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MONTEITH WEALTH, LLC.

HEADS OR TAILS

TWO SIDES OF THE SAME COIN

The topics discussed in this and future letters are for informational purposes only. We hope our thoughts on investing and the related fields of taxes will help you achieve and enjoy financial independence. We believe only when you combine knowledge of both can you be a successful investor.

Heads: Taxes

Tax law changes and news.

For Washington Residents: The 2021 Washington State Legislature recently passed ESSB 5096 (RCW 82.87) which creates a 7% tax on the sale or exchange of long-term capital assets (stocks, bonds, business interests, or other investments, and many tangible assets) if the profits exceed $250,000 annually. This tax applies to individuals only, though individuals can be liable for the tax as a result of their ownership interest in an entity that sells or exchanges long-term capital assets. It is only applicable to gains allocated to Washington state. The tax takes effect on Jan. 1, 2022, and the first payments are due on or before April 18, 2023.

There are many exemptions to this tax. The sale of real estate is the most common. There is also a standard deduction of $250,000 per year per individual, married couple, or domestic partnership.

Let's look at the example of a married couple that invested $100,000 in the S&P 500 index on January 2, 1990. On January 3, 2022, they sold this investment for $2,402,800 (actual historical returns). With a gain of $2,302,800, the Washington capital gain tax would be $143,702. This would be in addition to the Federal capital gains and net investment income tax of 23.8%. The lesson to be learned is before you make an investment decision, speak with your investment and tax advisor.

Other Tax News: Recently, a tax court ruled that a taxpayer cannot rely on IRS phone operators' incorrect advice. Bad advice from the IRS does not bind the IRS or the courts.

Did You Know?

According to IRS statistics for the tax year 2019:

- The top 1% of individual filers (income of at least $546,434) paid 38.77% of all federal income taxes.
- The top 5% (income of at least $221,572) paid 59.44% of total federal income tax.
- The top 10% (income of at least $154,589) paid 70.81% of total income tax.
- The bottom 50% paid 3.06% of total federal income tax.

Tails: Investments

Market Outlook: Many have asked where we think the market is headed in 2022. Market forecasts are notoriously wrong. With that in mind, our projections are as follows.

The Fed has acknowledged the risk of inflation and has announced plans for at least three interest rate hikes, with more likely to follow. Historically, rising interest rates mean a slowing economy. This makes sense; if you make it more expensive to borrow, businesses borrow less or not at all which means less investment and growth. Higher borrowing cost also gets passed on to consumers through higher prices, and higher prices lead to lower demand. If you have been flirting with the idea of refinancing your home or selling some real estate, sooner than later may be best. Higher interest rates may begin to curb the hot real estate market.

Rising interest rates also attract more buyers of corporate and government bonds. This inflow of cash often comes from the outflow from stocks. Once a point is reached where there are more sellers of stocks than buyers, the stage is set for a stock market decline.

Inflation is the arch-enemy of bondholders and is fought by raising interest rates which are not good for bondholders locked into lower rates. New bonds are issued with higher yields which makes existing bond yields decline – why buy a bond paying 2% when you can buy one paying 4%? The longer the term of the bond the larger the negative impact. Stocks are affected not only by slower company growth but also by investors being enticed to move money over to bonds that are less volatile and now have more appealing yields. Assuming inflation is brought under control and we remain a capitalist economy, stock market growth will likely return to historical averages from the frothy growth of the last 10 years.

Now is a good time for investors to ensure they have a diverse portfolio of both stocks and bonds. Avoiding too many long-term bonds will likely be beneficial as well. Overall, changes bring opportunities, and we feel the best way to approach investing is through cautious optimism.

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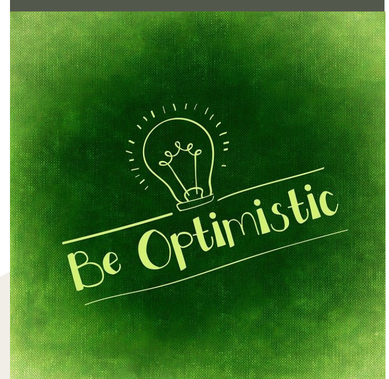
Cautious Optimism:
Hope for the best, but plan for the worst.



Proceed with confidence, for you have a plan! The good times are good, and the bad aren't so bad if you are prepared for anything.