May – June 2024

Money Moxie®

Is 6% Dead?

SMEDLEY FINANCIAL SERVICES, INC.®

Trusted Since 1982

Sticky Inflation

Many investors are celebrating because inflation has slowed down from the torrid peak of 9% in 2022 to just 3.5% as of April 10, 2024.

We are celebrating the deceleration of inflation. However, we still need to realize that inflation isn't down at all. The current 3.5% (March 2024) is on top of the 4.9% (March 2023), which was compounding on top of 8.5% (March 2022). So, over the last three years, inflation is up 17.8%! That doesn't sound so rosy.

Everyone is still feeling the pain when they go to the grocery store or restaurants. Even homeowners insurance and car insurance have increased in cost. For the last few months, inflation has stayed around the same level. The Fed has reiterated their goal to get inflation down to 2%. If inflation starts increasing instead of decreasing, the Fed may need to raise rates, which would be bad for all of us.

This creates a lot of crosswinds in the investment world. Historically, investing has been a good inflation hedge. We will continue to manage your investments to help keep up with the insistent pace of inflation while still providing protection against the uncertainties in investing.

Mikal B. Aune, CFP®
Vice President of Wealth Management

Securities America's New Name: Osaic

Smedley Financial has used Securities America, Inc. as its broker-dealer for many years. You may have noticed it on account paperwork, statements, and disclosures. Beginning in June, Securities America will be called Osaic. You will receive notifications when the switch is official. We do not anticipate any changes beyond the name and expect that no action will be required of you. If you have questions regarding the change, please free to give us a call.

Did you do a QCD during 2023?

If you did a QCD in 2023, please ensure it is reported correctly on your 2023 tax return. Your accountant should have removed the QCD amount from your total IRA distributions on line 4b. If we processed the QCD for you, instructions on how to do this are on the QCD letter we mailed to you in January. (It had "Important Tax Document" in the top right corner.)

Each year, we find many client tax returns done incorrectly, requiring them to file amended tax returns. If you made a QCD and failed to document it, you may miss out on hundreds, if not thousands, of dollars in tax savings. If you have questions about whether your QCD was reported correctly on your tax return, please consult your accountant or your Private Wealth Manager at Smedley Financial.

Is 6% Dead?

By Parker L. Thompson, CFP®

A recent $418M settlement from the National Association of Realtors (NAR) antitrust lawsuit could change the real estate market. With home prices continuing to rise, the federal jury found that real estate brokerages nationwide have been conspiring to inflate real estate agents' commissions on the buying and selling of homes. What does this mean for you?

Homes are typically listed and bought on the NAR's MLS or multiple listing service. It was found that the commission rates asked or required on home listings were not advertised as negotiable and were demanded to be paid by the seller. This settlement and the changes to follow this summer, after court approval, could change all that.

1. Sellers are no longer solely responsible for agent commissions.
Typically, the seller of the home covers the 6% commission payment once the home is sold. That 6% commission is usually split between the selling and buying agents, coming from the seller's pocket. These changes will no longer require the seller to pay the buying agent commission, and they won't list the commission on the MLS listing.

This now puts pressure on home buyers to pay the commission of an agent if they choose to use one. They may have to sign written contracts upfront to work with an agent as well, which buyers typically don't like to do. One result could be higher closing costs to pay the agent's commission out of pocket.

2. Rates are negotiable.
Another key takeaway is that the commission rates you pay an agent to buy or sell a home are negotiable. The standard 6% was never required. You have always been able to negotiate lower and put more money in your wallet. Now that sellers don't have to worry about paying the buying agent, they only have the 3% to their selling agent to be concerned with. In all cases, that can be negotiated down to 2% or even 1%.

In the past decade, we have seen a big shift in fees and commissions: free stock trades, lower cost ETFs, no fee mutual funds, etc. This is one more piece that will follow the trend of consumers having more power to choose what and how much they pay.

The bottom line
Buying or selling a home could become more affordable as home prices adjust downward to compensate. Buyers will not have to overcome the broker fees priced into the home being sold. As a seller, you may get to keep more of your equity. As a buyer, your out-of-pocket costs could be slightly higher, though. Home prices could also rise as agents try to squeeze more out of smaller commissions.

It is my opinion that you should use an experienced agent when buying or selling a home. They can help with many of the legal and transaction-based requirements aside from showings. Know that you have the power as the buyer or the seller to negotiate what you will pay an agent and how you will pay them.

The Final Countdown

By Sharla J. Jessop, CFP®

The clock is ticking down to December 31, 2025. We have less than two years to take advantage of low tax rates before scheduled tax rate increases take effect. In 2017, the Tax Cuts and Jobs Act (TCJA) introduced substantial changes to the tax code, which included adjustments to tax brackets, deductions, and credits. The law was enacted with a countdown clock. At expiration, if Congress does not extend TCJA provisions or pass new laws, several provisions will expire, reverting to the 2017 tax code.

Here's what could change:
TCJA changed marginal tax brackets and reduced tax rates. This has been beneficial, especially to higher-income earners. For example, a married couple filing jointly with a taxable income of $160,000 in 2024 will fall into the 22% tax bracket. The same taxable income in 2017 would have landed in the 28% tax bracket. That's a significant difference. Compare the marginal tax brackets in the 2024 and 2017 Marginal Tax Bracket and Rates tables on the adjoining page.

Historically, the highest marginal tax bracket has been north of 90%, and in the past 50 years, it's been as high as 70% - unbelievable! For the next two years, taxes will be among the lowest during our lifetime. Taxes are literally on sale!

Higher tax brackets have another impact, one that is easily overlooked. Traditional IRAs and 401(k)s, known as qualified accounts, have been used to defer taxes to a future date, providing an immediate tax break by reducing earned income. These accounts have grown over the years, becoming a sizable percentage of wealth for pre-retirees and retirees. Unfortunately, when accounting for the growth of tax-deferred assets, the tax liability may cost more than you expected. Why? Required Minimum Distributions (RMD).

Required Minimum Distributions force you to take money out of your qualified tax-deferred accounts over time based on your age. In 2024, someone age 73 with $1,000,000 in qualified deferred assets will be required to take a distribution of $37,736. The older the age, the greater the required distribution. Each year, the amount is recalculated based on the account balance on December 31st of the prior year and divided by a factor determined by your age at the end of December in the current year.

Required Minimum Distributions New Age Rules	
Birthdate	**RMD Age**
June 30, 1949 or before	70.5
July 12, 1949 - 1950	72
January 1, 1951 - 1959	73
January 1, 1960 or later	75

The good news is that you can take control of your future tax liability by managing distributions from your tax-deferred accounts. This can be done by converting a portion of your Traditional IRA or 401(k) to a Roth IRA over time based on your tax situation each year. You choose how much and when you pay taxes. This strategy allows you to use a marginal tax bracket to your advantage. Even better, the amount you convert is not limited, and you do not need to have earned income to make a conversion. Starting this process early will give you more time to convert assets and manage the impact of taxes.

If you are making contributions to a 401(k) or IRA, consider changing the contributions to Roth 401(k) or Roth IRA. This allows you to maximize a lower tax bracket now.

Roth 401(k)s and Roth IRAs have no required distribution dates. The money in these accounts can continue to grow tax-free until you need or want to use it. Whatever remains in your account when you pass away can be transferred to your beneficiaries tax-free.

2024 Marginal Tax Brackets and Rates

	Single	Married Filing Jointly	Head of Household
10%	$0 to $11,600	$0 to $23,200	$0 to $16,550
12%	$11,601 to $47,150	$23,201 to $94,300	$16,551 to $63,100
22%	$47,151 to $100,525	$94,301 to $201,050	$63,101 to $100,525
24%	$100,526 to $191,950	$201,051 to $383,900	$100,526 to $191,950
32%	$191,951 to $243,725	$383,901 to $487,450	$191,951 to $243,700
35%	$243,726 to $609,350	$487,451 to $731,200	$243,701 to $609,350
37%	More than $605,350	More than $731,200	More than $609,350

2017 Marginal Tax Bracket and Rates

	Single	Married Filing Jointly	Head of Household
10%	$0 to $9,325	$0 to $18,650	$0 to $13,350
15%	$9,326 to $37,950	$18,651 to $75,900	$13,351 to $50,800
25%	$37,951 to $91,900	$75,901 to $153,100	$50,801 to $131,200
28%	$91,901 to $191,650	$153,101 to $233,350	$131,201 to $212,500
33%	$191,651 to $416,700	$233,351 to $416,700	$212,501 to $416,700
35%	$416,701 to $418,400	$416,701 to $470,700	$416,701 to $444,550
39.6%	More than $418,400	More than $470,700	More than $444,550

If your beneficiary is your spouse, they can continue to hold the account, growing it tax-free until they need or want to access the money.

A smart way to get money out of your qualified account tax-free is by making a Qualified Charitable Distribution (QCD). This strategy allows you to donate money to a qualified charity without paying taxes or reporting the distribution as income.

You must have turned age 70 1/2 to make a QCD, and it can count as your RMD for the year.

The wealth management team at Smedley Financial can help you create a plan that incorporates valuable strategies to help you prepare for a brighter future.

A Golden Investment?

By Jordan R. Hadfield, CFP®

Gold is a symbol of wealth and status that has lasted for centuries. It is so valued in our society that we even use it to emphasize greatness. "The golden rule," "a golden opportunity," and "worth its weight in gold" are just some of the popular gold metaphors used today. We give gold stars to children, marry with gold rings, and award champions with gold medals. Is there any question that we have been conditioned to value this shiny element?

Interestingly, gold isn't the most valuable metal - it's third place. But if I tell you that you have a heart of rhodium, I don't think you'll get the compliment. Regardless, consumers love gold. But should investors?

Gold is unique in that it is both a commodity and a currency. Most of its demand is consumed in the jewelry sector. But, as a financial asset, it's one of the largest in the world, with a 2023 average daily trading volume of $162 billion.

This may sound enticing if you're an investor but understand that gold is a speculative investment. Gold does not pay dividends or interest and has no income attached to it. There are periods when gold performs quite well, but there are times when it does not. Overall, the asset is volatile and greatly underperforms.

Before we make an investment of any kind, we first need to understand our objective. We don't invest in stocks for guaranteed income, we don't invest in bonds for maximum growth, and we don't invest in real estate for liquidity. If you are thinking about gold, you should first understand what you want it to accomplish.

Some buy gold as a hedge against economic downturns and inflation. The long-term data shows that gold holds its value but does not provide much growth above inflation. If inflation protection is your goal, stocks have proven to be a much better investment. If market protection is what you're after, bonds are superior. For this reason, investors like Warren Buffett and Dave Ramsey preach gold avoidance and do not hold them in their portfolios.

Others buy gold in preparation for Armageddon. If having some gold in your basement helps you sleep better at night, I'm all for it – assuming an amount within reason. You should not own more than 5% of your total financial portfolio value in gold bullion.

For doomsday purposes, gold also has its problems. You must buy physical gold. Gold dealers sell at a premium and buy back at a discount. You must store it, which takes up space and presents risks of its own. And you can't eat it. I suggest food, gas, and medical supplies will be far more valued in the days of reckoning and will trade in far greater quantities. Silver, by the way, is even worse.

There is a significant marketing campaign for precious metals, but we urge caution. They are not the golden investment that many claim them to be.

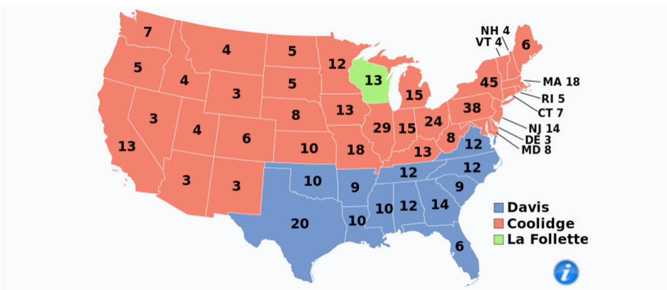
Investors Like Election Years

By James R. Derrick Jr., CFA®

Calvin Coolidge became the president of the United States in 1923 after Warren G. Harding unexpectedly died. He ran a campaign as the incumbent just one year later. There were three major candidates that year. Coolidge won in a landslide, receiving 72% of the electoral college votes. Coolidge was a beneficiary of the economic boom known as the *Roaring 20s*.

The stock market is one measurement of how well the economy is perceived to be doing. Over the last 100 years, it has averaged about 8% per year. In 1924, it made approximately twice that amount, something that I am sure President Coolidge and his team were well aware of.

1924 Electoral College



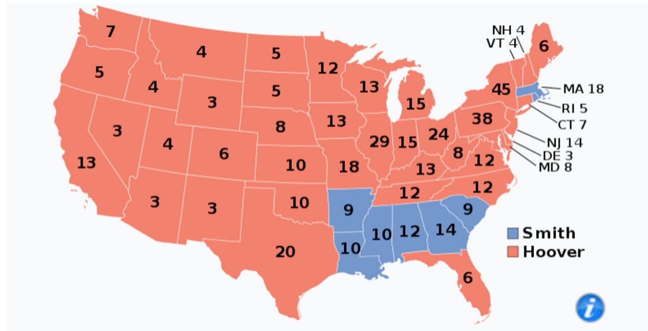
Presidential election results map. Red denotes states won by Coolidge/Dawes, blue denotes those won by Davis/Bryan, light green denotes Wisconsin, the state won by La Follette/Wheeler. Numbers indicate the number of electoral votes allotted to each state.

Fun Facts

President Calvin Coolidge

- **30th president of the United States.**
- **1 of 8 vice presidents to become president after the death of the president.**
- **Coolidge was visiting his family when President Harding died, so the oath of office was administered by Coolidge's father in the family's Vermont home.**
- **Won 1924 election with the slogan, "Stay cool with Coolidge."**

1928 Electoral College



1928 presidential election results. Red denotes states won by Hoover, blue denotes states won by Smith. Numbers indicate the electoral votes

The stock market rose every year from the election of 1924 to the next election in 1928. It gained 38% in 1928 alone. The political party of the incumbent president was wildly popular. President Coolidge did not run again. So, Herbert Hoover received 84% of the electoral college votes.

Since 1924

8.3% Average Annual Gain

7.8% Average Gain in Presidential Election Years

76% Percent of Positive Presidential Election Years

25% Average Stock Market Return For President Coolidge. No President Has Better

Election years tend to be good for stocks. The theory is that the presidents pump up the economy and the market. History raises doubts. Not every election year is a double-digit home run like 1924, perhaps because there is only so much a president can do.

The election may have some impact on the markets, but the reality is markets have a huge impact on the election.

Your SFS Team

Smedley Financial Services, Inc.® is an independent registered investment advisory firm. We work for our clients. Our wealth managers have the flexibility to implement our financial plans, retirement plans, and income distribution plans using strategies that work toward each client's needs and goals. We work with individuals, businesses, and family estates. We provide financial solutions for your life.

Wealth Accumulation
•Managed Accounts
•Indexed Investing
•Mutual Funds
•Exchange Traded Funds (ETFs)
•Stocks and Bonds
•Alternative Investments

Family Protection
•Term Insurance
•Whole Life Insurance
•Universal Life Insurance
•Variable Universal Life Insurance

Retirement
•Social Security Maximization Strategies
•Medicare Supplement
•Guaranteed Income (Annuities)
•Lifetime Income Planning

Disability (Injury)
•Short-Term Disability Insurance
•Long-Term Disability Insurance

Elder Care
•Long-Term Care Insurance
•Hybrid LTC

Employers and Self Employed
•Health Insurance
•401(k) Plans

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