

Farmers Trust Company

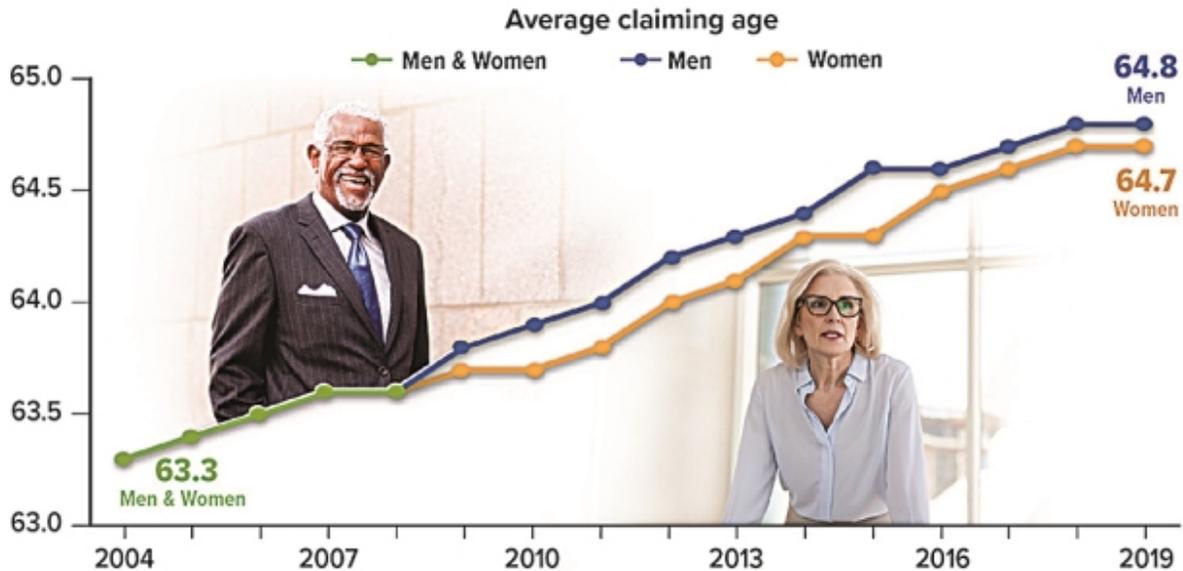
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Please make sure to read John Stewart's article "Bitcoin Bonanza!" below.

More People Delay Claiming Social Security

The average age for claiming Social Security retirement benefits has been steadily rising. Older Americans are working longer, in part because full retirement age is increasing incrementally from 66 to 67. A worker may begin receiving Social Security retirement benefits as early as age 62, but monthly benefits will be permanently reduced by as much as 30% if claimed before full retirement age — a strong incentive to wait.



Source: Social Security Administration, 2020

Bitcoin Bonanza!

Bitcoin entered the public consciousness several years ago, but the flagship cryptocurrency has raised its profile to new heights in recent weeks. The value of Bitcoin has more than doubled its value thus far in 2021 as more financial institutions have begun to embrace the asset, and some companies (including most notably Tesla) have actually added positions to their balance sheets in place of holding cash. The highest profile event so far this week has been the initial public offering, or IPO, of the cryptocurrency brokerage platform Coinbase. Early trading assigned a market value to the company of more than \$100 billion, which is more than the market value of the New York Stock Exchange, NASDAQ, and the Chicago Board Options Exchange – combined! While that seems like a bit of a stretch, we seem to be living in a world these days where anything can be worth anything. It remains to be seen just how long it can last.

One side effects of epic levels of government stimulus? There are a fair number of people in lower wage jobs who aren't in much of a hurry to get back to work. Many small businesses are complaining that they can't fill open positions, and restaurants seem to be at least one anecdotal example of the problem. There are reports from all over the country that wait times at popular dining locations are running in excess of 2 hours in many places. While this may put a strain on many companies' profit margins in the near term (along with the input cost inflation I've been discussing recently), the good news is that the problem will likely solve itself as people either exhaust their stimulus funds and/or employers decide to pay wages high enough to lure back employees – just don't be surprised when those costs are passed on to you as a consumer.

With stock valuations elevated and interest rates low, it may be worth considering some exposure to so-called “alternative” investments. One strategy that has the potential to perform well regardless of the macro market environment is a long/short, or equity market neutral strategy. This involves taking positions in stocks that have favorable outlooks and offsetting it by selling short stocks that have unfavorable outlooks. While there are no guarantees, a skilled manager can produce 5 to 6 percent average annual returns with very low volatility and minimal risk.

Real Estate for Income and Diversification

An estimated 145 million Americans own real estate investment trusts (REITs) in their retirement accounts and other investment funds.¹ The primary appeal of REITs is the potential for a consistent income stream and greater portfolio diversification. Of course, like all investments, REITs also have risks and downsides.

Pooled Property Investments

An equity REIT — the most common type of REIT — is a company that uses the combined capital of a large number of investors to buy and manage residential, commercial, and industrial income properties. A REIT may focus on a specific type of property, but REIT properties in general might range from shopping malls, apartment buildings, and medical facilities to self-storage facilities, hotels, cell towers, and timberlands. Equity REITs derive most of their income from rents.

Under the federal tax code, a qualified REIT must pay at least 90% of its taxable income each year in the form of shareholder dividends. Unlike many companies, REITs generally do not retain earnings, so they may provide higher yields than some other investments, which might be especially appealing in the current low-interest environment. In January 2021, equity REITs paid an average dividend of 3.55%, more than double the 1.55% average dividend paid by stocks in the S&P 500 index.²⁻³

You can buy shares in individual REITs, just as you might buy shares in any publicly traded company, or you can invest through mutual funds and exchange-traded funds (ETFs).

Income vs. Volatility

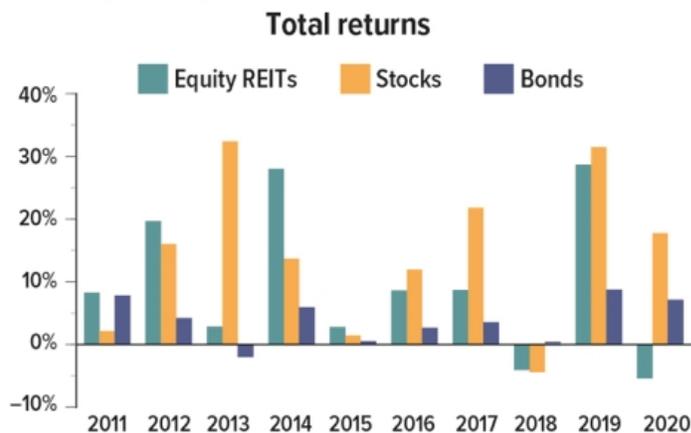
Equity REITs are effective income-generating assets, but share prices can be sensitive to interest rates, partly because companies often depend on debt to acquire rent-producing properties, and interest rates can affect real estate values. Also, as rates rise, REIT dividends may appear less appealing to investors relative to the stability of bonds offering similar yields.

For buy-and-hold investors, the income from REIT dividends may be more important than short-term share-price volatility. Moreover, REIT share prices do not always follow the stock or bond markets, making them a helpful diversification tool (see chart).

While REITs are traded on the stock market, they are in some respects a unique asset class with characteristics of both stocks and bonds. So holding REITs not only may diversify your stock holdings but might also broaden your approach to asset allocation. Diversification and asset allocation are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

A Class of Their Own

Over the last decade, equity REITs have performed very differently than stocks and bonds. REITs were slower than stocks to recover from the early 2020 bear market, which could make their lower valuations and higher yields appealing for long-term investors.



Sources: Nareit, 2021; S&P Dow Jones Indices, 2021; Morningstar, 2021. Equity REITs are represented by the FTSE Nareit All Equity REIT index, U.S. stocks by the S&P 500 total return index, and bonds by the Bloomberg Barclays U.S. Aggregate Bond TR index. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

Real Estate Risks

There are inherent risks associated with real estate investments and the real estate industry that could adversely affect the financial performance and value of a real estate investment. Some of these risks include a deterioration in national, regional, and local economies; tenant defaults; local real estate conditions, such as an oversupply of, or a reduction in demand for, rental space; property mismanagement; changes in operating costs and expenses, including increasing insurance costs, energy prices, real estate taxes, and the costs of compliance with laws, regulations, and government policies.

The return and principal value of all investments, including REIT shares, fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

Mutual funds and ETFs 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.

1-2) Nareit, 2021 (2019 data for REIT ownership)

3) S&P Dow Jones Indices, 2021

Is Your Home Office Also a Tax Shelter?

The pandemic ushered in the age of video meetings, providing a glimpse into many kinds of home workspaces. For many workers, a dedicated home office became more important than ever in 2020, though not everyone will get a tax break for having one.

A Perk for Business Owners

Only self-employed workers, independent contractors, and partners in certain pass-through businesses may claim the home office deduction on their personal tax returns.

To qualify, a home office must be the taxpayer's principal place of business and be used regularly and exclusively for work — not to manage personal matters or pursue a hobby. It must be a separately identifiable space, but not necessarily an entire room.

Prior to 2018, employees receiving a W-2 form and corporate business owners who were required to work at home could claim the home office deduction as a miscellaneous itemized deduction. However, this deduction was eliminated by the Tax Cuts and Jobs Act for years 2018 through 2025.

Companies may reimburse employees for some home office expenses and take a deduction on corporate tax returns.

One Way or Another

Taxpayers who operate a trade or business out of a qualifying home office can choose between two different calculation methods, one of which could result in a larger deduction.

Under the original method, eligible taxpayers can write off a percentage of home office expenses such as depreciation, rent, property taxes, insurance, utilities, maintenance, and repairs. The percentage is based on the square footage of the space used by the business relative to the total size of the home.

A newer, simplified option allows taxpayers to claim a flat \$5 per square foot of the office, up to 300 square feet. Thus, the deductible amount is capped at \$1,500. This simple formula doesn't take home office expenses into account, so it's easier to figure out and generally lightens the recordkeeping burden. However, business owners with relatively high home expenses may be able to claim more than \$1,500 for a home office if they use the more complex calculation method.

Sole proprietors and independent contractors take the home office deduction as a business expense on Schedule C, and partners use Schedule E. Either way, small-business owners may want their tax professional to help determine eligibility and evaluate the potential tax savings.

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