34th Annual Accredited CLE Update

WELCOME

Presented by

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- Credits
- Meals
- Evaluation

Reach out to us with any questions or
if we can otherwise be of service to you or your clients!

Congratulations on taking your time to get better

Anyone who isn't embarrassed of who they were last year probably isn't learning enough.

— *Alain de Botton* —

WILL YOU BE DISRUPTED?

WHAT GOT US HERE
WILL NOT GET US THERE

Justin Trudeau – Davos 2/5/2018

The pace of change has never been this fast, yet it will never be this slow again. There's enormous opportunity and potential in that realization. Technology has always brought such promise. But it also brings dramatic shifts in our social, economic and political cultures.

You are rightly anxious about how quickly our existing business models are being disrupted. Still if your anxious imagine how the folks who aren't in this room are feeling.

“The Disruption of Legal Services Is Here”

- Forbes 9/20/21

- The legal industry has been mostly insulated from technology — driven change compared to others over the last decade. Think of what e-commerce (Amazon) did to retail.

- We are on the precipice of the promised disruption in legal. Not because anyone in the law firms are driving toward this — but because venture capital and tech innovators have finally turned their attention to the industry.

- According to the LegalTech Fund, venture investment in the legal industry has grown from under $1 billion a year in 2018 to over $4 billion *a quarter* in 2021.

What To Do?

1. Realize what is happening around investment, innovation and impact to the industry

2. There is a generational shift in the economic buyers of legal services. Individuals, General Counsel positions, and other influential posts are transitioned from Boomers to younger generation buyers who have very different outlooks on what “value” is and how it is delivered, what they want from a relationship with their lawyers, and what they will pay

3. Critical to Change Before You Have To!

The Role of the Media is NOT to inform but to sell

8,500 magazines and newspapers
1,761 commercial TV stations
192 million active websites

As of 2020 - Source: google.com, statista.com, netcraft.com

- *"Dow Plummets 800 Points on Worsening Global Recession Fears"*
  (Fox Business)

- *"Dow Plummets More Than 800 Points on Recession Red Flag"*
  (New York Post)

- *"Dow Tanks 800 Points in Worst Day of 2019 After Bond Market Sends Recession Warning"*
  (CNBC)

On August 14, 2019, the headlines were dire

DOW 25,575

November 1, 2021 the DOW was at **35,601**

A gain of 39%

- *"Dow drops nearly 3,000 points, as coronavirus collapse continues; worst day since 1987"*
  – **CNBC** March 15th, 2020

- *"Dow Drops 410 points, down 23% in 2020, worst first quarter ever"*
  – **CNBC** March 31, 2020

- *"Dow and US Stock plunge again"*
  – **CNN** March 17, 2020

- *"Spiraling Virus Fears are Causing Financial Carnage"*
  – **New York Times** March 6, 2020

March 1, 2020
the DOW was at
21,917

November 1, 2021
the DOW was at
35,601

A gain of 62%

Don't rely on headlines for an all clear to invest

Hypothetical $1 million investment in Standard & Poor's 500 Index at pre-crisis peak, from market bottom in 2009 to breakeven in 2011

Source: Vanguard.

Note: See the following page for a list of complete citations to the articles cited.

Average Market Volatility

5 % — About every 2 months

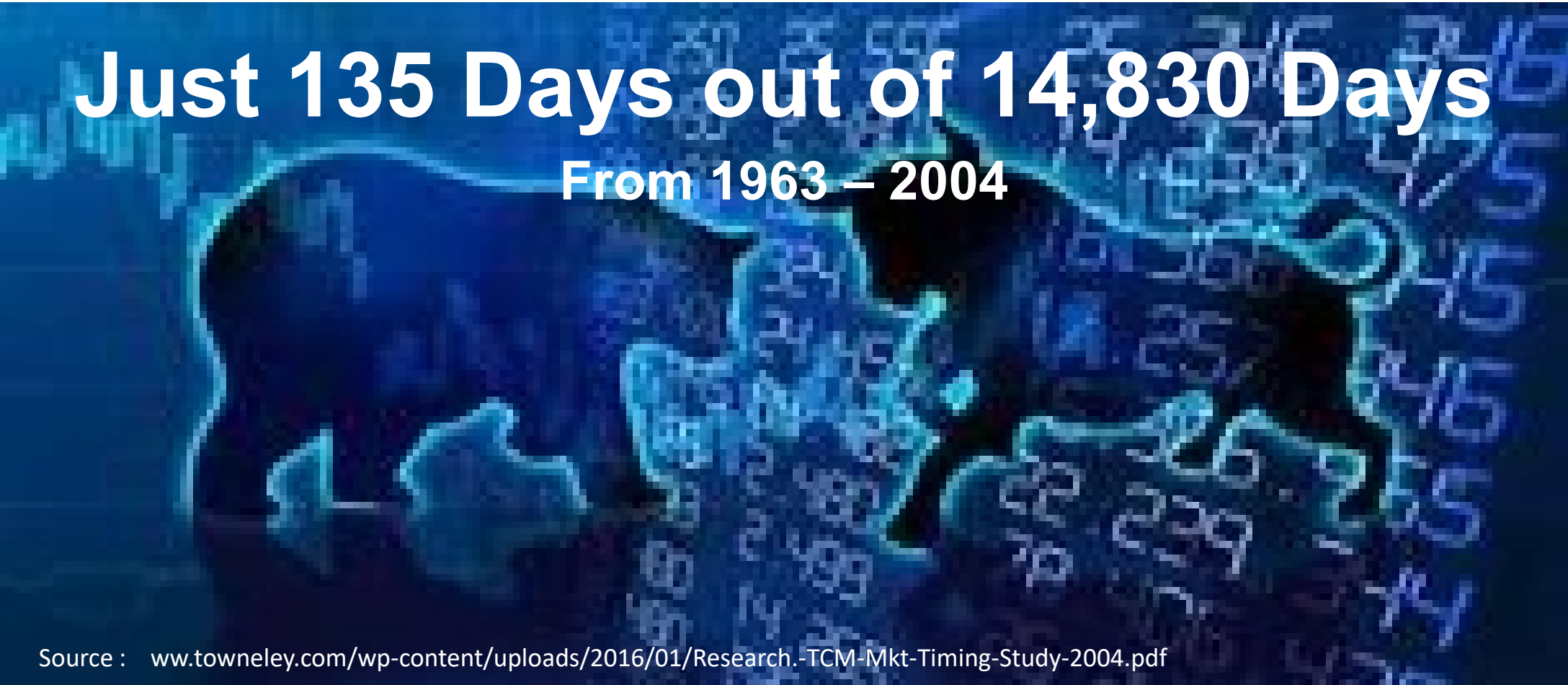
10 % — About every 8 months

20 % — About every 30 months

Market corrections 1928–2018

Source: MarketWatch

96% of Market Gains came from just 0.9% of Trading Days



Source : ww.towneley.com/wp-content/uploads/2016/01/Research.-TCM-Mkt-Timing-Study-2004.pdf

Missing only a few of the best days over t 10 years would have had an adverse effect on total return.

A hypothetical $10,000 initial investment in the S&P 500 Index held over the entire period of **Jan 1, 1998 through Dec 31, 2007** would have grown to **$17,756**.

Missing just the 20 best days would have reduced the ending value to **$8,009**.

Source: Bloomberg.

For illustration only; results shown do not represent the performance of any BlackRock fund. The chart depicts the ending investment value of a $10,000 investment in the S&P 500 Index for all trading days as well as for time periods in which the best trading days are missed. Assumes reinvestment of all distributions. It is not possible to invest directly in an index. The index is unmanaged and does not take transaction charges into consideration.

Past performance does not guarantee future results.

Staying the Course

First Trust

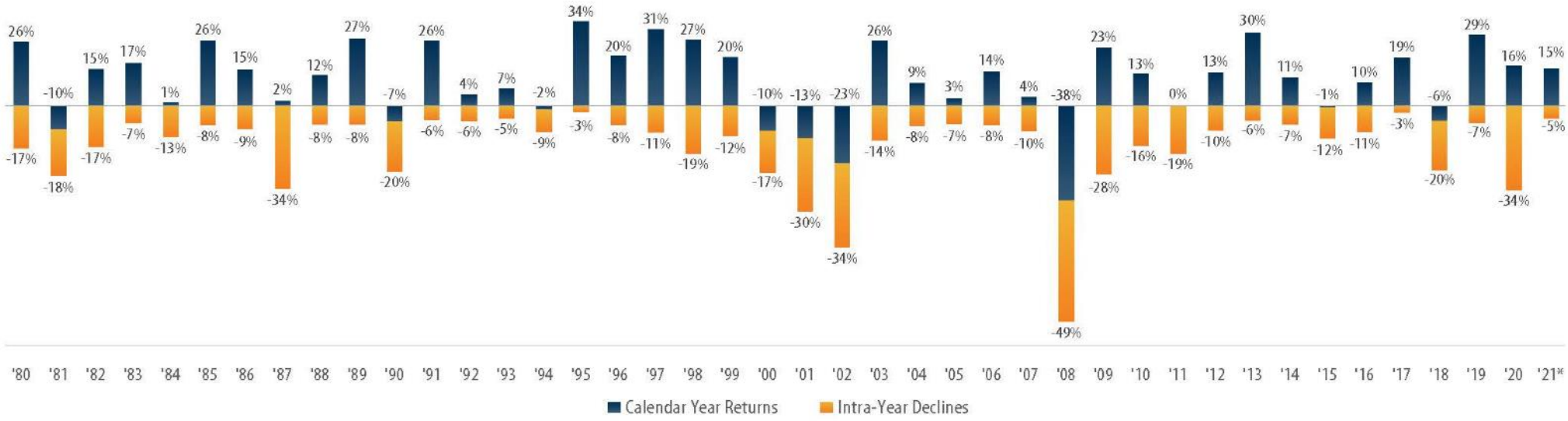
Investors tend to see short-term volatility as the enemy. Volatility may lead many investors to move money out of the market and "sit on the sidelines" until things "calm down." Although this approach may appear to solve one problem, it creates several others:

1. When do you get back in? You must make two correct decisions back-to-back; when to get out and when to get back in.
2. By going to the sidelines you may be missing a potential rebound. This is not historically unprecedented; see chart below.
3. By going to the sidelines you could be not only missing a potential rebound, but all the potential growth on that money going forward.

We believe the wiser course of action is to review your plan with your financial professional and from there, decide if any action is indeed necessary. This placates the natural desire to "do something," but helps keep emotions in check.

INTRA-YEAR DECLINES VS. CALENDAR YEAR RETURNS

Volatility is not a recent phenomenon. Each year, one can expect the market to experience a significant correction, which for the S&P 500 has averaged approximately 14% since 1980. History has shown that those who chose to stay the course were rewarded for their patience more often than not.



Source: Bloomberg, First Trust Advisors L.P. *As of 9/30/21. **Past performance is no guarantee of future results.** The benchmark used for the above chart is the S&P 500 Index. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. Investors cannot invest directly in an index. Index returns do not reflect any fees, expenses, or sales charges. Returns are based on price only and do not include dividends. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future.

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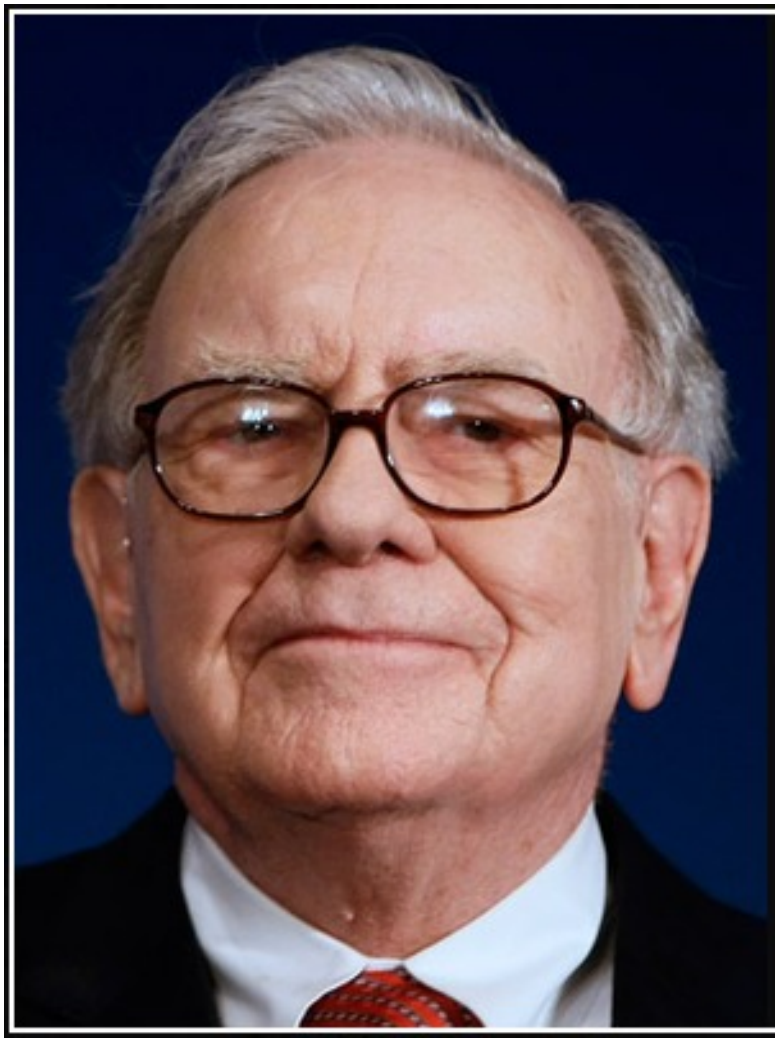
Not FDIC Insured | Not Bank Guaranteed | May Lose Value

Investing



The Four Most Dangerous words for investors.
This Time It's Different…

— Warren Buffett —

WE DON’T KNOW WHAT WE DON’T KNOW

—

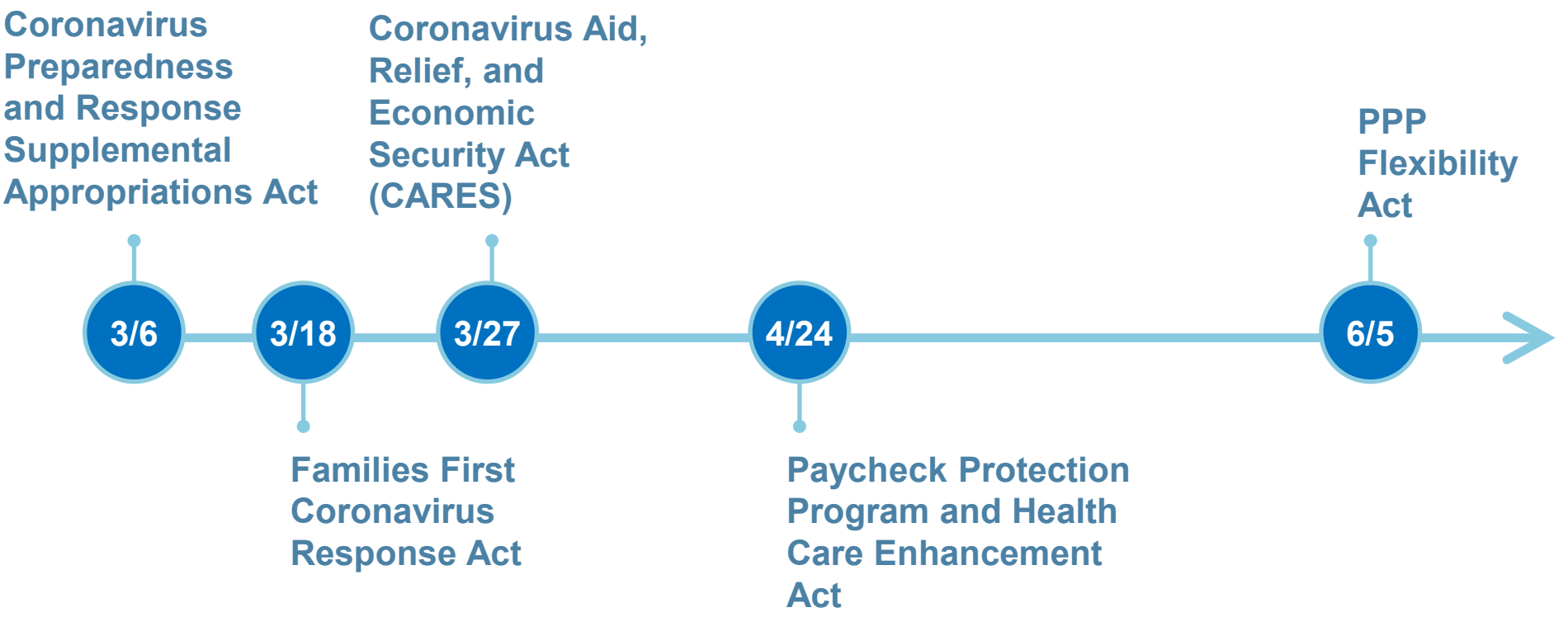
BUT WITH PROPER PLANNING IT DOESN’T MATTER

2 Questions

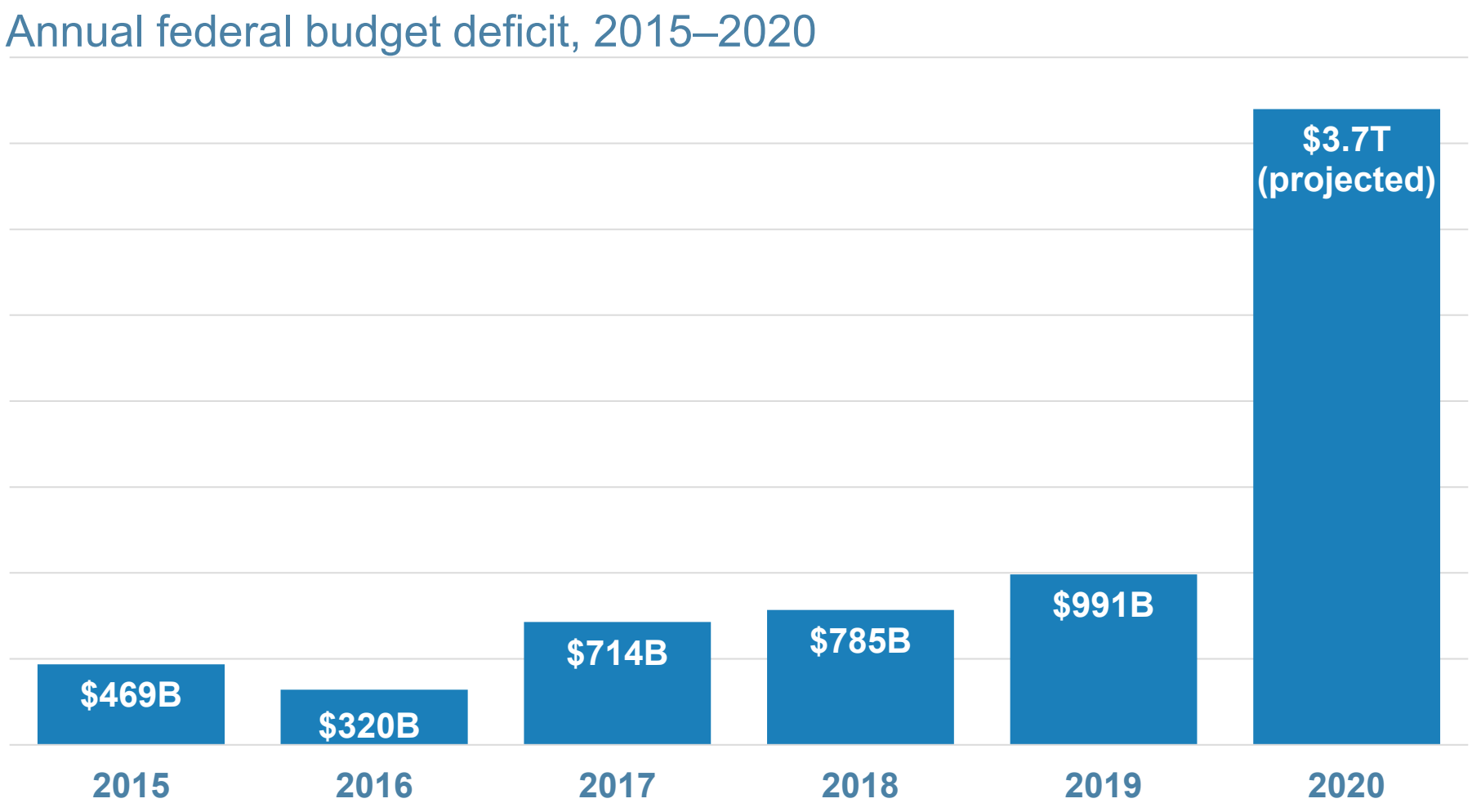
Legislative Update

Chris Hennessey will be spending time getting into the tax and legislative in more detail.

Massive response to the pandemic crisis



Government spending comes at a cost



Source: Congressional Budget Office.

The SECURE Act -major changes to retirement plans and accounts

- Required distributions pushed back to age 72 , traditional IRA contributions for everyone regardless of age

- Heirs may face higher taxes
  - Non-spouse beneficiaries must distribute an inherited IRA (or retirement account) within 10 years following the death of the account owner, instead of gradually taking withdrawals based on their remaining life expectancy*
  - Acceleration of income may push heirs into higher tax bracket

*Certain exceptions apply including (non-spouse) beneficiaries who are disabled, chronically ill, and less than 10 years younger than deceased IRA owner, and minor children (though the 10-year rule applies once minor child of deceased IRA owner reaches age of majority).

Summary Biden Tax Plan Proposals

- Repeal TCJA for ‘high income’ filers – over $400k
- Impose 12.4% Social Security Payroll Tax for Wages above 400k
- Increase the Corporate Income Tax to 28%
- Establish a Corporate Minimum Tax on Book Income
- Double the Tax Rate on GILTI and impose country by country
- Temporarily increase Child Tax and Dependent Credits
- Tax long term cap gains and qualified dividends at higher rates - 39.6% on income above $1 mil

Build Back Better

- Create a new surcharge on modified adjusted gross income (MAGI), equal to 5 percent on MAGI in excess of $10 million plus 3 percent on MAGI above $25 million.
- Extend the American Rescue Plan Act (ARPA) Child Tax Credit (CTC) expansion through 2022
- Extend the ARPA's temporary expansion of the Earned Income Tax Credit (EITC) eligibility, phase-in rates, and amount through 2022
- Limit Individual Retirement Accounts (IRAs) contributions when balances reach $10 million and accelerate required minimum distributions for those accounts
- Raise the cap on the state and local tax (SALT) deduction from $10,000 to $80,000 and extend this cap through 2030. The $80,000 SALT cap amount would also apply to the 2021 tax year.

Pass Through Entity – YOU

- Expand the base of the 3.8 percent Net Investment Income Tax (NIIT) to apply to active business income for pass-through firms
- Make permanent the active pass-through loss limitation enacted in the 2017 Tax Cuts and Jobs Act (TCJA)

Corporate Tax

- Impose a 15% minimum tax on corporate book income for corporations with profits over $1 billion, effective for tax years beginning after December 31, 2022.
- Create a 1% excise tax on the value of stock repurchases during the taxable year, net of new issuances of stock, effective for repurchases after December 31, 2021.
- Change the Global Intangible Low-Taxed Income (GILTI) regime, effective for tax years beginning after December 31, 2022.
- Reduce the deduction for GILTI to 5%, resulting in a tax rate of 15 percent.

Capital Gains

- Currently at maximum of 23.8% - 20% cap gains plus 3.8% investment income tax
  - Plus, State Income Tax

- Under the proposed Build Back Better Act, the top marginal tax rates will jump from 20% to 39.6% for the highest income

- A 5% surtax will be applied to individuals, estates, and trusts with modified adjusted gross income, (which includes capital gains), in excess of $10,000,000 ($5,000,000 for a married individual filing separately **or $200,000 in case of an estate or trust**).

Step Up

- Biden is not simply proposing to raise the top rate on capital gains. He also proposes eliminating Step Up Basis in capital gains for estates.

- According to the JCT, not taxing gains at death results in a loss of about $40 billion each year.

Likely

- Increases to corporate tax rates
- Changes with regard to ROTH IRA’s
- Estate Tax and Step Up Changes

Unlikely

- Major Tax Increase
  - Individual Income
  - Capital Gains
- Transaction Tax
- Wealth Tax

3 Possible Reasons for Adjustments

- **YOU** – Your needs
- INVESTMENT Relative PERFORMANCE
- YOUR ALLOCATION

Biggest Challenges

- Inflation
- Medical Expense
- Making bad decisions based on media hype and emotions or just bad information

Wealth planning considerations

Explore strategies (such as Roth conversions) to hedge the threat of rising taxes in the future

Review beneficiary designations on retirement accounts
- Determine whether changes need to be made as a result of the SECURE Act “10-year rule”

Consider strategies for efficient wealth transfer
- Make sure documents are up-to-date
- Annual and lifetime gifts during a favorable environment
- Consult with an estate planning attorney on more advanced strategies

Your Practice & Disruption

Look at your practice and what you need to automate today

Consider who can help you with a digital transformation

Understand – ‘3 Box Solution’

Change now -

The most important resource you have is **YOU**

CARVER
FINANCIAL SERVICES

THANK YOU!

Please reach out to Randy or any of our team whenever we may be of service or answer any questions!

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NEXT PRESENTERS:

Dr. Kevin Elko and Chris Hennessey

Dr. Kevin Elko

- Dr. Kevin Elko Kevin Elko received his Bachelors from California University of Pennsylvania where he was later inducted into the Universities Hall of Fame.
- Two Masters and a Doctorate from West Virginia University where he was later inducted into the Universities Hall of Fame.
- He has consulted for The Pittsburgh Steelers, The Dallas Cowboys, The Philadelphia Eagles, The Miami Dolphins, The New Orleans Saints, L.S.U. Football, The University of Miami Football, The University of Alabama Football, The University of Nebraska Football, Rutgers Football and The Pittsburgh Penguins.
- He has four books published: Nerves of Steel, The Pep Talk, True Greatness and his latest Touchdown.
- The movie rights to his book The Pep Talk has recently been sold so that book is in the process of becoming a motion picture.
- You can hear Dr. Elko every Friday, Saturday and Sunday on ESPN Radio. Visit Dr. Elko's website at www.DrElko.com.

Chris Hennessey

- A member of Putnam's Business Advisory Group since 2008.
- He also serves as Professor Emeritus of Law at Babson College and Faculty Director of Babson Global.
- A member of the American Bar Association, the Massachusetts Bar Association, the American Institute of Certified Public Accountants, and the Massachusetts Society of Certified Public Accountants.
- An instrument-rated private pilot, Mr. Hennessey is also a member of Angel Flight New England.

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Investors should consider, before investing, whether the investor's or the designated beneficiary's home state offers any tax or other benefits that are only available for investment in such state's 529 college savings plan. Such benefits include financial aid, scholarship funds, and protection from creditors. Favorable state tax treatment for investing in Section 529 college savings plans may be limited to investments made in plans offered by your home state. Investors should consult a tax advisor about any state tax consequences of an investment in a 529 plan.

As with other investments, there are generally fees and expenses associated with participation in a 529 plan. There is also a risk that these plans may lose money or not perform well enough to cover college costs as anticipated. Most states offer their own 529 programs, which may provide advantages and benefits exclusively for their residents. The tax implications can vary significantly from state to state.

Unless certain criteria are met, Roth IRA owners must be 59½ or older and have held the IRA for five years before tax-free withdrawals are permitted. Additionally, each converted amount may be subject to itsx own five-year holding period. Converting a traditional IRA into a Roth IRA has tax implications. Investors should consult a tax advisor before deciding to do a conversion.