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News & Notes from B&D

Fourth Quarter 2020

Election 2020—What Does It Mean For You?

So far, the 2020 election for President has gone according to script. We noted last month we thought the election would be close and was it ever. While Democratic Presidential candidates continue to do well with the popular vote, they struggle to translate this success onto the electoral map. We also predicted that election day would be strong for President Trump (as most Republicans planned to vote in person) and that the mail-in votes would break for Vice President Biden (as a majority of Democrats planned to vote by mail). We also anticipated President Trump would declare a premature victory the night of the election and that it would take days for the mail-in votes to be counted.

Once again, the predictive power of election polls was put to the test, especially with regards to the Senate elections. Many polls suggested a potential "blue wave" with both Biden winning and the Senate majority would be turned over to the Democrats. Even if Democrats win the two Senate seats in the Georgia runoff election in January (which we do not believe is likely) they would have the slimmest of majority with Vice President Harris as the tiebreaker.

Going into the election the "blue wave" scenario seemed to push stocks higher as the narrative shifted to large fiscal spending. Then, once it became apparent the "blue wave" would be a puddle at best, the narrative changed to divided government which is great for stocks and stocks continued to rally as it became likely that the corporate tax cuts will live to see another day.

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What does this mean for your portfolios? For one, hopefully this has been a lesson to anyone who thinks they can time the stock market. Even if you had been given the benefit of knowing the outcome of the election in advance, would you have increased risk? Probably not.

It is quite rare for a new President to not have enough coattails to provide him with a majority in Congress. It is also extremely rare for the mid-term elections to go well for a new President. This means divided government is most likely going to be the case for Biden's four years and there will likely be no honeymoon period with the Senate as they hold out for the 2022 mid-terms in an effort to bolster their numbers in two years.

Short-term this seems to be a win for the stock market. However, looking forward to 2021 and beyond there are important initiatives that need to be funded. A substantial amount of infrastructure in this country needs to be replaced or improved – bridges, roads, airports, dams, ports, etc. We cannot afford to wait another two or four years to start working on these important projects. Only time will tell if the new President and Congress can work together to pass any meaningful legislation. Our fear is that they will not.

Politics may have helped boost the stock market over the past few weeks, but we believe political uncertainty will most likely create additional volatility in the markets as well as the economy unless politicians can agree on a plan.

The Bond&Devick Team

COVID-19 FATIGUE

You're bored of COVID-19. We're bored of COVID-19. Pandemic fatigue is real and people are letting their guard down because of it. While the outlook for a vaccine shows promise, it won't be here soon enough to prevent a surge in cases this fall and winter. This issue is extremely top of mind for us as a dear friend of ours is fighting for her life against COVID-19. She is 50 years old. We thought it would be good to review what we have learned so far and what still remains important practices.

1. A study published in Nature magazine this week, using cellphone data from people who have been infected, shows it is best to avoid crowded, indoor spaces like restaurants and bars, gyms, and coffee shops. https://www.nature.com/articles/s41586-020-2923-3 One of the models in this study predicts limiting capacity of restaurants, bars, gyms, and cafes to 20% is estimated to reduce cases by more than 80%.
2. It is not just a big city issue. For the first several months virus outbreaks were primarily limited to large urban areas. This fall has seen a rapid spread into rural America, which often has limited resources to deal with large numbers of sickened people.
3. Large social gatherings risk. Weddings and funerals have been cited by the CDC as super spreader events.
4. School is in session and back to school has meant a surge in student's contracting and spreading the virus. Many schools have recently returned to distance learning to help alleviate the spread.
5. Precautions that continue to be validated are the importance of wearing masks, social distancing, staying home if ill, and being extra careful if you have pre-existing conditions or are over 65 years old.
6. Here are links to the CDC and Minnesota Department of Health's Covid-19 home pages for guidelines and more information: https://www.cdc.gov/coronavirus/2019-ncov/index.html and https://www.health.state.mn.us/diseases/coronavirus/index.html

We are looking forward to the day when we can see our clients again in person. In the meantime, please be safe and keep your guard up. ~The Bond&Devick Team

YEAR-END TAX PLANNING AND POTENTIAL TAX LAW CHANGES

As we near the end of 2020 (thankfully) we focus our attention to year-end tax planning strategies. Many of you have been clients for several years and we discuss your individual strategies during our conversations and meetings. If your situation has changed since we last met, please reach out to us. This would include a change in income or expenses, change in marital status, or maybe even a large payoff from the lottery!

Qualified Distributions to Charity

The CARES Act, passed in April, waived required minimum distributions for the year. We do NOT anticipate this will be extended for 2021. For those of you who are over 70 ½ and you haven't finished your charitable donations this year, giving money directly from your IRA can be a great tax strategy.

Donor Advised Fund

For clients who have large capital gains from the sale of property or investments, funding a Donor Advised Fund may be a great way to reduce taxes in one year and fund charitable contributions for future years. Using a Donor Advised Fund can also help with bunching itemized deductions.

Bunching Itemized Deductions

Since the standard deduction was increased a few years ago, many people no longer itemize their taxes. However, some taxpayers may be able to time their payments of itemize deductions every other year if they "bunch" deductible expenses into one year. This can be accomplished by making two years' worth of charitable contributions every other year, paying next year's property taxes in advance and pre-pay medical expenses like dental work (you may receive a discount in price as well).

Biden Tax Plan

We believe the Biden tax plan is unlikely to become law since it is improbable that the Democrats will win both Senate runoff elections in Georgia. This would have been a busy year-end for tax planning had the Senate been controlled by the Democrats for those taxpayers with an annual income of over $400,000. We do not believe there is any sense of urgency to year-end tax strategy based off the results of the election since divided government should keep the tax code relatively unchanged.

Securing a Strong Retirement Act

Last week a bi-partisan bill was introduced into the House of Representatives to help shore up retirement savings for Americans. There are many positive provisions such as creating a tax credit for low and middle income taxpayers to save for retirement. The Act would also require new employees to automatically be enrolled into a company retirement plan, it would increase incentives for small businesses to establish retirement plans for its employees and it would push back the age for required minimum distributions from age 72 to age 75. The age for required minimum distributions was just raised to age 72 last year, so there appears to be a lot of momentum for this change specifically. If you are in your later 60's or early 70's there could be a few different tax planning strategies we could use until you turn 75, including taking IRA distributions, making a Roth Conversion, or selling appreciated stock or property to fill a low bracket. We will be sure to reach out to those of you who would be impacted if the age for required distributions is changed.

Tax planning is one important way in which we add value to our client relationships. Please make sure to keep us informed of any changes to your situation so we can make sure to utilize the best strategies for you and your family.

Notes

1.Check our website for our new Podcasts!

2.Be sure to send us your updated tax return.

3.Are you on our volunteer list? If you have not been contacted to volunteer with us, you are not on the list. If interested, email Chris Gaffron at chris@bondanddevick.com to be added.

4.Check out our Facebook page for the latest updates on the B&D Team and families. Our page is public, you do not need your own FB account to view it!

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