Demming Financial Services Corp.

"PLANNING LIFE WITH A MARGIN OF SAFETY"

January 2022 – March 2022

1st Quarter 2023

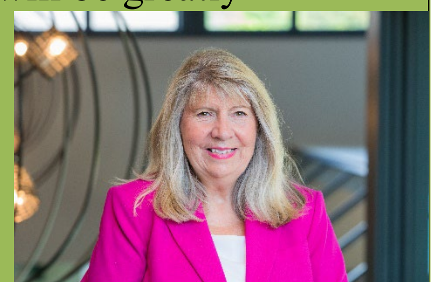
Special Notes:

Please be sure to send us your 2022 Taxes when you receive them from your tax preparer. You can email them to info@demmingfinancial.com, or mail them to the office.

As the transition from TD Ameritrade to Charles Schwab finalizes before Labor Day, you will be receiving paperwork in the mail explaining the Schwab experience. If you have any questions about paperwork or communication you receive, please feel free to call us at 330-562-2122.

Demming Dispatch

- We would like to congratulate Karen Bordonaro on her retirement! She has been with Demming Financial Services for 13 years. Her smile, warm personality, and dedication to her clients will be greatly missed. We wish her the best as she begins life's next adventure!



- REMINDER: TD Ameritrade has changed the process for updating client information. In an effort to prepare clients for the move to Schwab, TD is requiring clients to update account information themselves. If you need help updating your phone number, email, and/or statement delivery preferences in TD Ameritrade, please call the Technical Support line at 866-530-1913 and select option 3.
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Tax-Smart Charitable Giving

There's a persistent misnomer in the minds of some financial consumers that charitable giving can actually benefit the giver from a tax standpoint, if the gifts are carefully structured to avoid capital gains taxes and generate tax write-offs. But in fact there are no clever strategies which make it profitable to give away money or assets.

However, there are ways to make gifts and donations less expensive on an after-tax basis, which means that people can be more generous to their charity, church or educational institution by leveraging the tax code a bit. The simplest tax-advantaged giving strategy is to give appreciated stock, real estate or other assets from a taxable account (not a traditional or Roth IRA) instead of writing a check. This allows the donor to transfer the full value of the assets without ever having to pay capital gains taxes on the amount of appreciation. Their donation can be up to 20% higher than a cash donation, and yet come out equally on an after-tax basis.

"YOU NEED TO DIVERSIFY YOUR PORTFOLIO. PUT HALF INTO HUNTING AND HALF INTO GATHERING."

Donors can also, of course, claim a tax write-off on their charitable contributions. For appreciated assets, this is generally limited to 30% of their adjusted gross income. A more serious write-off obstacle is the high standard deduction: currently $27,700 for married couples filing jointly. If the donation plus other deductions doesn't exceed that threshold, it makes more sense to simply claim the standard deduction—which means there is no tax benefit (or write-off) from the amount given.

The solution? A savvy donor could bunch multiple years of contributions into one year, putting a larger contribution into a donor-advised fund. This pushes the contribution in the current year beyond the standard deduction, recovering the tax write-off by itemizing deductions, and then the donor could make his or her usual annual charitable gifts from the donor-advised fund.

Another tax-aware giving strategy for people who are taking required minimum distributions (RMDs) from their IRAs is to make use of qualified charitable distributions (QCDs). Individuals age 70 1/2 or older can have up to $100,000 per year go directly out of their IRA to a charitable organization, which would satisfy the RMD requirement, and never have to pay taxes on the distribution.

"JEN, YOU KNEW WHEN YOU MARRIED ME I WAS A 'CORPORATE REPORT' READING PERSON -- NOT A 'SUMMER FICTION' READING PERSON."

And then, of course, there are a variety of trust vehicles which offer tax advantages. Donating to a charitable lead trust provides income payments to a charity for a fixed term of years, and when the donor dies, whatever is left in the trust will be passed on to the heirs. This can be structured to generate an initial write-off or to eliminate estate taxes on the inheritance.

If the donation is made to a charitable remainder trust, there is an immediate tax write-off, and the trust will provide income to the donor for a fixed period of time or life, and upon death the remaining assets will go to the charity of the donor's choice. The amount of the write-off is determined by the size of the income the donor receives. Charitable gift annuities work in a similar fashion; there is an up-front tax deduction and a lifetime stream of income payments flowing back to the donor until death, at which point the charity takes full possession of the remaining assets.

The simple point here is that the U.S. tax code encourages and even helps leverage charitable activities, even if it doesn't go so far as to make them profitable. Tax-smart donors can give more, and have more impact.

2023 First Quarter Investment Report

Were last year's market losses an illusion? We've now experienced two consecutive quarters of healthy market gains, the long-predicted recession hasn't materialized despite rising interest rates and the Fed reducing its balance sheet--and oil prices have stabilized. So why are investors still so worried?

The market gains in the first three months of year were spread fairly evenly across all sectors. The Russell 3000 index is up 7.18% so far this year.

The Russell 1000 large-cap index has gained 7.46% so far this year, while the widely-quoted S&P 500 index of large company stocks gained 7.03% during the year's first quarter.

Meanwhile, the Russell Midcap Index is up 4.06% in the first quarter.

The Russell 2000 Small-Cap Index posted a 2.74% gain over the past three months. The technology-heavy Nasdaq Composite Index, the biggest loser in 2022, came roaring back in the first quarter, posting a 16.77% return, rewarding investors who consistently rebalance into the most distressed areas of the market.

Foreign markets moved in lock-step with the U.S. The broad-based EAFE index of companies in developed foreign economies gained 7.65% in the first quarter of 2023. In aggregate, European stocks were up 7.95% in the past three months, while EAFE's Far East Index delivered a positive 7.08% performance. Emerging market stocks of less developed countries, as represented by the EAFE EM index, gained 3.54% in dollar terms in the first quarter.

Despite the rise in interest rates (and higher loan costs), real estate securities produced decent returns. The Wilshire U.S. REIT index posted a 3.25% gain in the first quarter of 2023. However, other alternative parts of a diversified portfolio were not so fortunate. The S&P GSCI index, which measures commodities returns, lost 5.91% of its value in the most recent three months. Utility stocks posted a 4.94% loss in the first quarter.

Bond rates rose dramatically last year, but that trend seems to have moderated. 30-year U.S. government bond yields are down slightly, from 3.96% at the end of last year to 3.65% currently. 10-year bonds are yielding 3.47% while, interestingly, 5-

year government securities are yielding a higher 3.57%, 2-year Treasuries are yielding 4.03%, one-year government bonds are yielding 4.59% and 6-month securities are now yielding 4.86%. Whenever shorter-term bonds are paying bond investors more than their longer-term counterparts, it is called a yield curve inversion. Rarely will you see one as dramatic as this.

Municipal bonds are a bit less chaotic at the moment but there is still inversion going on; 30-year munis, on average, are yielding 3.38%, but the inversion can be seen in 10-year (2.28%), 5-year (2.23%), 2-year (2.41%) and 1-year (2.47%).

So... What about that recession that everybody keeps predicting? Are banks safe anymore? Will the war in Ukraine jump the borders and lead to something more dangerous? When will inflation finally moderate? Behind the nice returns, it's possible to find a world of uncertainty, and the narrative threads are undeniably complicated.

Start with the banking sector, where the run on assets at Silicon Valley Bank was followed by problems at Signature Bank, First Republic Bank, Zions Bank and Credit Suisse. This narrative is actually pretty simple; many lending institutions were sitting on unprecedented amounts of deposits due to the Fed's response to the Covid pandemic, and some of them parked that extra money in bonds. Since they weren't getting paid on short-term securities, they bought into the longer maturities, and then suddenly rates when up and their bond investments dropped in value. The Federal Reserve Board has taken extraordinary measures to make sure banks have access to capital when they need it, and all depositors are insured up to $250,000 per account by the FDIC. You may read about other banks with troubled balance sheets, but it appears that this is not the recession trigger that it was once feared to be.

One might think that banking woes would have zero impact on the inflation rate, but in fact the two are connected. Inflation is running at a 5.4% rate over the past year, and seemed to gain steam in January. These across-the-board price increases are well above the 2% rate that the U.S. central bank is targeting. In response, the Fed was expected to raise its lending window rate by half a percent, but decided, in light of the banking issues, to moderate the raise and in effect cut it in half. Its effort to fight inflation may be put on hold until the banking issues are straightened out.

Meanwhile, the 3.4% unemployment rate is the lowest we've seen since 1969. Labor markets are so tight that there are two jobs available for every unemployed worker right now--and workers are demanding, and receiving, salary increases. This dynamic may push up inflation by raising production costs.

Finally, market watchers have noted the disparity between the Nasdaq returns and the market as a whole. Probing further, it has been noted that most of the gains posed by the U.S. indices are the result of a small number of stocks--Nvidia, Meta (Facebook), Tesla, Warner Brothers Discovery and Advanced Micro Devices--showing outsized gains of between 50% and 87%. Most of the rest of the market is actually about even (zero gains, zero losses) for the first quarter of the year.

What does this mean? The future is always unknown, but the view ahead today is particularly cloudy. Even so, the first quarter of the year might contain a hidden lesson. Economists have been predicting a recession for half a year now, and anyone who believed that those people with Ph.Ds on their resume possessed working crystal balls, and jumped out of the markets, would have missed two quarters of nice returns. Long-term investors who don't jump at every prediction took their gains to the bank.

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Cartoons by Harley Schwardron

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Contact Us

Demming Financial Services Corp.

13 New Hudson Road Aurora, OH 44202

Phone: (330)562-2122
Toll Free: (877) 841-2122
Fax: (330) 562-6086
info@demmingfinancial.com www.demmingfinancial.com