

THE COMMUNIQUE

May 2022

MAJOR INDICIES	LAST	MTD	QTD	YTD
S&P 500	3935.18	-4.76%	-13.14%	-17.44%
Dow Jones Industrials	31834.11	-3.47%	-8.20%	-12.40%
NASDAQ Composite	11,364.24	-7.87%	-20.09%	-27.36%

U.S. TREASURIES	YIELD
5-yr Treasury Note	2.89%
10-yr Treasury Bond	2.93%
30-yr Treasury Bond	3.05%

Information as of May 11, 2022

Source: Thomson Reuter's Thomson One

MARKET COMMENT

Attrition

The dictionary's definition of *attrition* is "gradually reducing strength of someone, or something, through sustained attack or pressure." This led me to ponder – are we in an attrition stock market with continual lower highs and lower lows? How long will the mantra "buy on the dips" last when investors continue to see their portfolio values decline even after those presumed "dips?" In recent declines we experienced severe, yet quick, pull-backs with equally fast recoveries (what we call a "V-shaped" market bottoms), but perhaps this time it will be more of a "U-shaped" market bottom. This longer, and more grinding, bottoming process will take time to work through the many challenges facing the global economy before the start of a new up market.

Today's market environment looks nothing like the recent past due to rising inflation. The Federal Reserve will likely continue raising interest rates until it either slows down inflation or throws our economy into a recession. This process could take many months before inflation, and rising interest rates, accomplish the Fed's goal of 2.0 - 2.5% inflation rate. In the meantime, the stock market may continue its volatile trend to the downside. Reflecting on history, major bear markets of the past (2000 Technology Bubble and 2008 Financial Crisis) both took many months before a bottom was established. Eventually they rallied up and initiated a new rising market with sustained higher highs, and higher lows. This resulted in the standard that "V-bottom" recovery. However, a better historical marker of

today's environment might be the time period in the late 1970's, which saw sustained high inflation and interest rates. We may not experience peak inflation at 14%, as we did in 1980, but our current rate of 8.3% could be around for quite some time. That will create different investment opportunities than in the recent past. We have already seen multi-year technology leaders decline substantially, while energy stocks have gone in the opposite direction. But whether the "U-bottom" of the 1970's returns for an encore is yet to be determined.

So, as always, we will be observing market changes closely for future tell-tale hints of new market trends. Future success as investors may strongly depend upon who has the strength to handle the sustained pressure of this attrition process.

Thank you for your continued trust, confidence -- it is greatly valued.

PLANNING STRATEGY

Raymond James "Point of View" article. M22-4098500

How a Dollar Can Add Up to More When it Comes to Taxes

Not only can an extra dollar of income push you into the next highest tax bracket (thankfully, with a progressive tax system, only those excess dollars will be subject to the higher incremental tax), but that dollar can mean you're paying more taxes in other ways. Let's take a look at two of them.

Medicare tax

If your wage or compensation exceed certain thresholds (\$200,000 for those filing single or head of household in 2021 and \$250,000 for those married filing jointly) by even \$1, you'll be subject to the 0.9% additional Medicare surtax on the excess. While \$1 over only means you'll pay an extra cent or so, it can add up quickly the further you are over the limit. Your employer will withhold the tax for you, but you'll still have to file Form 8959 to report the excess income that is subject to this tax. The calculations are a little more complicated if you have self-employment income in the mix, so be sure to discuss this with a qualified tax professional.

And speaking of Medicare and taxes, you'll pay an income-related adjustment in addition to your standard Medicare Part B premium if you made even a dollar over the applicable threshold, which is based on your income from **two years ago**. For example, those who made \$91,000 or less (single) or \$182,000 or less (married filing jointly) in 2020 paid \$170.10 per month for this coverage in 2022. But those who made \$91,001 (single) or \$182,001 (joint) paid \$238.10 per month, an extra \$816 over the course of the year.

Net investment income tax

Certain individuals, trusts and estates may be subject to an additional 3.8% net investment income tax (NIIT) on the lesser of their net investment income or the amount by which their modified adjusted gross income exceeds the threshold based on their filing status. (Again, that's \$200,000 for those filing single or head of household in 2022 and \$250,000 for those married filing jointly.)

In general, net investment income includes but is not limited to interest, dividends, capital gains not offset by capital losses, rental and royalty income, and nonqualified annuities; it excludes wages, unemployment compensation, Social Security benefits, alimony, and most self-employment income. So it is possible to be subject to this tax and/or the Medicare surtax since they apply to different income pools.

Another difference is that your employer doesn't withhold anything for this tax. You may request that additional income tax be withheld if you think you'll owe come April. To determine if you are liable, you will use Form 8960 to compute the tax, and will report and pay the tax on the appropriate income tax return form.

For example, let's look at Debra, who files as head of household with \$180,000 in wages. She is *not* subject to the Medicare surtax, but she received \$90,000 from a passive partnership interest, which the IRS considers net investment income. Now her modified adjusted gross income is \$270,000, exceeding the applicable threshold by \$70,000. NIIT is based on the *lesser* of the amount that exceeds her modified gross income threshold or the actual net income (\$70,000 is less than \$90,000 in this case). So she owes \$2,660 in NIIT this year ($\$70,000 \times 3.8\%$).

Note: The real estate market is competitive in many areas of the country. If you've decided to sell your primary residence, please note that up to \$250,000 in capital gains from the sale may be excluded from your gross income for regular income tax purposes (if you meet IRS qualifications) and, as a result, is also exempt from the net investment income tax.

Estates and trusts are liable for the tax if they have undistributed net investment income and adjusted gross income over the threshold. As with most tax-related calculations, professional help can be invaluable as computations get complicated for different types of trusts.

Sources: *irs.gov*; Centers for Medicare & Medicaid Services; Raymond James research

Raymond James does not provide tax or legal services. Please discuss these matters with the appropriate professional.

LIFE & LEISURE

Raymond James "Point of View" article. RaymondJames.com

The Real Cost of Free Apps & Services

You may use "free" apps for online shopping, email, cloud storage, and social media without really thinking about why those services are "free." They are most likely free because they are harvesting and selling data about you, such as your preferences, age, race, marital status, interests, and location, among other things. These businesses sell user data to advertisers, who use that data to direct targeted advertisements to you based on your interests and online activity. For example, if you browse for shoes online, you may see ads for shoes on other sites you visit for a while after that. If you use a free site or app that finds promotional codes for you to apply at checkout, it may be collecting and selling the data that you share.

What is the harm in this?

While some may feel uncomfortable with targeted advertisements, others may like when advertisers connect them to products and services that align with their interests. So, what is the harm? It is that

information you wish to keep private may never actually be private. When you search the web on a free service, your activity may be broadly tracked—including, for example, searches related to a medical condition you don't want others to know about—and shared with third parties.

In addition, many social media companies collect your data and then sell it, or even use it, for purposes you may not be entirely aware of. Think back to the **Cambridge Analytica scandal** in 2018, where millions of people were unaware of their Facebook data being harvested for political advertisements. Social media posts can also include photos or information about others who have not consented to the publication of their information (for example, children or friends who do not have social media profiles). Digital marketing companies will combine this information to build a robust digital profile—a centralized collection of everything they know about you, your friends, and your family—and sell it to a number of sources. Do you have the right to make those choices for your friends and family?

What can I do?

Determine whether you want to use a particular free app or software in exchange for your personal information. Here is what you can do to help come to a decision:

- **Do not click on links for free apps.** Independently search for the app in your device's app store.
- **Read the Privacy Notice and Terms of Use.** These documents describe how the company uses your data, such as whether they share your information with third parties.
- **Figure out where the company is located and where your data is stored** because data rights vary among countries (and in some cases, states). Once you know the location of the company and where your data is stored, look into the data rights you may be afforded (such as the right to request deletion of your data).
- **Manage your settings and preferences.** If you do not want your data shared with third parties, check the privacy settings of the app or software to see if you can opt out of data sharing, activity tracking, or interest-based ads. Keep in mind that opting out of sharing does not mean you will not get ads, just that your information will not be shared for the purpose of *personalized* ads.
- **Consider an alternative** if you are not comfortable with using a particular app or software. For example, could you switch to an email provider that does not scan your emails for advertising? Do you want to pay for a service to avoid targeted third-party ads? How a company uses your data ultimately comes down to its privacy policy, but the company will have more incentive to protect their relationship with you if you are paying for its service.
- **For online holiday shopping,** stick with trusted websites and, if possible, work directly with the primary vendor. Before using a promo code site, consider whether that discount is worth the price of your data privacy.

As you may have heard time and again, if you are not paying for it, you are not the customer; you are the product. It's always a responsible practice to be intentional with the types and amount of personal information you share, and to question a service that seems "too good to be true."

Quote of the Month: "Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to for five dollars when you had hair." - Sam Ewing

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Planning - <https://www.raymondjames.com/commentary-and-insights/tax-planning/2022/02/25/how-a-dollar-can-add-up-to-more-when-it-comes-to-taxes>

Life & Leisure - <https://www.raymondjames.com/commentary-and-insights/lifestyle-technology/2022/03/21/the-real-cost-of-free-apps-and-services>

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