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Resolute Connections

If you are looking for a place to park some cash, and CD rates of less than 1% don't excite you, then perhaps you should check out the Treasury bonds described in - *7.12% Interest? What's the Catch?*

For those of you on Medicare, you might be wondering why premiums increased so much for 2022. Turns out one drug might account for most of that increase, as reported in *The Drug That Drives Medicare Premiums*.

And for the Bitcoin enthusiast, or those who are just curious, the last two articles touch on the active interest the IRS is taking in the electronic currency, see *Crypto Enforcement,* and the volatility experienced this year in *Riding the Bitcoin Rollercoaster*.

If you have any questions about anything we have covered in the articles, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

7.12% Interest? What's the Catch?

The Treasury Department's Series I bonds are paying a nominal fixed rate of 0%, which is not really very exciting.   But what IS kind of exciting is that an additional component of their interest payments are pegged to the inflation rate. For the next six months, the Treasury Department has set that rate at 7.12%—about 5.6 percentage points more than you can currently receive from 10-year Treasury bonds.

There are, of course, some catches to this remarkable rate. One is that any individual can only buy a maximum of $10,000 of Series I bonds through the TreasuryDirect website. Theoretically, people could have each family member buy up to the limit, but it would still make up a limited part of a typical retirement portfolio.

Another 'catch,' if you can call it that, is that the rate only extends for six months, at which point the government resets it. So, the Series I bond purchaser is not locking in 7.12% for the life of the bond; that rate is only valid through next April. At the next reset in May, if inflation goes back down to where it has been over the past 10 years, then these Treasury issues will become much less exciting. And if the investor redeems the bond at any time in the first five years of ownership, he or she would lose the last three months of interest. (The bonds have a 30-year maturity, but they can be redeemed or sold on the open market at any time.)

The Treasury Department created these 30-year instruments for investors who wanted a guaranteed hedge against inflation. You can see the history of Series I inflation-related yields in an online chart at the U.S. Treasury website that follows: https://www.treasurydirect.gov/indiv/research/indepth/ibonds/IBondRateChart.pdf

What you see is that the more normal rate, in recent years, has been between 1.5% and 2.5%. But the value of the bond will never decline, and even in a deflationary environment, the interest rate will never drop below zero. For the life of the bond, the owner will be protected from inflation—which, in this day and age, is not a trivial feature.

The Drug That Drives Medicare Premiums

People who are enrolled in traditional Medicare received a bit of a shock at the start of the year; the basic monthly premium for Medicare Part B, which covers doctor visits, diagnostic tests and other outpatient services, rose from $148.50 a month to

$170.10. This was the largest Part B basic premium increase in the history of Medicare; and of course, for higher income people who are paying IRMAA premiums, the costs were much higher. By way of comparison, the base Part B premium increase last year came to $3 a month.

What's going on? The dramatic increase appears to have been triggered by a single drug. The U.S. Food and Drug Administration gave the biotech manufacturer Biogen approval to begin marketing Aduhelm, a new monoclonal antibody treatment that has been prescribed for people experiencing early-stage Alzheimer's disease. The drug is currently covered under Medicare as a Part B outpatient benefit—at an initial cost of $56,000 a year, recently reduced, after negotiations, to 'just' $28,200. The negotiations, it should be noted, were not conducted by Medicare itself, since Medicare, by federal law, does not have the authority to negotiate drug prices.

The Centers for Medicare and Medicaid Services specifically referenced Aduhelm in their justification for the increase, though the report also mentioned rising healthcare costs due to Covid. The latter justification is not easy to swallow, given the modest increase last year after Covid had been raging through the hospital system for a year and a half. Another issue in the cost debate is the fact that Aduhelm's benefits have been widely questioned. Medicare is requiring patients who are taking the drug to be included in new clinical trials—and the AARP, among others, is lobbying for a reduction in Part B premiums while all this is sorted out.

Crypto Enforcement

Anybody who bought a dollar's worth of Bitcoins on or before May 2010 would have been sitting on a gain of $6.7 million at various times this past fall, before the crypto markets crashed once again. Total market cap for all cryptocurrencies stands at $2.5 trillion, which is apparently enough money to attract the attention of the Internal Revenue Service.

According to a recent article in the Wall Street Journal, the IRS wants to know how much money crypto investors have made and how to tax their gains. But at this point, it's hard to know exactly how it's going to proceed with enforcement; unlike traditional brokerage firms, crypto exchanges are not required to report their customers' transactions to any federal agency. Investors are on an honor system when it comes to reporting their transactions and capital gains on their tax forms.

In recent months, the IRS filed a lawsuit in an attempt to require several major crypto exchanges to hand over customer records. And there must be some mechanism for enforcement, because Bloomberg recently reported that in 2021, the IRS seized $3.5 billion worth of crypto assets that it determined were obtained through a range of criminal activities this past year. Those crypto seizures made up an astounding 93% of the total assets seized by tax enforcement officials, reportedly in connection with wire fraud, money laundering, the distribution of illegal narcotics—and, yes, tax fraud. In one case, the IRS prosecuted a former Microsoft software developer who used cryptocurrency to hide $10 million that he embezzled from the company.

Riding the Bitcoin Rollercoaster

If you're looking for a lot of excitement in your investment portfolio, and enjoy the panic-inducing roller coaster of rapid gains and vertiginous drops in value, consider Bitcoin. Over the last year, the coins have been valued at $30,000 last February and last July. They've been valued at more than $60,000 for part of April and much of October and November, before crashing back down in value to, currently, a little over $43,000—37.31% below the all-time high set last year. Nobody knows what tomorrow will bring; a jump in value or a 50% decline, depending on the mood of the moment. What we DO know is that there are not many components of a traditional portfolio that can lose 15% of their value in a single day, or go down 50% twice in the same 12-month period.

Are Bitcoins actually investments? One way to define an investment is putting money into something tangible, ideally a company whose workers come to the office to enhance its value incrementally each day of the workweek, or a tangible asset like an apartment building or warehouse that will (like many companies) distribute cash to its investors on a regular basis. By this definition, gold is not an investment—its value depends on whatever the next person will pay for it. Interestingly, Bitcoin—and the other cryptocurrencies—are most often compared with gold as an 'investment.'

The original idea behind cryptocurrencies was to create a medium of exchange, like traditional currencies, but with a twist: there are a limited number of Bitcoins in circulation, and that number can never exceed 21 million. The new electronic currency is outside the control of central banks and their printing presses, which means that the currency cannot be debased. No government can print a bunch more Bitcoins so that they become essentially worthless, the way German marks were devalued during the Weimer administration in Germany after World War I, and the way some worry the dollar will suffer if the Federal Reserve bank and the Treasury Department don't stop stimulating the U.S. economy.

In addition, Bitcoin transactions are anonymous, a feature which is welcomed by freedom lovers, but also by people who don't want the government to see their wealth for tax purposes, and by a colorful variety of international drug and weapons dealers whose banking arrangements might otherwise attract the suspicion of law enforcement officers.

There is no evidence that Bitcoin was created to be an investment, much less a get-rich-quick (or, for those caught in the numerous downdrafts, a get-poor-quick) asset class in a retirement portfolio. Buying Bitcoin and other crypto coins can fairly be defined as speculation—speculating, in this case, that somebody else will come along and pay a higher price for the coins than you did. You could argue that any investment could be defined as speculation, but when people buy a stock, they're holding a piece of a tangible asset which has a (hopefully growing) intrinsic value. No person alive can define the intrinsic value of a crypto coin, which means it's possible that Bitcoin prices will fall to zero at some point in the future. That would, of course, be very exciting, but not necessarily in a good way.

Source:
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