon Financial website within the next couple of months. Until then, you can always find lots of helpful education and information on the Free Resources section of my website.

Why do I have mixed emotions??? One one hand, I'm happy that my business has grown faster than expected. On the other hand, I still want to continue helping people. Hopefully the Free Resources and advisor referrals will continue to provide lots of assistance and value.

Thank you all for helping make Tenon Financial what it has since become. I greatly appreciate your confidence, consideration and trust!

-Andy

Retirement Planning News

Managing your portfolio for inflation

On February 14, 2022, *The Wall Street Journal* published the article, **"There's No Perfect Way to Inflation-Proof Your Investments."**

With inflation at a 40-year high, there is rightfully concern about how to mitigate its impacts.

Inflation means things cost more. And, all else equal, that means you'll need to take more out of your investment portfolio than you may have otherwise planned to. That begs the question, "how can I best inflation-proof my portfolio?"

Unfortunately, there is no silver bullet with regards to investments that will outpace or keep up with inflation. While there are a few different options that may help, they all have their own unique pros and cons.

The article does a nice job of objectively summarizing a few of the main options:

- **Social Security** – One of the best ways to help protect your retirement against inflation is to maximize Social Security by delaying the start of benefits. The longer you delay, the larger your benefit will be when you do start. Social Security payments can't be outlived and they provide an annual inflation-based Cost of Living Adjustment ("COLA"). While the COLA may not keep up with the actual amounts of realized inflation, they are still a lot better than getting no such increase. The downside of delaying Social Security is it means you'll have to spend down more of your portfolio in the interim. However, the payoff can often be worth it.
- **I Bonds** – The "I" in I Bonds stands for inflation. I Bonds are government issued instruments that kind of function like a savings account in that you can never lose any value and you earn a guaranteed rate of interest. The interest rate is directly keyed off of the realized rates of inflation. The rate resets every May 1st and November 1st. Currently, the interest rate is a guaranteed annualized rate of 7.12%. In other words, if you buy I Bonds between now and April 30 2022, you will earn a guaranteed annual rate of interest of 7.12% for six months. While the interest rate paid on I Bonds is high (especially considering there is zero risk of loss), the main downside is each person can only purchase up to $10k of I Bonds per year. However,, you can purchase an additional $5k per tax return by using up to $5k of your tax return refund to by directly buy I Bonds. So, while I Bonds will directly keep up with inflation, you're not going to be able to put in as much money as you may like.
- **TIPS** – TIPS stands for "Treasury Inflation Protected Securities." TIPS are a bit more complicated than I Bonds in that they are actual bonds, whereas I Bonds are more like savings accounts. Furthermore, there is risk of principal loss when buying TIPS. The upside of TIPS is there is no limit on how much you can buy. With TIPS, you buy a certain amount of principal value of bond. The interest rate you get on that principal will be fixed. However, if/when there is inflation, the principal value of the bond will increase by the amount of inflation. As such, the dollar amount of interest you receive would increase. Unfortunately, the current yield on TIPS is actually negative. That means if you buy TIPS and there ISN'T inflation, you'll ultimately lose money. Or, if there is inflation but it ends up being modest, you still may lose some of your principal.
- **Stocks and Commodities** – Well diversified portfolios of stocks have historically done a good job of keeping up with inflation. Additionally, certain commodities such as precious metals, oil and agricultural products have held their values well during inflationary periods. However, neither of these asset classes are without risk. Furthermore, while they may do well over the long-term, their prices can be quite volatile in the short-term.

As it can be seen, there is no foolproof way to protect your investments against inflation. Regardless what inflation protection tool you choose, always ensure you remain diversified across asset classes, without taking more risk than your financial needs and emotional tolerance will allow.

Also, when inflation is high, try to trim expenses where possible, to minimize the amount of withdrawals taken from your portfolio.

Practical Retirement Planning

Beware of mutual fund "capital gain distributions" in taxable brokerage accounts

If you own a mutual fund in a normal taxable brokerage account (not a "qualified" account like an IRA, Roth IRA or Health Savings Account), you may notice you get potentially large taxable income reported on your 1099, even though you most likely don't actually get any cash distributed out to you. This is due to capital gain distributions.

When you own shares of a stock in a normal brokerage account, you have to pay tax on any realized gains you have. A realized gain is when you sell the stock for more than what you paid for it. Thankfully, you can control when you sell the stock, which means you can control when you realize the taxable income from the gain.

When you own a mutual fund, you own a slice of a larger pool of investments such as stocks, bonds, etc. The fund manager of that pool of investments decides what securities to sell, and when. As securities are sold for a gain, mutual fund regulations are such that all gains need to be passed on to the fund holders in the year of the sale. Those gains are "capital gain distributions."

As mentioned above, you control when you realize taxable capital gains of individual shares of stock because you control when you sell the shares. But with a mutual fund, you don't control when the fund's stocks and bonds are sold; the fund manger does. As such, even if you don't sell any of your shares of the mutual fund throughout the year, you may still get taxable capital gains passed on or "distributed" to you as a result of sale activity within the fund.

There is much more than this to capital gain distributions, and the rules can get a bit tricky. Therefore, I laid things out in more detail in an upcoming episode of my podcast, Retirement Planning Education. Specifically, I discuss capital gain distributions in **Episode 12 – What are mutual fund capital gain distributions,** which will be released on March 3, 2022.

Additionally, I also recently made a YouTube video, "What are mutual fund capital gain distributions?" to further elaborate on the topic.

Mutual fund capital gain distributions aren't necessarily bad. As discussed in the podcast and video, they neither create nor destroy wealth. However, they do make things a bit more tricky and inefficient from a tax perspective, specifically when held in normal taxable brokerage accounts (but they are not an issue in qualified accounts like IRAs, Roth IRAs and Health Savings accounts because sale activity in such accounts does not have any present-year tax implications).

If you can control it, it would be best to not hold mutual funds in regular brokerage accounts. However, if regular brokerage accounts are all you have and you feel the strategy and diversification provided by mutual funds is best for you, then don't let the tax tail wag the dog; dealing with capital gain distributions is less of a problem than not having investments that are properly allocated and diversified.

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