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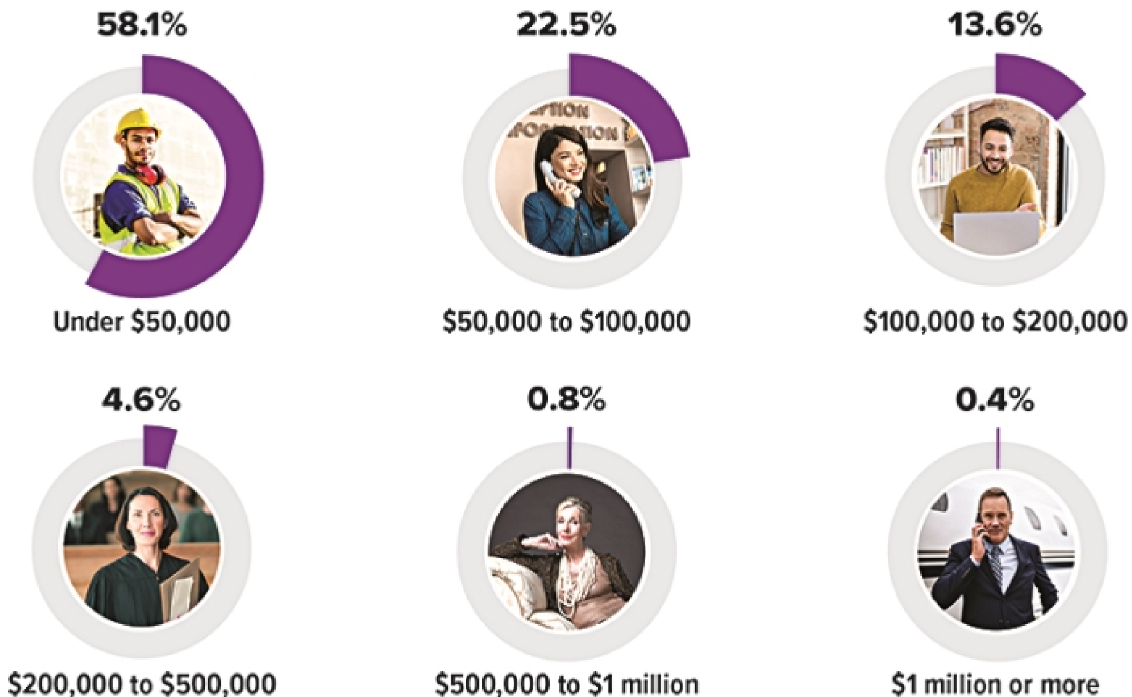
John Stewart's article below, "Silicon Valley Bank Breaks", provides useful insight on recent banking failures.

Where Does Your Income Fit?

The IRS processed more than 164 million individual income tax returns for tax year 2020 (most recent full-year data). Almost three out of five returns showed an adjusted gross income (AGI) under $50,000, while a little over 1% showed an AGI of $500,000 or more.



Source: Internal Revenue Service, 2022

Silicon Valley Bank Breaks

Market strategists have been saying for a while that the Fed would likely continue hiking interest rates until something breaks. Well, last week something broke. If you haven't been paying much attention to the news over the past week, we just had the second largest bank failure in U.S. history with the insolvency of Silicon Valley Bank – followed by a similar situation with the not insignificant Signature Bank of New York, which also has substantial Silicon Valley exposure. What occurred was a perfect storm of weakening technology business trends, especially among start-up venture capital firms, rising interest rates due to the Fed tightening monetary policy, and bad management of the bank's matching the duration of assets and liabilities that was laid bare when depositors began pulling out their funds, sparking a panic run on the bank. While it is likely this episode will have further repercussions across markets in the coming weeks, let me be clear, this is NOT likely to lead to massive bank failures across the rest of the financial sector. Silicon Valley and Signature were unique situations that had very narrow exposure to start-up technology firms and cryptocurrencies. The majority of the banking industry is very well capitalized and well-diversified. The government has since stepped in and guaranteed not only the deposits of Silicon Valley and Signature banks, but of ALL U.S. banking institutions. I'm not even sure they had the legal authority to do that, but it should certainly ensure we avoid more bank runs anytime soon.

It is important to learn, both in investing and in life, that risk cannot be entirely avoided. Every time you leave your house you take some kind of risk, but staying in has plenty of risks too – everyone needs fresh air and sunlight, right? It works much the same way in the financial markets. Most people assume that sitting in cash means taking no risk, but we've all recently learned how sitting in cash can erode your purchasing power by inflation. This is especially true over long periods of time. Every investment choice has some type of risk associated with it, including making no choice at all. The key is to design a portfolio such that your investments offset each other's unique risks in order to produce a desired result over time.

If you're a regular reader of our newsletter articles you know that I often talk about the Fed – what they did, and what they're likely going to do. The reason is that, for better or worse, they've become a key driver of financial markets. Before the Silicon Valley bank debacle, there was about a 70% chance the Fed would hike rates by half of one percent at their upcoming meeting next week with a 30% chance of just a quarter-point hike. As of now, the markets are pricing in a 70% chance of a quarter point hike with a 30% chance of no hike at all. The markets would likely cheer the Fed leaving rates alone, at least in the short run. The fear may then turn to whether or not our inflation problem has truly been brought to heel. In all likelihood, we'll get another quarter-point increase along with some softer language regarding the potential for future increases given the recent turbulence in the financial system. Stocks may ultimately be able to stage a rally if the Fed can successfully thread this needle.

Time for a Spring Cleanup: Organizing Your Financial Records

The arrival of spring is always a good time to dust off the cobwebs that have built up in your home during the winter. It's also a good time to clean out and organize your financial records so you can quickly locate something if you need it.

Keep Only What You Need

If you keep paperwork because you "might need it someday," your home office and file cabinets are likely overflowing and cluttered with nonessential documents. One key to organizing your financial records is to keep only what you absolutely need for as long as you need it.

Tax records. Keep all personal tax records for three years after filing your return or two years after the taxes were paid, whichever is later. (Different rules apply to business taxes.) If you underreported gross income by more than 25% (not a wise decision), keep the records for six years, and for seven years if you claimed a deduction for worthless securities or bad debt. It might be helpful to keep your actual tax returns, W-2 forms, and other income statements until you begin receiving Social Security benefits.

Financial statements. You generally have 60 days to dispute charges with banks and credit cards, so you could discard statements after two months. If you receive an annual statement, throw out monthly statements once you receive the annual statement. If your statements include tax information (e.g., you use credit-card statements to track deductions), follow the guidelines for tax records.

Retirement account statements. Keep quarterly statements until you receive your annual statement; keep annual statements until you close the account. Keep records of nondeductible IRA contributions indefinitely to prove you paid taxes on the funds.

Real estate and investment records. Keep at least until you sell the asset. If the sale is reported on your tax return, follow the rules for tax records. Utility bills can be discarded once the next bill is received showing the previous paid bill, unless you deduct utilities, such as for a home office.

Loan documents. Keep documents and proof of payment until the loan is paid off. After that, keep proof of final payment.

Insurance policies. Keep policy and payment documents as long as the policy is in force.

Auto records. Keep registration and title information until the car is sold. If you deduct auto expenses, keep mileage logs and receipts with your tax records. You might keep maintenance records for reference and to document services to a new buyer.

Medical records. Keep records indefinitely for surgeries, major illnesses, lab tests, and vaccinations. Keep payment records until you have proof of a zero balance. If you deduct medical expenses, keep receipts with your tax records.

These are general guidelines, and your personal circumstances may warrant keeping these documents for shorter or longer periods of time.

Personal Document Locator

A personal document locator is a detailed list of your personal and financial information that can assist others in the event of your death or disability. Typically, a personal document locator will include the following:

Personal information (e.g., date of birth, Social Security number)

Names and phone numbers of personal contacts

Online accounts, with usernames and passwords

Names and phone numbers of professional service providers (e.g., banker, physician, attorney, tax preparer, financial professional)

Location of important legal and financial documents

Securely Store Your Records

You can choose to keep hard copies of your financial records or store them digitally. You usually do not need to keep hard copies of documents and records that can be found online or duplicated elsewhere. Important documents such as birth certificates and other proof of identity should be stored in a safe place, such as a fire-resistant file cabinet or safe-deposit box. You can save or scan other documents on your computer, or store them on a portable drive, or use a cloud storage service that encrypts your uploaded information and stores it remotely.

An easy way to prevent documents from piling up is to remember the phrase "out with the old, in with the new." For example, if you still receive paper copies of financial records, discard your old records as soon as you receive the new ones (using the aforementioned guidelines). Make sure to dispose of them properly by shredding documents that contain sensitive personal information, Social Security numbers, or financial account numbers. Finally, review your records regularly to make sure that your filing system remains organized.

50 and Older? Here's Your Chance to Catch Up on Retirement Saving

If you are age 50 or older and still working, you have a valuable opportunity to super-charge your retirement savings while managing your income tax liability. Catch-up contributions offer the chance to invest amounts over and above the standard annual limits in IRAs and workplace retirement plans.

2023 Limits

In 2023, the IRA catch-up limit is an additional $1,000 over the standard annual amount of $6,500. Participants in 401(k), 403(b), and government 457(b) plans can contribute an extra $7,500 over the standard limit of $22,500. For SIMPLE plans, the catch-up amount is $3,500 over the standard limit of $15,500.[1]

Tax Benefits

Contributions to traditional workplace plans are made on a pre-tax basis, which reduces the amount of income subject to current taxes. Contributions to traditional IRAs may be deductible, depending on certain circumstances.

If you are not covered by a retirement plan at work, your traditional IRA contributions are fully tax deductible. If you are covered by a workplace plan, you may deduct the full amount if your adjusted gross income is $73,000 or less as a single taxpayer or $116,000 or less if you're married and file jointly. If you are not covered by a workplace plan but your spouse is, you are eligible for a full deduction if you file jointly and your income is $218,000 or less.[2]

Contributions to Roth accounts do not offer immediate tax benefits, but qualified distributions are tax-free at the federal, and possibly state, level. A qualified distribution is one made after the account has been held for five years and the account owner reaches age 59½, dies, or becomes disabled.

Distributions from traditional accounts prior to age 59½ and nonqualified distributions from Roth accounts are subject to ordinary income taxes and a 10% penalty, unless an exception applies.

Still Time for 2022 Contribution

If you qualify, you can make a deductible IRA contribution for 2022 up until the tax filing deadline on April 18, 2023. The total contribution limit for someone age 50 or older in 2022 is $7,000. You can open a new IRA or invest in a current one, but be sure to specify the contribution is for the 2022 tax year. The income limits for a full deduction in 2022 are $68,000 for single taxpayers, $109,000 for married taxpayers filing jointly, and $204,000 for taxpayers who aren't covered by a workplace plan but their spouse is.[2]

1) Participants in 403(b) and 457(b) plans may benefit from other catch-up contributions specific to each plan type. Participants in government 457(b) plans cannot combine age 50 catch-up contributions with other catch-up contributions. When calculating allowable annual amounts, contributions to all plans except 457(b)s must be aggregated.

2) Phaseout limits apply. Married couples filing separately cannot take a full deduction. You must have earned income at least equal to your IRA contribution. Talk to a tax professional.

IMPORTANT DISCLOSURES

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