BKMWM Newsletter June 2023

Topics:

1. Stock Market
2. Charitable Giving
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4. Technology Update
5. Cash is Not Trash

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BKM WEALTH MANAGEMENT

1) Stock Market

The dot-com bubble peaked in 2000. Prices of many internet and technology stocks that had led the market and moved the index then collapsed. Many that survived have yet to fully recover. Today, the five biggest stocks--Apple, Microsoft, Alphabet (Google), Amazon, and Nvidia combined represent almost 25% of the total S&P 500 (a broad market index of nearly 500 stocks) and over 42% of the Nasdaq 100 index (a more tech-focused index). Their market value now exceeds the entire combined valuations of the Russell 2000 (an index of nearly 2000 small capitalization stocks).[1]

Moreover, those five stocks alone have accounted for 80% of the S&P 500 index gain this year. They are up an average of 50% in 2023, far exceeding the less than 2% median stock gain in the index. On average they also trade at a 78% premium to estimated earnings versus other stocks in the index.[1]

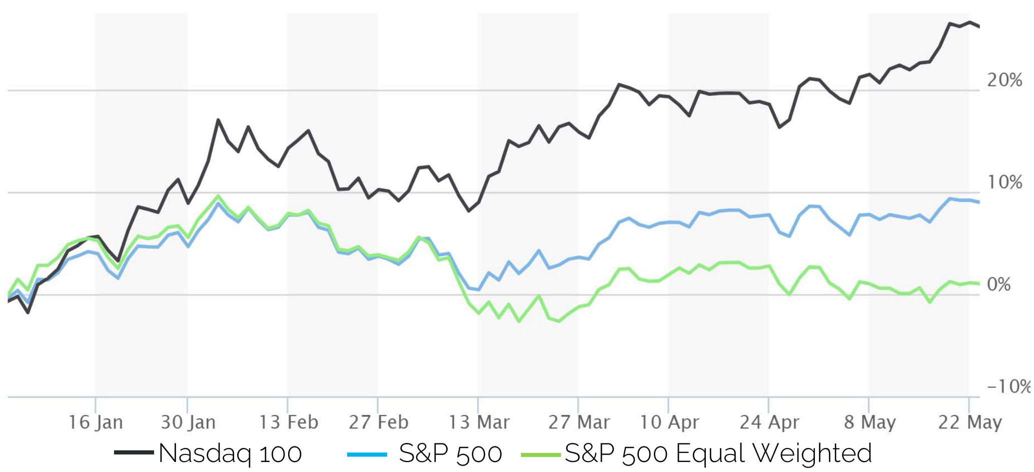


Chart Source: Market Watch/FACTSET 05/23/23.

We would encourage diversifying more broadly than just the S&P 500 index. Consider mid-small size companies and international exposure. Additionally, with short-term interest rates exceeding 5% on bank CDs and U.S. Government treasury bills and money market funds, there are ways to get inflation fighting and wealth building returns outside of the S&P 500 index. There is no guarantee these will outperform the five biggest stocks or the S&P 500 Index, but they should reduce your portfolio's volatility and individual stock risk.

Call us to discuss your situation and how we have been positioning investments.

1) Source: "The 5 Stocks That Rule This Market – and Make Investors Nervous". Barron's, 05/19/2023

2) Charitable Giving Strategies for Taxpayers Claiming the Standard Deduction

With the 2022 tax season firmly in the rearview mirror, it is worth looking ahead at maximizing efficiency with your 2023 taxes. Many taxpayers were caught off guard by their tax liability last year, and philanthropy can be an excellent way to spread the love, while receiving a tax benefit for yourself.

On your federal taxes, you can receive a deduction for charitable donations up to 60% of your Adjusted Gross Income (AGI). This is only effective, however, if you itemize your taxes, which fewer taxpayers are doing following the 2018 increase in standard deduction ($13,850 for single filers, $27,700 for joint filers for 2023[2]) under the Tax Cut and Jobs Act. Thankfully, in recent years an alternative option has been included for non-itemizers, allowing a charitable deduction of $300 single/$600 joint, and with some prudent structuring of your donations, there are still ways for non-itemizers to maximize tax efficiency:

Qualified Charitable Distribution (QCD): This allows a person with a taxable IRA over the age of 70 ½ to make a charitable donation directly from their IRA. The donation is excluded from their taxable income and satisfies their required minimum distribution (RMD). This is powerful because it does not matter whether you itemize your taxes or not, since the donation is excluded from taxable income.

Donate stock instead of cash: If you want to donate and you have investments with unrealized capital gains, you can donate those investments directly to charity. This eliminates your capital gains tax liability and potentially gives more to the charity which is not required to pay capital gains taxes. Even if you don't itemize, you still get the benefit of no capital gains tax.

Group your donations: If you don't donate quite enough on an annual basis to claim a deduction by itemizing, consider making your donations in bunches. Giving a larger amount every few years rather than a smaller amount annually may allow you to qualify for a deduction. This strategy can even be combined with the above mentioned strategy of donating appreciated stock rather than cash. Let that stock grow a few years until it's worth enough to get you a deduction.

Designate IRA beneficiaries as charities: Withdrawals from inherited IRAs are taxable to the beneficiary, but not when the beneficiary is a charity. If you have both taxable and tax-qualified/IRA assets and wish to leave assets to both your heirs and to a charity, consider earmarking the IRA assets for charity and the taxable assets to your heirs. This can help ensure that more of your money makes it to your beneficiaries collectively.

These are just a few of the tax efficient strategies available for your philanthropic activities. Please contact us if you'd like to learn more.

2) Source: "IRS provides tax inflation adjustments for tax year 2023," 5/25/23. https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2023

3) Health Savings Accounts

The IRS recently announced a 7% increase to Health Savings Account (HSA) contribution limits for 2024. This is the steepest year-over-year increase since the inception of HSA contributions in 2004.

In 2023, individuals can contribute $3,850 and families can contribute $7,750. For 2024, individuals will be able to contribute $4,150 and families can contribute up to $8,300. In addition, those over the age of 55 are allowed to contribute an additional $1,000 per person "catch-up" contribution. So, a couple over the age of 55 will be allowed to save $10,300 next year into HSA.

Money contributed to an HSA is not subject to federal income tax at the time the deposit is made. Investments in an HSA grow tax-deferred, and distributions for qualified medical expenses are tax-free. These three tax benefits make the HSA a powerful savings vehicle. Keep in mind, if you can't attribute a distribution from your HSA to qualified medical expense incurred since opening the HSA, you must pay tax on the distribution, and you may be subject to an additional 20% tax penalty.

Call us to discuss how contributing to an HSA may fit into your overall long-term retirement income plan.

Sources: IRS Announces 2024 HSA and EBHRA Contribution Limits, HDHP Minimum Deductibles, and HDHP Out-of-Pocket Maximums thomsonreuters.com)
Publication 969 (2022), Health Savings Accounts and Other Tax-Favored Health Plans | Internal Revenue Service (irs.gov)

4) Technology Update

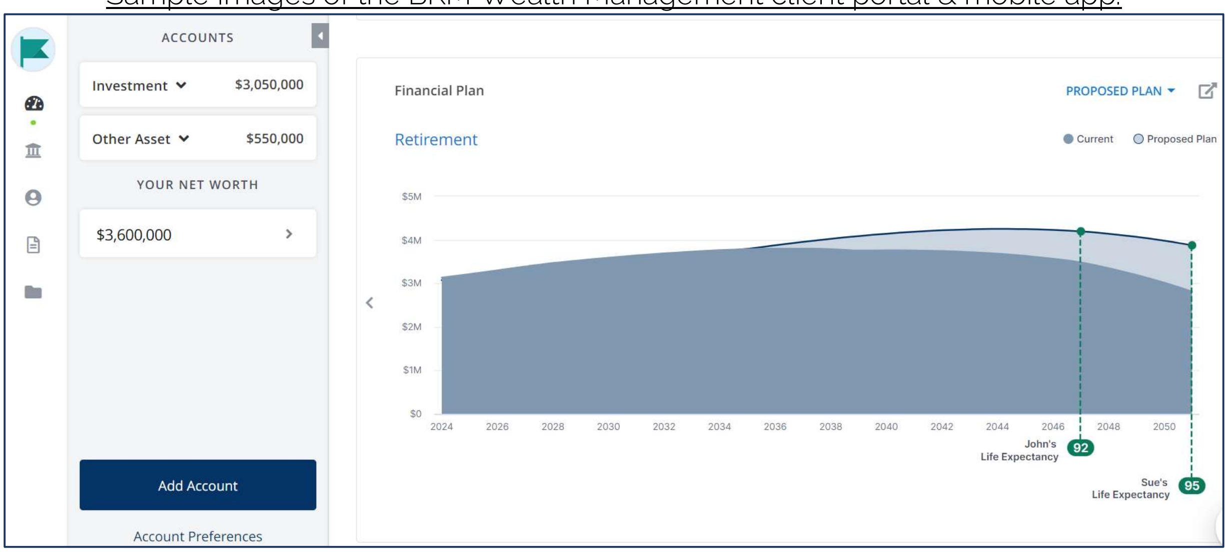
Recently Wells Fargo Clearing Services' (WFCS) changed their online access password criteria. While we believe that the change was intended to improve security, the execution and communication were dreadful. The timing was also unfortunate as it coincidentally came shortly after BKM Wealth Management became a registered investment adviser. We apologize if you have been inconvenienced by the WFCS password issues.

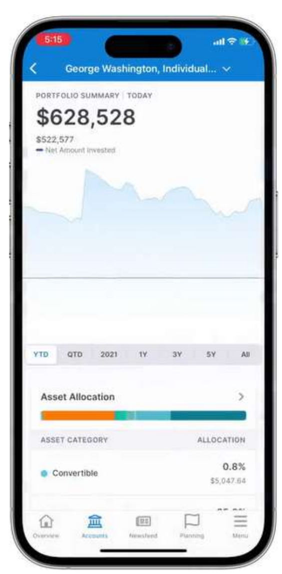
WFCS has assured us that they are working towards system upgrades that will make it easier for clients to unlock and reset their accounts. However, they do not have a timeline for these upgrades, and we suspect it could be 2024 before major improvements are released.

Alternatively, BKM Wealth Management has invested in technology to provide most of our clients with an alternative to the WFCS access online site. This new portal provides a consolidated view of all your accounts, not just those managed by BKM. You can link and view your 401k plans, credit cards, mortgages, bank accounts, etc. with balances updated daily. The portal also allows you to track your financial plan, net worth, and performance. Additionally, you can view your account statements, tax documents, BKM Wealth Management newsletters, estate documents and more. For your security the portal uses multifactor authentication for safety and security, and BKM can reset your password locally without the need to call an 888 call center.

The new BKM Wealth Management client portal and corresponding mobile apps are available now. If you would like access, please contact your advisor to find out if your accounts are eligible.

Sample Images of the BKM Wealth Management client portal & mobile app.





5) Cash is Not Trash

For years yields on money markets, short-term CDs and savings accounts had been nearly zero. Today, cash is not trash. If you don't want to take a lot of risk with your capital, you don't have to accept near-zero yields. Below are some of your options described very broadly. Each option and issuing institution will have its own rates, risks, and caveats, so please be sure to check with your financial institution prior to acting.

- Bank Checking Accounts
  - Approximate yield: 0.00% to 1.20%
  - Liquidity: Fully liquid
  - FDIC Insured: Yes, generally up to $250,000 per depositor/institution
- Brokerage Cash Sweep Accounts
  - Approximate yield: 0.15% to 1.30%
  - Liquidity: Fully liquid
  - FDIC Insured: Yes, generally $250,000 to $1,250,000 per depositor/institution
- High Yield Savings Accounts
  - Approximate yield: 4.00% to 4.50%
  - Liquidity: Daily liquid but may include fees and /or limits on transaction size and frequency.
  - FDIC Insured: Yes, generally $250,000 per depositor/institution
- Short-Term Certificates of Deposit
  - Approximate yield: 5.00%
  - Liquidity: Varies and may involve fees if redeemed prior to maturity and/or market value adjustments.
  - FDIC Insured: Yes, generally up to $250,000 per depositor/institution
- Position Money Market Funds
  - Approximate yield: 4.00% to 5.00%
  - Liquidity: Next business day
  - FDIC Insured: No
- Aggregated Bank Deposit Programs
  - Approximate yield: 3.85% to 4.50%
  - Liquidity: Next business day plus wire/ACH processing (1-3 business days)
  - FDIC Insured: Yes, up to $100 million

It may also be worth noting that interest rate futures are pricing in a nearly 80% probability that rates will decline by year-end[3]. If they are right, we would expect the yields above to decline accordingly. Alternatively, for a portion of your savings you may want to consider purchasing longer-term (3-7 year) bonds or CDs yielding 4.75% to 5.50%. This would involve more risk but could also lock in the relatively high yields for longer.

3) Source: https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html?redirect=/trading/interest-rates/countdown-to-fomc.html

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Financial advisors whose mission is to positively impact lives.