[VINTAGE] FINANCIAL SERVICES, LLC

On the [MONEY]

Registered Investment Advisor | www.VintageFS.com | Winter 2020/21 Vol. XXXVI No. IV

From the Grapevine...

Congratulations to Jack McCloskey, our Chief Operating Officer, and his wife, Ashley, who are expecting their first child in February!

Also congratulations go out to Andrea Balser, who joined us as a financial planner in 2019. She recently became engaged to be married and is planning a wedding for August.

We're also pleased to welcome Michelle Schrag to our staff. Michelle joins us after working as a Development Assistant in the Development and Alumni Engagement Office at the University of Michigan, Stephen M. Ross School of Business. Her role is as a Client Service Specialist, assisting with the administrative details in opening and transferring accounts as well as getting withdrawals and retirement income distributions to our clients. She has three children, one at the University of Michigan, and two at Ann Arbor's Skyline High School.

FINANCIAL MISINFORMATION

There are thousands of ways to seek out financial advice online. Social media platforms like Facebook, Twitter, Instagram, and TikTok have lots of "financial celebrities" sharing investment advice. But many of these pages give unsound, unverifiable information. The financial influencers behind these pages are looking to gain followers and boost their ad revenues, not to necessarily help you build a great investment portfolio. Their advice is generally short-term soundbites when planning your financial future requires a much longer time horizon.

Anyone can create a financial social media page, no matter the (lack of) credentials. Financial bloggers are not regulated and can say or post anything they want.

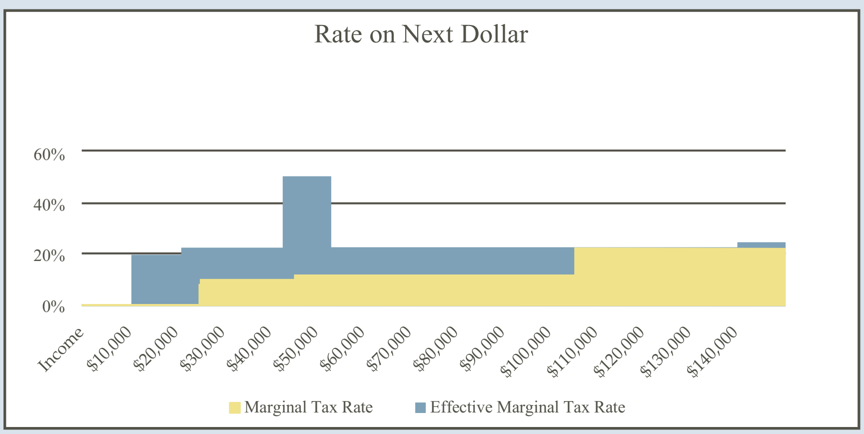
Whenever you read something on the internet that seems like it's too good (or bad) to be true, it usually is. Financial misinformation runs rampant because fast results are more enticing than long-term strategies. Use discretion, check the source of the material to see if it's reputable, and research any details that seem questionable.

It can be entertaining to check out these "quick finance" social media pages, but if you have a question related to your portfolio or investments, contact your personal financial adviser. Licensed professional advisors have limitations and regulations in place when giving advice and they'll be around to modify it when the time is right.

UNEXPECTED IMPACT OF TAXES IN RETIREMENT

Although conceptually simple, the United States tax system is quite complex. Interactions between different types of taxable income, some income that is not taxable except in the presence of other income, deductions, exemptions, credits, phaseouts and surtaxes create a tax landscape that can be difficult to proactively navigate. One method for identifying opportunities for strategic tax decisions is to focus not on the "tax bracket" but instead on your effective marginal tax rate (EMTR). The EMTR can be simply defined as the amount you lose to federal income tax on the next dollar of income and it is also referred to as your marginal tax rate.

The EMTR can surprise many people, with one of the most significant examples being the so-called "tax torpedo," in which a taxpayer in the 12% bracket can experience a 50% EMTR. The blue in the graph below illustrates how different your EMTR may be from your tax bracket rate in yellow. Note that this graph is for a single taxpayer. Joint filers will find the "torpedo" at a higher income level.



50%? How did that happen?

What Intuitively Should Happen		
$1,000 Additional IRA Withdrawal	12% Bracket	$120
What Actually Happens		
$1000 Additional IRA Withdrawal	12% Bracket	$120
Causes $850 Taxable Social Security	12% Bracket	$102
Causes $1,850 Capital Gains to Be Taxable	15% Bracket	$278
Total Additional Tax Burden on $1,000 Withdrawal:		$500

For 2020, the Required Minimum Distribution from retirement accounts has been suspended so many retirees will have a lower taxable income. In prior years they may have had an income above the "tax torpedo" range but may find themselves in it this year.

Knowing your EMTR is critical to making sound decisions in your year-end tax planning. You'll want to work hard to find deductions or reduce your income if your EMTR is 50% and that $1.00 deduction is worth 50 cents. On the other hand, if your income is only being taxed at 12% this year and may go back to a higher rate next year, then you may want to accelerate some income into 2020 to take advantage of the low rate.

In order to really understand your tax position, you need to mockup your taxable income and deductions for 2020 before the year is over in order to take advantage of the opportunities. If you wait until the New Year, the opportunity will be gone. At Vintage we differ from most wealth managers in that we have CPAs and Enrolled Agents (EAs) on staff and we'll look for and implement tax saving strategies for our clients proactively. If you'd like a detailed report of your situation and opportunities to save on your taxes, contact us today as the year is almost over.

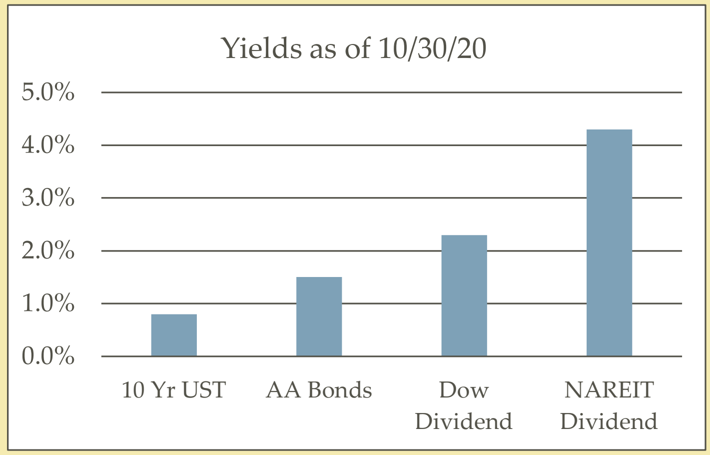
REAL ESTATE VS. BONDS TODAY

Historically bonds have been an important component of most investor's portfolios. They have provided a good balance to the more volatile stock market and often do well when stock prices fall. Many investors default to a 60/40 type of portfolio with 60% invested in stocks and 40% in bonds. While this traditional approach worked in years past, today's yields make bonds much less attractive.

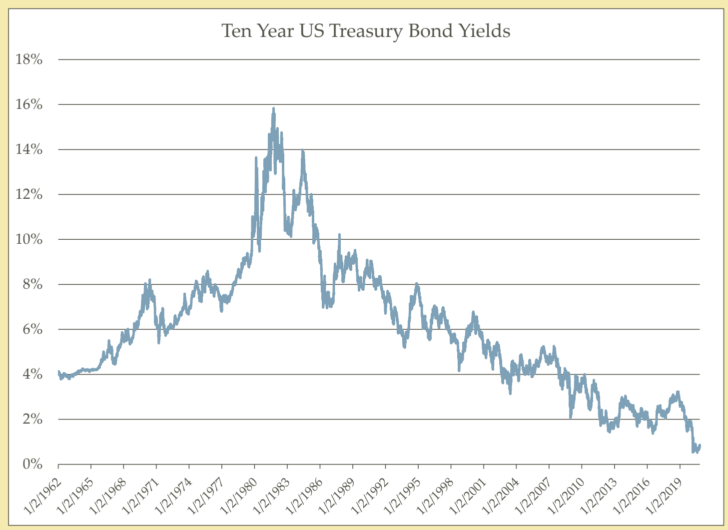
First, let's review how bonds work as they are pretty simple. A bond may be issued today by the US government, a municipality, corporation, or other entity and may mature in ten years. The interest rate is set and investors buy the bond at a face value, maybe $10,000. If the bond pays 1.0% interest, then the investor will get $100 each year for ten years and then their $10,000 principal is returned upon maturity. Unless the issuer defaults and can't pay the interest or full amount of principal at maturity, then the investor knows exactly how much they'll make on it.

Historically, bonds worked well for investors that wanted more stability in their portfolio and additional, predictable income. Bonds typically paid a higher yield than stocks because they don't appreciate over time like stocks can, but that has changed in recent years and especially in recent months. As of the end of October, yields on 10 Year US Treasury bonds were just 0.8% while AA Corporate bonds yield about 1.5%. The dividend yield of the Dow Jones Industrials stocks is 2.3%.

Bond investors may think that they've earned better returns because bond prices have risen as interest rates have fallen over the years, but buying bonds today will lock in the current yields moving forward and the bond prices would fall should interest rates rise back to more normal levels.



The graph below depicts the historically higher yields that were offered by bonds. With rates near zero, though, the potential for price appreciation is virtually gone and bonds are yielding well below the Fed's inflation rate target of 2%+.



Today, real estate may offer an excellent alternative income source and potential diversification from regular stocks. While some kinds of real estate have been hit hard this year and many REITs have reduced or eliminated their dividend, overall REIT dividend yields are at 4.3% and typically rise over the years. REIT stock prices already reflect the economic hit of the pandemic and may appreciate again as the economy recovers. And, should the Fed succeed in reigniting inflation, real estate has typically been a good investment during inflationary times as rents and building costs rise.

VINTAGE FINANCIAL SERVICES OFFERS

Fee only investment management, financial planning,
and tax preparation.
Minimum portfolio $500,000
(401(k) balance may count toward minimum).

For a no charge, no obligation initial interview please call our office at (734) 668-4040 or (800) 666-9237 or e-mail: Succeed@VintageFS.com
Or visit our website at www.VintageFS.com

- Retirement Planning
- Tax Planning
- Investment Management
- Estate Planning
- Insurance Review
- Education Funding
- Income Tax Preparation

Plan to succeed.

[VINTAGE] FINANCIAL SERVICES, LLC

2373 Oak Valley Drive, Suite 110
Ann Arbor, MI 48103

On the [MONEY]

INSIDE THIS ISSUE:

UNEXPECTED IMPACT OF TAXES IN RETIREMENT
REAL ESTATE VS. BONDS TODAY
FINANCIAL MISINFORMATION