DUNNING
WEALTH MANAGEMENT

QUARTER 4, 2024

DO YOU HAVE A TRUSTED CONTACT ON YOUR ACCOUNTS?

A trusted contact functions much like an emergency contact. It is someone we can call if we are unable to reach you for an extended time or there are concerns regarding health or financial well-being. Trusted contacts do have access to account information or personal data.

TEAM UPDATE

Kyle and Holly enjoyed Thanksgiving with all their grandchildren.

Brayden and his family enjoyed a wonderful Thanksgiving together while trying to convince his son Jayce that its cool to wear matching outfits.

Vicki and Niles recently spent a week on a Caribbean cruise with her husband's side of the family. They are looking forward to more travel adventures in 2025.

Greg celebrated the holiday season kickoff at the Gig Harbor Christmas Tree lighting with his wife, daughter and Star Wars Santa.

Brandee explored many miles of trails in and around the Grand Canyon with friends and family in early October. Just can't get enough of that desert landscape…when temps are tolerable.

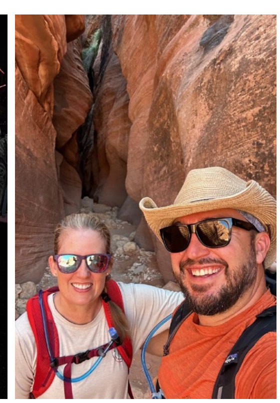
Kyle

Brayden

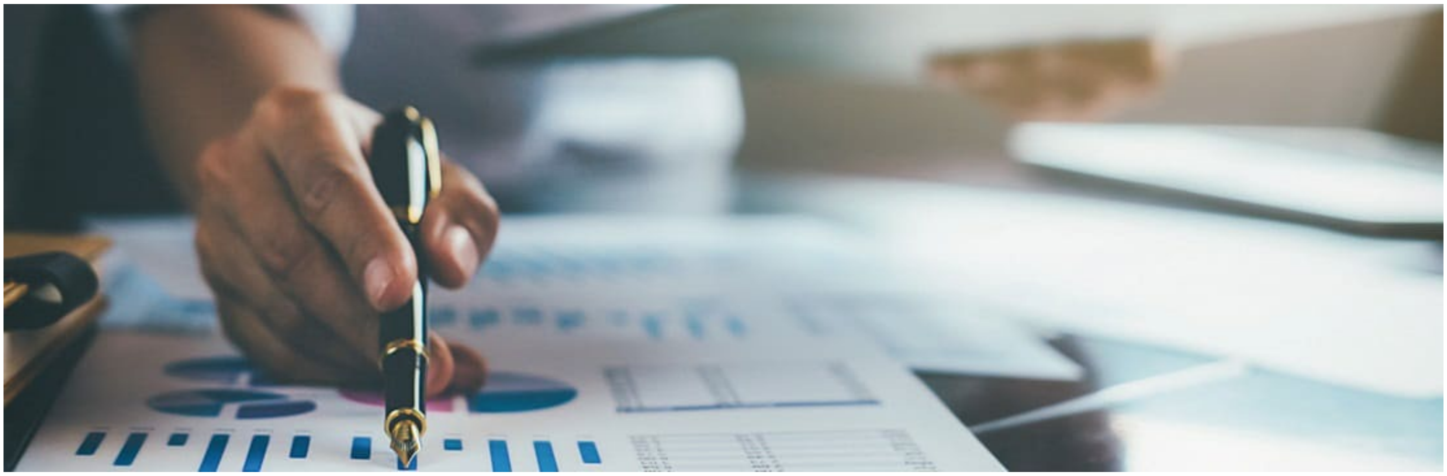
Vicki

Greg

Brandee



SOME INHERITED IRAS BENEFICIARIES NEED TO TAKE REQUIRED MINIMUM DISTRIBUTIONS IN 2025



THE 10-YEAR RULE FOR RETIREMENT ACCOUNTS: HOW NEW GUIDELINES COULD IMPACT YOUR IRA BENEFICIARIES

In 2020, The SECURE Act changed the IRA inheritance landscape – terrain that would shift again in 2022 with the passage of the SECURE Act 2.0. Over the summer, that new ground was firmed up as the IRS finalized regulations that will go into effect January 1, 2025. Here's a look at the rules and how they could impact your wealth and wealth transfer planning.

One of the biggest changes brought by the original SECURE Act was the introduction of the "10-year rule" for designated beneficiaries, which sought to stem the amount of time inherited money could grow tax-free.

Implemented in January 2020, the 10-year rule requires most non-spouse beneficiaries to withdraw the entire balance of an inherited IRA within 10 years. It also set parameters around timing, distributions and beneficiary categories.

KEY GUIDELINES

Required minimum distributions (RMDs)
The minimum amount that must be withdrawn from a retirement account each year after the account owner reaches the designated age.

Required beginning date (RBD)
The date by/on which the first RMD must be taken. This date is April 1 of the year after an IRA owner reaches their applicable RMD start age (currently 73).

Eligible designated beneficiaries (EDBs)
Beneficiaries who may take distributions over their life expectancy – but may also choose to apply the 10-year rule, depending on their situation, including:

- Spouses
- Individuals not more than 10 years younger than the retirement plan account or IRA owner (this includes an individual older than the IRA owner)

- Minor children of the retirement plan account or IRA owner only (note: these must be children of the account owner – not a grandchild, niece, nephew, etc. – and after they reach age 21, the account must be depleted within 10 years)
- Disabled individuals
- Chronically ill individuals

Non-eligible designated beneficiaries (NEDBs)
Beneficiaries who are subject to the 10-year rule, including:

- Those not falling into any of the above groups, who inherited from someone who died *before* their RBD.
- Those not falling into any of the above groups, who inherited from someone who died *after* their RBD.

CONSIDERATIONS FOR IRA BENEFICIARIES

Inheritance circumstances
The finer points of how a beneficiary inherits an account will impact how the 10-year rule is applied and how RMDs are managed.

If the account owner dies <u>before their RBD</u>:
A non-eligible beneficiary will need to deplete the account by December 31 of the tenth year following the owner's death **but will not have to take RMDs**.

If the account owner <u>dies after their RBD</u>:
A non-eligible designated beneficiary **will need to take RMDs** in years one through nine, with a final distribution in year 10. This RMD requirement is generally based on the single life expectancy of the beneficiary.

Missed RMDs
Because final guidance regarding the 10-year rule has been shared four years after the rule's introduction, some beneficiaries could have needed to take RMDs in the intervening period. In many of these cases, the IRS is issuing waivers for missed RMDs. This waiver only applies to non-eligible designated beneficiaries under the 10-year rule who inherited from an IRA owner who died after their RBD.

Distribution timing
For beneficiaries in high tax brackets, it's important to weigh strategic timing options for distribution. For example, if a beneficiary plans to retire five years after inheriting, it may be most efficient to take minimum distributions while they're still working and increase payments to deplete the account in their first five years of retirement.

While this rule is settled, the climate is sure to change again, inviting new tax and financial planning implications. To keep your footing, work closely with your financial advisor and, when appropriate, experienced estate planning and tax professionals.

NO TIMING NEEDED

HELP OVERCOME MARKET TIMING AND LOSS AVERSION WITH DOLLAR-COST AVERAGING.

Dollar-cost averaging — regularly investing money in the market — is an age-old strategy for mitigating investment price risk. Commonly applied by 401(k) plan savers, it could also be a useful strategy for experienced investors with larger sums, especially during periods of uncertainty or when emotional reluctance is high.

DOLLAR-COST AVERAGING: THE THEORY BEHIND THE PRACTICE

Dollar-cost averaging involves regularly investing a consistent amount of money to purchase a specific asset, or group of assets, regardless of their price. For example, an employer-sponsored 401(k) plan is set up this way. With each paycheck, you invest a regular percentage of your earnings in defined assets, generally mutual funds, that you have previously selected.

This strategy helps prevent you from stressing over decisions on when to invest in the market. With the regular-investment approach, you don't focus on whether the asset you're purchasing is at a good price for purchase. Rather than try to time the market, you buy it each week or month or whatever the interval is.

The theory underpinning this strategy is that asset prices will go up and down in unpredictable ways, and if you buy shares regularly, the average share price you pay – that is, the dollar-cost average – won't be too high. When prices are lower, your money will buy more shares than the same amount will buy when prices are higher, bringing down your price-per-share cost. This, in turn, can help reduce the impact of market volatility on your portfolio.

POTENTIAL BENEFITS AND LIMITATIONS OF DOLLAR-COST AVERAGING

In addition to the theoretical benefit of avoiding an overly high purchase price, dollar-cost averaging presents other potential benefits.

For relatively early savers, regularly investing in the market builds the investing habit and may help you feel more at ease with investing in general.

For those with large cash balances, it can be a way to invest – or reinvest. Cash tends to lose value over time due to inflation. Especially as interest rates go down, cutting into your cash's return potential, dollar-cost averaging can help address the emotional challenge of loss aversion, which often has the potential to lead to inaction.

However, dollar cost averaging could also leave some returns on the table when markets are rallying, and it does not mitigate some other investment risks.

ANOTHER APPROACH: LUMP-SUM INVESTING

Given that time in the market is often an advantage, investing all your money at once could be more effective than investing it incrementally over time. This all-in approach is known as lump-sum investing.

Lump-sum investing can be an effective strategy given certain market conditions. For example, in a rising market, particular assets will rise in price on average, so investing a lump sum at the outset can enable you to acquire more shares, and therefore more value, compared to investing fixed amounts over time.

But if you invest all your money at once, and the price drops, you may suffer losses that could persist for a few years or longer. Under these conditions, dollar-cost averaging would lead to owning more shares.

With dollar-cost averaging, you can avoid the risk that you've mistimed the market.

CHOOSING THE RIGHT STRATEGY FOR YOU

There's no one-size-fits all answer when it comes to your investment strategy. Whether dollar-cost averaging is the right strategy for your investment goals depends on multiple factors, including the time horizon to your financial goal, your available cash, market conditions, and investment opportunities.

Your financial advisor can help you weigh these different considerations and make a choice that feels right for you.

Sources: forbes.com; cnbc.com; etrade.com; ndvr.com; aarp.org

UNPACKING THE PSYCHOLOGY OF LOSS AVERSION

It's natural to avoid loss, but sitting on the sidelines out of fear might lead to missed financial goals.

As the name implies, loss aversion is our instinct to not just prefer a gain over a loss but to prioritize avoiding losses over almost anything. It might sound wise to try avoiding losses but taking it too far could keep you from realizing your financial goals.

Loss aversion is a cognitive bias that studies have proven over and over again. But that fear, when applied to buying and selling investments or strategizing for long-term financial goals, can hold you back. The unwillingness to part with something for less than you paid for it can keep you clinging to declining investments, even selling a "winning" stock to avoid selling another at a loss. It could also make you hesitant to tackle more emotional planning challenges like continuity planning for a family business.

Here are some steps for overcoming the fear of letting go.

- Reexamine your holdings – from investments to real estate to inherited items – with fresh eyes. If you were starting from scratch, which investments would you still want to have? Which investments could you part with?
- Give careful thought to what your true long-term risk tolerance is, and stress test your portfolio. This can give you the confidence to stick to the plan even when conditions or your circumstances get more volatile.
- Look past loss. Instead of dwelling, focus on how moving forward can help make progress toward your goals.
- Study long-term market data: If an investment has lost value, consider the root cause. Is this a case of periodic market volatility, which has historically led to consistent upward momentum over the long run? Or is a particular security no longer an appropriate fit for your financial plan?
- Rely on outside help. Seek out the perspectives of people whose beliefs differ from your own and professionals with specialized expertise. In the case of your financial future, it helps to work with an objective third party – like an experienced advisor – who can offer perspective in addition to wealth planning and investment support.

While it's natural and often prudent to try to avoid loss, letting that fear loom too large over your financial decisions could actually lead to the very thing you're afraid of. That's why counteracting loss aversion by cultivating a healthy relationship with risk could be the key to gaining in the long term.

If you think your loss aversion is affecting your financial goals, consider taking action with these suggested next steps. First, set long-term financial goals that will encourage you to see the bigger picture if you are facing short-term losses. Then, speak to your advisor about the moves you're thinking about making before taking any immediate action.

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