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Resolute Connections

In this month's newsletter our first article, *The Long Bull* discusses the market event that occurred last month as the current bull run in the U.S. stock market became the longest in history: does it matter and what should one do? *Charitable Contribution Rules: 10 Years in the Making* reviews the recently issues IRS rules, concerning charitable contributions made on or after January 1, 2019. The gist of it is that you need a qualified appraiser to provide you with a qualified appraisal document of the value of the gift you're making to charity for non-cash contributions—but the devil is in the details, read on for that

Withholding Tempest in a Teapot touches on a topic you may have read about recently telling you to be careful about the withholding in your paycheck, to make sure your employer is taking out enough money so that you won't have a big tax obligation come April. *Savings Bond Redux* reviews an investment vehicles that has been around for decades.

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

The Long Bull

You can be forgiven for wondering what all the hoopla was about when, on August 22, the newspapers erupted with the announcement that the current bull run in the U.S. stock market was the longest in history. Wasn't the day before and the day before that part of that run?

The answer is no. The S&P 500 index had to get back up over its previous high (set way back in January) in order for the streak to continue; otherwise, the period after the previous high might would been counted as a precursor to a bear market. So the roughly six and a half months of the current bull were technically in limbo until the markets again breached the record.

How, exactly, do we define a bull market? The most popular definition is a period that starts at the bottom of the previous bear market (a market drop of at least 20%), and continues moving up without a new bear market drop of 20%. By that narrow definition, the current bull market has now extended to 3,453 days, and it may have a bit more to go before it ends.

During the period since March 9, 2009, the index has gained 321% in total—almost exactly tripling in value, not counting reinvested dividends. By this measure, we are definitely not in record territory; from June 1932 through March of 1937, the markets gained 325%, or about 36% a year. Some define the period from October 1990 through March 2000 as a bull—and lucky investors who bought and held during that period saw total gains of 417%, or roughly 19% a year. By contrast, the current bull has delivered still-respectable 16.5% annual returns.

Of course, whenever the markets go up for this length of time, investors get nervous—and that's not surprising, since every other bull market in history had turned back on itself by this time. But the length of a market upturn is really not a good way to determine whether the markets are a good place to invest; the market environment, and things like corporate revenue and profits, borrowing costs, inflation and the health of the economy are all much more important indicators than whether stocks have managed to avoid a 20% drop over some arbitrary period of time.

The bottom line here is that markets are SUPPOSED to go up; that is, all the hard work put in by all the workers at all the companies that make up the U.S. economy should be adding value every day, week, month and year. If the markets were to trend downward for any significant length of time, that would mean that the companies (and their workers) are somehow failing to add value. If you believe that is about to take place, then this might be a good time to take your money off the table.

Otherwise, hang on and recognize that all good things come to an end, and there is a bear market waiting for us at some indeterminable time in the future.

Charitable Contribution Rules: 10 Years in the Making

Ten years ago, the Internal Revenue Service proposed regulations that would define how to value (and prove the actual value) of non-cash donations to charity. The regs involved things like artwork, jewelry and other possessions whose value is often in the eye of the beholder.

Now, a decade later, the Service has issued its final rules, which apply to all contributions made on or after January 1, 2019. The gist of it is that you need a qualified appraiser to provide you with a qualified appraisal document of the value of the gift you're making to charity—but the devil is in the details. Now, the qualified appraiser is defined as somebody who has completed professional or college-level coursework in evaluating the type of property you are donating, and has two or more years of experience in valuing that type of property. This person should also have received a "recognized appraiser designation" awarded by a professional organization. Your uncle Fred, who has a pretty good eye for the value of jewelry, will no longer be able to give the IRS an acceptable appraisal.

The appraisal document should describe the item to be donated in layperson's terms, and estimate the fair market value, and provide an effective date of the valuation. There should also be a discussion of any terms of agreement or understanding of how the item will be used; that is, if it is to be displayed (as in a museum) or sold (as in a charitable organization). The report must be signed and dated by the qualified appraiser no earlier than 60 days before the date of the contribution.

Obviously (although the regulations specify this), the item must be donated before the due date of the donor's tax return in which the charitable deduction is claimed.

This sounds like an expensive headache, and it probably will be for many donors of appreciated property, art or valuables. Worse, there has to be a separate qualified appraisal for each item of property being donated. However, the IRS has ended a

particularly expensive practice that carries with it a conflict of interest: qualified appraisers can no longer base their fees on the appraised value of the property in question.

Withholding Tempest in a Teapot

Chances are, you've read an article recently telling you to be careful about the withholding in your paycheck, to make sure your employer (assuming you have one) is taking out enough money so that you won't have a big tax obligation come April. This is the result of a big government publicity campaign which, on the surface, doesn't make a lot of sense. The new tax act reduced the tax rates for just about everybody—admittedly not by much, but still a change down rather than up—so why would everybody suddenly be withholding too little? Chiefly because in some states the deductions for state and local taxes has been eliminated. However, the most likely impact is that you'll end up with a modest refund rather than the usual break-even.

If you're receiving Social Security benefits and your adjust gross income plus nontaxable interest plus half of your Social Security benefits all add up to $34,000 (single filers) or $44,000 (married filing joint filers), then you might have to do some figuring. People in this category have to pay taxes on up to 85% of their Social Security benefits. A number of them file Form W-4V to have a flat rate withheld from every check—and if they keep that amount the same, then they will probably be overpaying a bit, which is not a problem. But if, instead, you're paying taxes quarterly, and you're expecting your tax bill to go down a lot as a result of the new tax law, then maybe you're underpaying and could end up paying penalties.

Of course, people over age 70 1/2 should also be paying quarterly taxes on the money they receive from their required minimum distributions (RMDs) from IRAs or 401(k) plans. But here, there's a late fix: they can notify their custodian to withhold a full year's worth of taxes from the last required distribution. If they do that, then the IRS would treat the payment as if they've been making the payments all year. But you have to be careful. If, instead, they take the distribution, put it in the bank, and then make the tax payment, the IRS could assess penalties for the quarters they missed.

It's always a good idea to pay attention to your taxes. But this latest publicity campaign by the IRS—credulously picked up by most of the financial press—seems a bit like overkill: a warning about something that most people are already handling just fine.

Savings Bonds Redux

Remember savings bonds? Ask anybody who was around during or in the years right after World War II, and they'll have fond memories of buying a savings bond for $25 for a child or grandchild, and five years later the bond would be worth $50. For people of a certain age, it was the first exposure to investing and compound interest—and today it's a lesson in how high interest rates were back in the day.

Savings bonds are still with us, and people are still investing in them. The bonds are basically I.O.U.s from the government that pay interest, but the interest accrues inside the bond. That is, there are no coupon payments; you buy the bond and then redeem it at a higher value after five years. There are two types that you can purchase:

Series EE U.S. Savings Bonds grow at a fixed interest rate over the life of the bond, so you know, when you buy them, what you'll get at redemption.

Series I U.S. Savings Bonds pay a fixed interest rate plus another interest rate that reflects the rate of inflation—making them inflation-proof investments.

Both bonds are exempt from state and local taxes, and no federal taxes are due until the bonds are redeemed--which partly makes up for the lower rate the government pays on them. How low? Series EE bonds are currently paying about 0.4% a year, compounded quarterly. Series I Bonds are paying 2.52% a year—plus, as mentioned earlier, the inflation rate. This actually compares to the rates you can get on 5-year CDs. But remember: if you redeem savings bonds within the first five years, you will lose all the interest earned during the most recent three months.

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For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.

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