TENON FINANCIAL
RETIREMENT PLANNING & INVESTMENT MANAGEMENT

Retirement Planning Insights

October 2022

In this issue:

Up Front

- Podcast and an upcoming trip

Retirement Planning News

- Year-end tax planning tips

Practical Retirement Planning

- Don't give up on bonds and bond funds

Up Front

My appearance on Michael Kitces's podcast and some client visits

I was recently on an episode of Michael Kitces's podcast, "Financial Advisor Success."

I don't like the name of the show as I feel it makes it sound like it's a podcast about a bunch of advisors boasting about themselves. However, the reality of the episodes is far from that. It's much more matter of fact and shares as much about advisors' failures as it does their successes.

Each week's episode is an interview with a different advisor where the host (Michael Kitces) has a casual conversation with the guest to discuss how and why they got into the business, what type of advisory firm they work at or run, what service offering they have, what's unique about their business, what challenges they faced and/or continue to face, etc.

Yes, the ultimate goal of the show is for the advisor to discuss what specifically has worked well in their business. But Michael also makes it a point to discuss what HASN'T worked well (such as in my case, that would be my epic flop of an attempt to market my business at a woodworking exposition…)

Michael always digs fairly deep into each advisor's story as the episodes typically run about an hour and 45 minutes. With that said, if anyone is interested in hearing all of the glorious (and not so glorious) details of my background, my business and what I'm passionate about in life, check out my episode on Financial Advisor Success:

MICHAEL KITCES
kitces.com/podcast

In other news, I'm excited for an upcoming trip I'll be doing early this month. I'll be spending a few days in Arizona to visit family and couple of clients. From there, I'll be driving to New Mexico to visit another client. After that, I'll be flying to Dallas to visit with another client and then to be a presenter at this year's in-person meet-up for members of the Rock Retirement Club.

I'm also excited for fall weather and pumpkin spice. Yes, I am one of those people who loves pumpkin spice anything!

-Andy

Retirement Planning News

Tax planning opportunities for the end of the year

On September 27, 2022, *Kiplinger* published the article, 10 Tax Planning Tips for the End of the Year.

One of my main views toward retirement planning is to focus on things you CAN control instead of things you CAN'T. For example, you have no control over what the stock or bond market does, so don't focus on trying to speculate what those markets will do, or when.

Instead, you can control your exposure and allocation to stocks, bonds and any other asset classes like cash, real estate, insurance products, etc.

You can also control fees and expenses to a large extent. As an example, if two investment funds are extremely similar in their portfolios and investment profile, you can simply opt to invest in the one with the lower fee instead of the one with the higher fee.

You also have some element of control over your taxes. While there will undoubtedly be lots about your taxes NOT in your control about your taxes (such as receiving wages, required minimum distributions, interest and dividends, etc.), there are nonetheless opportunities within your control to create some tax savings.

The article points out 10 potential tax planning tips to take advantage of before the end of the year:

- **Make sure you're paying enough tax** – whether you pay taxes through withholdings or estimated payments, you can avoid extra taxes from underpayment penalties by making sure you're paying enough during the year. The article references an IRS calculator to help in the analysis. Or if you work with a tax-focused advisor, he or she can help, too
- **Considering paying certain 2023 bills now** – certain expenses such as property taxes and medical expenses are potentially deductible on your tax return. To the extent you can pre-pay 2023 expenses this year, you may be able to increase those deductions on this year's tax return
- **Contribute to a 529 Plan or ABLE Account** – for those savings for children's education or future special needs expenses, contributions to a 529 or ABLE plan can provide a current year tax deduction
- **Tax loss harvest** – if you have positions in a normal brokerage account that are at an unrealized loss, selling them could lead to a reduction in taxes
- **Max out employer retirement savings plans** – if you're still working and have access to an employer retirement plan such as a 401(k) or 403(b), contributions can reduce your taxable income
- **Use a side hustle to boost retirement savings** – whether you have a "side hustle" job for the fun of it or to help supplement your income or savings, the income from it can be used to open and fund self-employed retirement savings vehicles like a solo 401(k). Depending on your contribution type, you may deduct it from your income
- **Open a Donor Advised Fund** – a Donor Advised Fund, or "DAF," is a charitable organization structured like an investment account where you can make a donation to the fund this year, get a deduction for that contribution, and then parse out donations from the fund to the charity(ies) of your choice over the subsequent years
- **Max out charitable donations** – similar to how donating to a DAF can lead to a tax deduction, donating straight away to charities (i.e. not through a DAF) can also lead to tax deductions. Furthermore, you can also potentially deduct the value of donated goods; it doesn't need to be strictly cash
- **Transfer IRA money to charity** – if you're charitably inclined, have a traditional IRA and are over 70 ½, you can improve your tax scenario by donating via Qualified Charitable Distribution, or "QCD," direct from your IRA instead of giving cash out of your bank account
- **Consider Roth conversions** – a Roth conversion is when you transfer pre-tax money from a traditional IRA to a Roth IRA, and pay tax on the transfer. From a long-term tax planning perspective, paying more tax now could potentially save you more than that in future taxes

Practical Retirement Planning

Don't give up on bonds and bond funds

As you're probably aware, 2022 has been far from rosy with regards to the performance of most of the financial markets.

As of the writing of this newsletter, the US stock market (as measured by the S&P 500) is down about 22% year-to-date. Additionally, the US bond market (as measured by the Bloomberg US Aggregate Total Bond Index) is down about 13%.

While it's not enjoyable to say, the decline in the stock market isn't a surprise. As I've expressed before, it was long overdue.

The S&P 500 returned +31.5% in 2019, +18.4% in 2020 and +28.7% in 2021. At the beginning of each of those years, I told myself I wouldn't be surprised if that was the year the correction finally happened. Well, it took a few more years for it to finally arrive, but here it is.

As much as it's painful to see the "bear market" decline in the stock market play out, it's not a shock. Furthermore, it's actually healthy from a longer-term perspective for things to cool down and come back to earth. The S&P 500 today is at about the same place it was at the beginning of 2021, which is a much more reasonable level than the all-time peak it hit in early-January of this year.

While the stock market decline is ultimately not a surprise, the bond market decline is a bit different of a story.

Bonds are not riskless, but – depending on the type of bond(s) – they should generally at least be less risky than stocks. Bonds were never meant to generate massive gains or income. They should be intended to be used as a "volatility dampener," meaning their gains or losses should typically be more muted than those of stocks.

Additionally, bonds will generate at least SOME income. Though in recent years, considering how low interest rates have been, there wasn't really much income to be had in most cases.

As a whole, the price of bonds or funds that invest in bonds moves inversely to changes in the market level of interest rates. All else equal, as interest rates go up, bond prices go down. And vice versa. For more information about bonds and how they interest with interest rates, check out my video, **Bonds, Bond Prices and Bond Yields.**

For example, the US total bond market (which is a mix of mainly US Treasury bonds, but also some investment-grade US corporate bonds, some US mortgage-backed bonds and few other smaller positions) had unusually large gains in 2019 and 2020. This was due to the decrease in interest rates during those years.

Specifically, the interest rate that most impacts the price of the US total bond market is the yield on the 10-year US Treasury bond. As that yield decreased during 2019 and 2020, the US total bond market returned +8.7% and +7.7%, respectively.

However, as the pandemic began to wane and inflation ramped up, interest rates have risen. The 10-year US Treasury yield is currently about 3.9%, up from its pandemic low of about 0.5%. That rapid increase in rates has led to a fairly sharp and swift decline in the US total bond market, which lost 1.7% in 2021 and is thus far down about 13.7% year-to-date.

Just like no one can predict the timing of when the stock market will go up or go down, no one can predict the timing of when yields on the 10-year US Treasury bond will go up or go down. While the yield on the 10-year Treasury is at its highest level in over a decade, it's widely expected throughout the industry that it will start to decrease again. Nobody knows when exactly it will happen, but there is no strong reason to think it won't decline once inflation finally breaks and/or economic recession or economic difficulties occur.

If/when yields on the 10-year US Treasury bond do start finally coming back down, the US total bond market (and funds that seek to track it) will start increasing in price. With that said, don't give up on your bonds or bond funds!

Disclaimer:

None of the information provided herein is intended as investment, tax, accounting or legal advice, as an offer or solicitation of an offer to buy or sell, or as an endorsement, of any company, security, fund, or other securities or non-securities offering. The information should not be relied upon for purposes of transacting securities or other investments. Your use of the information is at your sole risk. The content is provided 'as is' and without warranties, either expressed or implied. Tenon Financial LLC does not promise or guarantee any income or particular result from your use of the information contained herein. Under no circumstances will Tenon Financial LLC be liable for any loss or damage caused by your reliance on the information contained herein. It is your responsibility to evaluate any information, opinion, or other content contained.