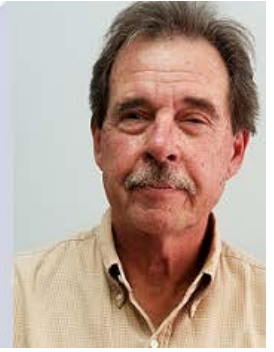




Diana Apostolova

# ROCHESTER INVESTMENTS

INVESTMENT MANAGEMENT & FINANCIAL PLANNING



Larry Nissen

1580 W Ridge Rd, Rochester, NY 14615

phone: 585-568-6656 fax: 585-357-5005

email: [dsa@RochesterInvestments.com](mailto:dsa@RochesterInvestments.com)

Quarter 3, 2021

## When Forecasts are Bearish and Bullish....

Which way is the market headed for the second half of 2021? There are plenty of opinions on both the bull and bear sides of the coin. Bears see an overpriced market, with inflation and a threatening recession with growth stalling out. Historically, to quote money manager Meb Faber, “... investing in stocks at sky-high multiples is a horrible, terrible, no good idea.” Bulls, however, see opportunity for the economy rebounding post-pandemic with a resurgence of buying, government spending and an explosion in innovation and entrepreneurship.

Given we will only know the answer in hindsight, for now we need to make certain fear doesn't take us out of the market, missing opportunities. Nor can we be so aggressive that

our portfolios are badly hurt if there is a downturn. This is the strength of an active management approach. We don't have to have a conviction one way or the other. What we need is to keep an eye on managing downside exposure and have a plan to respond to changes in the market.

A tremendous amount of energy and intelligence goes into trying to rationalize financial markets. But in the end, stocks will go up as long as people want to buy them: bad times in markets and economies often follow the good times. And vice versa. While there can be no guarantee that active management will be successful, we have the flexibility to adapt portfolio positions to changes in the market to manage risk.

## The Coming Tax Tsunami

President Biden came into office with a very expensive agenda. Making that agenda a reality requires finding the money to pay for it. And therein lies what are arguably the most aggressive tax increase proposals since Revenue Act of 1942. The Biden tax increases will *theoretically* affect only high-income households, are still just proposals, and must be enacted into law by Congress before they become a reality. The push to raise taxes is very real, however, and the potential for higher taxes should be a part of your investment considerations and planning for future income needs and your estate.

### Top Marginal Income Rate

The Biden tax plan raises the top individual income tax rate for taxable incomes above \$400,000 to 39.6%.

### Capital Gains

The current long-term capital gains tax rates are 15%, 20% or 23.8% for higher income taxpayers. Under the Biden plan, for taxpayers with income above \$1 million the long-term capital gains rate would mirror the top marginal income tax rate of 39.6%. When the Affordable Care Act's extra 3.8% for the Net Investment Income Tax (NIIT) is added in,

*continued on page 2*

## To Live Longer, Be Happy

After a year like 2020, it's important to step back and remember that happy people live longer and have healthier lives. How can we be happier? One approach is to surround ourselves with happy, positive people. But if you are visibility unhappy, the odds are you are not only driving happy people away but making those around you and yourself more unhappy.

A very basic approach to changing your mood is to put a smile on your face. Consciously act like a happy person would, even if you don't feel like it. For starters, the act of smiling, even if forced, helps relax your face muscles and it helps others view you as a nicer person.

Sounds too simple to work? Before you spend a fortune on psychotherapy trying to figure out why you are unhappy, try to act like an extrovert for one week. Smile at others. Deliberately take a moment to thank others. Volunteer to help others. Try spending money on others. If you want to feel a certain way, act as if you already do and often your brain will go along. Richard Wiseman, a psychologist at the University of Hertfordshire, in the United Kingdom, calls this the “As If Principle.” In other words, “Fake it 'til you make it.” Another tool – memorize the words to Bobby McFerrin's “Don't Worry, Be Happy” and when you start feeling blue, start singing.

---

# Bitcoin Is Not an Investment

There's nothing wrong with taking a flyer on a cryptocurrency, but before you do so, you need to understand that you are not investing, you are *speculating*. You are buying an asset with no capacity to generate income or produce growth. Appreciation depends upon demand for an intangible perception of value.

You need to approach your decision to own Bitcoin, Ethereum, Dogecoin or any of the expanding array of digital currencies knowing *you can lose much or all of your purchase money*. Cryptocurrency is trip to Las Vegas where no one knows the odds. Borrowing money to invest in digital currency can turn a loss into an even greater disaster.

On the other hand, you will be a beta tester in one of the great

banking experiments of our time. While Bitcoin investing with the goal of becoming wildly rich is pure speculation, the block chain technology behind digital currency has the potential to revolutionize banking. We already see this occurring to some degree in fiat-collateralized stablecoins. A fiat currency such as the US dollar, the euro, or the yen, theoretically backs each stable-value cryptocurrency in circulation. The word "theoretical" is used because verification of the "real money" backing stablecoins is unregulated.

Tender, the largest of the stablecoin providers pegs its "coin" against the U.S. dollar with the objective of maintaining a 1-to-1 ratio in terms of value. By avoiding volatility, the stablecoin sector aims to allow



cryptocurrency to be a store of value rather than a risky investment.

Like all cryptocurrencies, however, stablecoins rely on the faith of users and traders to maintain their value. This is the great risk of digital currency. It requires belief in its validity as a measure of value. There is no Federal Reserve to loan money to prop up reserves in a crisis, nor a government to step up and guarantee the value of the currency. A tremor in the belief system can cause an avalanche.

---

## The Coming Tax Tsunami — *continued from page 1*

this rate jumps to 43.4%. The Biden budget anticipates the capital gains increase beginning in late April 2021, indicating the rate is to be retroactive to prevent taxpayers from taking advantage of any gap before the tax increase started.

### Death Taxes and Gift Tax

The Biden plan would eliminate the step-up in basis for inherited assets such as stocks, real estate and some other types of assets. A \$1 million exemption per person is proposed before the elimination of the step-up in basis would take effect. Capital gains taxes would be owed at the time of inheritance, although some proposals would make them payable when the asset is sold. This might allow heirs to keep the family home a little longer. There are exemptions, yet to be clarified, for family owned farms and businesses.

Campaign proposals also included expanding the estate and gift tax by restoring the estate tax exemption to the 2009 levels of \$3.5 million per person or \$7 million per couple.

### Deductions

Itemized deductions for those earning more than \$400,000, would be capped at 28% of value and the qualified business income deduction (Section 199A) would be phased out for filers with taxable income above \$400,000.

### Social Security Taxes

Plans include broadening the 12.4% Social Security tax, currently imposed on compensation income up to \$142,800, to encompass all such income in excess of \$400,000. This would leave a hole where income between \$142,800 and \$399,999 is not taxed for Social Security.

### 1031 Exchanges

Tax-free exchanges of real estate under IRC Section 1031 would be eliminated and the benefit of offsetting taxable gains by investments in "Opportunity Zones" is expected to be curtailed.

These changes are in addition to a lengthy agenda for corporate taxation including increasing the corporate income tax rate from 21% to 28% and creating a minimum tax on

corporations with book profits of \$100 million or higher, structured as an alternative minimum tax.

### State Taxes

State taxes add to the burden of higher Federal taxes. In 2020, states with the highest top income tax brackets included California 13.3%; Hawaii 11%; New Jersey 10.75%; Oregon 9.9%; Minnesota 9.85%; and District of Columbia 8.95%. Estate and inheritance taxes top out at 26% in Maryland. How those taxes might be impacted by capital gains taxes on inherited assets is anyone's guess.

Managing your yearly income and the source of that income has always been important to minimize taxes on capital gains, Social Security income, and Medicare and estate taxes. The proposed additional tax bite makes planning even more important, particularly if a transaction could put you over the \$400,000 threshold; or wherever the higher tax bracket threshold ends up. In fact, investors often spend too much time trying to optimize return or minimize expenses and overlook that the biggest impact to return is taxes.

# Lessons from a Pandemic Year

For many, the past year is one best forgotten. But it was also a period of new perspectives, discovery, technological advances, and changes that promise to impact the future. Before we write off the period as a very bad, no good year, it helps to look at some of the positives.

## 1. Technology can overcome distances and strengthen relationships.

With travel restricted and limited opportunities for in person interaction, the use of digital meetings exploded. Where people may have been resistant to adopting new technologies in the past, the desire to talk with family and friends gave us new coping skills and ways to reach out across distances.

These coping skills may be the greatest gifts of COVID to an older generation that fears isolation.

## 2. We are a global community.

Covid affected people throughout the world at essentially the same time, with the same devastating impact. When we learned of third waves in India and other parts of the globe, we knew all too well what that meant to individuals and families. The world became smaller as we saw our own pain reflected in others throughout the world. If we can keep that sense of shared experiences, perhaps we can overcome other divisions between nations.

## 3. A rainy day fund is a lifesaver.

The speed at which the economic shutdown occurred was unprecedented. Between February and April 2020, 22,160,000 individuals, or 14.3% of working Americans, lost their jobs. Those under 34 and over 55 were most likely to become unemployed.

Prior to the pandemic, nearly 4 in 10 households did not have the cash on hand to cover an unexpected \$400 expense according to the Federal Reserve. During 2020, Americans' savings rate skyrocketed peaking at an unprecedented 33.7%. The savings rate has fallen since then but at 13.7% is higher than it has been for most of the last 35 years. The pandemic also



All the humans with muzzles!! Who did they bite????!!!

*Special thanks to whoever came up with this online meme. It was one of the best laughs of the pandemic.*

saw one of the fastest pay offs of credit card debt in recent history.

If we can keep up those good habits, the impact of the next crisis (and unfortunately there will probably be one) will be less traumatic.

**4. Staying healthy is your best defense.** The pandemic was merciless to those with health issues. Coronavirus highlighted yet another reason it's so important to make lifestyle changes that improve your overall health.

In retrospect, we learned the importance of staying active, getting outside for sunshine and fresh air, and eating better. Focusing on healthy activities helped people overcome depression and develop new interests. Many people gained new culinary skills, new hobbies, and discovered the satisfaction of time with family members.

**5. Technology adoption was more than digital meetings.** Among the highest adopters of online banking were people over 50. While they may have preferred in-person visits, left with minimal choices, they quickly adapted. Online shopping took off. Food delivery apps more than doubled their earnings last year. Telemedicine exploded as more doctors conducted routine exams via webcam than ever before. Health insurance expanded to

cover remote appointments. Forced to work remotely, millions of workers increased their use of technology to be just as productive as they were at the office, and businesses expanded their tech to facilitate and support remote workers.

**6. Peer groups helped combat loneliness.** Isolation was a terrible burden for many. Rates of psychological distress increased as the pandemic lengthened. Many fought back successfully against depression and isolation by participating in peer groups on social media, group chats, digital Friday afternoon clubs, online conferences and classes.

**7. Washing your hands ROCKS!** As we combatted Covid through better hygiene, an amazing number of common diseases disappeared. It turns out, Mom was right about washing your hands, smothering sneezes in a handkerchief or against your sleeve, staying home when you feel sick, and keeping surfaces clean.

**8. Flexible thinking helped us adapt to an unprecedented time.** During Prohibition, beer companies turned to producing root beer. The pandemic saw whiskey companies turn to bottling hand sanitizers, auto companies making ventilators and underwear companies producing face masks. Those "tidy whities" face masks may never be forgotten. A California animal sanctuary introduced Goat2Meeting: a service where companies paid to have a goat, llama or other farm animal make an appearance in their zoom call to liven the monotony. Fitness studios went online as did many other businesses. Innovation was the key to success.

**9. This too shall pass.** Perhaps the most important lesson of all was that there is a light at the end of the tunnel. Life will continue. We can't live in fear, but rather have to live with hope and with the belief that to everything there is indeed a season, but it will come to an end and we will move on.

## A humorous cartoon.



## Timeline for Retirement

### -At age 50

Begin making catch-up contributions, for those over 50 can add extra money to their 401(k) and other retirement accounts.

### -At 59½

No more tax penalties on withdrawals from retirement accounts, but leaving money in means more time for it to grow. 401k to IRA rollover eligibility for some 401k plans.

### -At 62

The minimum age to receive Social Security benefits.

### -At 65

Eligible for Medicare. Potential Medicare penalty(s) if no longer working and not enrolled.

### -At 66

Eligible for full Social Security benefits if born between 1943 and 1954.

### -At 72

Start taking minimum withdrawals from most retirement accounts by this age; otherwise, you may be charged a heavy tax penalty.

## Online Shopping Increased in 2020; So Did Online Scams

Online purchase scams boomed during the pandemic as more people bought items online. According to the Better Business Bureau Scam Tracker Risk Report, nearly 40% of Scam Tracker reports were about online purchases. More than 80% of consumers reporting these scams lost money - on average \$93, but sometimes thousands of dollars.

While many scams resulted from searching for a specific product, a great many also resulted from unsolicited product offers, designed to match items you may have shown an interest in recently. Facebook may be good at squashing postings it feels are inaccurate, but when it comes to products offered on Facebook and other media sites, you are on your own. Anyone can set up an online shop or post an ad on social media. Scammers know the rules better than most legitimate advertisers and know how to optimize the exposure and attractiveness of their products and then make their offerings disappear when you try to find out what happened to your purchase and reappear under a new name.

### How can you avoid online scams?

(1) **Know your seller.** Make certain the url is legitimate and not a knock-off of a real company. Search the seller's name online and see if negative

reviews show up. Find out where the company is located.

(2) **Follow the website's fraud prevention guidelines** if you are buying through Amazon, Ebay, Craigslist or other platforms.

(3) **Use credit cards but have alerts sets.** Using credit cards for purchases creates the vulnerability for credit card fraud, but it also gives you more protection than debit card or bank withdrawals. You can dispute a fraudulent sale with your credit card company. Once money is withdrawn from your bank account via debit card, check or even cashier's check, it's gone. To minimize the risk of credit card fraud, set alerts with your credit card company to notify you of transactions above certain dollar amounts, charges made without a card, international charges, current balances, payments, etc.

(4) **Don't rush into a decision** and remember that something too good to be true probably isn't. Deals too good to be true or pressure to buy before the deal disappears are good indications of a scam. Scammers are anything but stupid. They know how to prey on people's desires and fear, and pressure you to act before you have time to verify the offer.

(5) **Scarce products and popular items are also great for scammers,** because they know people are willing to overpay or take a chance to buy the item. If you can't buy in person, or from an established seller, you could be the victim of a scam.

(6) **Check before you decide to contribute money** to an online appeal, even if the cause sounds legitimate. The nicer you are and the older you are, the more effort scammers will make to reach you, knowing you will be an easy touch for the right sob story.

(7) **Know the signs of a fake check scam.** A fake check scam encourages you to deposit a fraudulent check and then send some of the money back. A cashier's check is not a guarantee that the check is good. Cashier's check fraud is so widespread that many companies will not accept them.

It can take long time for a bank to confirm a bad check. If you have sent the scammer back money, it's gone and you are going to have bad check fees and overdraft expenses if you have used the funds. Your best defense is to NOT deposit suspicious checks.

In most cases of fraud, you will never get your money back. Use caution to minimize chances that you will be a victim.