Norman J. Politziner's
Financial Planning

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An In-Depth Report For Investors On Key Economic Fundamentals

Supply chain problems, often cited in the media as the main cause of inflation, are expected to diminish greatly by the end of the year. The high inflation rate on goods is expected to revert to the normal 2% rate experienced for the decade preceding the pandemic by the end of 2022, and prices on some goods may even be rolled back to pre-pandemic levels. For example, lumber prices at Home Depot soared in the Spring of 2021 but reverted to pre-pandemic levels by early Fall.

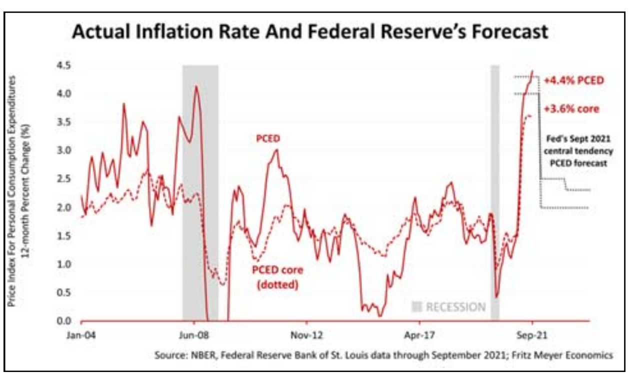
Price hikes imposed on services are unlikely to be rolled back. Price hikes on services have been triggered by the need for employers to pay higher wages, resulting in wage inflation. For example, McDonald's CEO, Chris Kempczinski, at a quarterly earnings call with investors on October 27th, said prices on its menu in 2021 have risen by 6%. He blamed a tight labor market for making it harder to keep restaurants open late and said wages at corporate- owned restaurants in 2021 soared more than 15%.

The labor shortage. The pandemic convinced Americans to drop out of the labor force. Many baby Boomers, an oversized percentage of the U.S. population, are now 65 or older and have "aged out" of the labor force. They've retired, shrinking the work force. Many individuals 65 and older who were expecting to work until age 70 likely decided not to risk their health by working outside of their home during the pandemic.

In addition, many parents with school-age children left the labor force to stay home with their children. Coronavirus made paying for child-care just to be able to work much less attractive financially. Many Americans may have viewed the pandemic as an eye-opening event, causing a reprioritization of their goals in life, dialing back financial goals, and moving to a lower- cost place of residence.

About one and a half million more workers than expected retired, creating the labor crunch and sending wages higher. However, wage inflation is not expected to get out of control.

Inflation. The inflation rate, as measured by the Personal Consumption Expenditure Deflator (PCED), is shown in this chart. The PCED is slightly different from the Consumer Price Index (CPI), which is the inflation benchmark most often referenced in the consumer press, but PCED is the inflation index referenced in Fed policy statements. The dotted red line shows the PCED but excludes food and energy prices because their volatility often distorts the picture. The most important data are shown in the gray lines, which represent the range of forecasts of the 19 members of the Federal Open Market Committee – central bankers on the



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MY POUND OF FLESH

Thanksgiving has come and gone...well, not gone exactly... it continues in the form of a 1 ½ pound weight gain and a smile on my face.

Thanksgiving is one of my favorite holidays, a time when the whole family gets together. But fate and timing and Covid interrupted the whole family part. Mandy and Kevin couldn't come in person, so we Facetimed them. Their job schedules and Covid restrictions were roadblocks. So, we visited them in October.

Kevin's mom, Iris, passed away a few weeks before. She was a vibrant, engaging person and we liked her.

As we enter the final month of the year, two distinctly opposite stories are emerging. On one hand, the economy seems to be humming at a good pace. The leading economic indicators are quite positive. Retail sales, manufacturing, and housing starts are up. People are going shopping and to the theater. On the other hand, the new Covid variant is giving people and governments the jitters. This is the 10th variant to emerge and as of this writing, I don't know how bad it will be or if there will be hard lockdowns. What I do know is that we will be facing new variants over the coming years and we will deal with them.

We wish you a warm, safe, and happy December.

Norm

Making A Life-Changing Financial Difference To A Spouse And Needy Loved Ones

Tax law and estate planning might bore you to death, but this brief tip could make a life-changing financial difference to your surviving spouse, and other loved ones, including disabled and chronically ill family or friends, as well any minor children in your life.

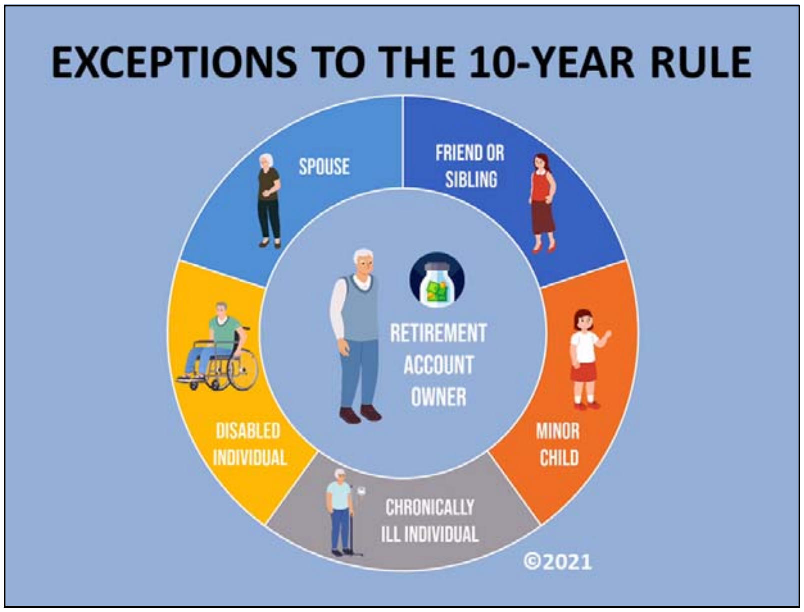
These individuals are among the five exceptions to the usual distribution rules on the inheritance of assets in IRA, 401(k), or other federally qualified retirement plans.

New rules, that went into effect on January 1st, 2020, with the enactment of The Secure Act, require the beneficiary of inherited IRA or 401(k) accounts to deplete the money in those accounts within 10 years. It was a technical change that many overlooked in the rush of tax law changes that occurred in 2020 during the pandemic. But it made a big difference in tax planning.

To be clear, until 2020, beneficiaries of an inherited IRA or 401(k) were not required to liquidate an inherited account within 10 years, as is now required, which had left open a major tax break: They had the option to stretch out distributions over their actuarial life expectancy, thus, leaving the assets to compound tax-free for a much longer period. The 10-year mandatory distribution rules carved out some key exceptions for certain individuals that now require attention, if you intend to pass on your retirement plan, IRA, or other qualified plan assets to a spouse, chronically ill or disabled individual or minor child.

For a disabled individual, who inherits federally qualified retirement assets, for instance, stretching out distributions over decades could transform the inheritance into an income stream for life. The same is true for a widower, chronically ill individual, or minor child that inherits your retirement account.

In addition, a fifth exception to the usual distribution rules applies to a beneficiary that is less than 11 years younger than the retirement account owner. A sibling or friend who is 10 years or less your junior, who inherits qualified retirement account assets, also may use their life expectancy -- instead of taking required distributions over 10 years.



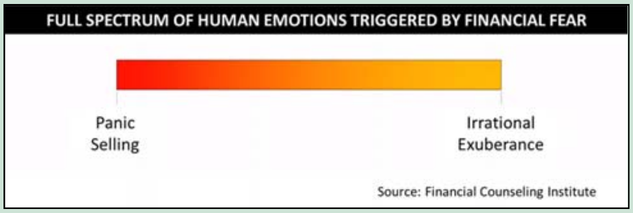
If you own a sizable IRA, 401(k) or other qualified account, and your beneficiary is your spouse, a friend or sibling 10 years or less younger, an individual with a disability, chronic illness, or a minor child, the five exceptions to the 10-year rule pose complicated tax planning as well as legal and investment issues requiring personal advice from a professional that is beyond the scope of this article. ●

Dealing With Financial Fear

If you suffer from financial fear and anxiety, talking about it is likely to help.

In talking about it, according to Dr. Frank Murtha, a financial psychology expert, you go through a process of recognizing, understanding, and constructively reacting to your fear, rather than keeping it inside you and causing anxiety.

Whether your fear is running out of money in retirement, paying back a large debt, or caring for a family member with special needs, Dr. Murtha says personal financial issues evoke the full spectrum of human emotions -- from panic to irrational exuberance and everything in between -- but fear is the emotion that stands out as most impactful.



Professors Daniel Kahneman and Amos Tversky, founding fathers of the burgeoning social science of behavioral economics, famously discovered that people do not fear risk in investing; people fear a loss, specifically, a loss of control of the future.

In fact, investors who have suffered an investment loss or financial setback often will actively seek out risk to break even and avert the loss. Of course, "doubling down" may actually compound a financial problem.

How we experience fear is partly dependent on physiology -- your brain chemistry. The fear center of the brain is called the amygdala and it triggers several instinctual reactions to fear. The "fight" instinct can be evoked. Although this reaction may come in handy when you're getting physically attacked, it is

2021 Year End Tax Planning: Higher Stakes And More Confusing Than Ever

Year-end tax planning is more important than usual because it occurs concurrently with a turning point in U.S. tax policy. For the first time in 40 years, taxes on income and wealth transfers are headed higher.

Exactly what's about to happen – which provisions of the estate and income tax laws will be revised and the financial impact on high income and high net worth individuals – is uncertain. It depends on Congress, politics, the economy and financial markets, thus making it impossible to predict.

President Joseph R. Biden, Jr., was elected running on a platform that included a proposal to slash the estate tax exemption accorded individuals from \$11.7 million to \$3.5 million. By early September, however, fears of an imminent hike in estate taxes dissipated. Congress was expected to do nothing to change current estate tax law. Why?

Doing nothing is politically expedient. Neither party would be faulted for letting current lapse. The "sunset" of current estate tax rules would mean the 2021 individual exemption of \$11.7 million would continue to rise with inflation annually until December 31, 2025. Starting January 1, 2026, however, the individual exemption from estate tax would revert to about \$6 million (assuming inflation does not sharply escalate).

The \$11.7 million exemption currently accorded individuals \$23.4 million for couples – would be slashed by more than 50% – if Congress does not act. For estate planning purposes, individuals with taxable estates can relax a bit but need to stay informed through the end of 2021, just in case the situation changes.

Meanwhile, federal income tax hikes on high income individuals – specifically, tax-filers with more than \$400,000 of income, are expected to be enacted by the end of 2021. President Biden campaigned on a proposal to raise income taxes on individuals with more than \$400,000 of annual income. This makes income-tax planning more important while complicating the right moves to make now, in preparation.

This is a timely warning that year-end tax planning in 2021 will be a cliffhanger. It requires the attention of high-income/high-net worth individuals now. While details of the coming tax hikes are impossible to predict, one thing is certain: planning for the complex matrix of possible changes to the Tax Code, starting right now, would be smart. ●

not helpful in financial dealings.

A more common reaction to fear is flight -- the desire to remove the reason for experiencing fear, to retreat to safety and get back in control of your situation. In financial terms, the flight instinct may make you want to sell a losing investment at the height of a pandemic or amid a global financial crisis.

The other lesser-known neurobehavioral fear reaction is another F word. Can you guess what it is? The answer is "freeze." Freezing is a typical reaction in times of rising fear. You become too afraid to do anything! "People get stuck, unable to make a decision to change a situation and they let anxiety get the best of them," says Dr. Murtha. "A big part of dealing with financial anxiety is simply getting unstuck."

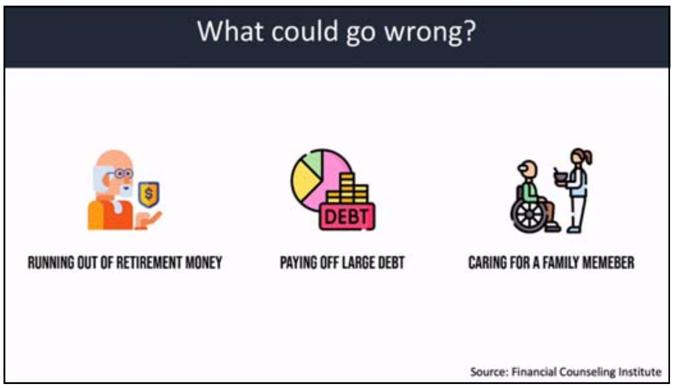
Talking about financial anxiety can help you unburden yourself and that is often the first step toward re-instilling a sense of control, which is the key to fighting fear. ●

Why Now's A Great Time For A Financial Crisis Plan

For the five years through June 30, U.S. stocks were the No. 1 performing investment of major securities indexes! The S&P 500 index more than doubled in value, despite the pandemic! Remarkably, U.S. stocks were No. 1, not only for this five-year period through June 30, 2021, but for the past five five-year periods ended June 30! And, as the end of the third quarter neared, the S&P 500 kept breaking records.

This is precisely the right time to ask yourself: What could go wrong?

The stock market has been treating American investors to outsized gains year after year, and the party could continue -- the good times could roll for another five years or get even better! As professionals, however, we believe it's wise to plan for a stock market slump, to plan what you would do if things go wrong with your business, your job, or God-forbid, your health.



With the stock market and housing values sharply higher than a year ago, your net worth may be higher than ever, making this precisely the right moment to write a crisis plan. Your worst nightmare may be running out of money when you're older, or who will care for a child with special needs after you're gone. Or perhaps you've been prone to selling stocks after market plunges?

Your worst financial nightmare is based on your experiences and personality characteristics. So everyone has their own very personal reaction to life's risks. Even if your financial future is looking bright at this moment, writing your crisis plan now, rather than in the throes of a crisis, can help ensure you will continue to sleep soundly even if your worst financial nightmare were to come true. That's why now is the right time for financial crisis planning. ●

Key Economic Fundamentals

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Federal Open Market Committee at the Fed, who set U.S. interest rates.

They are forecasting an abrupt end of the high inflation experienced in the pandemic in January 2022. The upper gray line represents the average low forecast of the FOMC, and the lower gray line shows their average forecast at the top of the range. Unless FOMC members suddenly changed their minds since meeting in late September, they predict inflation will plunge to 2.2% in January 2022.

Keep in mind, the FOMC members have changed their inflation forecasts considerably in recent months. In June, the committee hiked their inflation forecast by 50% over March, and in September they hiked their forecast an additional 20%. However, the consensus forecast of 60 economic professionals surveyed quarterly by *The Wall Street Journal* agree with the 12 central bankers. That's significant. Even though the Fed has been wrong about how high inflation will head and how long it will last, the consensus of economists believe inflation will be temporary.

To be clear, the Fed says inflation will revert to its trend rate of 1.5% annually, to which it clung for a decade before the pandemic disrupted the supply chain and caused a labor shortage. The consensus believes the FOMC's assertion the current spate of inflation will dissipate over the next year.

The 60 economists surveyed in early-October 2021 see a continued expansion over the four quarters just ahead. A 4.8% growth rate is forecasted by *The Journal's* panel of 60 economic experts for the final quarter of 2021, and they expect much higher U.S. growth for not just the last quarter of 2021 but also for the following three quarters. Inflation will not end the expansion.

The central bankers and consensus of economists is that supply chain problems will, for the most part, be resolved in the 12 months ahead and the spike in wages is not the start of a wage inflation spiral that will be with us long-term. Wage inflation will bring workers back who have sidelined themselves during the pandemic. With above- average growth expected through the end of the third quarter of 2023, the consensus of economists and central bankers' projections are for a continuation of the economic expansion. Expect robust growth in 2022. ●

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