Reliant Review

Vol. 10: January 2025

Beginning of Year Update

Summary

Welcome to our 10th Beginning-of-the-Year letter. The markets in 2024 proved to be much steadier than the last several years. We had a correction in the July/August timeframe, but that quickly recovered. Two things dominated the investment space in 2024: Artificial Intelligence (again) and the election.

The recession everyone had been waiting for never came and the RATE of inflation slowed (as opposed to prices actually going down, which is an entirely different thing).

Contents:

Report Card for 2024

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 and the Mediocre.

The Marvelous: Things that went our way	**Score:**
Several of our Team Members have earned advanced designations, continuing the Reliant tradition of constantly improving our knowledge base: • Lucas Adams earned the CERTIFIED FINANCIAL PLANNER™ (CFP®) certification. This brings the firm total number of CFP®s to 5. • Nicolas Alcorn earned the Certified Investment Management Analyst ® (CIMA®) credential. This is a designation focused on advanced investment theory integrated with practical knowledge of portfolio construction. • Brian Gainer completed training to receive the Data Science for Investment Professionals Certificate, focused on applying machine learning to improve investment strategies and how to transform complex data into actionable insights.	✓
In preparation for 2024, we rebalanced the American Funds New Perspective mutual fund into the Capital Group Global Opportunities ETF. Although you wouldn't know it from the names, these are managed by the same company, using very similar philosophies. The change was made to save taxes and that proved to work in 2024. The mutual fund we left paid a 4% taxable distribution in the end of 2024, while the ETF paid 0%, keeping more of your money working for you.	✓
In the end of October, we made a noticeable rebalance in the portfolio to move money from overconcentrated US megacap stocks to more diversification in the Large Caps and more exposure to mid / small caps. As of 12/17/24, since the trades were completed, 1) the Russell 2000 index of small/mid cap stocks has held its own versus the S&P500 index of large stocks and 2) the Fundstrat Granny Shot ETF bought to diversify the US large caps has nicely outperformed the S&P500.	✓
Last year, we showed the 2024 market predictions from many major investment firms and had some fun with the whole idea of trying to predict such things. See below for why we feel justified in having that attitude.	✓

The Mediocre:

Score:

Once again, most of the gains in 2024 were driven by US AI/technology stocks. A diversified portfolio, such as we maintain, will not keep up with such a focused, concentrated market. For some perspective on just how historically concentrated this market has gotten, please refer to the video we sent out at the end of Oct. We will continue to keep our portfolios diversified, as the extra gains you can get from being overly concentrated are NOT worth the pain you experience when that concentration turns again you.

What's Coming in 2025

Remember- "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."

Here are some of last year's predictions from major investment firms. None were even close to being right, which hopefully proves how much attention you should pay to such things.

Actual level of S&P500 as of 12/13/2023 was approximately 6,045.

Where the firms predicted the S&P500 would be at the end of 2024.

- Yardeni Research: 5,400
- Fundstrat: 5,200
- Oppenheimer: 5,200
- Citi: 5,100
- BMO Capital Markets: 5,100
- Bank of America: 5,000
- Reliant Wealth Planning: We don't make such predictions...we know better

And then there were these Debbie Downers from some of the biggest known names. Good thing they don't make money from actually being ***RIGHT!***

- Goldman Sachs: 4,700
- Morgan Stanley: 4,500

For 2025: many major Wall Street firms are predicting 1) good beginning 2) rough middle 3) good ending. The firms are putting various numbers on what that means, with a survey of 15 widely-followed Wall Street strategists putting the average end of year number on the S&P500 at 6,630, which is about 10.8% higher than it stood on 12/18/2024.

Planned Portfolio Moves

Here are the things we have been adjusting in portfolios and will continue to do so in 2025.

Core:

- **Growth**

  Here we made major changes at the end of October. Given how top heavy the market-weighted S&P500 had gotten in its Top 10 stocks, we adjusted allocations to shift more funds into US Mid and Small cap stocks. We also began using more active management in the Mid and Small cap space. Lastly, we better spread out the exposures in the US large stocks to not be so concentrated at the very top.

  In the beginning of 2025, we plan to trim a bit off of the diversified international holdings and reinvest most of that into the crypto Bitcoin. Given some of the policy changes that have occurred or are about to, large institutions have been buying crypto at a level that we feel finally makes this an asset class that we can reasonably feel confident is with us to stay. Thus, we feel having some very modest exposure to it in the Growth portion of all Core portfolios makes sense.

- **Defensive**

  No planned changes here. It continues to outperform the US bond index by a healthy margin.

TAPA:

The TAPA investments have continued to adjust themselves between growth and defensive. Over time, it is assumed (but by no means guaranteed) the TAPA portfolio with have returns somewhere between the Growth And Defensive sleeves within the Core portfolios

Notable Planning Points

Here are some of the changes taking effect in 2025.

Major Social Security changes for Government Pensioners:

Both the House and Senate just passed a bill to end both the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO). The former limited the amount of Social Security benefit someone on a government pension may earn and the latter limited the amount of Social Security spousal or survivor benefit for spouses or widow/widowers on a government pension could eventually see. As of this writing, the President has yet to sign the bill into law, but that is expected any time. This could noticeably increase the Social Security benefit for those affected.

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 2025, the limit for QCDs is $108,000 (up from $105,000).

New Age Bracket for Catch-up Contributions in Retirement Accounts

For years, people aged 50 and older have been allowed to make extra catch-up contributions into employer retirement accounts. Starting in 2025, now people aged 60 to 63 can make even larger catch-up contributions.

Catch-up into 401(k), 403(b), 457, etc.
Age 50 to 59 = $7,500
Age 60 to 63 = $11,250

"Rothification" 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."

Gifting Limits Going Up Again:

We have many generous clients, and this should make them happy. The gifting limit for 2025 is going up to $19,000 per person (up from $18,000 in 2024). This is the amount you may give without either paying gift tax or using some of your Unified Credit Amount.

Tax Tidbits

Kentucky State Tax:

KY state income tax staying at 4.0%, as the state did not meet the conditions for another rate drop.

(CHANGE) Standard Deduction:

Single $15,000 (was $14,600)
Filing Jointly $30,000 (was $29,200)

(CHANGE) Gift Tax Exclusion:

Each person may gift to as many people as they wish $19,000 annually, up from $18,000 in 2024.

(CHANGE) Retirement Contributions:

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

(CHANGE) Estate Tax Exemption:

$13,990,000 each person (was $13,610,000). This still sunsets to a much lower level in 2026. However, it is assumed that the Republican-controlled House, Senate, and White House will act to extend this.

2025 Tax Brackets

Tax Rate	Single	Married, Filing Jointly
10%	$0 to $11,925	$0 to $23,850
12%	$11,926 to $48,475	$23,851 to $96,950
22%	$48,476 to $103,350	$96,951 to $206,700
24%	$103,351 to $197,300	$206,701 to $394,600
32%	$197,301 to $250,525	$394,601 to $501,050
35%	$250,526 to $626,350	$501,051 to $751,600
37%	$626,351 and up	$751,601 and up

2025 Cap Gains Tax Rates

Tax Rate	Single	Married, Filing Jointly
0%	$0 to $48,350	$0 to $96,700
15%	$48,351 to $533,400	$96,701 to $600,050
20%	$533,400 and up	$600,050 and up
+3.8% Medicare Net Investment Income Tax (NIIT)	$200,000	$250,000

Social Security

SS tax paid on earned income up to $176,100	% withheld	Maximum tax payable
Employee Pays	6.2%	$10,918.20
Employer Pays	6.2%	$10,918.20
Self-employed pays	12.4%	$21,836.40

Earnings Allowed before Full Retirement Age (FRA)	
Retirement earnings exempt amounts	$23,400 if age under FRA $62,160 during year will reach FRA No Limit after reaching FRA

Medicare

Medicare Part B monthly premium for new beneficiary in 2025 = $185 (up from $174.70)
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 2023 MAGI	Joint 2023 MAGI	2025 Part B Premium + IRMAA	2025 Part D adjustment
$0-$106,000	$0-$212,000	$185.00	$0.00
$106,001-$133,000	$212,001-$266,000	$259.00	+$13.70
$133,001-$167,000	$266,001-$334,000	$370.00	+$35.30
$167,001-$200,000	$334,001-$400,000	$480.90	+$57.00
$200,001-$500,000	$400,001-$750,000	$591.90	+$78.60
Above $500,000	Above $750,000	$628.90	+$85.80

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 2025, Social Security benefits will receive a 2.5% COLA.

2025 Retirement Plan Contribution Limits

Annual compensation used to determine contribution for most plans	$350,000
Defined-contribution plans, basic limit (all deposits)	$70,000
401(k), 403(b), 457 plans elective deferral limit	$23,500
Catch-up for age 50 - 59, 401(k), 403(b), 457	+$7,500
Catch-up for age 60 - 63, 401(k), 403(b), 457	+$11,250
SIMPLE plans, elective deferral limit	$16,500
Catch-up for age 50 – 59, SIMPLE	+$3,500
Catch-up for age 60 – 63, SIMPLE	+$5,250

2025 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: $126K - $146K Joint $79K - $89K Single, HOH If spouse is covered by plan: $236K - $246K
Roth	$7,000	$1,000	$236K - $246K Joint $150K - $165K 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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