

The FINANCIAL UPDATE

D DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING



Third Quarter 2021

NAPFA - Registered Financial Advisor

(478) 474-7480

Retirement Planning Alert For Current Financial Economic Circumstances

Here's a retirement planning alert built for current financial economic circumstances—an explanation of the current situation followed by a timely and high-value retirement investing tip.

purchasing manager index shot higher, breaking a new record high. The service sector accounts for 89% of U.S. economic growth.

Meanwhile, business owner optimism ticked lower in July and the

A Financial Planning Accident Waiting To Happen

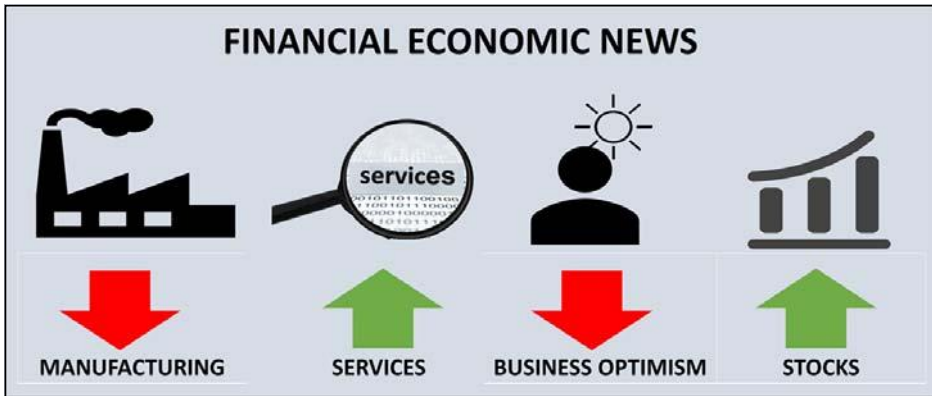
Tax hikes are an accident waiting to happen. The likelihood of higher tax rates suddenly makes converting traditional IRA investments into Roth IRAs more important.

Higher taxes are widely anticipated, and our job as financial professionals is to alert you to what's ahead. Before the tax wreck of 2021, please brace yourself by planning now.

The IRS is hiring more tax auditors and President Biden has proposed tax hikes on high income and high net-worth individuals. Avoid the worst effects of the shift in federal tax policy by planning. Keep your eyes wide open and be prepared for what's about to hit.

If your retirement assets are in IRA accounts, in the event of a stock market selloff, the drop could present a tax-saving opportunity. The likelihood of higher tax rates may make converting traditional IRA investments into Roth IRAs suddenly more important.

Sincerely,
Day & Ennis, LLC



The manufacturing purchasing managers index ticked lower in July but it's not too far off from its all-time record-high, while the service sector

S&P 500 hit a new record high for the 48th time in 2021.

The Optimism Index, a monthly survey of business owners, decreased



(Continued on page 4)

Tax Alert For High Income And High Net Worth Individuals

The political standoff in Washington, D.C., has complicated tax planning enormously. No one knows exactly how it will shake out but what we do know is that there are four possibilities to be prepared for.

1. There are proposals to reduce the estate tax exemption from \$11.6 million per person to as low as \$6 million per person. In addition, the estate tax rate could be stiffened.

2. Capital gain taxes could be hiked in a couple of ways. The current

favorable capital gains tax rate of 20% could be eliminated if your taxable income is more than \$1 million. In addition, the “step-up” in the basis accorded capital gains on inherited investments may be eliminated on gains of more than \$1 million. If your current estate plan hinges on leaving highly appreciated assets, like stocks, business interests, real estate, and other investments, this would slash what your heirs inherit after paying taxes.

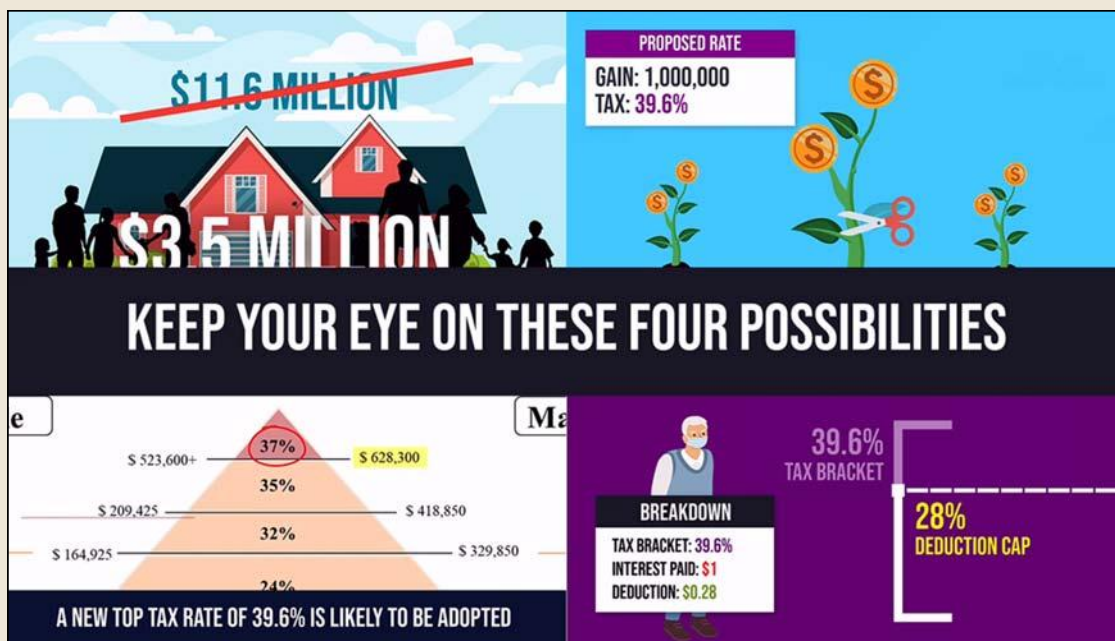
3. President Biden has proposed raising the top tax rate. In 2021, the top

tax rate is 37% and that applies to income of more than \$628,300 for joint filers. A new 39.6% income tax bracket is very possibly going to be adopted. Not only would the top tax rate rise to 39.6%, but the 35% tax bracket could be eliminated, which greatly expands the number of taxpayers subject to the 39.6%.

4. The value of itemized deductions could be capped at 28% for those in the new top tax bracket. To be clear, a high-income professional or business owner in the proposed 39.6% tax bracket, who

deducts mortgage interest, would be entitled to a deduction of only 28 cents for each dollar paid in mortgage interest, instead of 39.6 cents on the dollar. Itemized deductions would lose 30% of their power in lowering your tax bill annually.

The matrix of variables is complex but keeping these four possible changes top of mind could significantly help minimize your federal income and estate taxes as tax-hike possibilities turn into certainties in the weeks ahead. ●



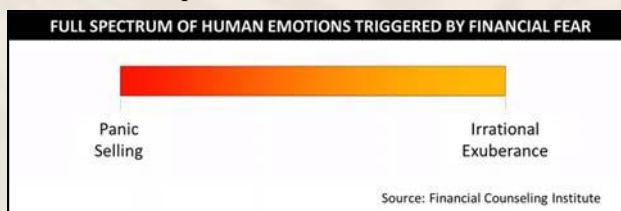
Dealing With Financial Fear

If you suffer from financial fear and anxiety, talking about it is likely to help.

In talking about it, according to Dr. Frank Murtha, a financial psychology expert, you go through a process of recognizing, understanding, and constructively reacting to your fear, rather than keeping it inside you and causing anxiety.

Whether your fear is running out of money in retirement, paying back a large debt, or caring for a family member with special needs, Dr. Murtha says personal financial issues evoke the full spectrum of human

emotions -- from panic to irrational exuberance and everything in between -- but fear is the emotion that stands out as most impactful.



Professors Daniel Kahneman and Amos Tversky, founding fathers of the burgeoning social science of behavioral economics, famously discovered that people do not fear risk in investing; people fear a loss, specifically, a loss of

control of the future.

In fact, investors who have suffered an investment loss or financial setback often will actively seek out risk to break even and avert the loss. Of course, “doubling down” may actually compound a financial problem.

How we experience fear is partly dependent on physiology - your brain chemistry. The fear center of the brain is called the amygdala and it triggers several instinctual reactions to fear. The “fight” instinct can be evoked. Although this reaction may come in handy when you’re getting physically attacked, it is

Confounding Valuations Of The Largest Five Companies In S&P 500

The most important measure of the financial strength of the United States is the Standard & Poor's 500 stock index. It's widely watched but constantly surprising.

Of the 500 companies in the S&P 500, the five largest account for 21% of the total value of the much-watched index. You won't believe where they are currently valued!

Ranked by market capitalization, the five companies are: Apple, Microsoft, Amazon, Google, and Facebook. The Big Five are trading at low PEG ratios, relative to the other 495 stock stocks in the S&P 500 index.

The average company in the S&P 500, as of July 9, traded at a PEG ratio of 3.3%, while the Big Five traded at a PEG ratio of just .98% -- a large discount to the other 500 companies in the S&P 500.

Wikipedia attributes development of the PEG ratio to Mario Farina in a 1969 book. A PEG ratio is a company's price/earnings ratio divided by its earnings growth rate for the next year. A PEG ratio adjusts the traditional price/earnings metric for valuing a company's stock by accounting for its expected earnings

not helpful in financial dealings.

A more common reaction to fear is flight -- the desire to remove the reason for experiencing fear, to retreat to safety and get back in control of your situation. In financial terms, the flight instinct may make you want to sell a losing



	Price	Earnings Per Share 2021 (Est.)	Price/Earnings Ratio 2021 (Est.)	Earnings Per Share Growth (%) ¹	Price/Earnings/Earnings Growth	Mkt Cap
AAPL	\$145	5.14	28.2	26%	1.1	\$2.4T
MSFT	\$278	8.07	34.4	25%	1.4	\$2.1 T
AMZN	\$3,719	55.85	66.6	73%	0.9	\$1.9T
GOOG	\$2,591	88.17	29.4	32%	0.9	\$1.7T
FB	\$350	13.12	26.7	46%	0.6	\$994B
S&P 500	\$4,370	191.37	22.8	7%	3.3	

¹ Three-year average annual EPS growth from 2019 through 2022.

Source: Advisors4Advisors; Fritz Meyer, economist; MarketSmith, July 9, 2021.

growth rate.

These five stocks may appear expensive relative to the S&P 500's average P/E ratio of 22.8, but their earnings growth rate is reflected in the

PEG ratios, and they are cheap by this important metric relative to the other 495 companies in the index.

For example, the expected earnings growth rate for Amazon is 73%. Amazon's PEG ratio is 0.9% versus the S&P 500's PEG ratio of 3.3.

Stocks are risky investments, and they are volatile. Just yesterday, the S&P 500 suffered its worst one-day decline since May, sliding more than 2% during the day before closing down

1.6%. The index shot back up by 1.5% today.

Uncertainty about the risk of the Covid-19 variant as well as inflation are likely to cause big drops in the S&P 500 in the days ahead. Yet stocks are the growth engine of a retirement portfolio and a key in a comprehensive tax-smart investment plan built to last the rest of your life. With volatility high and tax laws about to change, please consider whether the next stock selloff could be a long-term planning opportunity.

The table entitled, "Valuations Of 'The Big Five' Versus S&P 500," was derived from a class for financial professionals by Fritz Meyer, an independent financial economist, on Advisors4Advisors on July 13, 2021. ●



investment at the height of a pandemic or amid a global financial crisis.

The other lesser-known neurobehavioral fear reaction is another F word. Can you guess what it is? The answer is "freeze." Freezing is a typical reaction in times of rising fear. You become too afraid to do anything! "People get stuck, unable to make a decision to change a situation and they let anxiety get the best of them," says Dr. Murtha. "A big part of dealing with financial anxiety is simply getting unstuck."


Talking about financial anxiety can help you unburden yourself and that is often the first step toward re-instilling a sense of control, which is the key to fighting fear. ●

Making A Financial Transition? Answer These Five Questions


To say current financial economic conditions are unprecedented understates things: The United States, the world's largest economy, by far, is transitioning economically from a once in a hundred-year public health crisis. Americans are also experiencing personal financial transitions, magnified by valleys and spikes in the economy as it recovers from the Coronavirus crisis. The economy is in transition and causing difficult personal financial transitions.

An economy in transition. The unemployment rate, at 6.1% in April, is far from the 3.5% achieved for months during the peak of the 2019 expansion. Meanwhile, the worst inflation threat in four decades is causing uncertainty in the stock market. In addition, the federal government spent about \$5.5 trillion to inject cash into the pandemic-stricken economy and keep


Making A Financial Transition




What financial issue will keep you awake at night?




What is your most important immediate financial goal?



What is your most important long term financial goal?



What do you want to be remembered for?



How do you want your money to be used to make the world better?

Source: Frank Murtha, Ph.D., Financial Counseling Institute

Americans in need from starving or financial ruin. Moreover, it is almost certain that another multi-trillion dollars in debt will be added to the balance sheet of the United States by the end of 2021 to fund much-needed infrastructure improvements.

People in transition. The unprecedented macroeconomic transition is causing unprecedented microeconomic transitions, personal upheaval. Companies are offering buyouts to employees. Home prices in suburbia have increased significantly,

causing many to reconsider buying or selling homes. As the outsized boom resonates, some entrepreneurs are making fortunes, while others are losing everything.

If you or members of your family are buying or selling a home, planning to retire, taking a buyout, or making a financial transition, ask yourself these five questions:

1. What financial issues could keep you awake at night?
2. What is your most important immediate financial goal?
3. What is your most important long-term financial goal?
4. What do you want to be remembered for?
5. How do you want your money to be used to make the world better?

Feel free to contact us about your personal situation ●

Retirement Planning Alert

(Continued from page 1)

by 2.8 points in July to 99.7, reversing nearly the entire 2.9-point gain in June's report. Notably, 49% of business owners reported job openings that could not be filled, an increase of 3 points from June and a 48-year record high.

Since the March 23rd, 2020, Covid bear market low, the Standard & Poor's 500 stock index is up more than 60%! Inflation uncertainty and the Covid variant could cause a sharp drop in stock prices anytime, but a recession is not threatening, and the economy is growing fast.

Financial conditions, as they are currently, make it wise to consider whether the next sharp drop in stock

prices would present a strategic tax opportunity to convert traditional IRA or 401(k) assets invested in stocks into tax-free Roth IRAs.

With tax rates expected to be going up, and the stock market breaking records for 11 months, retirement savers should proactively investigate converting to a Roth IRA in 2021.

A Roth IRA conversion gives you a tax-free income stream for life and, when you die, your spouse gets tax free income for life, too. Your children or other non-spouse beneficiaries get tax free income for 10 years and then a tax-free lump sum inheritance after 10 years.

This is an important tip that we cannot emphasize enough but it requires action by the end of 2021. ●

Nothing contained herein is to be considered a solicitation, research material, an investment recommendation, or advice of any kind, and it is subject to change without notice. Any investments or strategies referenced herein do not take into account the investment objectives, financial situation or particular needs of any specific person. Product suitability must be independently determined for each individual investor. Tax advice always depends on your particular personal situation and preferences. You should consult the appropriate financial professional regarding your specific circumstances. The material represents an assessment of financial, economic and tax law at a specific point in time and is not intended to be a forecast of future events or a guarantee of future results. Forward-looking statements are subject to certain risks and uncertainties. Actual results, performance, or achievements may differ materially from those expressed or implied. Information is based on data gathered from what we believe are reliable sources. It is not guaranteed as to accuracy, does not purport to be complete, and is not intended to be used as a primary basis for investment decisions. This article was written by a professional financial journalist for Advisor Products and is not intended as legal or investment advice.