October 2020, Retirement and Tax Newsletter –

ELECTIONS, TAX OPPORTUNITIES, AND SILVER LININGS

Every 4 Years – "*This time it's different!*"

The election this year seems to be carrying with it extraordinary amounts of anxiety. There is currently so much uncertainty. However, what we *do* know is that it is not wise to make investment decisions based on emotions. With this upcoming election, it pays to step back and take a broader look.

Here's an illuminating chart showing market performance during different presidential and congressional election cycles for the past 91 years. The results are interesting. As Warren Buffet aptly put it,

> *If you mix politics with your investment decisions, you're making a big mistake.*

Regardless of who gets political control in any one cycle, the great companies of the US and World historically find a way to thrive by acting in their stockholders' best interests. In the same interview, Buffet observed that for about half of his extraordinarily successful career investing in stocks, the president has been the person he voted **against**!

We cannot predict, much less time, what the market will do around elections. Actually, no one can consistently do it. The worst mistake you can make is to radically alter your *long-term* portfolio because of *current* events. It's no longer investing. It's gambling. Too many people discover to their regret that once they've crossed over that line, they're never able to get back. The solution is pretty straightforward. What counts over the long run is not *timing* the market, but *time in* the market. As Buffet turned 90 at the end of August, it helps to understand that he learned this truth earlier than most of us. He started his stock compounding at age 10! (Here's a link to a fun story about this: Warren Buffet and the $300,000 Haircut.)

Year-end tax planning opportunities

- 2020 could be a great year for chipping away at future taxes on 401ks and IRAs, by converting a calculated portion of them to tax-free Roth accounts, depending on your specific situation. The deferred tax bill on 401ks and IRAs will begin to come due at age 72, and this will find many in a much higher tax bracket than anticipated. For each person, there is an *optimum* conversion amount for lowering your lifetime taxes, which depends on your tax bracket, age, income, retirement accounts, and expected retirement age. The amount should be calculated by your financial and *long-term* tax planner. If you do not have one, or you'd like to learn how to reduce your tax bill, you can get information on forward tax planning here: free tax and retirement assessment. Note that Roth conversions need to be made before the end of the current calendar year.

- Depending on the election outcome, there are several actions you might want to prepare to take. If elected and if enacted, most of Biden's proposed tax law changes would not affect most people. However, if your annual taxable income is expected to be over $400,000, you could experience some changes with new legislation. Because of the progressive nature of income tax rates, a great way to lower your lifetime tax bill is by leveling your taxable income with a combination of 401(k) contributions in high income years, and optimized Roth conversions in lower years. The sooner you put such a plan in place, the greater the tax savings.

- If your taxable annual income is expected to be over $1,000,000, the proposed changes, if enacted, would also raise the tax rate on capital gains and qualified dividends up to ordinary tax rates. In this case, these taxes can be mitigated by using a combination of tax-advantaged funds, municipal bonds, tax deferred vehicles, and installment sales. Again, you should consult your financial and long-term tax planner to put these in place.

Silver Linings – The unexpected good that could eventually come from the Covid situation.

Our hearts go out to those whose health, emotional, or financial well-being have been affected by coronavirus, or worse yet, to those who have lost someone to the disease. As it often seems in life, through hardships, there are also new strengths that come from them. From an economic standpoint, we do see some silver linings. The crisis has forced businesses to adopt technological innovations like telecommuting and remote connectivity much faster than otherwise. We think this new way of running many businesses will continue at some level, resulting in saved commuting time, reduced air pollution and increased flexibility. If companies continue to let some of their employees work remotely after the crisis, it would also facilitate decentralized living and help with one of the biggest social problems in larger cities – affordable housing.

Another effect is technological advances. The irony of technology is that creativity and discovery surge when we're forced to find, rather than just want, new solutions. Look at what's happening in *medicine* and *biotech* right now. On the tech front, Microsoft CEO Satya Nadella said "two years of digital transformation took place in two months," this spring. There's currently so much experimentation with such high stakes that we're going to look back in 10 or 20 years with wonder at the advances being made now.

It's always been this way. Although not much attention is paid to it, the building of the nation's highway system, the streamlining of plane design, the "green screen" for superimposition of movie scenes, ball point pens, color film, the FM radio, and more -- all of these advances came out of the 1930s depression!

We hope you have enjoyed this edition of our Retirement and Tax Newsletter! We wish you all health and happiness.