DUNNING WEALTH MANAGEMENT

QUARTER 2, 2024

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TEAM UPDATE

Kyle and Holly got to enjoy some time with their two sons and daughters-in-law for a little family time in Mexico.

Brayden’s son Jayce got to experience his first ever fire pit banana boat thanks to Baboo (Kyle) and grammy Holly.

Vicki is excited that summer is officially here. Having grown up barrel racing she can’t wait to teach her little girl how to ride! Nora is now 4 years old.

Greg and his wife Kelly spent some time in Arizona last month visiting friends and enjoyed hiking in Sedona.

Brandee and Eric travelled to Japan in late March. They feasted on amazing food and beautiful sites. Views of Mount Fuji proved elusive due to cloud cover, next time!

Kyle

Brayden

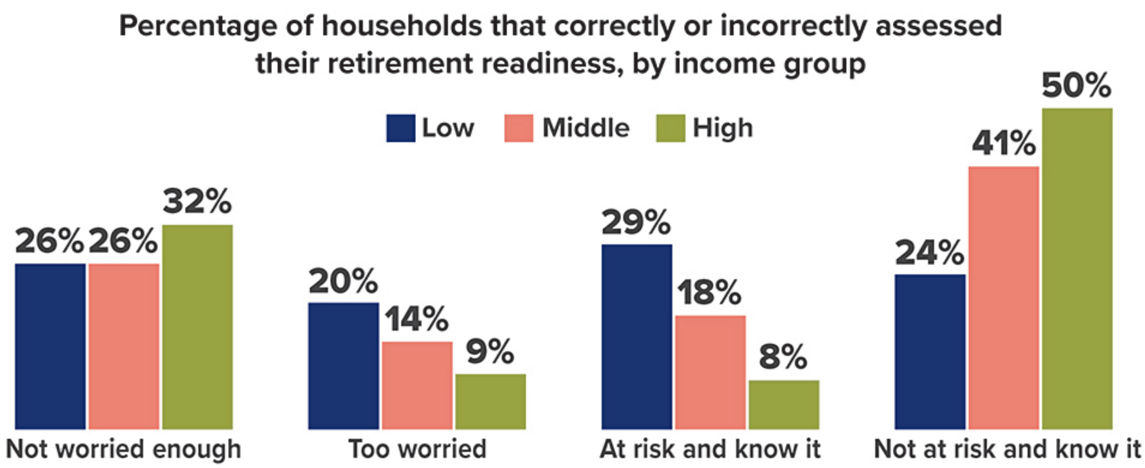
Vicki

Greg

Brandee

DO YOU KNOW IF YOUR RETIREMENT IS AT RISK?

An analysis of data from the Federal Reserve Survey of Consumer Finances found that 47% of U.S. households were at risk of not having adequate retirement income, but only 19% were aware of their risk. On the other hand, 53% were not at risk, but only 38% knew it. This means that more than four out of 10 households were either too worried about their retirement readiness or not worried enough. It may be surprising that lower-income households were more likely to be too worried, while higher-income households were more likely to be not worried enough.



Source: Center for Retirement Research at Boston College, 2023

INVESTOR, KNOW THYSELF: HOW YOUR BIASES CAN AFFECT INVESTMENT DECISIONS

Traditional economic models are based on the premise that people make rational decisions to maximize economic and financial benefits. In reality, most humans don't make decisions like robots. While logic does guide us, feelings and emotions — such as fear, excitement, and a desire to be part of the "in" crowd — are also at work.

In recent decades, another school of thought has emerged. This field — known as behavioral economics or behavioral finance — has identified unconscious cognitive biases that can influence even the most stoic investor. Understanding these biases may help you avoid questionable financial decisions.

Sound familiar?

What follows is a brief summary of how some common biases can influence financial decision-making. Can you relate to any of these scenarios?

Anchoring refers to the tendency to become attached to something, even when it may not make sense. Examples include a home that becomes too much to care for or a piece of information that is believed to be true despite contradictory evidence. In investing, it can refer to the tendency to hold an investment too long or rely too much on a certain piece of data or information.

Loss aversion bias describes the tendency to fear losses more than to celebrate gains. For example, you may experience joy at the chance of becoming $5,000 richer, but the fear of losing $5,000 might provoke a far greater anxiety, causing you to take on less investment risk than might be necessary to pursue your goals.

The **endowment effect** is similar to anchoring in that it encourages you to "endow" what you currently own with a greater value than other possibilities. You may presume the investments in your portfolio are of higher quality than other available alternatives, simply because you own them.

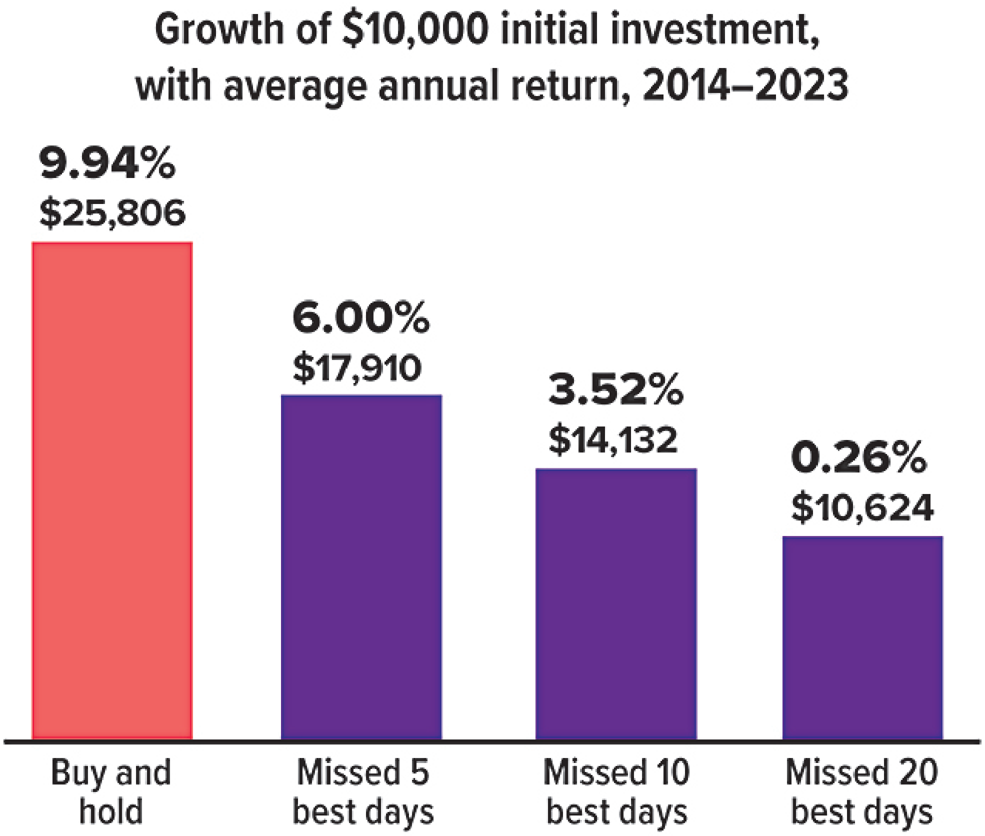
Overconfidence is having so much confidence in your own ability to select investments that you might discount warning signals or the perspective of more experienced professionals.

Confirmation bias is the tendency to assign more authority to opinions that agree with your own. For example, you might give more credence to an analyst report that favors a stock you recently purchased, in spite of several other reports indicating a neutral or negative outlook.

The **bandwagon effect**, also known as **herd behavior**, happens when decisions are made simply because "everyone else is doing it." This can result in buying high and selling low — what most knowledgeable investors strive to avoid.

Risk of Missing Out

Emotion-based decisions can have a significant impact on your portfolio over time. Consider how much a long-term investor might have lost by shifting in and out of the market due to fear, overconfidence, or following the herd, and subsequently missing the best-performing days over the 10-year period ended 2023.



Source: Yahoo Finance, 2024, S&P 500 Index for the period 12/31/2013 to 12/31/2023. The S&P 500 Index is an unmanaged group of securities considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in any index. Past performance is no guarantee of future results. Actual results will vary.

Recency bias refers to the fact that recent events can have a stronger influence on your decisions than those in the past. For example, if you were severely affected by market gyrations in the early days of the pandemic, you may have wanted to sell your stock holdings due to fear. Conversely, if you were encouraged by the stock market's strong performance in 2023, you may have wanted to pour all your money into equities. Yet either of these actions might not have been appropriate for your investment goals and personal circumstances.

An objective view can help

When it comes to our finances, instincts may work against us. Before taking any actions with your portfolio, it might be wise to seek the counsel of a qualified financial professional who can help you identify any unconscious biases at work.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. There is no assurance that working with a financial professional will improve investment results.

SOCIAL SECURITY 101

Social Security is complex, and the details are often misunderstood even by those who are already receiving benefits. It's important to understand some of the basic rules and options and how they might affect your financial future.

Full retirement age (FRA)

Once you reach full retirement age, you can claim your full Social Security retirement benefit, also called your primary insurance amount or PIA. FRA ranges from 66 to 67, depending on your birth year (see chart).

Claiming early

The earliest you can claim your Social Security retirement benefit is age 62. However, your benefit will be permanently reduced if claimed before your FRA. At age 62, the reduction would be 25% to 30%, depending on your birth year. Your benefit may be further reduced temporarily if you work while receiving benefits before FRA and your income exceeds certain levels. However, when you reach FRA, an adjustment is made, and over time you will regain any benefits lost due to excess earnings.

Claiming later

If you do not claim your benefit at FRA, you will earn delayed retirement credits for each month you wait to claim, up to age 70. This will increase your benefit by two-thirds of 1% for each month, or 8% for each year you delay. There is no increase after age 70.

Spousal benefits

If you're married, you may be eligible to receive a spousal benefit based on your spouse's work record, whether you worked or not. The maximum spousal benefit, if claimed at your full retirement age, is 50% of your spouse's PIA (regardless of whether he or she claimed early) and doesn't include delayed retirement credits. If you claim a spousal benefit before reaching your FRA, your benefit will be permanently reduced.

Dependent benefits

Your dependent child may be eligible for benefits after you begin receiving Social Security if he or she is unmarried and meets one of the following criteria: (a) under age 18, (b) age 18 to 19 and a full-time student in grade 12 or lower, (c) age 18 or older with a disability that started before age 22. The maximum family benefit is equal to about 150% to 180% of your PIA, depending on your situation.

Survivor benefits

If your spouse dies, and you have reached your FRA, you can claim a full survivor benefit — 100% of your deceased spouse's PIA and any delayed retirement credits. Note that FRA is slightly different for survivor benefits: 66 for those born from 1945 to 1956, gradually rising to 67 for those born in 1962 or later.

Claiming Early or Later

Year of birth	Full retirement age (100% of PIA)	Worker benefit at age 62: percentage of PIA	Worker benefit at age 70: percentage of PIA
1943–54	66	75.00%	132.00%
1955	66 and 2 months	74.17%	130.67%
1956	66 and 4 months	73.33%	129.33%
1957	66 and 6 months	72.50%	128.00%
1958	66 and 8 months	71.67%	126.67%
1959	66 and 10 months	70.83%	125.33%
1960 & later	67	70.00%	124.00%

You can claim a reduced survivor benefit as early as age 60 (age 50 if you are disabled, or at any age if you are caring for the deceased's child who is under age 16 or disabled, and receiving benefits). If you are eligible for a survivor benefit and a retirement benefit based on your own work record, you could claim a survivor benefit first and switch to your own retirement benefit at your FRA or later, if it would be higher.

Dependent children are eligible for survivor benefits, using the same criteria as dependent benefits. Dependent parents age 62 and older may be eligible for survivor benefits if they received at least half of their support from the deceased worker at the time of death.

Divorced spouses

If you were married for at least 10 years and are unmarried, you can receive a spousal or survivor benefit based on your ex's work record. If your ex is eligible for but has not applied for Social Security benefits, you can still receive a spousal benefit if you have been divorced for at least two years.

These are just some of the fundamental facts to know about Social Security. For more information, including an estimate of your future benefits, see ssa.gov.

CAN HOME IMPROVEMENTS LOWER YOUR TAX BILL? IT DEPENDS

Most home improvements are not tax deductible — with one possible exception. In certain situations, you may be able to deduct improvements deemed necessary for medical reasons (not just beneficial to general health). If you itemize instead of taking the standard deduction, you can deduct unreimbursed medical expenses that exceed 7.5% of your adjusted gross income, so the tax savings could be significant if a costly home improvement pushes your total medical expenses above that threshold. Installing air conditioning to help treat asthma or modifying a home to make it wheelchair accessible are common examples of qualifying expenses.

Here are two more ways that improving your home could potentially reduce your tax burden.

CAPITAL IMPROVEMENTS

Projects that add to the value of your home, prolong its life, or adapt it to new uses are considered capital improvements. When you sell your home in the future, you can add the cost of capital improvements to your initial basis (what you paid for it originally), reducing your capital gain and the resulting tax bill.

Some examples of capital improvements include remodeling the kitchen, replacing all your home's windows, adding a bathroom, or installing a new roof. Repairs that keep your home in good condition (such as repainting, replacing a broken door or window, or fixing a leak) don't count as capital improvements. However, an entire repair job may be considered an improvement if it's done as part of an extensive remodel or restoration.

ENERGY-SAVING TAX CREDITS

The Inflation Reduction Act of 2022 reconfigured two nonrefundable tax credits for home improvements that save energy. Unlike a deduction, which reduces your taxable income, a tax credit lowers your tax bill dollar for dollar. Both credits are available only for the installation of new products that meet specific energy efficiency requirements.

The energy efficient home improvement credit is equal to 30% of qualified expenditures for an existing home (not new construction). A $3,200 maximum annual credit is available through 2032. A $2,000 limit (30% of all costs, including labor) applies to electric or natural gas heat pumps, heat pump water heaters, and biomass stoves and boilers. A separate $1,200 limit applies to home energy audits and building envelope components (such as exterior doors, windows, skylights, and insulation) and energy property (including central air conditioners).

The residential clean energy property credit is a 30% tax credit available for qualifying expenditures for clean energy property (and related labor costs) such as solar panels, solar water heaters, geothermal heat pumps, wind turbines, fuel cells, and battery storage.

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