Demming
Financial Services Corp.

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3RD QUARTER 2021

Special Notes:

If you have any Roth Conversions or QCDs to complete, please let us know by the first weekend in December

We are planning on hosting future events, so if you would be interested in attending, please send an email to Sandy. We will also be sending out an email blast soon to gauge interest.

DEMMING DISPATCH

There is a lot to look forward to here at Demming Financial as we head into the final quarter of 2021. Here are a few of the happenings:

- We are excited to announce that we will be writing a bi-weekly blog. We are open to topics you would like for us to cover! If you have any suggestions, please email them to info@demmingfinancial.com.
- We have updated our Google Profile with pictures of the new building and updated website info.
- We have an updated LinkedIn Profile. Click here to check out our page and follow us! We will be posting our bi-weekly blog, newsletters, as well as other exciting content and updates here.
- We had a great time at our quarter-end staff party! It was a well-deserved celebration of the hard work that everyone has put in this year. The shrimp bake was fantastic!
- You can access the Client Portal via our website. This is the easiest way to access the Vault to upload documentation securely, as well as view your accounts. If you still need assistance setting up your account, please contact sandy@demmingfinancial.com.

Age By State

The U.S. state with the oldest population has to be Florida, right? That's where elderly people from the Northeast go to retire.

Actually not.

Surprisingly, when you measure each state (and territory) by the median age of its citizens, you find that Maine is America's oldest state, with a median age of 45.0 years old. Puerto Rico is second (43.6), followed by New Hampshire (43.1) and Vermont (43.0).

Florida comes in 6th by this measure, median age 42.5, just behind number 5 West Virginia (42.9) and ahead of Connecticut and Delaware (both median age 41.1), followed by Pennsylvania (40.8), Rhode Island and New Jersey (both 40.1) The northeast, and the east generally, is where to look for older Americans.

At the other end of the spectrum, Utah (31.3), the District of Columbia (34.2), Alaska and Texas (both 35.0) and North Dakota (35.3) have the lowest median age across their population. The overall median age for the entire country is 38.2 years.

Harley Schwadron

But is that the best way to measure which states have an older or younger population? Why not look at the states with the highest percentage of citizens age 65 or older?

Even by that measure, the state of Maine comes in first; 20.6% of its citizens are older than age 65. By this measure, Florida comes in second (20.5%), followed by West Virginia (19.9%), Vermont (19.4%), Delaware and Montana (both 18.7%), Hawai'i (18.4%), Pennsylvania (18.2%), New Hampshire (18.1%) and South Carolina (17.7%).

Older Americans are least likely to live in Utah (11.1% of the population), Alaska (11.8%), Texas (12.6%), Georgia (13.9%), Colorado (14.2%) and California (14.3%).

The best explanation for the higher concentration of older Americans in the Northeast is that younger adults in those states are moving south and west, where there are greater educational and job opportunities, while their parents are left to age in place. California and Texas have been especially popular destinations for those younger migrants, which has kept their populations relatively young.

Government-Approved Inter Family Loan Rates

Logic might tell you that any loans you make to family members would be a personal matter, without requiring the government to get involved. But whenever has the tax code followed logic?

The key issue to remember, with the Internal Revenue Service involvement in family loans, is that the IRS wants to be able to calculate gift taxes against the amount you would ultimately owe in estate taxes when you pass on assets to your heirs. If you were to make a no-interest loan to a son or daughter, the IRS would count the amount of interest you would be foregoing as a gift. If you DO charge interest, the amount of interest would need to be reasonable in the eyes of the government.

Harley Schwadron

What's reasonable? The government monitors interest rate movements in the marketplace, and calculates minimum applicable federal rates (AFR) for loans covering different time periods, posting them on its website. (You can find this month's rates here: https://www.irs.gov/pub/irs-drop/rr-21-16.pdf). If you charge family members or heirs less than this rate, then the government would calculate the difference, and that would be counted as a gift to the family member to whom you made the loan.

These rates are pretty low: a short-term AFR (up to 3 years) in September 2021 is 0.17%; the AFR on loans of 3-9 years is 0.86%, and anything over 9 years would have a rate of 1.71% to 1.73%, depending on whether the interest is being paid back yearly, quarterly or monthly.

Note that these rules don't apply to loans of less than $10,000 that are not used to purchase income-producing property. And if you don't want to go through the hassle of charging interest, you could always calculate (or have a professional calculate) the implied interest payments, and then offset that amount with your $15,000 annual gift exemption to the borrower. But even then, it's a good idea to document the terms and stated interest rate in case the IRS ever decides to come back and do an audit.

2021 Third Quarter Report

The string continues. The U.S. markets managed to eke out a sixth consecutive quarterly gain in the third quarter of the year, although most of the indices were down in the month of September. At the end of the quarter, stock investors were sitting on above-average gains and still, probably, feeling a bit uncertain about the future.

The Wilshire 5000 Total Market Index—the broadest measure of U.S. stocks—eked out a 0.14% positive return in the third quarter, and is currently sitting on 15.62% gains since January 1. The comparable Russell 3000 index is up 14.99% for the first nine months of the year.

Looking at large cap stocks, the Wilshire U.S. Large Cap index gained 0.47% in value in the recent quarter, and is now up 15.52% for the first nine months of 2021. The Russell 1000 large-cap index is holding onto a 15.19% gain, while the widely-quoted S&P 500 index of large company stocks rose 0.58% in the third quarter, to post a 15.92% return so far this year.

Meanwhile, the Wilshire U.S. Mid Cap index gained 0.76% in the quarter, for a 16.52% gain so far this year. The Russell Midcap Index is up 15.17% in calendar 2021.

As measured by the Wilshire U.S. Small-Cap index, investors in smaller companies experienced a 1.72% loss in the third quarter, which brings the index's total return down to a still-positive 14.65% for the year. The comparable Russell 2000 Small-Cap Index is up 15.22% in the year's first three quarters. The technology-heavy Nasdaq Composite Index lost 0.38% in the third quarter, and is still up 12.11% for the first nine months of the year.

International investors experienced mild losses over the third quarter. The broad-based EAFE index of companies in developed foreign economies was down 1.03% in the third quarter, but is still sitting on a 6.23% gain for the first nine months of the year. In aggregate, European stocks were down 1.94% for the quarter, but are still up 8.93% so far this year, while EAFE's Far East Index has returned 3.46% this year. Of the developed nations, only a small handful of countries are showing losses: New Zealand (down 7.63% in 2021), Korea (down 4.51%) and Hong Kong (down 1.81%). The strong yearly U.S. returns are beaten only by the lucky investors in the Austrian market (up 21.38%), Singapore (up 20.09%) and the Netherlands (up 24.33%).

Emerging market stocks of less developed countries, as represented by the EAFE EM index, suffered near double-digit losses in the third quarter, down 8.84% in dollar terms, but are down just 2.95% for the year. In that sector, the standout returns are coming from the Czech Republic (up 36.25% so far this year), Russia (up 32.91%), Saudi Arabia (up 37.54%) and the United Arab Emirates (up 35.89%).

Looking over the other investment categories, real estate, as measured by the Wilshire U.S. REIT index, posted a 1.64% gain during the year's third quarter, and is up 24.79% since January 1. The S&P GSCI index, which measures commodities returns, gained 5.22% in the third quarter, largely due to rises in oil and energy prices, and is now up a remarkable 38.27% for the year. Gold prices are down 7.92% for the first nine months of 2021.

In the bond markets, 10-year Treasury bonds are yielding 1.48%, and there has been a small incremental yield gain in 30-year Treasuries, to a 2.06% annual yield. Overall, however, rates remain historically low; 3 month, 6-month and 12 month Treasuries are still sporting barely positive yields. Five-year municipal bonds are yielding, on average, 0.55% a year, while 30-year munis are returning just 1.73% on average.

Few are celebrating the sixth consecutive quarters of gains, perhaps because the month of September saw the first monthly decline since January, with a 4.8% downturn in the S&P 500 index. The Nasdaq market was down 5.4% as well. Of course, this has brought out a lot of gloomy forecasts from analysts who always seem to project recent market performance out into the future when, in fact, each new day, month and year brings a new surprise.

There's a lot of noise right now for analysts to consider. Last June and July, there were inflation fears, as supply chain issues and the lingering effects of the pandemic (how many waves have we experienced now?) drove inflation to levels not seen in decades. But then, over the last couple of months, inflation has moderated, which some say has vindicated the assessments by the Federal Reserve that the recent bout of inflation was 'transitory.' We'll see.

Meanwhile, corporate earnings are showing reasonable growth during a time of economic uncertainty, and the most recent Institute for Supply Management's manufacturing index showed a greater-than-expected expansion in September despite widespread materials shortages. Personal income for American workers rose 1.1% in July and 0.2% in August, which is considered bullish for spending--and, indeed, personal spending rose 0.8% in August, which should bode well for economic growth. And, of course, there is the massive infrastructure spending bill working its way through Congress, which could have the effect, if passed, of boosting a number of economic sectors.

But at the same time, Congress is deliberating over increasing the top marginal corporate tax rate from 21% to 28% and the bill would also allow the IRS to collect taxes on U.S.-based corporations' foreign earnings, which will diminish after-tax profits by some as-yet-unmeasurable amount. And companies (and consumers) are having to deal with oil prices that are up about 80% over the past year. The market is leveraged with roughly $1 trillion in margin debt at the moment, and the federal deficit, however one might measure it, has never been higher.

The point here is that there have always been reasons to be optimistic and pessimistic about market returns, and articles that tell you to buy or sell--we call them 'clickbait'--will always be trying to grab your attention. The only thing we can know for sure is that the markets have always eventually reached new highs, through the Great Depression, through two world wars and many global skirmishes, through Presidential impeachments, political uncertainty, double-digit inflation and the most serious global pandemic in a hundred years. None of us know what's coming next in the short term, but we do know that every day, as millions of people put their efforts into their respective companies, the economy and its component corporations incrementally gain value--slowly, steadily, and with a persistent trajectory that is easy to overlook during the temporary up and down swings in the stock market indices.

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Cartoons by: *Harley Schwadron*

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