



Thomas Ford Library Investment
Discussion Group – December 10, 2024

Market Update, Year-End Tax Planning

Pebble Valley Wealth Management

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- Refined Asset Allocation Framework to Express Views
 - Market Update – asset classes, US debt levels, bond yields
 - Year-end Tax Planning – focus on Roth conversions
- See last slide + <http://www.pvwealthmgt.com/> for free market-related resources
- “The Financial Translator” PVWM podcast and subscribe to Monthly Newsletter
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Refined Asset Allocation for Active Views

Framework

3 different levels of portfolio granularity for asset classes

- Set target % for given asset class; know the underlying exposure of security owned
- More refined allocation has ability to express views and tax loss opportunities; more work or get help
- US equities abnormally high; International abnormally low over past 15 years (see JPM Nov '24 pg 47)

"60/40"	More Refined	Asset Class Detail	Return*	StdDev*
Equity	US Equity Int'l Equity	US Large Cap	14.21	14.6
		US Small Cap	11.54	19.8
		Int'l Dev	5.51	15.7
		Int'l EM	3.29	17.6
Bonds	Treasuries Corporates	US 1-3yr Bond	2.41	1.8
		US Corp Bond	3.85	6.2
		US TIPS	2.82	5.1
		US HY	6.70	7.2
	ALTS	Int'l Bond (Hdgd)	2.86	3.6
		US REIT	10.00	17.0
	Cash	Commodity	-0.98	14.5
		TREND (10yr)	2.23	10.1
		3M TBill	1.16	0.5

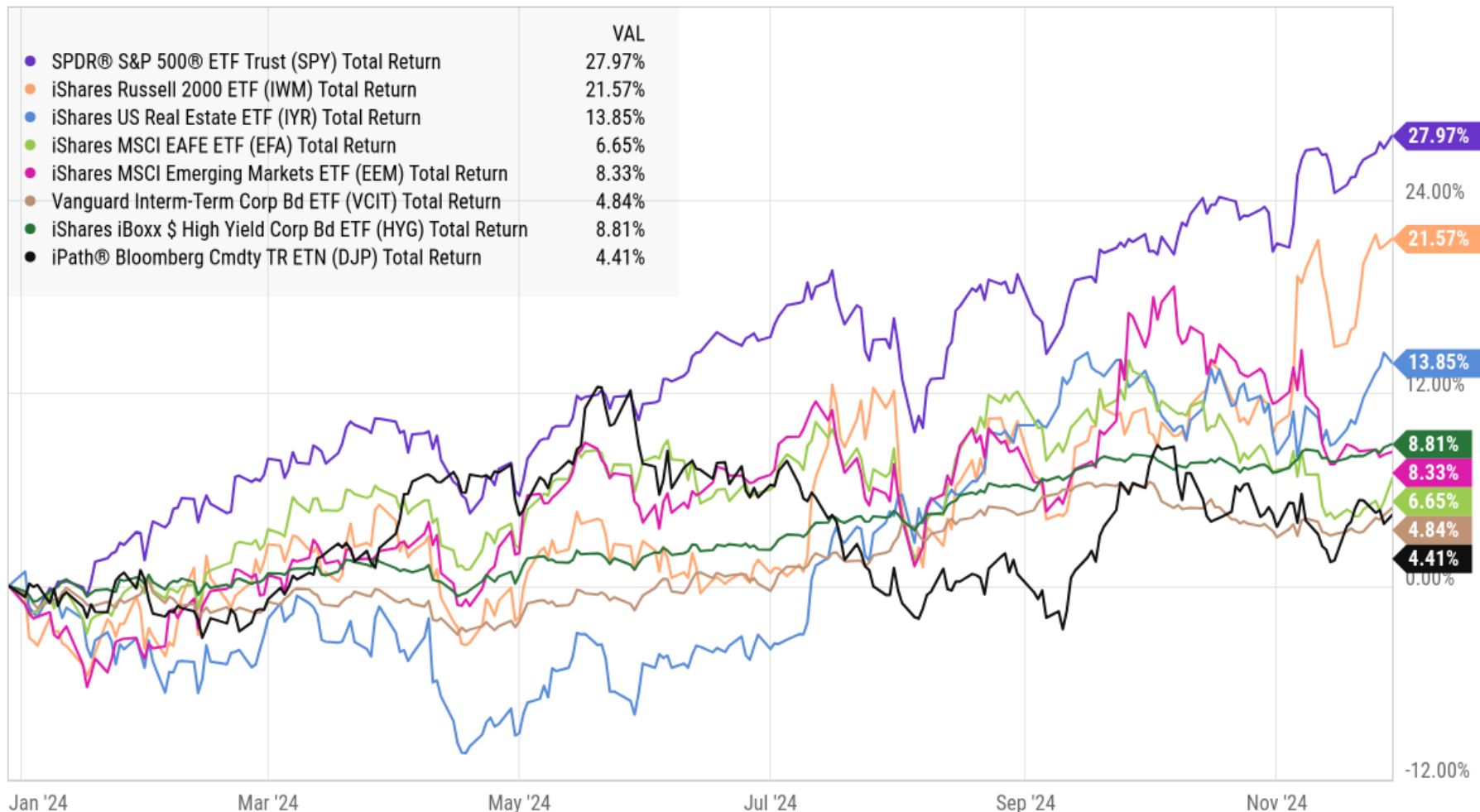
* Past 15 years ending 11/30/2024; Morningstar

See JPM Guide pages
for Valuation (Nov'24)

- Equity – 5,6,11,14,47
- Bond – 35, 37, 39

Major Asset Classes YTD Returns and Valuation

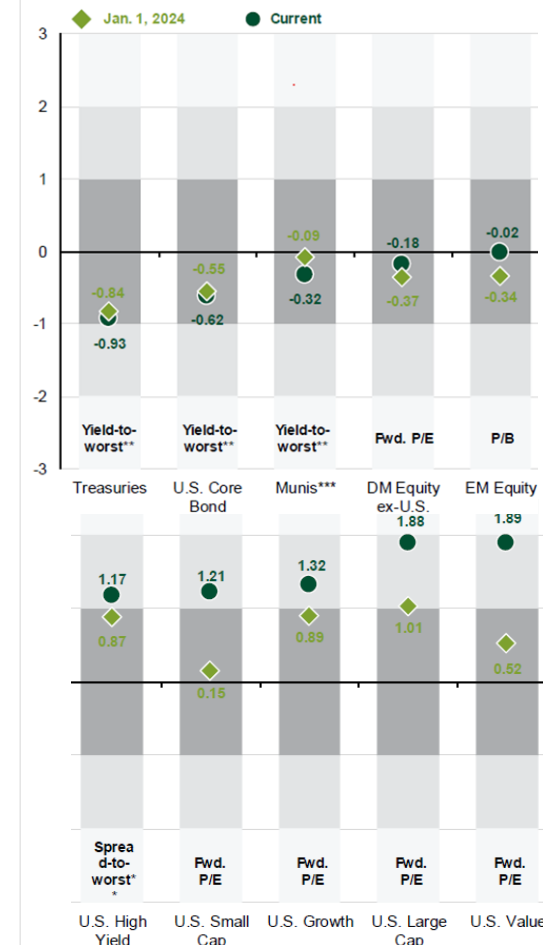
YTD Total Return of Major Asset Class ETFs - 11/30/2024



Market Update

JPM Nov '24 - pg 6, 61

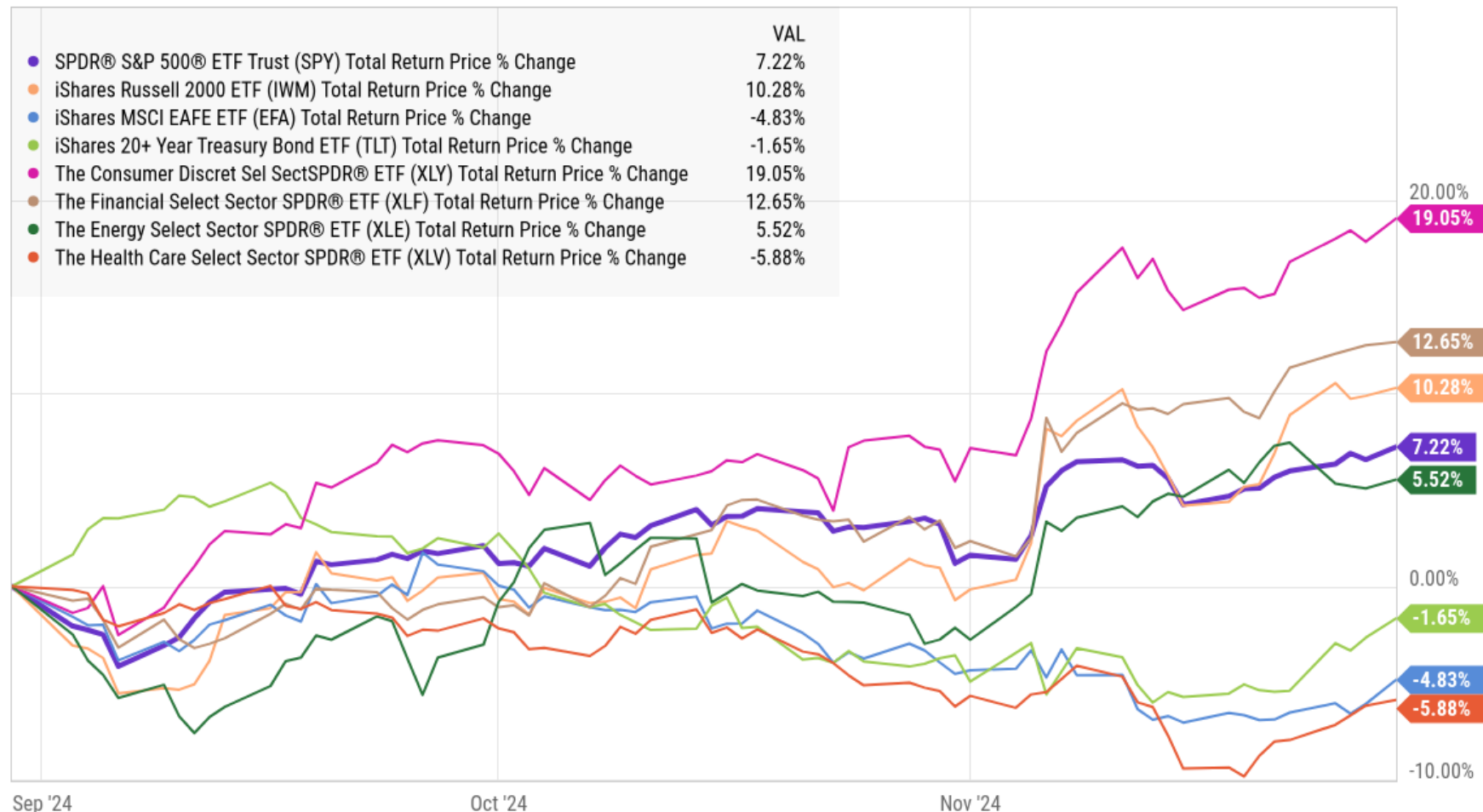
Asset class valuations
Z-scores based on 25-year average valuation measures*



“Trump Impacted” Asset Class and Sectors

Market Update

3 Month Total Return on "Trump Impacted" ETFs; "+" and "-" 11/30/2024



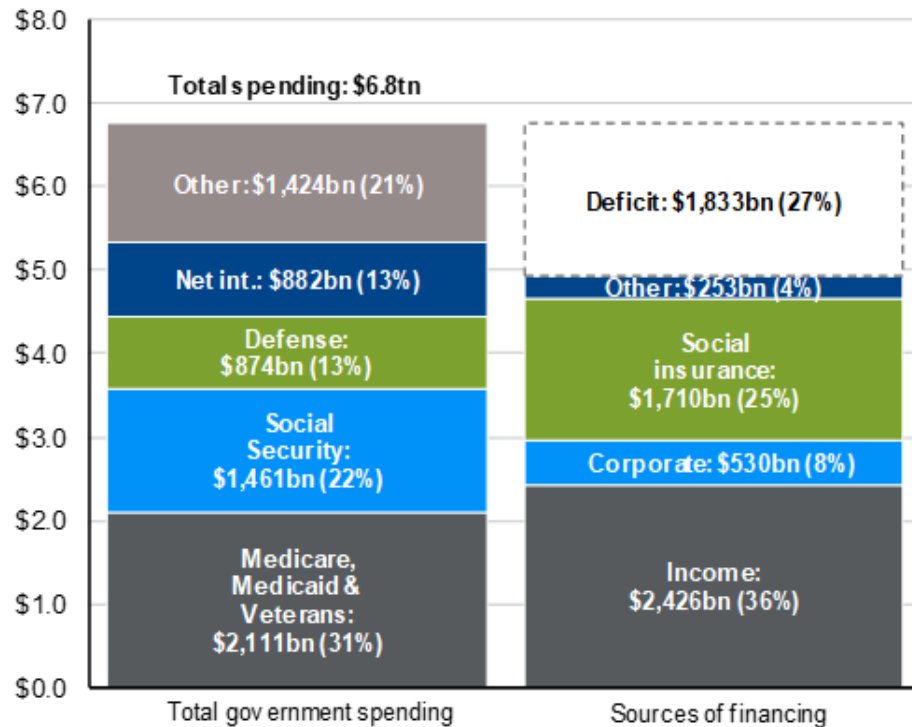
- Another asset class with “+” impact is crypto
- Ticker BITB is up 65.7% over this same 3 Months
- Very volatile however; leverage also driving price, especially from MSTR

That's a lot of debt; cost to service 13% and growing

Market Update

The 2024 federal budget

USD trillions

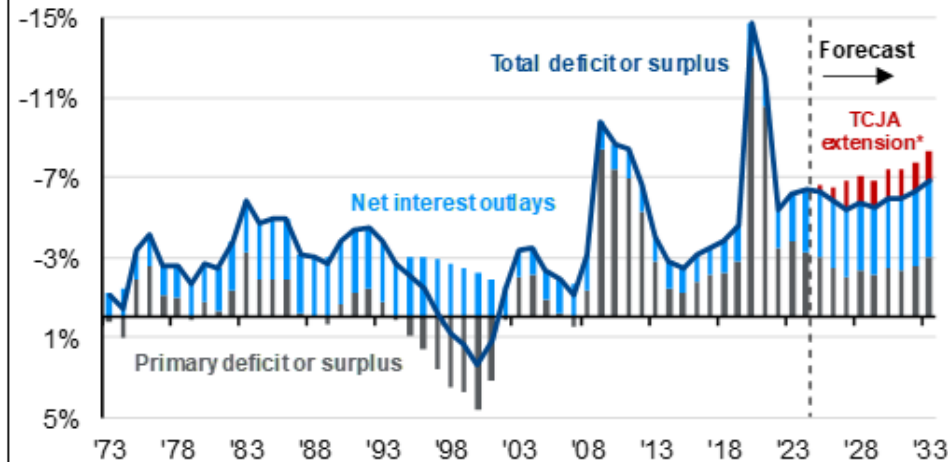


CBO's Baseline economic assumptions

	2024	'25-'26	'27-'28	'29-'34
Real GDP growth	2.9%	2.0%	1.7%	1.8%
10-year Treasury	4.5%	4.0%	3.6%	4.0%
Headline inflation (CPI)	3.2%	2.4%	2.2%	2.2%
Unemployment	3.8%	4.0%	4.3%	4.5%

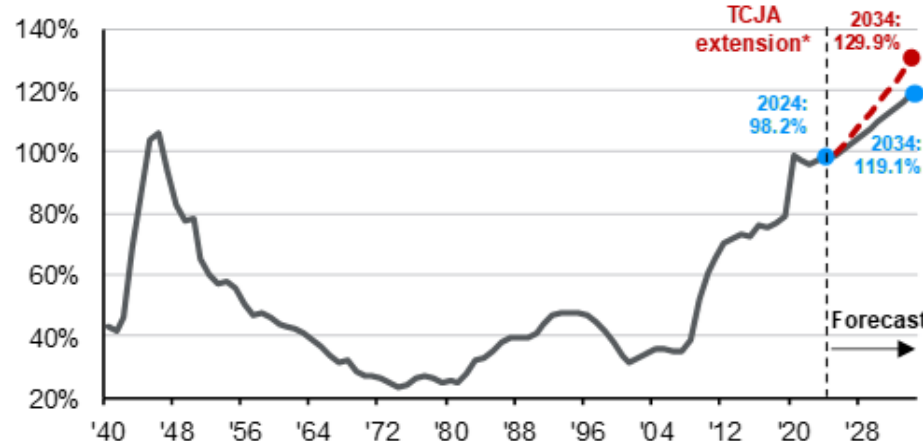
Federal deficit and net interest outlays

% of GDP, 1973-2034, CBO Baseline Forecast



Federal net debt (accumulated deficits)

% of GDP, 1940-2034, CBO Baseline Forecast, end of fiscal year



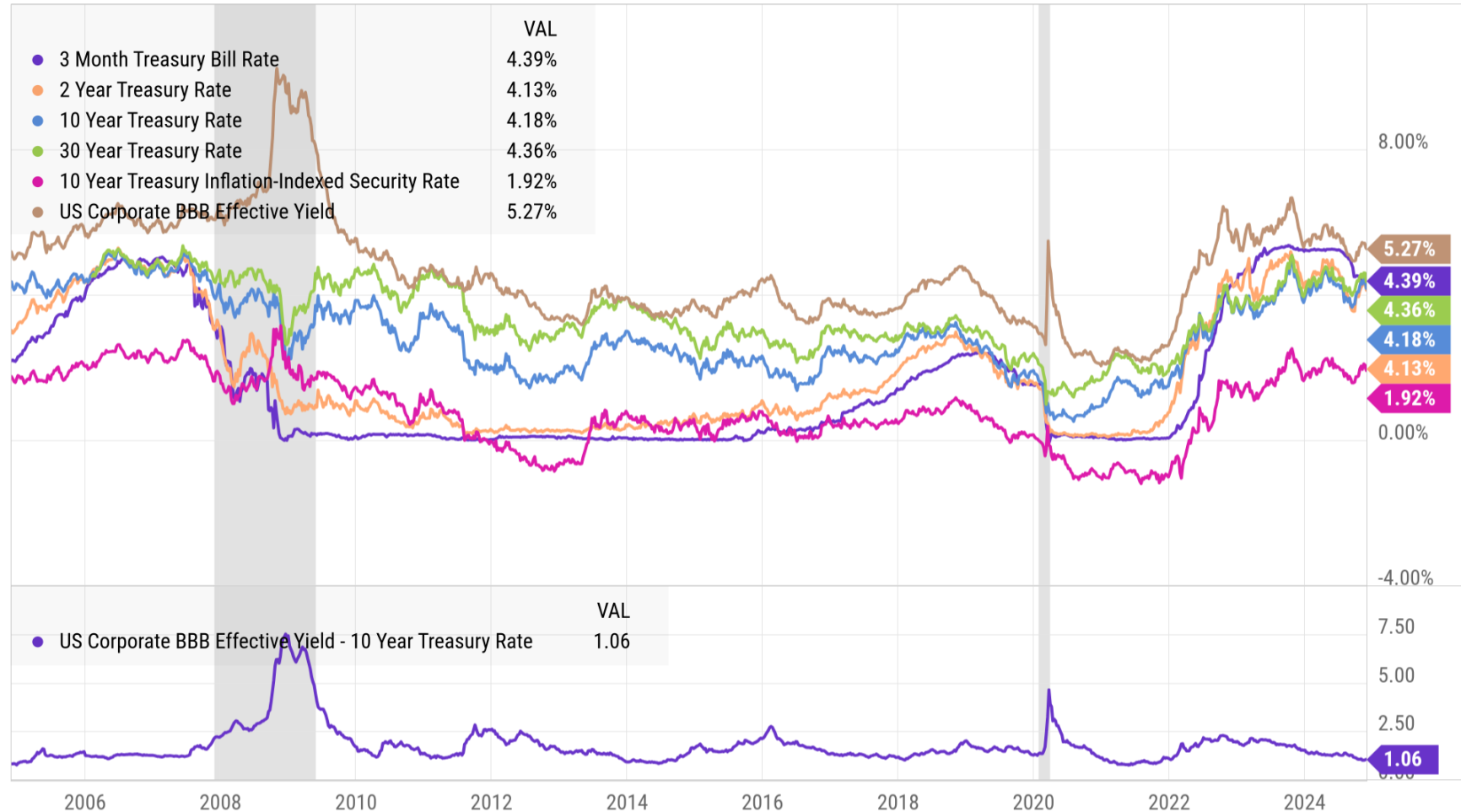
- “deficit” vs. “debt”
- Cost of debt 13%
- Driving rates higher (bond vigilantes)
- 53% for ‘defined’ programs (47% ‘23)
- Will all tax cuts be extended?
- Net debt excludes large SS IOUs

Source: JPM Guide to Markets

Rates relatively high, credit spreads tight, real yields real

Market Update

Bond Yields and Credit Spread (Past 20 Years ending 11/30/2024)



Sources: Federal Reserve, Department of the Treasury, Bank of America Merrill Lynch

- Rising rates in 2022-23 with relative peak Nov '23
- 2s / 10s spread +0.05%; remains flat
- Credit spreads very tight; stay up in quality
- Real yields real; latest I-Bond reset has 1.2% fixed
- Higher rates impact equity valuation, especially growth (JPM Guide Nov '24 pg 9)

Know your tax brackets

- marginal vs. effective tax rate
- capital gains, qualified dividends
- More clarity on '26 "sunset"; inflation helps brackets!

MFJ - 2024 - FEDERAL TAX RATE					
income over	but below...	Tax Rt	Cum Tax	Eff Rate	CG Rate
\$ -	\$ 23,200	10%	\$ 2,320	10.0%	0.0%
\$ 23,200	\$ 94,300	12%	\$ 10,852	11.5%	0.0%
\$ 94,300	\$ 201,050	22%	\$ 34,337	17.1%	15.0%
\$ 201,050	\$ 383,900	24%	\$ 78,221	20.4%	15-18.8%
\$ 383,900	\$ 487,450	32%	\$111,357	22.8%	18.8%
\$ 487,450	\$ 731,200	35%	\$196,670	26.9%	18.8-23.8%
\$ 731,200	...and above	37%	??	??	23.8%

*CG Breaks \$94,050; \$583,750; 3.8% Medicare tax starts at \$250k AGI

Likely NOT

10%
15%
25%
28%
33%
35%
39.6%

SINGLE - 2024 - FEDERAL TAX RATE					
income over	but below...	Tax Rt	Cum Tax	Eff Rate	CG Rate
\$ -	\$ 11,600	10%	\$ 1,160	10.0%	0.0%
\$ 11,600	\$ 47,150	12%	\$ 5,426	11.5%	0.0%
\$ 47,150	\$ 100,525	22%	\$ 17,169	17.1%	15.0%
\$ 100,525	\$ 191,950	24%	\$ 39,111	20.4%	15.0%
\$ 191,950	\$ 243,725	32%	\$ 55,679	22.8%	15-18.8%
\$ 243,725	\$ 609,350	35%	\$183,647	30.1%	18.8-23.8%
\$ 609,350	...and above	37%	??	??	23.8%

*CG Breaks \$47,025; \$518,900; 3.8% Medicare tax starts at \$200k AGI

10%
15%
25%
28%
33%
35%
39.6%

SS/Medicare

Year-End Tax Planning

- 2.5% inflation adjustment for SS in 2025
- Medicare premium \$174.70 to \$185.00/mth
- Extra Medicare premiums PER MONTH for 2025 by Modified AGI (before deductions)
- Complete Form SSA-44 if "Life-Changing Event" changes income (retire most common)

SINGLE	MFJ	premium B	extra	Cum
MAGI not >	MAGI not >	MTHLY	D prem	Extra/per
106,000	212,000	185.00		-
133,000	266,000	259.00	13.70	87.70
167,000	334,000	370.00	35.30	234.00
200,000	400,000	480.90	57.00	401.90
500,000	750,000	591.90	78.60	591.50
Above \$500k	Above \$750k	628.90	85.80	714.30

Year-end tax planning (see PVWM blog post)

Year-End Tax Planning

- Finish Required Minimum Distributions (RMD) – age 73 for 2023+
 - Was 70.5, then 72 in '20; no RMDs for Roth IRA **AND 401k/3b**
 - Inherited IRAs have own rules; was death after 2020? 10-year rule; must take on Roth
- Qualified Charitable Distribution (QCD) – age 70.5, max \$105k/yr for '24
 - Counts as RMD but not taxable, reduces “IRMAA income”, NOT on 1099-R!, high standard deduction
- Tax-loss harvesting (do it year-round!) ... or tax-gain harvesting!
 - Wash sale rules (+/- 30 days; n/a if gain); ALL accounts (including spouse); take gains if $\leq 12\%$ bracket
- Other year-end deadlines
 - Donor Advised Fund; 401k/3b savings via payroll; 529 funding **AND reimburse**; tax withholding (1/15)
- 2026 Sunset likely not occur for most taxes; Estate Exemption safe (\$13.61mm '24)
- Roth conversion – go deeper on next slides (focus on tax arbitrage)

Roth Conversion Steps (focus on tax differentials)

Roth Conversions

- #1 - What account withdrawals are taxable?
 - Traditional IRAs/401k withdrawals are ordinary income (if all contributions deductible; Form 8606)
 - Roth IRAs and brokerage accounts are not; may have capital gains tax as sell in brokerage
- #2 - Need current year amounts for any of following
 - RMDs net of QCDs, capital gain/loss, desire to fund DAF, wages, pension, taxable annuity income
- #3 - What is current year expected 'ordinary taxable income' and marginal tax rate
 - Update pg 1 tax return values: "taxable income" – "qual divs" - "capital gains if +"; find on tax table
- #4 - What is expected marginal tax rate over the years
 - SS and RMD start year and amounts? Expect inherited IRAs? use QCDs? Single filer after spouse pass?
- #5 – **AFTER RMDs / QCDs done**... Roth convert enough to "fill your bracket(s)"
 - **State IRA tax? Some Trad if charitable, expect LTC expenses; Cook County home tax; ACA**

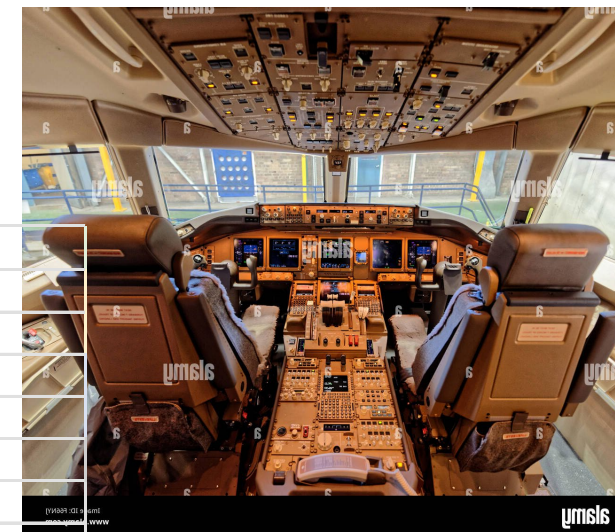
Roth Convert examples – “easy once know what doing”

Roth Conversions

Example 1 – retired but no SS or RMDs; will be in 22+% long-term

- Initially “fill the 22%” but need to stop before so don’t trip IRMAA
- After starts SS and taking RMDs, fill up to IRMAA if room after QCDs

1040 Line #		2023	2024	2031	
1040-1a	WAGES (W2)	160,000	50,000	-	
1040-2a	TAX EXEMPT INTEREST (add to MAGI)	3,000	3,000	3,000	
1040-2b	TAXABLE INTEREST	50	50	50	
1040-3a	QUALIFIED DIVIDENDS	20,000	20,000	20,000	
1040-3b	ORDINARY DIVIDENDS (includes qual divs)	25,000	25,000	25,000	
1040-4a	IRA DISTRIBUTIONS	-	-	120,000	RMDs + Roth convert
1040-4b	IRA DIST (taxable - reduced by QCD)	-	-	115,000	
1040-5b	Pension and Annuities - just list taxable	10,000	10,000	10,000	
1040-6a	Social Security Benefits	-	-	80,000	gross before Medicare deduct
1040-6b	Social Security Benefits Taxable	-	-	68,000	up to 85% as taxable income
1040-7	CAP GAINS (SCH D)	(3,000)	(3,000)	5,000	
1040-10	Total SCH 1 Part II	8,750	9,300	-	deductions like HSA, other
1040-11	ADJ GROSS INCOME	183,300	72,750	223,050	IRA deduct? Roth? extra 3.8%
KK:IRMAA MAGI	IRMAA MAGI	186,300	75,750	226,050	check IRMAA bands
1040-12	STANDARD DEDUCTIONS	27,700	29,200	29,200	or itemized if higher
1040-15	TAXABLE INCOME	155,600	43,550	193,850	includes qual divs + cap gains
KK: ORD INC	Ordinary Income through brackets	135,600	23,550	168,850	
	Action		convert \$130k stop at IRMAA	no convert QCD charity	



Example 1b – still
working but
between jobs

Roth Convert examples – “easy once know what doing”

Roth Conversions

Example 2 – retired, no SS or RMDs; 10% long-term; SS tax torpedo

- Living off taxable brokerage account until SS, RMDs (if any) so taxable income low
- Convert to use deductions = \$0 tax; when SS begins no convert, most SS not taxable

1040 Line #		2023	2024	2026	
1040-1a	WAGES (W2)	-	-	-	
1040-2a	TAX EXEMPT INTEREST (add to MAGI)	-	-	-	
1040-2b	TAXABLE INTEREST	3,000	3,000	3,000	
1040-3a	QUALIFIED DIVIDENDS	10,000	10,000	5,000	
1040-3b	ORDINARY DIVIDENDS (includes qual divs)	15,000	12,000	8,000	
1040-4a	IRA DISTRIBUTIONS	-	-	3,500	RMDs + Roth convert
1040-4b	IRA DIST (taxable - reduced by QCD)	-	-	3,500	
1040-5b	Pension and Annuities - just list taxable	-	-	-	
1040-6a	Social Security Benefits	-	-	33,000	gross before Medicare deduct
1040-6b	Social Security Benefits Taxable	-	-	5,500	up to 85% as taxable income
1040-7	CAP GAINS (SCH D)	(3,000)	5,000	5,000	
1040-10	Total SCH 1 Part II	-	-	-	deductions like HSA, other
1040-11	ADJ GROSS INCOME	15,000	20,000	25,000	IRA deduct? Roth? extra 3.8%
KK:IRMAA MAGI	IRMAA MAGI	15,000	20,000	25,000	check IRMAA bands
1040-12	STANDARD DEDUCTIONS	13,850	14,600	14,600	or itemized if higher
1040-15	TAXABLE INCOME	1,150	5,400	10,400	includes qual divs + cap gains
KK: ORD INC	Ordinary Income through brackets	(8,850)	(9,600)	400	
	Action		convert \$10k	no convert	
			use up std deduct	SS not taxable	



Example 2b –
young and in 12%
bracket; clean up
past Traditional

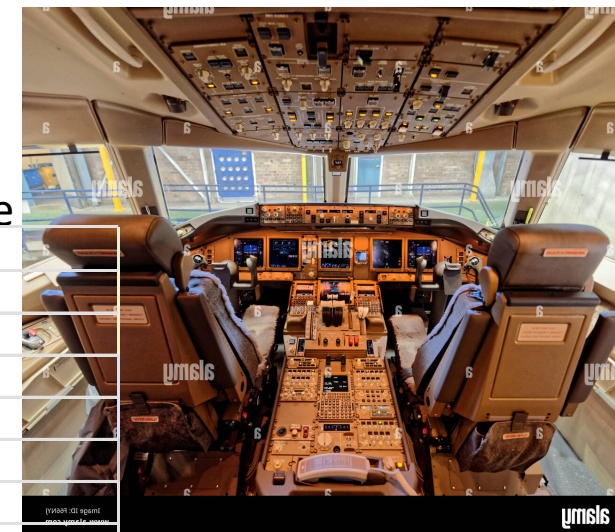
Roth Convert examples – “easy once know what doing”

Roth Conversions

Example 3 – HNW, retired, SS + RMDs; 24% long-term; 35% widow

- Charitable using QCDs + DAF (large cap gains); in 4th wide IRMAA band so not factor
- Convert to fill 24%, more room if DAF; consider filling 32% since widow or heirs there

1040 Line #		2023	2024	2025-SINGLE	
1040-1a	WAGES (W2)	-	-	-	
1040-2a	TAX EXEMPT INTEREST (add to MAGI)	20,000	20,000	20,000	
1040-2b	TAXABLE INTEREST	5,000	5,000	5,000	
1040-3a	QUALIFIED DIVIDENDS	100,000	100,000	100,000	
1040-3b	ORDINARY DIVIDENDS (includes qual divs)	120,000	120,000	120,000	
1040-4a	IRA DISTRIBUTIONS	150,000	150,000	150,000	RMDs + Roth convert
1040-4b	IRA DIST (taxable - reduced by QCD)	100,000	100,000	100,000	
1040-5b	Pension and Annuities - just list taxable	60,000	61,800	63,654	
1040-6a	Social Security Benefits	50,000	51,600	35,501	gross before Medicare deduct
1040-6b	Social Security Benefits Taxable	42,500	43,860	30,176	up to 85% as taxable income
1040-7	CAP GAINS (SCH D)	50,000	70,000	70,000	
1040-10	Total SCH 1 Part II	-	-	-	deductions like HSA, other
1040-11	ADJ GROSS INCOME	377,500	400,660	388,830	IRA deduct? Roth? extra 3.8%
KK:IRMAA MAGI	IRMAA MAGI	397,500	420,660	408,830	check IRMAA bands
1040-12	STANDARD DEDUCTIONS	60,000	100,000	80,000	or itemized if higher
1040-15	TAXABLE INCOME	317,500	300,660	308,830	includes qual divs + cap gains
KK: ORD INC	Ordinary Income through brackets	167,500	130,660	138,830	
	Action	QDC, DAF, convert \$250k		no convert	
		fill 24%, wide IRMAA		in 35%, top end of wide IRMAA	



Example 3b – state tax arbitrage for kids (IL-0% vs. CA-10%)

Free sources to reference

Resources

- PVWM Resources
 - <https://www.pvwealthmgt.com/market-graphs>
 - Summary graphs of rates, corporate spreads, inflation, unemployment – updated daily
- PVWM Blog and “The Financial Translator” Podcast
 - <https://www.pvwealthmgt.com> (also monthly newsletter; provide email)
 - Semi-monthly: financial topic mid-month; market summary with graphs end of month
- JPM Guide to the Markets (11/30/24 fav's: 5, 6, 9,11, 13, 14, 20, 24,29,32,35,37,40,41, 44, 46, 47, 48,61, 64)
 - <https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/>
 - Graphic rich summary of various markets – quarterly PDF or on-screen; updated monthly if login
- FRED
 - <https://fred.stlouisfed.org> (check out “Macro Snapshot”)
 - Resource for all economic data - Graphs, FRED Blog, Economic Research Resources > Publications

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