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Wall Street Never Saw The 2021 Market Surge Coming

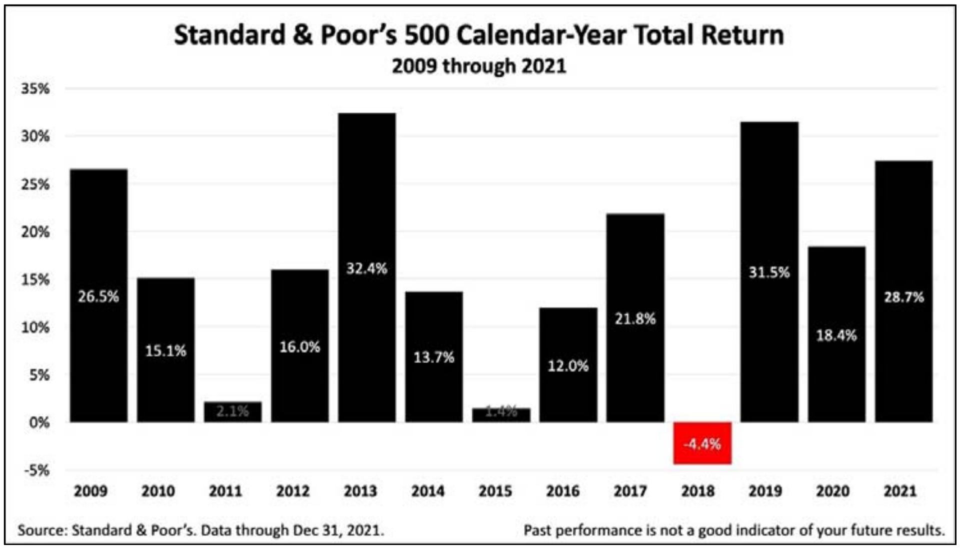
In 2021, the Standard & Poor's 500 stock index, with dividends reinvested, returned an astonishing 28.7%! Who could have predicted it? Who could have predicted that, despite the second year of a pandemic, stocks would soar for a third straight year and rack up nearly three times their annual average return? Not Wall Street's best minds!

2021 marked another year in which Wall Street's biggest firms and their best strategists failed to predict the stock market.

On December 21, 2020, *Barron's* published an article in which the venerable financial magazine asked 10 leading Wall Street strategists to predict the closing price of the S&P 500 on December 31, 2021. The mean forecast of the 10 strategists quoted by *Barron's* called for the S&P 500 to close 2021 at 4040, which would have amounted to about an 8% gain. The strategists' consensus forecast of 4040 was not even close to the actual closing price of the S&P 500 of 4712 on December 31, 2021!

This chart shows that the consensus forecast by Wall Street's best and brightest strategists selected by *Barron's* have been consistently wrong since 2008, and their prediction for 2021 was completely off-base! The chart shows the results of predictions made by leading strategists quoted every December in *Barron's* since December 2007. It was compiled by Fritz Meyer, an independent economist.

If Wall Street's top strategists' forecasts had been accurate, the black dots would all fall right on the red line representing the S&P 500. However, their predictions were often way out of line with what



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Tax Filing Season To Begin Two Weeks Earlier This Year

Facing the prospect of a difficult tax filing season, the Internal Revenue Service says it will begin processing 2021 income tax returns on January 24 – 17 days earlier than last year's filing season began.

Fearing the Omicron variant might sideline employees and cause delays in processing returns, the agency Tuesday said the earlier-than-usual start-date for individual tax return filers "allows the IRS time to perform programming and testing that is critical to ensuring IRS systems run smoothly."

"The pandemic continues to create challenges," IRS Commissioner Chuck Rettig said in a press release. "In many areas, we are unable to deliver the amount of service and enforcement that our taxpayers and tax system deserves and needs."

More than 240.2 million Federal tax returns and supplemental documents were processed in the year ended September 30, 2020, according to the IRS. Almost 122 million refunds were issued, amounting to more than $736.2 billion. Yet the IRS is "in a hole," according to a story in *The Wall Street Journal* on Jan 10, which is consistent with a report July 1, 2021, in *The New York Times* of an IRS backlog in processing 35 million returns.

In addition to beginning the filing season earlier, the April 15 deadline is delayed this year until April 18 for Emancipation Day, commemorating April 16, 1862, when President Abraham Lincoln issued the Emancipation Proclamation freeing slaves. While Emancipation Day is not a federal holiday, it is a holiday in District of Columbia and federal offices are closed.

New IRS Rules Make It Much Easier To Retire Early

Newly released rules in IRS Notice 2022-6 sharply hike distribution amounts permitted from qualified plans before age 59½.

The rules, which were released in January 2022, will allow many more individuals to take substantially equal periodic payments (SEPPs) from their IRAs or 401(k)s in their 50s. With The Great Resignation under way, this is one of the most important personal financial planning strategies of 2022.

The new rules put a 5% floor on the maximum interest rate that may be used to calculate payments from an IRA or 401(k) using substantially equal periodic payments (SEPPs). For the past decade, the maximum rate was much lower.

Since the early 1980s, powerful tax advantages are accorded IRA, 401(k), and 403(b) under Federal law. While rules on federally qualified accounts encourage retirement saving and investing of Americans, they impose a 10% penalty on withdrawals before age 59½. The new rules spelled out in IRS Notice 2022-6 update 20-year-old IRS rules.

Notice 2022-6 addresses a complex part of the Internal Revenue Code, Section 72(t), which specifies a formula for calculating the maximum amount you may withdraw penalty-free annually in SEPPs. It's largely based on your age. Without getting into the technicalities, the net effect is that Notice 2022-6 will allow individuals under the age of 59½ to take much larger payments from federally qualified retirement plan accounts penalty-free.

The timing of the rule change is lousy. More Americans have left the workforce than had been expected before the pandemic in the pandemic-inspired Great Resignation. The shift is widely believed to be caused largely by individuals in their 60s deciding to retire. As a result, the participation rate of Americans aged 16 to 65 in the labor force has declined more than expected. At a time when the supply of workers is forcing employers to offer higher wages, Notice 2022-6 will give more older workers reason to retire.

If you have diligently invested by maximizing contributions to a federally qualified retirement plan, you may be able to retire earlier than you expected – if that's what you want. ●

2022 Estate & Gift Tax Planning

The federal exemption from gift and estate taxes doubled from $5.5 million in 2017 to a whopping $11.2 million in 2018! and under current law, the exemption has been continuing to rise annually. Here's what you need to know if you have a multimillion-dollar estate.

In 2022, the exemption from paying gift, estate, and generation skipping taxes, is $12.1 million, and, under current law, it is scheduled to rise to almost $12.9 million in 2025! At the end of 2025, the exemption will be slashed in half! and individuals will only be entitled to a $6.5 million exemption from estate and gift taxes. To be clear, individuals with an estate of $6.5 million estate or more are going to be subject to tax on what they leave their children, according to the current Internal Revenue Code.

With real estate, stocks, and other capital-gain investments appreciating highly in recent years and the after-inflation yield on a 10 Year Treasury bond negative, it's vitally important for individuals with multimillion-dollar estates to take full advantage of the current exemption rules.

The exemption from estate tax could be lowered in 2022, but Congress could also leave it intact through 2025. Either way, if you want to reduce taxes on the wealth you leave to your family and protect those assets from creditor risk for decades to come, you need to plan it out now, while you have this chance.

To protect your six-year-old granddaughter in a divorce from her future ex-husband 35 or 45 years from now, or to shield your children's assets from professional liability- or business-lawsuits they may face as a doctor or landlord in the decades ahead, years after you're gone, planning right now is wise, while this opportunity is open to you. ●

Pre-Retirees: Here's How To Catch Up On Retirement Saving

If you're a pre-retiree who needs to catch up on retirement saving, or if you don't need the income from a portion of your IRA or 401(k) accounts and want to leave them to your children, here are important details for planning your future and leaving a legacy to your family: 2022 limits on contributions to federally qualified defined contribution retirement plans.

DC Basics. Defined Contribution (DC) plans are accorded tax advantages by the U.S. Government to encourage Americans to save and invest for retirement. Federally qualified retirement plans include a variety of employer-sponsored 401(k), 403(b), SEP IRA plans, as well as individually sponsored IRAs, SIMPLE IRAs, and Roth IRAs.

In the 1980s, as the U.S. grew more prosperous and litigious, corporations sought to shift responsibility of retirement planning from company-sponsored pension plans to individuals. Instead of guaranteeing workers a pension, DC plans enabled companies to shift the responsibility of retirement planning to individuals. The U.S. system has been adapted by other major economies and is a model for the world, but new rules and regulation continue to refine and improve the American retirement saving system.

Investments in DC plans grow tax deferred, based on a promise from the Federal Government. You do not pay tax on the capital appreciation or dividends earned on investments in DC plans until you take withdrawals from your account. Essentially, the accounts grow tax-free until you start taking withdrawals. Planning properly enables many individuals to take withdrawals from a DC plan account only after retirement, when you are likely to be in a lower income tax bracket.

2022 Limits. The overall limit on contributions to DC plans in 2022 is $61,000. That's up $3,000 from 2021. For baby boomers in the workforce trying to a create a larger nest egg, DC plans may provide a way to accelerate savings in federally qualified retirement accounts.

Here's what changed in 2022:

- You can contribute up to $20,500 to a 401(k) plan now, $1000 more than in 2021.
- The contribution limit on SIMPLE IRAs is $500 higher than in 2021, rising to $14,000 in 2022.

Maximizing contributions to DC plans is a fundamental of financial planning for architects, engineers, physicians, lawyers, dentists, and other professionals and business owners, not only because it allows tax-advantaged growth but also because of professional liability.

An LLC or corporate entity does not limit a professional's exposure. But federally qualified DC plans do protect those assets from creditors, including lawsuit judgments resulting from a malpractice lawsuit. The protection from liability lawsuits and other creditors generally begins a year after you make a contribution to the plan. So, it is best to make DC plan contributions as early in the year as is feasible.

Maximizing contributions to a federally qualified retirement plan for a far-off retirement is hard behaviorally. We can coach you on this. ●

2022 Defined Contribution (DC) Plan Limits

IRA / ROTH IRA CONTRIBUTION LIMIT	$ 6,000
IRA / ROTH IRA "CATCH UP"	$ 1,000
401k ELECTIVE DEFERRAL	$ 20,500
401k ELECTIVE DEFERRAL "CATCH UP"	$ 6,500
SIMPLE IRA CONTRIBUTION LIMIT	$ 14,000
SIMPLE IRA "CATCH UP"	$ 3,000
SEP IRA EMPLOYEE PERCENTAGE MATCH LIMIT	25%
SEP IRA SELF-EMPLOYED PERCENTAGE MATCH LIMIT	20%
OVERALL LIMIT ON DC PLAN CONTRIBUTIONS	$ 61,000

Source: Advisors4Advisors, Jan 13, 2022

Rebalancing Helped Since Covid Struck

The 12-month returns for the past six quarters on stocks classified by industry sectors shown here illustrate why a portfolio rebalanced once a year by a professional is so important to investor success.

During the pandemic, both the Standard & Poor's tech sector index was a big winner because shopping online was safer health-wise. So was watching Netflix. Google ads suddenly were attracting more eyeballs. Apple and Microsoft earnings growth was four times earnings growth on the average S&P 500 stock, according to Fritz Meyer, an independent economist. The stock market's ebullience was totally unexpected, of course.

The tech sector was the only one of the 11 industry sectors that make up the S&P 500 index to show a gain (10%) in the first quarter of 2020, when Covid hit. That was just the start. For the next three quarters, tech sector 12-month returns came in at an astonishing 37%, 47%, and 44%, respectively. It was an historic bull market kicked off by government transfer payments to consumers. But tech stocks for the past two quarters have not been dominating. They returned to the middle of the pack of the 12-month 11-sector index performance.

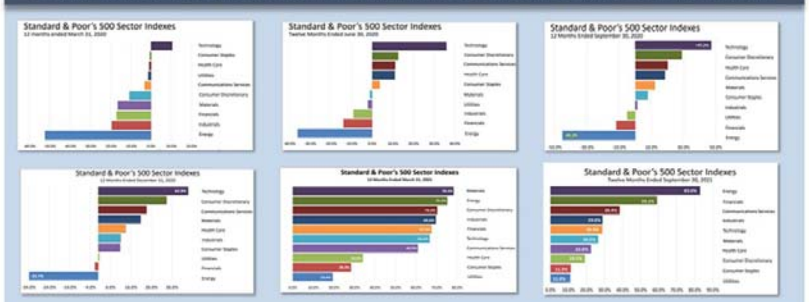
Successive quarters of outperformance would have allowed your tech stock position to grow unchecked and dominate your portfolio results. With leadership shifting, a rebalanced portfolio is better able to benefit from the change in leadership in the past two quarters through the end of 2021.

The past six quarters poignantly illustrate why periodic rebalancing is about as important to investor success as personal advice on tax-efficiency. Rebalancing is not a sexy-sounding benefit of working with a professional, but it might affect your portfolio's terminal value about as much as tax-smart investing advice, which is another important reason to hire an investment professional.

Automated calculators for rebalancing may get the math right but getting an investor to use a calculator to rebalance once a year requires a commitment of time and an interest in personal finance as well as behavioral change. Working with a qualified professional who knows your financial goals and risk-tolerance, thus, came in handy in the period since Covid hit the U.S.

There are many ways to rebalance a portfolio. Rebalancing based on a portfolio's industry sector weightings is shown for illustration purposes. ●

ERRATIC INDUSTRY SECTORS MADE PROFESSIONAL ADVICE VALUABLE SINCE COVID



Past performance not indicative of your future results.

In the Covid bull market, the comeback since pandemic struck in the first quarter of 2020, technology was the No. 1 performer of 11 Standard & Poor's Corp. industry sector indexes for four consecutive quarters. For the last two quarters, tech-sector stocks were a middling performer.

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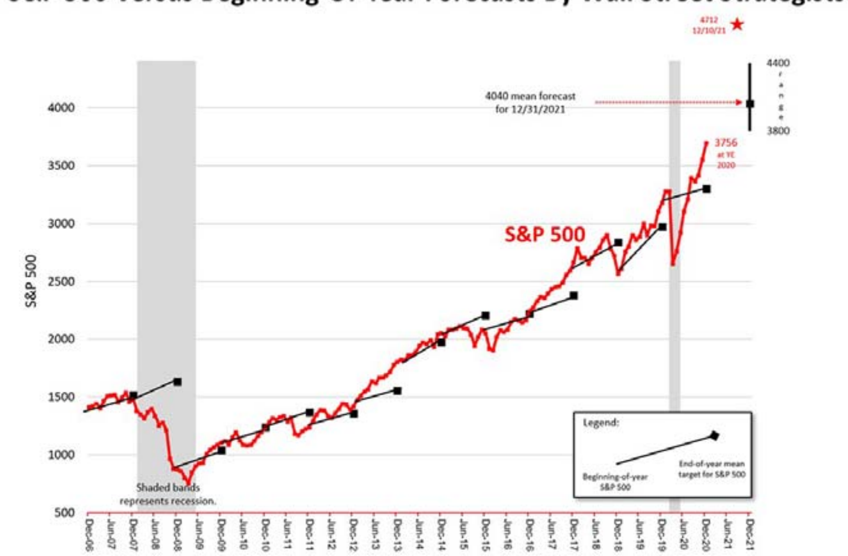
occurred in the market!

Which should serve as a reminder of how the largest brokerages, with help from the financial press, can steer investors in a bad direction. As 2022 begins, we want to remind you to be skeptical of predictions, even if they come from the big-brand brokerage firms and the experts in the financial press.

This article is intended to make clear why we view the financial press skeptically and choose to operate as an independent professional financial advice firm unaffiliated with big-brand Wall Street names. ●

S&P 500 Versus Beginning-Of-Year Forecasts By Wall Street Strategists



Source: Standard & Poor's, monthly data through December 2020. *Barron's* survey of 10 Wall Street strategists, December 21, 2020. Fritz Meyer, independent economist. Past performance not indicative of future results