GATEWAY INVESTMENT MANAGEMENT OF RAYMOND JAMES®

THE COMMUNIQUE

December 2024

MAJOR INDICIES	LAST	MTD	QTD	YTD
S&P 500	69052.82	0.34%	5.04%	26.90%
Dow Jones Industrials	44401.93	-1.13%	4.89%	17.81%
NASDAQ Composite	19736.69	2.70%	8.51%	31.48%
New York Stock Exchange	20006.26	-1.31%	2.51%	18.71%

U.S. TREASURIES	YIELD
2-yr Treasury Note	4.14%
10-yr Treasury Bond	4.24%
30-yr Treasury Bond	4.43%

Information as of December 10, 2024 Source: FactSet

MARKET COMMENT

End of Year Thoughts?

Unless something catastrophic occurs over the next 21 days, the stock market will record a strong year of performance. However, at the beginning of this year many investors were concerned with a list of challenges threating any positive performance for 2024. Let's review some of the main concerns.

Top on the list is high market valuations due to a strong bullish (up) stock market trend that started in 2009. This trend has continued with only one major interruption due to the brief COVID recession in 2022 where stocks dropped nearly -20%. Included in this 14-year cycle were smaller declines in 2015 and 2018. The remaining years recorded positive returns, driving stock values up based upon future earnings, while other benchmarks showed stocks were no longer at bargain prices. However, companies continued to record strong earnings and kept investors sanguine about stock values and rising prices. It would seem the past few of decades have trended towards long-term economic expansion versus the "old days" of 3-5 years expansion cycles and 2 years of recession. Perhaps the Federal Reserve (Fed) has fine-tuned their monetary policy to provide for smoother economic cycles, thus, providing investors longer up cycles?

Which leads us to the next key concern that played out over past year – would the Fed be able to continue lowering interest rates if inflation did not continue to decline and would those higher rates cause more unemployment? Well, we know the answer now and the Fed has been able to lower inflation and maintain steady employment – which is not a feat the Fed has normally been able to accomplish. Many times, the Fed's monetary policy drove the economy into a recession and created higher unemployment, but not this time. Maybe the Fed has become better at "fine-tuning" the economy?

Lastly, the consumer was a bit of a wild card going into 2024. With high levels of credit card debt, struggling with rising prices, and choking on higher mortgage rates. Well, again, the consumer seemed to manage these challenges and benefitted from lower inflation throughout the year, while also learning to manage through the sticker, higher prices. No doubt, the continued strong employment was a confidence booster, and consumers haven't "pulled in their horns" on spending quite yet. A test for consumers, and the economy, will be this coming Christmas season. Will consumers show up? History suggest they will!

We would like to wish you a very Merry Christmas and blessed New Year. All the best to you and your family from all of us at Gateway Investment Management. As always, thank you for your continued trust and confidence, it is deeply valued.

PLANNING STRATEGY

Raymond James "Commentary & Insights" – M24-631329

Through the Back Door to Bigger Retirement Savings

For people looking to build a balanced retirement savings portfolio, a Roth IRA can serve as a great companion to an employer plan such as a 401(k). But if you earn too much money, you may not qualify to invest fully – or at all – in a Roth IRA. And no matter how much you earn, you may find that contribution limits prevent you from building as fat a fund as you'd like.

Fortunately, there are "backdoor" strategies that may help you get around these limitations. Here's what you need to know.

Backdoor Roth IRA

Once your modified adjusted gross income (MAGI) tops $161,000 for single filers or $240,000 if married and filing jointly, the IRS begins phasing out your ability to invest directly in a Roth IRA.

But you can contribute after-tax dollars to a traditional IRA, then shortly thereafter convert those funds to a Roth IRA. Because there are no income limits restricting your ability to put after-tax dollars in a regular IRA, you can use this backdoor strategy to build a Roth IRA no matter how much you earn.

You can't go through this backdoor if you own any IRAs with any pretax dollars in them. The reasons for that are complicated, but it all boils down to two IRS rules (the pro rata rule and the aggregation rule). Consulting your financial advisor and tax professional prior to doing a backdoor Roth is a smart move, to ensure that you're following every rule.

Mega backdoor Roth IRA

If your problem is not how much you earn but the size of contribution limits, there's a mega backdoor strategy that could help boost your savings.

For 2024, the limits on how much you can contribute to an IRA are $7,000, or $8,000 if you're over 50. A mega backdoor strategy may empower you to put away much more than that.

Your current employer must offer a 401(k) or 403(b) plan, and you must pay into it. Whichever of those plans you use must also allow employees to make after-tax contributions into the plan, which count above and beyond employee elective deferral limits.

This is simplest to achieve if your employer offers a Roth option attached to its retirement plans, one that supports in-plan conversions to the Roth – that's your mega backdoor to a bigger retirement fund.

There are plan-specific limits on how much you may contribute in after-tax dollars to convert into the Roth, and are other rules affecting whether you can apply a backdoor strategy and how big a fund you can build. Again, a chat with your financial and tax advisors is an essential step in any backdoor plan.

Pros of backdoor Roth IRAs:

- You may still be able to fund a Roth IRA even if your income is above IRS limits.
- If you have access to an employer plan with a Roth feature, you may be able to save more than the usual IRA limits.

- Because the money going into the Roth has already been taxed, you can take tax-free distributions in retirement.

Cons of backdoor Roth IRAs:

- Not everyone will be eligible to apply a backdoor or mega backdoor approach.
- Typically, only high earners benefit.
- Both require careful planning with a tax professional.

Raymond James does not provide tax or legal services. Please discuss these matters with the appropriate professional. Unless certain criteria are met, Roth IRA owners must be 59 1/2 or older and have held the IRA for five years before tax-free withdrawals are permitted. Additionally, each converted amount may be subject to its 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.

LIFE & LEISURE

Raymond James "Commentary & Insights" – M23-316018

The Psychological Side of Spending Your Retirement Savings

For years, you've been saving and investing for retirement.

But what happens when you finally retire and it's time to switch gears from saving to spending?

It turns out, many people are so focused on accumulating assets that they never really think about actually withdrawing the money. In fact, recent studies show that many retirees aren't drawing down their retirement portfolios, opting instead to live on Social Security and the minimum required distributions (aka RMDs) so their portfolios can continue to grow. This may lead to unnecessary sacrifices in a retiree's standard of living. After almost two decades in retirement, most current retirees still have 80% of their pre-retirement savings, according to research from BlackRock.

The problem with uncertainty

So why aren't these retirees spending their nest eggs? Some may be spending as little as possible to leave behind a larger sum for their loved ones or philanthropic pursuits. But in many cases, it's because they aren't sure how to determine a sustainable withdrawal rate that accounts for their total lifespan. They worry about the "what ifs" retirement may throw their way and want to be prepared. You may be able to relate.

This latter group understands that over the course of a long-term retirement, inflation can erode savings. Portfolio returns can vary, and healthcare costs can quickly escalate. And they may be concerned about outliving their savings – only 25% of baby boomers believe their savings will last throughout retirement, according to the Insured Retirement Institute. By spending less and allowing their savings to potentially grow in the early years of retirement, they hope to offset some of the uncertainty.

Collaborating with your financial advisor can help increase your confidence about having enough money to live comfortably in retirement. Just like in your working years, you can establish a just-in-case cash cushion or line of credit that helps put you at ease. And having a sound distribution strategy in place – one that takes into account your income sources, lifestyle, asset locations and tax situation – can help you enjoy the retirement lifestyle you envisioned.

Withdrawing your money

When it comes to withdrawing your retirement savings, here are a few things to consider:

Organize your expenses: Three typical categories include essential expenses (think food, housing and insurance), lifestyle expenses (vacations, hobbies) and unexpected expenses (healthcare costs, auto repairs). Consider paying for your essential expenses with guaranteed income sources such as Social Security or annuities. Use growth or income investments to pay for lifestyle expenses, and maintain a cash reserve for any unexpected costs that might occur.

Be flexible. For instance, a downturn in the market is a good time to tighten the reins on your spending. But if you experience some unexpected investment gains, the timing might be right for that dream vacation.

There's little doubt your income needs will fluctuate during retirement. The early years may be filled with travel and other big-ticket items that require more substantial withdrawals. As time goes on, you'll likely travel less, but your healthcare expenses may increase. Studies show that spending tends to decline in the later years of retirement, most likely the result of less travel and similar pursuits. People ages 55 to 64 spend on average $60,076 per year, while people ages 65 and over spend $45,221, according to the Bureau of Labor Statistics.

Building in flexibility allows you to go with the flow. Just be sure to regularly touch base with your advisor so your budget can stay on track.

Review your plan. Work with your advisor to develop and review your retirement income and distribution strategies. You can run hypothetical simulations based on different withdrawal rates, how many years you will live in retirement or any other contingencies, which will allow you to develop a better idea of how much you can comfortably and confidently spend in retirement to help achieve your goals.

Everyone's retirement situation is different. You may have encountered some unexpected circumstances, such as a layoff or forced retirement that occurred earlier than you planned, and you weren't able to save as much as you hoped. On the other hand, leaving a legacy may be your primary goal. Whatever the case may be, establishing a withdrawal strategy that's right for you – while also keeping your emotions in check – is often a good plan of action.

Sources: kitces.com; forbes.com; cnbc.com; ournextlife.com; smartaboutmoney.org; thestreet.com; kiplinger.com; myirionline.org. Raymond James and its advisors do not offer tax advice. You should discuss any tax matters with the appropriate professional.

Quote of the Month: "I will honor Christmas in my heart, and try to keep it all the year" Ebenezer Scrooge

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RMD's are generally subject to federal income tax and may be subject to state taxes. Consult your tax advisor to assess your situation.
Unless certain criteria are met, Roth IRA owners must be 59 ½ or older and have held the IRA for five years before tax-free withdrawals are permitted. Additionally, each converted amount may be subject to its 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.