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PERSPECTIVES

HALL & BURNS
WEALTH MANAGEMENT, LLC

A June Letter to Clients

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Firm Updates

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A June Letter to Clients

Dustin Hall, MBA, CFP, CHFC

We were treated to one of the greatest bull markets in modern history during the last decade. It's not that we didn't experience sell-offs. We did.

During 2011 and 2018, the S&P 500 Index came very close to entering a bear market (Yahoo Finance), which is typically defined as a 20% or greater pullback in the broad-based S&P 500 Index.

From its closing peak of 4,796.56 on January 3, the S&P 500's most recent closing bottom of 3,900.79 on May 19 translates into a peak-to-trough loss of 18.68% (MarketWatch).

As we moved into the final days of May, a sharp rally helped minimize losses for the month. The peak-to-date loss for the S&P 500 Index through May 31 is 13.85%.

What fueled the rise in stocks over the last decade and what has changed today? We believe there has been a shift in the economic fundamentals.

During the 2010s, interest rates were extremely low; the Fed was buying Treasury bonds during the early part of the decade (popularly called quantitative easing or QE); inflation was low; and the economy was expanding at a modest, if unimpressive, pace. That economic expansion fueled a rise in corporate profits.

When the Fed began to raise rates, the shift in policy was gradual.

While stocks never rise in a straight line, the economic fundamentals created a strong tailwind for equities.

What's going on today

Today, the economy is expanding, and corporate profits are rising. But an upbeat Q1 profit season failed to stem the latest slide in stocks. Why? We believe you can point to a shift in the once-favorable fundamentals.

First, let's start with the Federal Reserve.During prior rate-hike cycles, such as the early 2000s and the second half of the 2010s, the Fed took great pains to reassure investors that increases would be "measured" or "gradual."

The investor-friendly language has been jettisoned.

In response to the sharp rise in inflation, the Fed is being forced to play catch-up.

In May, the Fed hiked its key lending rate, the fed funds rate, by 50 basis points. It was the first 50 bp rise in over 20 years.

While 75 bp is off the table, at least for now, the Fed is signaling that another 50 bp rate hike will be delivered in June and again in late July.

Fed Chief Powell recently was quoted saying "What we need to see is inflation coming down in a clear and convincing way, and we're going to keep pushing until we see that."

We ideally want to see a return to price stability, and comments like that strongly suggest job #1 at the Fed is price stability. But over the shorter term, an aggressive policy to rein in inflation increases economic uncertainty and angst among investors.

In addition to rate hikes, the Fed will also let some of the maturing bonds it holds run off its balance sheet without replacing them. It's the opposite of QE, and it's called QT — quantitative tightening. As with rate hikes, it's a shift away from the Fed's easy money policy.

While high inflation is a large factor, Excessive fiscal stimulus that encouraged a consumer-led buying binge (and a fast return to full employment), and supply chain woes that limited the availability of some goods are part of issue as well.

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Further, severe labor shortages have lifted wages, and businesses are passing along the higher costs.

Market volatility is also being exacerbated by Russia's invasion of Ukraine, which has pushed up energy prices and appears poised to slow global growth. Recent lockdowns in China have aggravated supply chain issues.

Lastly, whether it is warranted or not, odds of a recession have risen, which is adding to uncertainty.

Let's dive more into the stock market.

Stocks have a long-term upward bias, but downturns can be swift and uncomfortable. We understand that. But a review of the long-term data is encouraging.While we know that past performance doesn't guarantee future results, the average bear market lasted 446 days (including weekends/holidays). The average bear market decline was 38.4%.

Here is the good news. Bull markets averaged 2,069 days and returned an average of 209.2%.

Yet, market timing is exceedingly difficult.

"I never have the faintest idea what the stock market is going to do in the next six months, or the next year, or the next two," legendary investor Warren Buffett once said. He's right.

A few get lucky from time to time, but no one can consistently call market tops and market bottoms.

That being said, it's important to remember that your financial plan was put into place for a reason and was built to account for unexpected detours.

As life's circumstances change, the plan can and should be revisited to align with your current goals, while at the same time being careful about making investment decisions that are based on emotion.

As the plan discourages one from taking on too much risk when stocks are soaring, it also discourages one from selling when the waters turn choppy. It's important to avoid letting excess optimism or pessimism guide our investing decisions.

We know times like these can be difficult. If you have questions or would like to talk, we are only an email or phone call away.

Sincerely,

Dustin Hall

Top 10 Rules to Know About Qualified Charitable Distributions

If you are an IRA owner interested in donating to charity, a qualified charitable distribution may be an option. These 10 rules outline how a QCD should be done.

Arguably, one of the biggest changes to the tax code in the Tax Cuts and Jobs Act of 2017 was the doubling of the standard deduction. The Joint Committee on Taxation estimates that nearly 90% of taxpayers are likely to take the standard deduction instead of itemizing. The decision not to itemize means that charitable giving doesn't seem like such a tax break.

But if you are over 70 1/2, qualified charitable distributions (QCDs) can be a favorable way to make donations to charities, because a distribution that meets the requirements as a QCD is excluded from gross income (so it's nontaxable). Here are 10 features and requirements that apply to QCDs.

1. QCDs have a dollar limit
You can make a QCD of up to $100,000 for a calendar year.

For married couples, each spouse is subject to a separate $100,000 limit, leading to a total of $200,000 for a married couple.

2. December 31 deadline
A distribution must be processed by the end of the year to be considered a QCD for that year. All distributions processed between January 1 and December 31 of a calendar year can be treated as QCDs for that year, as long as they meet other requirements.

3. A 70½ age minimum
The account owner must be at least age 70½ —6 months after the date you turn 70. Distributions processed before then are not eligible to be treated as QCDs. Note: Required minimum distributions do not begin until 72.

4. They can only be made from IRAs
QCDs can only be made from IRAs, including inherited IRAs. QCDs cannot be made from SEP and SIMPLE IRAs that are ongoing—you receive an employer contribution for the plan year within the tax year in which you make the distribution

If you want to use amounts held in an employer sponsored retirement plan to make a QCD, you must first roll over the amount from the plan to an IRA. Then the QCD can be made from the IRA.

Of course, the amount must be eligible for rollover to be considered a valid rollover to the IRA.

Amounts not eligible for rollover include required minimum distributions (RMDs). Therefore, any RMD due from the plan for the year must be distributed to you before the rollover contribution is made from the plan to the IRA.

5. QCDs must be paid to the charity
A distribution made to you is not treated as a QCD. Instead, the distribution must be made payable to the charity. However, distributions made in the form of a check payable to the charity can be delivered to you, and you can then deliver the check to the charity.

6. The charity must be 'eligible' For this purpose, an eligible charity is one that meets the definition under Internal Revenue Code (IRC)170(b) (1)(A), other than an organization described in IRC 509(a)(3) or a donor-advised fund.

7. QCDs can be used to satisfy RMDs
A QCD can be used to satisfy an RMD if the RMD is not distributed before the QCD is processed. But any amount processed before the QCD is treated as an RMD up to your RMD due for the year, and is therefore not eligible for rollover

Example 1: QCD is RMD
Jane's RMD for the year is $10,000. In the first week of December, Jane (age 74) submitted instructions to her IRA custodian to process a QCD for $20,000 from her IRA.

At that time, Jane had not yet made any other distributions from her IRA for the year. Even though the $20,000 is paid to the charity and not Jane, $10,000 of the $20,000 QCD is counted towards Jane's RMD for the year. As a result, Jane is not required to distribute any additional amount for the year for RMD purposes. If Jane's QCD was for $8,000, she would need to distribute only $2,000 to satisfy her RMD ($8,000 QCD +$2,000 regular distribution= $10,000 RMD).

Example 2: QCD is not RMD, and RMD is not eligible for rollover Tom's RMD for the year is $10,000. During the first week of December, Tom (age 75) instructed his IRA custodian to process a QCD for $20,000. He had already distributed $10,000 during the last week of November. When Tom heard that a QCD can be used to satisfy an RMD, he wanted to roll over the $10,000 that he distributed in November. However, the amount was not eligible for rollover because the first distribution made during an RMD year goes toward satisfying the account owner's RMD until the RMD is satisfied, which means that the $10,000 distributed in November is Tom's RMD.

Had Tom taken that $10,000 distribution after the QCD was processed, the amount would have been eligible for rollover.

8. QCDs not subject to pro-rata rule
Generally, an IRA distribution includes a prorated amount of pretax and after-tax funds, if your IRA balance includes basis amounts. Basis amounts come from nondeductible contributions and rollovers of after-tax amounts from employer-sponsored retirement plans.

For example, assume that you have one traditional IRA with the balance of $100,000, and $20,000 of that represents basis. If you take a distribution of $80,000 from the traditional IRA, the pro-rata rule would apply as follows $64,000 of pretax assets would be taxable and $16,000 of after-tax assets would be nontaxable, leaving a balance of $20,000. The pretax amount would be $16,000 and the basis would be $4,000.

One of the exceptions to this pro rata rule is a QCD. Under this exception, a QCD is deemed to come first from the taxable amount. Using the example above, if the $80,000 distribution is a QCD, then that entire amount would be attributed to the pretax balance, albeit nontaxable because it is a QCD. As a result, the remaining $20,000 would represent basis.

Note: All of your traditional, SEP, and SIMPLE IRAs are aggregated and treated as one for this purpose.

9. Not subject to tax withholding
IRA distributions are subject to income tax withholding. Under the withholding requirements, an IRA owner can request to have 10% or more withheld for federal income taxes plus any state tax. If you fail to make a tax withholding election, the IRA custodian/trustee is required to withhold 10% for federal income taxes.

One of the exceptions to this withholding rule is a QCD. Therefore, whether or not the IRA owner makes a withholding election, the IRA custodian must not perform any tax withholding on a QCD.

10. QCDs are reported as regular distributions
IRA custodians/trustees are required to report QCDs as regular distributions. Despite the fact that a QCD is nontaxable, the IRA custodian must report a QCD as a taxable distribution on IRS Form 1099-R. Your tax preparer is responsible for reporting the QCD as a nontaxable distribution on your return 1040.

If you submit a distribution request that is intended to be a QCD, you should notify your IRA custodian of your intention. This will help the IRA custodian to ensure that the amount satisfies the QCD requirement, including that amount that is made payable to the charity.

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However, it is your responsibility as the IRA owner to ensure that the charity meets the requirement for being an eligible charity under the QCD rules. In addition, you must ensure that you meet the age 70½ requirement before the QCD is processed.

If you are considering a QCD, you should consult with a tax professional about whether or not it is the most suitable option for making a donation. A CPA should also be able to determine if it makes better tax sense to donate other assets

HALL & BURNS QUARTERLY RESOURCE

Can I Do A Qualified Charitable Distribution From My IRA?

Charitably inclined clients who are age 70.5 or older may benefit from making a Qualified Charitable Distribution from their IRA (excluding Roth IRAs). This is a popular way for individuals to support their favorite charities while reducing their AGI. The decision and procedure to carry out this strategy can be complicated.

To help make the analysis easier, we have created the "Can I Do A Qualified Charitable Distribution From My IRA?" flowchart.

This flowchart addresses common issues pertaining to Qualified Charitable Distribution rules, including:

- Age requirements
- Distribution limits
- Qualified charitable beneficiaries
- The effect of account contributions
- Step-by-step reporting process

Download Our Resource Here

By the Numbers

1.FUNDING A RETIREMENT - The S&P 500 has averaged +9.8% per year (total return) over the 25 years ending 12/31/2021. A lump-sum of $865,656 (in a pre-tax account) will sustain a 20-year payout of $100,000 per year (i.e., $2 million of gross distributions before taxes) assuming the funds continue to earn +9.8% annually. 1 This mathematical calculation ignores the ultimate impact of taxes on the account which are due upon withdrawal, is for illustrative purposes only and is not intended to reflect any specific investment or performance. Actual results will fluctuate with market conditions and will vary (source: BTN Research).

2.SPENDING MORE, SAVING LESS - The nation's personal savings rate, which soared during the early months of the pandemic, has now fallen back to below its pre-pandemic levels. The savings rate was 7.8% in January 2020, rose to 33.8% in April 2020, and now has dropped back to 4.4% in April 2022. The 4.4% rate is the lowest recorded in the United States since September

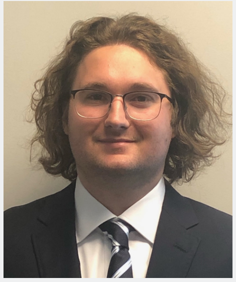
3.WHERE OUR TAX DOLLARS GO - The Congressional Budget Office projects that the spending of the US government for fiscal year 2023, i.e., the 12 months beginning 10/01/2022, will be $5.87 trillion, split between mandatory spending (62.6%), discretionary spending (29.9%) and interest expense (7.5%) (source: CBO).

4.GETTING WORSE - The projected 75-year shortfall in the Social Security Trust fund has more than doubled in the last 10 years. The 2012 Trustees Report forecasted a $8.6 trillion present value shortfall between payroll taxes anticipated to be collected and projected benefits to be paid out over the next 75 years. The 2022 report, released 6/02/2022, projected the present value shortfall at $20.4 trillion (source: 2022 Trustees Report).

5.MORTGAGE DEBT - As of 12/31/2021, 62% of US homeowners had a mortgage on their primary residence. 51% of homeowners with debt on their homes have a mortgage rate less than 4%. The national average rate on a new 30-year fixed rate mortgage was 5.23% as of 6/09/2022 (source: Federal Housing Finance Agency).

HALL & BURNS: Firm Updates

Quinn Wieber has joined the Hall & Burn's Wealth Management team as our newest Client Service's Associate.



In addition to providing our clients with unparalleled service and support, Quinn is responsible for simplifying and streamlining firm operations and reinforcing efficient administrative and client management functions. With a background in psychology and data analytics, he provides both an empathetic and calculated approach to the Client Service role.

Quinn received his bachelor's degree from Wingate University in Psychology and is in the process of completing his MBA.

In his free time, Quinn enjoys playing tennis with his family along with hiking the various trails surrounding the North Raleigh area. He also enjoys watching Carolina Hurricanes hockey and Formula One racing.

As Hall & Burn's CFO Consultant **Simeon Hills** supports the Wealth Management team through providing actionable insights based on financial analysis and business planning to drive more efficiency for the practice and higher quality outcomes for clients.

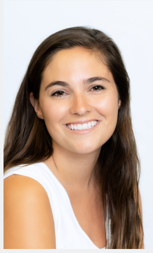
Simeon's financial services career spans over 20 years having had roles assisting clients in achieving financial goals, developing/managing platforms advisors use to scale their practice and coaching advisors in practice management,

which is how he became connected with Hall & Burns Wealth Management.

Simeon received a bachelor's degree in Business Management and Finance, with a focus in Economics from the City University of New York. He holds FINRA Series 7, 63 &65 registered through LPL and maintains Life & Health designations.

He enjoys reading and keeping up with the latest advancements in technology, finance, and economics. Simeon also enjoys coaching softball, and biking.

Jenni Donovan Rios serves as the Director of Marketing for Hall & Burns.
She leads the firm's marketing and social media strategies through creative collaboration with the Advisory team.



Her goal is to create innovative thought leadership pieces that highlight educational content and deliver clear and focused messaging to clients.

After graduating from the University of New Hampshire in 2014, she took on a role in Boston at an advertising agency specializing in planning and buying media across the financial services industry. In her time there, she gained invaluable knowledge in the financial markets and oversaw various clients' advertising strategies' success and effectiveness.

Jenni currently lives in Fort Lauderdale, and enjoys reading, pilates and traveling.

About Us

At Hall & Burns Wealth Management, our mission is to build long-term relationships with a select group of clients by helping them to simplify their financial lives and empowering them to make informed decisions through education, communication and world-class service.

Learn More