Reliant Review

Vol. 9: January 2024

Beginning of Year Update

Summary

Welcome to our 9th Beginning-of-the-Year letter. 2023 was a roller coaster that finished its ride in a good place. Bank failures seemed likely to do a lot of damage, and then companies started to say two magic words ("Artificial Intelligence") that were catalysts for meaningful stock gains. Although it didn't start this way, portfolio assets ended up pretty much the opposite of 2022. In 2022, everything was down double digits, from US to international stocks, corporate and Treasury bonds to commercial real estate. This year, everything is ending positive.

What 2024 has in store is anybody's guess. Will the long-awaited recession arrive, or did we actually pull off a soft landing? Will the market recovery continue or lose steam? We will all just have to wait and find out together.

Contents:

Report Card for 2023

Last year, we made some predictions and took some actions in the portfolio. Let's see how we did. Below is a quick report card, showing the Marvelous, the Mediocre, and the Misses.

The Marvelous: Things that went our way

Score:

In our Summary section for 2023, we said we would boil down our view for 2023 as "the beginning will be bad, the end will be good." With the bank failures in the beginning of the year and then the remarkable October market climb, this ended up being very accurate.

Once again, the assets on the Defensive side of portfolios that had been totally reorganized in 2022 to deal with rising interest rates showed their worth, out-performing a standard bond market index.

The TAPA layer in many clients' portfolios proved its value, remaining steadier than the general market environment of 2023 and ending up outperforming all but our 100% stock portfolio templates.

Several of our investments, such as Fuller and Thaler Behavioral Small Cap Equity, noticeably beat their category averages, while others, such as iShares Core S&P Total US Stock Market, did a great job of reflecting the strong returns of the index they are tracking. As an example of patience paying off, American Funds New Perspective was listed in last year's newsletter as a "Miss" and then made a robust recovery in 2023. Taking a longer-term perspective is necessary in portfolio building.

The Mediocre:

Score:

Even though our "the beginning will be bad, the end will be good" market call proved to be true, we missed the reasons WHY it was true. We, like 99.99% of the planet, expected a recession in the first half of 2023. No recession came. Instead, bank failures caused by their poor risk management in a rising interest rate environment dealt the blow. Then the market recovered: not because a recession ended but instead because the market became convinced artificial intelligence would be the next BIG THING, and the Federal Reserve would soon start to cut interest rates. Effects were basically the same, but the causes were different.

Misses: Some things didn't work out as planned.

Score:

The S&P 500 ended the year very strong. Remarkably, however, a majority of its gains came from JUST SEVEN technology stocks, which the news took to calling "The Magnificent Seven." Investments with exposure to these stocks did well. Most Large Cap US investments without exposure to them noticeably lagged. For instance, a portfolio of solid blue chip, steady dividend paying stocks would not have kept up with the market. Part of our US stock allocation is to just such stocks (Schwab US Dividend Equity ETF). We believe in this investment long term, but 2023 was not its year, given its miserly allocation to technology stocks.

What's Coming in 2024

Last year in this section we said "Trying to predict what the market is going to do in the short-term is a great way to be very wrong and look stupid." You can see above that we made that prophesy come partially true! So, to keep the fun going, below are the predictions of where the S&P 500 will end 2024 from several well-known firms / market analysts.

Note: As of 12/28/2023, S&P 500 was approximately 4,837.

- Yardeni Research: 5,400 (11.6% higher than current)
- Fundstrat: 5,200 (7.5% higher than current)

Note: we feel Fundstrat did the best job laying out what 2023 would look like, even when everyone else was gloom and doom.

- Oppenheimer: 5,200 (7.5% higher than current)
- Citi: 5,100 (5.4% higher than current)
- BMO Capital Markets: 5,100 (5.4% higher than current)
- Bank of America: 5,000 (3.4% higher than current)
- Goldman Sachs: 4,700 (2.8% LOWER than current)
- Morgan Stanley: 4,500 (7% LOWER than current)
- Reliant Wealth Planning: Yeah right! 😉

Lest the low numbers get you down, here were some dire predictions from last year that didn't pan out:

Harry Dent, who was making the rounds in the media this December, stated that "the biggest crash in our lifetime" would occur between April – June of 2023. (*Not even remotely close*)

In April 2023, Jeremy Grantham predicted "The best we can hope for is that we bottom at 3,000…and the worst we should fear is more like 2,000." (*He was off by over 50%. Somebody needed to give him a hug*)

Morgan Stanley's Mike Wilson, who has the lowest target for 2024 above, also was negative on 2023. His target for the S&P 500 for 2023 was 3,900. (*Maybe no one told him the market was actually UP in 2023?*)

Planned Portfolio Moves

Here are the things we have been adjusting in portfolios and will continue to do so in 2024.

Core:

- **Growth**

  We are exchanging much of American Funds New Perspective mutual fund holdings with Capital Group Global Growth ETF. Although the names look nothing alike, they are actually managed by the same firm, are close equivalents of one another, and over time their returns track very close to one another.

  The reason for the change is taxes. ETFs tend to be more tax efficient than mutual funds. If we can get approximately the same exposure and performance and do it in a more tax-efficient way, we are going to do that to the extent practical.

- **Defensive**

  Not much change here. We have adjusted the balance between short term and intermediate term bonds to lean a bit more toward intermediate. This is due to the fact that we feel we are close to the end of rapidly rising interest rates. The heavy lean toward short term bonds was designed to protect against rising interest rates. That goal was accomplished.

Tactical Allocation of Portfolio Assets (TAPA)

We have entered into the 4th Iteration of TAPA since we began using it, including a slight name change ("Portfolio Assets" instead of "Passive Assets.") Please see the video on our website for a discussion about this. This iteration will likely be less tax-efficient than before, so we are trying to concentrate it as much as we can into tax-deferred accounts to shield clients from negative tax consequences. We also feel we can get the impact we want out of this layer with a bit smaller portfolio allocation to it. We are moving many clients' allocation to TAPA from 34% to 20%.

Notable Planning Points

Here are some of the changes taking effect in 2024.

RMDs:

The age at which a person must start taking Required Minimum Distributions (RMDs) from retirement accounts has been raised again, from the current age 72:

Born 1951 - 1959: RMDs begin at age 73
Born 1960 and beyond: RMDs begin at age 75

Penalties: Up until now, the penalties for NOT taking an RMD were steep: 50% penalty for the amounts not taken. Starting in 2023, that penalty is reduced to 25%, and in some cases 10% if corrected quickly enough.

Qualified Charitable Distribution (QCD) limits:

The great deal of being able to directly donate tax-free to a charity from a retirement account at age 70 ½ continues and gets even better. Beginning in 2024, the limit for QCDs is $105,000 and will thereafter be adjusted annually for inflation.

Rolling Section 529 funds to a Roth IRA:

A new option for unused 529 funds beginning in 2024 will allow tax- and penalty-free rollovers of such funds to a Roth IRA. The 529 must be at least 15 years old and there are limits, lots of them. A few big ones: 1) must go into a Roth in the name of the beneficiary of the 529 2) no contributions made in the last 5 years can be moved 3) counts against the amount of normal contributions that can be made and 4) a lifetime limit of $35,000.

It is unclear if a parent/grandparent could change the beneficiary to themselves and then do the rollover. That remains to be seen in further guidance.

Catch-up Contributions in Retirement Accounts:

Previously, the law stated that beginning in 2024, all catch-up contributions will be treated as Roth (no tax deduction going in but grow and withdrawn tax-free) if the plan allows Roth contributions, except for workers who earn $145,000 or less. This has been delayed and won't take effect until 01/01/2026, in what the IRS calls an "administrative transition period."

The REAL Story: the original law contained several technical errors that would have basically stopped ALL catch-up contributions in 2024, so the IRS just gave themselves some breathing room for a "do over."

Gifting Limits Going Up Again:

We have many generous clients, and this should make them happy. The gifting limit for 2024 is going up to $18,000 per person (up from $17,000). This is the amount you may give without either paying gift tax or using some of your Unified Credit Amount.

Roth 401(K) RMDs are No More:

One of the differences between Roth IRAs and Roth 401(k)s was that while Roth IRAs never had a Required Minimum Distribution (RMD), Roth 401(k)s did. Starting in 2024, that changes. Now, neither have an RMD, allowing more money to stay in the account and grow.

Health Savings Account

The IRS has announced the largest ever increase in the max contributions into HSAs. In 2024, the max will be $4,150 for an individual and $8,300 for a family. If you are 55 or older, you can kick in an extra $1,000 on top of those numbers.

HSAs are the only triple tax advantaged accounts (tax deduction in, no taxes while in, and no taxes coming out if used for healthcare), making them very powerful. But you must have a high deductible health insurance plan in order to contribute.

RELIANT
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Tax Tidbits

(CHANGE) Kentucky State Tax:

KY state income tax is DROPPING AGAIN from 4.5% to 4.0%. Sorry non-KY folks.

(CHANGE) Standard Deduction:

Single $14,600 (was $13,850)
Filing Jointly $29,200 (was $27,700)

(CHANGE) Gift Tax Exclusion:

Each person may gift to as many people as they wish $18,000 annually, up from $17,000 in 2023.

(CHANGE) Retirement Contributions:

401(k)/403(b) annual contrib $23,000 (was $22,500)

Roth/IRA annual contrib $7,000 (was $6,500)

(CHANGE) Estate Tax Exemption:

$13,610,000 each person (was $12,920,00). This still sunsets to a much lower level in 2026. However, the IRS issued final regulations stating there will be NO clawbacks at sunset. Thus, if you take an action now covered by the exemption amount, such an action should not be retroactively taxed if the limits fall in the future.

2024 Tax Brackets

Tax Rate	Single	Married, Filing Jointly
10%	$0 to $11,600	$0 to $23,200
12%	$11,601 to $47,150	$23,201 to $94,300
22%	$47,151 to $100,525	$94,301 to $201,050
24%	$100,526 to $191,950	$201,051 to $383,900
32%	$191,951 to $243,725	$383,901 to $487,450
35%	$243,726 to $609,350	$487,451 to $731,200
37%	$609,351 and up	$731,201 and up

2024 Cap Gains Tax Rates

Tax Rate	Single	Married, Filing Jointly
0%	$0 to $47,024	$0 to $94,049
15%	$47,025 to $518,899	$94,050 to $583,749
20%	$518,900 and up	$583,750 and up
+3.8% Medicare Net Investment Income Tax (NIIT)	$200,000	$250,000

Social Security

SS tax paid on earned income up to $168,600	% withheld	Maximum tax payable
Employee Pays	6.2%	$10,453.20
Employer Pays	6.2%	$10,453.20
Self-employed pays	12.4%	$20,906.40
Earnings Allowed before Full Retirement Age (FRA)		
Retirement earnings exempt amounts	$22,320 if age under FRA $59,520 during year will reach FRA No Limit after reaching FRA	

Medicare

Medicare Part B monthly premium for new beneficiary in 2024 = $174.70 (up from $164.90) Medicare looks back two years at income to determine if there will be a surcharge based on higher income levels (Income-Related Monthly Adjustment Amount – IRMAA).

Single 2022 MAGI	Joint 2022 MAGI	2024 Part B Premium + IRMAA	2024 Part D adjustment
$0-$103,000	$0-$206,000	$174.70	$0.00
$103,001-$129,000	$206,001-$258,000	$244.60	$12.90
$129,001-$161,000	$258,001-$322,000	$349.40	$33.30
$161,001-$193,000	$322,001-$386,000	$454.20	$53.80
$193,001-$500,000	$386,001-$750,000	$559.00	$74.20
Above $500,000	Above $750,000	$594.00	$81.00

Social Security COLA

Each October, Social Security determines what the change has been in the Consumer's Price Index (CPI) over the last 12 months and makes Cost of Living Adjustments (COLA) to Social Security payments for the coming year. For 2024, Social Security benefits will receive a 3.2% COLA.

2024 Retirement Plan Contribution Limits

Annual compensation used to determine contribution for most plans	$345,000
Defined-contribution plans, basic limit	$69,000
401(k), 403(b), 457 plans elective deferral limit	$23,000
Catch-up for age 50 and over, 401(k), 403(b), 457	$7,500
SIMPLE plans, elective deferral limit	$16,000
SIMPLE Plans, catch-up for age 50 and older	$3,500

2024 Retirement Accounts

IRA Type	Contribution Limit	Catch-Up at 50+	Income Limit / Notes
Traditional nondeductible	$7,000	$1,000	None
Traditional deductible	$7,000	$1,000	If covered by employer plan: $123K - $143K Joint $77K - $87K Single, HOH If spouse is covered by plan: $230K - $240K
Roth	$7,000	$1,000	$230K - $240K Joint $146K - $161K Single, HOH
Roth Conversion	Up to total value of tax deferred retirement accounts	N/A	No income limit / Ability to recharacterize (undo) a Roth conversion was eliminated in 2018

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