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# BKMWM Newsletter April 2024

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## Topics:

- 1) Investing at Highs
- 2) Tax Changes
- 3) Contribution Deadlines
- 4) Business Owners
- 5) Financial Scams
- 6) BKM Is Growing
- 7) Estate Planning

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## 1) Is It a Good Idea to Invest at Market Highs?

For most investors new market highs are a time for elation, but for some, it can also be a source of trepidation – particularly when set against a backdrop of economic uncertainty. All-time highs in the market often yield the logical question, “Is now a good time to invest?”

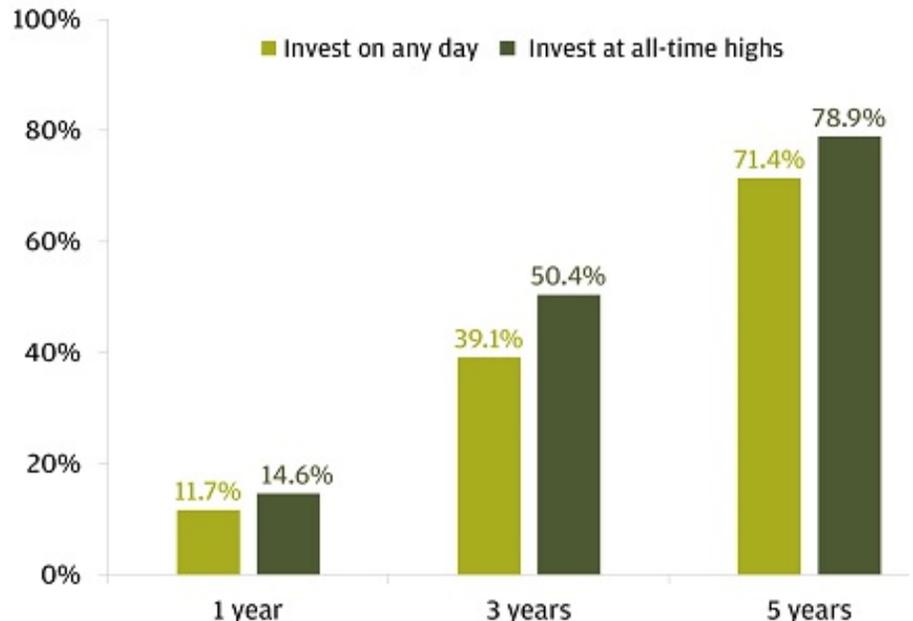
Intuitively, investors worry that when the market has experienced a strong run of growth, it is then due for a reversal. But is this truly the case?

When the market has been going up for a while, assuming that a downturn must be on the horizon is a variation of the Gambler’s Fallacy – the belief that because a random result has been on a streak one way, the alternative outcome is now more likely - or a misapplication of reversion to the mean.

Our intuition tells us that investing at a market high must be a worse prospect than investing on any other day. This would be true if market movement were entirely random, didn’t tend to trend upwards over time, and if we looked at an infinite time frame, but this isn’t the case.

A look at some recent market history may be insightful.

### Average cumulative S&P 500 total returns January 1, 1988 - present



Source: FactSet, J.P. Morgan Private Bank. Data is as of August 27, 2020.

The data show that over the last 30+ years, investors in the S&P 500 would have done better investing on the day of all-time highs than they would have investing on the average market day. As unintuitive as this may feel, it is a consequence of market momentum. Historically, the stock market has tended to move in streaks, meaning that when it has been going up recently, it then has been more likely to continue to go up, not less likely. While historic market action is never an assurance of future behavior, it suggests that investors nervous of recent market highs should feel confident about adding more to their long-term savings.

## 2) Tax Changes

- **529 Plan to Roth IRA Rollovers**
  - Prior to this year, excess money in 529 college savings plans could result in taxes and a 10% penalty. Starting this year, beneficiaries of 529 plans may be eligible to rollover money to a Roth IRA in their name. The total amount that can be rolled over is limited to a lifetime maximum of \$35,000. The annual Roth IRA contribution and income limits still apply.
- **No RMDs from Roth 401(k) Balances**
  - As of January 1<sup>st</sup>, 2024, you are no longer required to take a distribution (RMD) from the Roth balance, also known as "designated Roth account, in your company retirement plan.
- **Estate & Gift Tax Exemptions**
  - On December 31<sup>st</sup>, 2025, the current estate and gift tax exemptions are set to revert to pre-2017 levels if Congress does not act. This would significantly reduce the amount of wealth you can transfer tax-free to your heirs in 2026. Do not wait. Review your estate plan with BKM Wealth Management and your attorney or tax advisor soon.

## 3) 2023 IRA Contribution Deadlines

Traditional IRA, Roth IRA, and SEP IRA contributions for tax year 2023 are due and/or must be postmarked by April 15<sup>th</sup>. The 2023 limit for Traditional and Roth IRAs is \$6,500, plus \$1,000 for those age 50+. The 2023 SEP IRA limit is the lesser of \$66,000 or 25% of adjusted gross income. Please do not wait until the last minute. Contact us if you have questions or would like to discuss your savings strategy.

## 4) Business Owners - 2024 Retirement Plan Options

If you are a business owner your options for retirement savings are broad. Below is a brief list of common options. Please contact us to discuss your company's retirement plan.

- IRA & Roth IRA
  - Even if you maintain a company sponsored retirement plan like those listed below, you and your spouse may still be eligible (subject to income limits) to participate in Traditional and Roth IRAs.
- SEP IRA
  - Ideal for sole-practitioners and family-only businesses. Employer contributions are limited to \$69,000 or 25% of compensation, whichever is less. Roth/after-tax contributions are now an option.
- SIMPLE IRA
  - Ideal for businesses with 2-15 employees. Employee contributions are limited to \$16,000 (\$19,500 for those age 50+) plus employers must generally contribute 2-3% of employee's pay.
- Solo 401(k)
  - Ideal for owner-only businesses and family-only businesses. Employee contributions are limited to \$23,000 (\$30,500 for those age 50+). Total employer and employee contributions are limited to \$69,000. Roth/after-tax contributions may be an option.
- 401(k) Profit-Sharing Plan
  - Ideal for larger businesses. Employee contributions are limited to \$23,000 (\$30,500 for those age 50+). Total employer and employee contributions are limited to \$69,000. Roth/after-tax contributions may be an option.

## 5) Avoiding Financial Scams

According to the Federal Bureau of Investigation (FBI) Internet Crime Complaint Center (IC3), in 2022, there were 88,262 complaints of fraud from people age 60+ resulting in \$3.1 billion in losses.\*

Over nearly five decades, BKM's advisors have encountered multiple fraud attempts reported by clients. The best way to avoid becoming a victim is to be aware of the most common schemes:

**Government Impersonation Scams** - Impostors claim to be employees of the Internal Revenue Service (IRS), Social Security Administration or Medicare. Sometimes the caller ID will show the real phone number of a government agency, further convincing the victim that the fake caller is legitimate. They might claim that unpaid taxes will lead to fines or threaten to cut off benefits if personal information is not shared. The IRS and Social Security Administration rarely make outgoing phone calls. They will most often inform you of changes in writing. If you receive a call, ask them if you can call them back. Research the return phone number to ensure that your outgoing, return phone call is to a real government agency.

**Sweepstakes and Lottery Scams** - Scammers inform you that you have won the lottery or other prize. The only way to collect is to send cash, money, or gift cards up front. There is no prize that involves you paying first or sending gift cards.

**Computer Tech Support Scams** - An example of this is, "In 2021, a man from Illinois lost his life savings to scammers pretending to be an employee of a known antivirus (or technology) company. Under the guise of giving the man a refund for unused software, these scam artists gained remote access to his bank account and home equity line of credit. They ultimately made away with nearly \$200,000—money that was never recovered." Keep in mind, FDIC or SIPC loss insurance coverage does not pay you back for money you lost due to swindlers.

**The Grandparent Scam** - Scammers call a grandparent and say something like, "Hi, Grandma, do you know who this is?" When the unaware grandparent guesses the name of the grandchild, the scammer agrees, instantly securing their trust. Sometimes the scammer even knows the grandchild's name prior to making the call. The fake grandchild then asks for money to solve an urgent financial problem, such as overdue rent, car repairs, or bail bond. They may beg the grandparent not to tell anyone (including their parents). Since fraudsters ask to be paid via gift cards or money transfers, which often do not require identification to collect, the older adult may have no way of recovering their money.

In other versions of this fraud, the caller claims to be an arresting police officer, doctor, or lawyer trying to help the grandchild, or even a hostage taker. They then use high-pressure tactics that play on the emotions of the person they have called to get them to send cash as quickly as possible. There are also reports of scammers showing up at older adults' homes, posing as a "courier" to pick up the money.

**Romance Scams** - As more people turn to online dating, con artists are seizing the opportunity to create elaborate fake social media profiles to exploit older adults. In some cases, these scammers may be (or pretend to be) overseas. They may request money to pay for visas, medical emergencies, and travel expenses to visit the U.S. These romance scams (also called sweetheart scams) tend to drag on for a long time and can result in substantial losses.

**What to Do if you Think You Are Being Scammed** - Even if you are embarrassed to admit what happened, it is important that you are honest with our team so we can help. If you are threatened or are told you cannot talk to your loved ones or your trusted financial advisors here at BKM, someone is trying to take advantage of you. We are here to help.

## 6) BKM Is Growing!

We are grateful for the trust and confidence you, our valued clients, have placed in us. Your generous referrals to your family, friends, and colleagues have played a pivotal role in our growth. Thank you!

To ensure that the highest level of client service is maintained as we grow, we have recruited the best. Sarah Streicher joins us as a Client Service Associate. She is a terrific addition to our team. You can contact Sarah at 262-955-7150 or at sarah.streicher@bkmwm.com. We are confident that her service-first mindset and outgoing, friendly personality will be an asset to you.

Sarah earned her degree from the University of Wisconsin – Milwaukee and prior to joining BKM she worked for Kohl's at their corporate headquarters. She also ran her own floral design company. Sarah lives in Oconomowoc with her husband and two young children. The next time you call or visit our office, we encourage you to take some time to get to know Sarah.

## 7) Estate Planning Reminders

As we mentioned earlier in section 2, laws are changing, and estate planning should be a near-term focus. Below are tips and reminders for successfully and seamlessly transitioning your assets.

- Retirement accounts:
  - Name beneficiaries. IRAs, 401(k) plans and other retirement savings accounts pass via beneficiary designation. It is important to name your beneficiaries outright. We encourage you to name both primary and contingent (secondary) beneficiaries whenever possible.
- Non-retirement accounts (excluding trusts):
  - Without proper planning, brokerage and bank accounts can go through a long, expensive probate process. Consider adding Transfer on Death (TOD) designation to your taxable brokerage accounts and Payable on Death (POD) designation to your bank accounts. Like retirement account beneficiaries, primary and contingent beneficiaries can be designated. The assets in an account with a TOD/POD designation are quickly distributed according to your wishes and are generally not subject to the probate process.
- Update your will and trust:
  - When were these documents drafted? Have there been significant life changes? Have there been changes to state laws and limits since then?
- Update your financial and health care powers of attorney (POA):
  - Are those individuals still people you trust? Are they still capable of making financial decisions on your behalf? If you have a POA, remember to provide BKM with a copy. If you do not have a designated POA, we can add limited "trading authorization" to allow someone to direct us regarding your BKM accounts should you become incapacitated.
- Review account titles:
  - Many people create trusts and then forget to title assets in the trust's name. Ask your attorney precisely how each of your accounts should be titled and/or coordinate a conversation with your BKM advisor and your attorney to ensure that your assets are properly titled.

If you do not have a trusted estate planner, your BKM financial advisor can help you find one and collaborate with them to ensure your estate plan is well-coordinated.



*Financial advisors whose mission is to positively impact lives.*