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2025 | FIRST QUARTER
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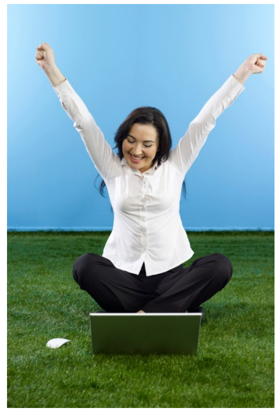
Good Year After Good Year



With 2024 in the books, now is a great time to consider how different 2024 turned out, from an investment standpoint, than most pundits expected. If you can remember all the way back to the beginning of the year, you might recall economists worrying about the risk of a hard landing for the U.S. economy, loosely translated as a recession. The election year was likely to be turbulent, the Middle East and Ukraine loomed over the global political situation, and 2023 was such a great year for the stock market that it was hard to imagine it being followed by a better one.

Yet here we are, with the S&P 500 up double digits for the second year in a row. The economy is booming here and abroad, with a 2.8% economic expansion in the U.S. economy heading into the final quarter. We're not hearing a lot of recession forecasts.

There may be two lessons in last year's market boom. The first is that nobody can accurately predict the markets, which means it's generally better to tune out all the irrelevant chatter that tends to pick up around the start of a new year.

The second is that bull markets don't last forever, and they often draw closer to an end when the irrelevant noise you've been wisely ignoring starts to reflect overconfidence. This sense of optimism is evident; nearly 60% of consumers responding to the Conference Board survey expect stocks to be higher over the coming years. This marks the highest percentage ever recorded since the survey's inception in 1987.

We don't know what's coming, but it's always better to have your seat belt buckled, especially when others seem to be expecting the roller coaster to keep rising forever.

From Our FSA Family

The start of a new year is the perfect time to get organized, set fresh goals, and reflect on the progress and successes of the past year. As we look back on 2024, we're excited to share some key updates and achievements here at FSA:

→ A Refined Identity: Behind the scenes, we've been busy updating our company name to FSA Wealth Partners, refining our brand to emphasize our partnership approach and enhancing our website with improved resources to better serve you.

→ NEW Retirement Account Management: We've added software that allows us to actively manage company retirement accounts, including 401(k)s, 403(b)s, and Thrift Savings Plans (TSPs), seamlessly alongside your other investments using our FSA Safety Net® strategy.

→ Tax Planning Improvements: We've developed processes to better track implemented tax strategies, such as qualified charitable distributions (QCDs), backdoor Roth IRA contributions, nondeductible IRA contributions, and Roth conversions, further enhancing our tax planning services.

→ AI Notetaker: After much research and testing, FSA has adopted the use of an AI note-taking tool called Zocks. The tool will help advisors take notes in client meetings, allowing them to be more present and focused on you. We will ask your permission before including AI in our meetings.

As your financial planners, we're here to help you set, pursue, and achieve your goals. When you meet with us this year, take a moment to share how 2024 went for you and what you're looking forward to in 2025. Together, we'll celebrate your wins and set the stage for achieving your goals in 2025.

Smart Healthcare Shopping

The annual health insurance open enrollment period ended on December 7, but people who are covered by a Medicare Advantage Plan can still make changes in their coverage. The Medicare Advantage Open Enrollment period runs from January 1 through March 31, allowing people covered by these plans to switch to another Medicare Advantage plan or drop their Advantage plan and return to traditional Medicare Part A and B, with the option to enroll in a standalone Part D prescription drug plan. They can also apply for Medicare supplement insurance, although they might be subject to medical underwriting if/when they do.

The switch is not hard; you simply need to enroll in the new Medicare Advantage plan online or through your medicare.gov account. An independent agent can also complete the enrollment process. Any of these actions will automatically disenroll you from your current plan.

Why switch? Your current provider network may not be offering the access you desire. You can contact your preferred healthcare provider to find out which plan network they work with, remembering that networks can change at any time during the year. Your current prescription drug(s) may no longer be covered by your current Medicare Advantage provider; if so, you can check different Medicare Plan finders to see each plan's deductible and whether your medications are covered.

Finally, if you're facing significant healthcare costs in the coming year, you can compare your plan's 2025 out-of-pocket limits with other plans. The maximum limit for 2025 is $9,350 for in-network care and $14,000 for in- and out-of-network combined. But plans can set any limit up to the maximum.

Smart health insurance shoppers will pay attention to the supplemental benefits that pay for non-Medicare health expenses like dental, vision, hearing, transportation and fitness. Some plans are scaling back some of these additional benefits, which could come as a surprise if you plan to get dentures or a new pair of glasses. Once again, you can shop for benefits by reviewing what your plan will offer this year vs. what other plans are offering.

This is obviously a complicated undertaking, so it's not a bad idea to get a health insurance agent or Medicare expert involved.

The Crisis on Top of the Crisis

The wildfires in Los Angeles are a heartbreaking tragedy, both for the lives they've upended and the homes they've destroyed. For many, the emotional toll will soon be met with a financial one. Thousands of homeowners will face the harsh truth that the gap between their insurance payouts and the cost of rebuilding is far wider than they ever imagined.

And they're not alone. A recent article in Bloomberg News says that an estimated 17 million U.S. homes, roughly 19% of total housing, are significantly underinsured against damage from floods and wildfires alone. The total gap between their market value and their insurance coverage, in aggregate, comes to $1.7 trillion.

And that number is rapidly growing as the housing boom pushes home values higher. Moreover, those who have so far managed to avoid the floods and hurricanes in Florida, the wildfires across the Pacific Northwest, or the thunderstorms in Oklahoma are facing huge increases in insurance costs that erode the value of their properties. From 2011 to 2021, the average U.S. home insurance premium rose 44%, and by some estimates it has exploded since. And that's if coverage is available. Many insurers are pulling out of the hardest hit areas, citing climate-change-related increases in nature-related damage.

Adding fuel to the fire, so to speak, is the growing number of U.S. homes that have been built on what the U.S. Forest Service calls the wild land-urban interface (WUI), where wildfires are most likely. In 1990, the census showed roughly 30 million homes at risk; now the number is 44 million.

The article says there is no easy solution to the problem as climate-related disasters grow in number and intensity. It estimates that soon the gap between home values and coverage will reach $2.7 trillion and more homeowners will have to pay the difference or lose everything. Our hearts, thoughts, and prayers go out to those impacted.

The REAL Risk to Your Financial Future

People who are saving for retirement tend to focus their attention on movements in the stock market, believing that a bear market is the greatest danger to their financial well-being.

And while it is important to limit stock market losses in your retirement portfolio, there is another factor to be aware of impacting your nest egg . . . inflation.

We're constantly reading that the inflation rate is up or down and how that will impact the markets. But the more important issue is how it impacts your buying power. Over time, the buying power of dollars stashed under your mattress steadily erodes. With each passing year, those dollars lose value, making them less effective at keeping up with rising costs.

The long-term inflation rate (since 1913) is around 3%, which doesn't sound like much until you consider the idea of your investments declining by an average of 3% a year. Something you purchased for a dollar in 1913 would cost roughly $32 today. If you bought something for a dollar in 1980, you would expect to pay just under $4 for it today.

Inflation is like a mouse nibbling away at your dollars, year by year. If you can't stay ahead of it, then you'll find yourself losing buying power as you approach and enter retirement. That's not just a risk; it's a certainty.

The interested reader can do these inflation calculations for yourself at www.usinflationcalculator.com where you input the year where something would have cost a dollar and then this year (or any other year) to see the specific erosion of value.

Historically, the best way to stay ahead of inflation has been to participate in the stock market's long, bumpy, sometimes scary ride. FSA and our safety net approach are here to help you through the journey!

Taxes: What Can We Expect?

It's understandable if keeping track of the numerous tax proposals from the incoming Trump Administration feels overwhelming. Some appear to be off-the-cuff remarks in interviews, while others represent formal policy suggestions. By narrowing our focus to the actual policy proposals, we can begin to anticipate what will emerge in the coming months.

First, don't expect big changes in the tax rates and brackets; the clearest proposal is to make the 2017 tax changes permanent. That includes the rates and brackets, the standard deduction and personal exemption, the child tax credit, and the very generous estate tax exemption.

What would change? The $10,000 cap on federal deductions for state and local taxes is likely to be removed, which would be welcome to people living in high-tax states like New York, California, Connecticut, etc. There's a proposal to exempt tips from income taxes, which has come under fire because the fine print shows that this tax exemption seems to include a loophole that would allow hedge fund managers to recharacterize some or all of their compensation to a tax-free tipping model.

Other proposals would exempt Social Security benefits and overtime pay from income taxes and make auto loan interest deductible. The top corporate tax rate on companies that produce goods and services in the U.S. would drop dramatically.

Another (largely hidden) tax would come from a proposed 20% across-the-board increase in tariffs on imported goods and a 60% increase in goods imported from China. Companies that outsource parts manufacture to China and other countries would almost certainly have to raise prices to compensate. The tariff monies would go to Washington, and the estimated $3.8 trillion (over 10 years) bill would be passed on to consumers (and, to some extent, the companies that absorb some of the costs) which is the definition of a tax, even if it's hardly visible.

If you add it all up, the Tax Foundation estimates that people in the lowest 40% of income would see tax increases overall, while middle income taxpayers would experience very slight tax cuts. The top 20% income earners would experience significant increases in after-tax income.

Of course, these cuts have to be paid for. Or do they? The Tax Foundation estimates that the overall impact of the tax proposals would increase the federal deficit by just under $6 trillion over ten years.

Tales of Fraud

A recent survey of more than 1,000 financial planners asked whether they had experienced any attempted or real scams with their clients. Many had and reported varying levels of success dealing with what appears to be a dramatic upsurge in sophisticated ways to separate people from their assets.

The stories were remarkably diverse, although they can be put into categories. The simplest were people posing as advisors' clients, asking for money. In many cases, they had hacked into the clients' email accounts, so they were able to provide recent information and comfortably refer to past email exchanges between advisor and client. Fortunately, most firms have checks and balances in place; they call the client to make sure this is an actual request, and an increasing number of advisors have assigned a code word that only they and their individual clients know about. If the scammer can't provide that secret code, the money remains safely where it belongs.

Another category is financial abuse by a family member, and the victim is often elderly. In one case, a family caregiver was bullying her elderly mother into signing over assets and putting her name on the mother's checking account, so she could write increasingly large checks to deposit in her own account. Another caregiver had her mother take out a home equity line of credit and absconded with the funds. After a female client's spouse passed away, a black sheep son moved in (uninvited) with his girlfriend and forced her to sign over the deed to the house. This last story had a happy ending; an elder law attorney threatened the son with charges of elder abuse, and the home ownership was returned.

Other similar stories involve caretakers, or even '"helpful"' neighbors, who seem to be offering care but are actually stealing valuable collectibles or paintings off the walls. An advisor who has dealt with these cases has recommended, when an elderly person begins receiving home care, taking videos of the home and record all valuable items which might make it easier to trace who was in the home when an item went missing.

Some of the most disturbing, and embarrassing, scams would start with an urgent phone call from somebody posing as an authority. In one case, the scammer pretended to be the local sheriff, calling to tell an elderly couple that they had missed jury duty twice, and were therefore subject to incarceration. But the caller assured them that he could take care of it with a simple payment of a $4,000 fine that the couple paid.

More seriously, a scammer pretended to be an investigator with the Federal Trade Commission, who had gotten the victim's name, employee number, phone number, and Social Security number off the Dark Web. The victim was told that the government was going to shut down his account but he could avoid that by transferring the assets into a new account. That victim lost $200,000, but fortunately, his financial planner prevented him from sending out another $1 million to the scammer's account.

Yet another category might be labeled "bank errors." In one case, a client received an unexpected large check. It was too much money to leave lying around, so he deposited the check and tried to figure out what it was for. He didn't have to wait long. He received a call from someone identifying himself as a bank executive, who said that the check was a mistake, and the client needed to pay the whole amount back. The client wrote a check, not realizing that in five days that original check would bounce.

A more insidious story involved a fraudster posing as a bank investigator who asked the client whether he had made a large credit card purchase in a foreign country. Of course, the answer was no. The fraudulent bank investigator assured the victim that he would take care of it; all he needed was for this person to click on a link he was sending and log into his (the victim's) bank account. Of course, the link took the victim to a plausible looking (but bogus) bank home page where the victim input his username and password. At that point, the fraudster had full access to the victim's bank account, and he made short work of it.

Several of the stories involved a surprise phone call informing the victim that he or she has just won the Jamaican lottery, which is a real surprise since the victim had never purchased a ticket. But in order to receive millions of dollars, the victim would have to pay just $10,000 or $15,000 to cover the local taxes, and of course, after the "taxes" are paid, the lottery money never shows up.

The final category is remote romances where the victim is wooed by a romantic individual who he or she has never actually met but plans for them to meet as soon as the romantic individual is able to get clear of a nasty financial obligation. And could the victim help out so they can get together? This accounted for a surprisingly high number of cases. Smart people who otherwise wouldn't be fooled by one of the scams do what they can to help, look forward to getting together in person, and never see the money again.

There's no easy way to keep people from being fooled by the growing sophistication of these scams, but the advisors who experienced these unfortunate events offer some real-world advice. One best practice is to only keep as much money as is actually needed in the checking account. Money in a custodial brokerage account, which is under the watch of a financial planner, will have another pair of eyes on the requests for money, and in many cases, the advisor can contact a son or daughter to come into the situation and evaluate the validity of the FTC examiner or bank executive before any money goes out the door.

Another is to monitor any caregiver or home health nurse, a job that typically falls on the more responsible children in the family.

Finally, where a person is convinced that an implausible scam is real, the best practice is to bring in as many other sets of eyes on the situation as possible, ideally a family meeting with the financial planner and perhaps the victim's accountant. Many of these stories fall apart when the victim tries to defend them logically.

The overarching lesson is that the scammers are becoming increasingly more sophisticated. The more awareness we can muster, the harder it will be for them to make off with people's hard-earned dollars.

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