GWM Monthly Newsletter

Gauthier Wealth Management

Jon Gauthier, CFP® APMA® CRPC®
President
Gauthier Wealth Management LLC
112 S. Tryon Street, Ste. 1220 • Charlotte • NC • 28284
704-661-6419
jon@gauthierwm.com • http://www.gauthierwm.com

March is upon us in a very different way this year with the Russian invasion of Ukraine. Markets are already correcting for massive government spending, restrictions on U.S. energy supplies, and inflation of 7.5 percent. Ukrainian citizens are caught in the cross hairs as Europe sends defensive weapons to Ukraine to defend themselves from an invasion already begun, votes to allow Ukraine to join the European union, and Russian assets are disrupted around the globe. The U.S. markets are likely to rebuff this latest onslaught of uncertainty and continue to adjust to rising interest rates and a smaller Federal Reserve balance sheet, but we are reminded that U.S. actions and inactions matter abroad. And that international actions and inactions matter at home.

All the Best, Jon Gauthier, President, GWM

If you are not connected to GWM on LinkedIn, request a link at: Linkedin.com/in/jon-gauthier-cfp/ . You can also catch up on our latest activities at our Web site, www.gauthierwm.com.

Inflation Cuts into Wage Gains

Driven by labor shortages, median hourly wages increased at an annual rate of 5.2% in December 2021, the highest level since June 2001. However, inflation cuts into buying power, and *real wages* — adjusted for inflation — actually dropped as inflation spiked in 2021. By contrast, negative inflation (deflation) during the Great Recession sent real wages skyrocketing temporarily even as non-adjusted wage growth declined.

Sources: Federal Reserve Bank of Atlanta, 2022, and U.S. Bureau of Labor Statistics, 2022, data 1/2001 to 12/2021. (Wage growth is calculated by comparing the median percentage change in wages reported by individuals 12 months apart; real wage growth is calculated by subtracting CPI-U inflation from wage growth.)

ETFs Are Gaining on Mutual Funds: Here's Why

Investor demand for exchange-traded funds (ETFs) has increased over the last decade due to some attractive features that set them apart from mutual funds. In December 2021, almost $7.2 trillion was invested in more than 2,500 ETFs. This is equivalent to 27% of the assets invested in mutual funds, up from just 9% in 2011.[1]

Fund Meets Stock

Like a mutual fund, an ETF is a portfolio of securities assembled by an investment company. Mutual fund shares are typically purchased from and sold back to the investment company and priced at the end of the trading day, with the price determined by the net asset value (NAV) of the underlying securities. By contrast, ETF shares can be traded throughout the day on stock exchanges, like individual stocks, and the price may be higher or lower than the NAV because of supply and demand. In volatile markets, ETF prices may quickly reflect changes in market sentiment, while NAVs — adjusted once a day — take longer to react, resulting in ETFs trading at a premium or a discount.

Indexes and Diversification

Like mutual funds, ETFs may be *passively managed,* meaning they track an index of securities, or *actively managed,* guided by managers who assemble investments chosen to meet the fund's objectives. Whereas active management is common among mutual funds, most ETFs are passively managed.

Investors can choose from a wide variety of indexes, ranging from broad-based stock or bond indexes to specific market sectors or indexes that emphasize certain factors. This makes ETFs a helpful tool to gain exposure to various market segments, investing styles, or strategies, potentially at a lower cost. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

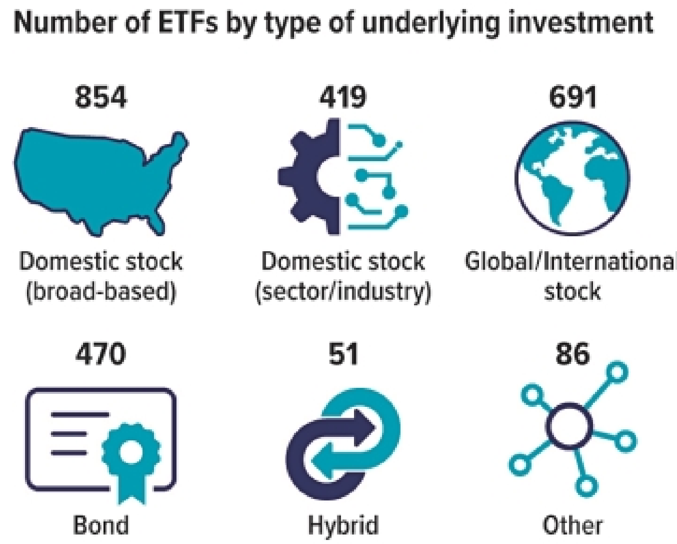
Tax Efficiency

Investors who own mutual fund shares actually own shares in the underlying investments, so when investments are sold within the fund, there may be capital gains taxes if the fund is held outside of a tax-advantaged account. By contrast, an investor who owns ETF shares does not own the underlying investments and generally will be liable for capital gains taxes only when selling the ETF shares.

Trading, Expenses, and Risks

ETFs typically have lower expense ratios than mutual funds — a large part of their appeal. However, you may pay a brokerage commission when you buy or sell shares, so your overall costs could be higher, especially if you trade frequently. Whereas mutual fund assets can usually be exchanged within a fund family at the end of the trading day at no cost, moving assets between ETFs requires selling and buying assets separately, which may be subject to brokerage fees and market shifts between transactions.

Plenty of Choices



Source: Investment Company Institute, 2022 (data as of 12/2021). Bond funds are subject to the same inflation, interest rate, and credit risks as their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. A portfolio invested only in companies in a particular industry or market sector may not be sufficiently diversified and could be subject to higher volatility and risk. Investing internationally carries additional risks, such as financial reporting differences, currency exchange risk, and economic and political risk unique to the specific country. This may result in greater share price volatility.

Mutual funds typically have minimum investment amounts, but you can generally invest any dollar amount after the initial purchase, buying partial shares as necessary. By contrast, you can purchase a single share of an ETF if you wish, but you can typically only purchase whole shares.

The trading flexibility of ETFs may add to their appeal, but it could lead some investors to trade more often than might be appropriate for their situations. The principal value of ETFs and mutual funds fluctuates with market conditions. Shares, when sold, may be worth more or less than their original cost. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in any index.

Exchange-traded funds and mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) Investment Company Institute, 2022

Key Retirement and Tax Numbers for 2022

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2022.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2022 is $16,000, up from $15,000 in 2021.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2022 is $12,060,000, up from $11,700,000 in 2021.

Standard Deduction

Taxpayers can generally choose to itemize certain deductions or claim a standard deduction on their federal income tax returns. In 2022, the standard deduction is:

- $12,950 (up from $12,550 in 2021) for single filers or married individuals filing separate returns
- $25,900 (up from $25,100 in 2021) for married joint filers
- $19,400 (up from $18,800 in 2021) for heads of household

The additional standard deduction amount for the blind and those age 65 or older in 2022 is:

- $1,750 (up from $1,700 in 2021) for single filers and heads of household
- $1,400 (up from $1,350 in 2021) for all other filing statuses

Special rules apply for those who can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $6,000 in 2022 (the same as in 2021), with individuals age 50 or older able to contribute an additional $1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges *(see chart).* For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges *(see chart).* The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI Ranges: Contributions to a Roth IRA

	2021	2022
Single/Head of household	$125,000–$140,000	$129,000–$144,000
Married filing jointly	$198,000–$208,000	$204,000–$214,000
Married filing separately	$0–$10,000	$0–$10,000

MAGI Ranges: Deductible Contributions to a Traditional IRA

	2021	2022
Single/Head of household	$66,000–$76,000	$68,000–$78,000
Married filing jointly	$105,000–$125,000	$109,000–$129,000

Note: *The 2022 phaseout range is $204,000–$214,000 (up from $198,000–$208,000 in 2021) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is $0–$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.*

Employer Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $20,500 in compensation in 2022 (up from $19,500 in 2021); employees age 50 or older can defer up to an additional $6,500 in 2022 (the same as in 2021).
- Employees participating in a SIMPLE retirement plan can defer up to $14,000 in 2022 (up from $13,500 in 2021), and employees age 50 or older can defer up to an additional $3,000 in 2022 (the same as in 2021).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above $2,300 in 2022 (up from $2,200 in 2021) is taxed using the parents' tax rates.

Splurge or Save? Making the Most of Your Income Tax Refund

The IRS issued more than 128 million income tax refunds for the 2020 filing season, putting $355.3 billion into the hands of U.S. consumers.[1] For most recipients, such a sudden influx of cash prompts an important question: What's the best way to use the money?

Last year, 27% of consumers said they planned to spend their refund on everyday expenses, whereas equal numbers (8%) planned to either "splurge" or take a vacation.[2] But what about your other options?

Debt Decisions

Though spending your tax refund is tempting, most people surveyed said they planned to save their tax refund and/or pay down debt.[3] While reducing debt can be the cornerstone of an effective financial strategy, it's essential to avoid making choices that could set you back in the long run. For example, a home mortgage is often the largest debt taxpayers carry, and making extra mortgage payments can reduce your principal balance and shorten the term of the loan, allowing you to accumulate equity faster.

However, using a refund to cut down mortgage debt ahead of schedule could have counterproductive consequences, including losing the ability to claim the home mortgage interest deduction when filing your income taxes. In addition, the reduction in your overall liquidity may limit your ability to make new purchases or investments that you hadn't anticipated.

With that in mind, it may be better to pay off higher-interest, nondeductible debt first, such as credit-card bills and car loans. Although that strategy may still limit your potential to pursue additional financial opportunities in the short term, your long-term savings may be significant.

Retirement Readiness

Using your refund to potentially bring retirement goals closer to reality might be prudent. IRA contributions (up to $6,000 in 2022; $7,000 if age 50 or older) may be deductible, depending on your income and the type of IRA you choose. The 2022 cap on contributions to 401(k) and 403(b) workplace retirement plans is $20,500 ($27,000 if age 50 or older). If you aren't yet contributing the maximum, using this year's refund to finance some routine household expenses could help you allocate more of your income to a workplace retirement account. As an added potential benefit, the amount of any matching employer contributions may increase as a result.

Of course, you might want to use this year's refund for another purpose. Be sure to speak with your financial professional for guidance about the best way to proceed. There is no assurance that working with a financial professional will improve investment results.

1) Internal Revenue Service, 2021

2-3) National Retail Federation, 2021