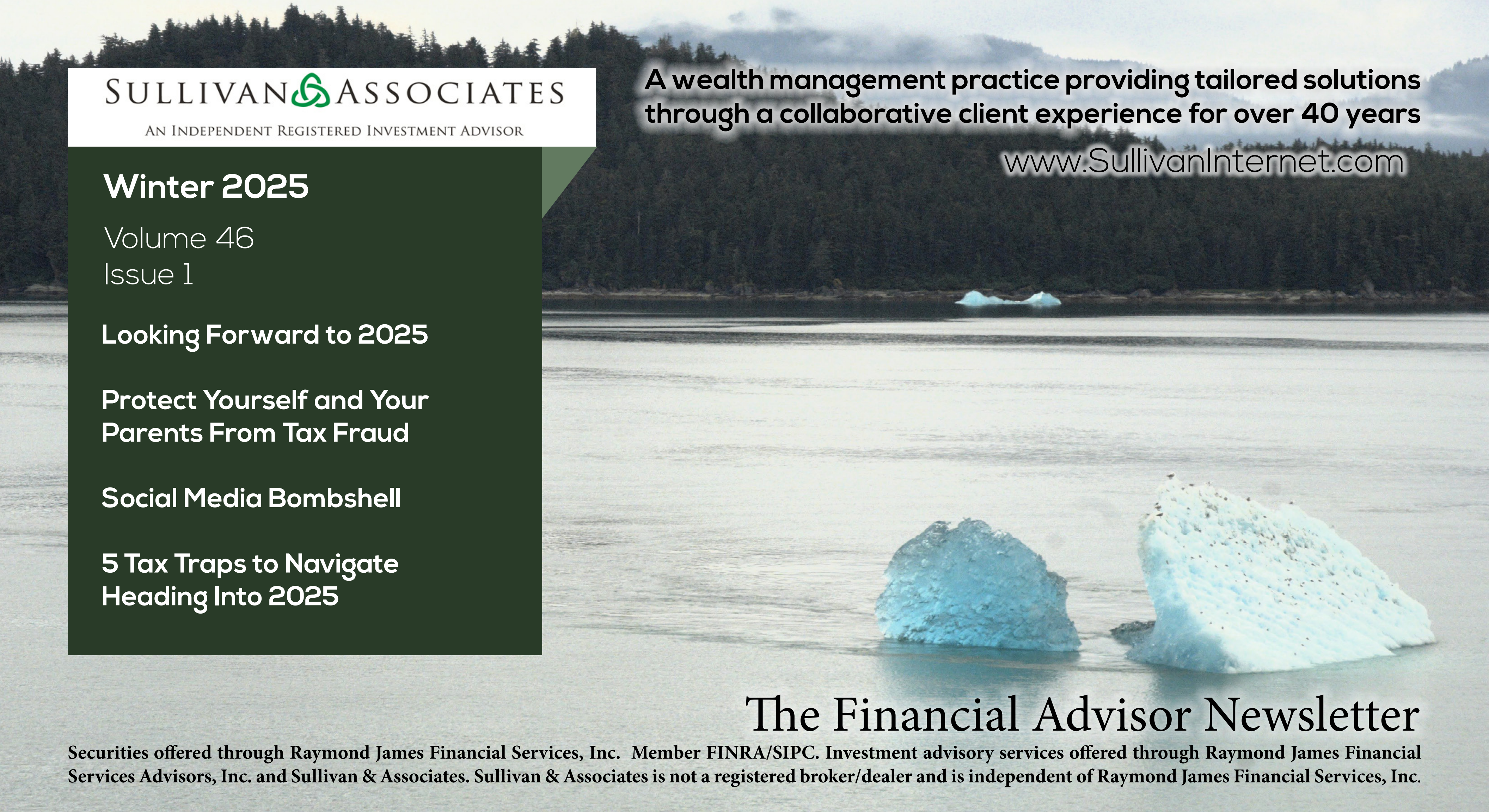

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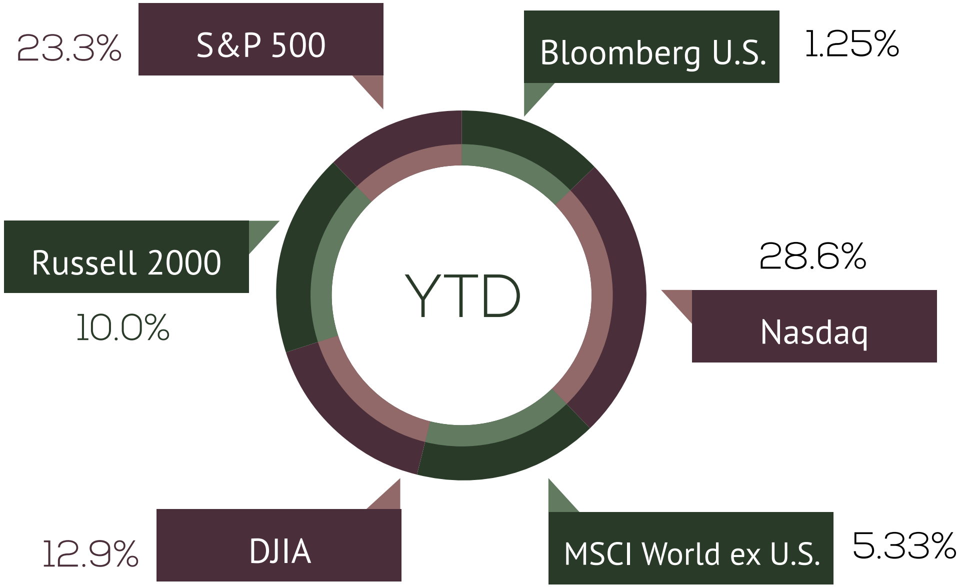
Front cover photo taken by Patrick L. Sullivan

ECONOMIC **SNAPSHOT**



Source: WSJ, 01/02/2025 & FactSet, 12/31/2024. Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will effect actual investment performance. Individual investor results will vary. Past performance does not guarantee future results. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing the stocks of 30 companies maintained and reviewed by the editors of the Wall Street Journal. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Nasdaq composite is an unmanaged index of securities traded on the Nasdaq system. (The Dow Jones Global ex US is a stock market index measuring equity securities traded globally in 64 countries, excluding the U.S.). The Bloomberg US Aggregate Bond Index is a benchmark index composed of US securities in Treasury, Government-related, Corporate, and Securitized sectors. The Russell 2000 index measures the performance of the 2000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. MSCI ACWI Excluding US Index: The index is a market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. The MSCI All Country World Index Ex-U.S. includes both developed and emerging markets.

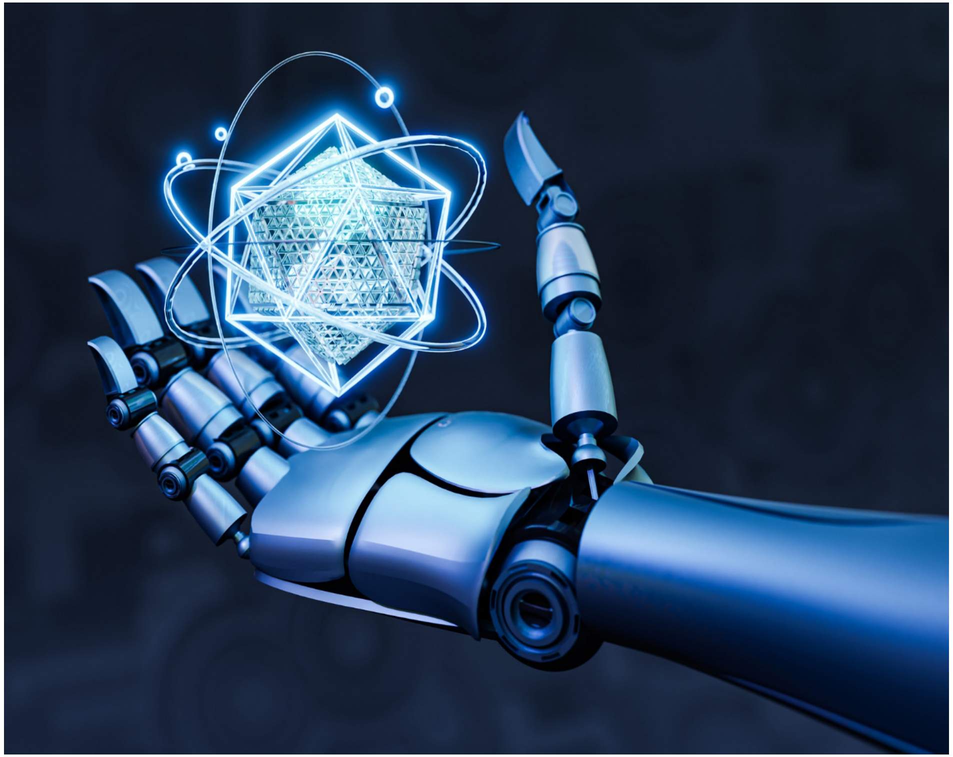
KEVIN'S **VIEW**

LOOKING FORWARD TO 2025

When I hear that we are now in the year 2025, my mind has visions of The Jetsons, like flying cars and robotic maids. Alas, the flying cars are still in the prototype phase and I'm pretty sure a Roomba can't dust the top shelf. However, as we look at how quickly some technologies are moving, for example, Artificial Intelligence (AI), there can be little doubt that changes are on their way and quickly.

The financial world is chock full of visions of our new year. The short version is that things look pretty good, but there are some concerns—a viewpoint that could also be written about almost any other year, if I'm being honest. Let's start with some of the good news and then move on to the concerns.

After two excellent years for the stock markets in the United States, we are looking for another strong year in 2025. Although, it appears it may not be quite as good as the last two. Trends such as AI and increasing domestic manufacturing are expected to continue. Additionally, a more "business-friendly" administration will likely act as an additional tailwind. We also expect to see a stock market that is broader than just a few popular



names.

The international stock markets have seen some growth, but not as much as the U.S. stock markets, and that growth was muted further due to the strong U.S. dollar. While we still view international markets as an important part of portfolios, it has been a bit of struggle lately. We've had to become more selective in our exposures, in some case by keying in on certain countries.

Interest rates will continue to be a focus, as will inflation. While inflation moderated of the last 24 months, we have seen some signs of a slight increase lately. Whether we see a significant amount of inflation may depend on some of the ideas floating around our nation's capital. If we do see an increase in inflation, we will likely see the Federal Reserve change from easing interest rates to tightening them. Increasing interest rates are typically a negative for bonds, although the higher income may partially offset some of that.

Commodities in 2025 look mixed. Like stocks, gold had a great 2024, whether it can continue into the new year remains a question. In our view, gold has acted like a hedge on global uncertainty and conflict. Given our concerns about continued uncertainty in places like Ukraine and the Middle East, oil seems to be in flux with Middle Eastern conflict raising supply concerns, but economic weakness and slowing global trade are lowering demand.

The world is becoming increasingly more complex, and we continue to endeavor to chart a course, avoiding pitfalls if possible. If you have any questions about your portfolio or concerns about something going on, please don't hesitate to reach out to talk.

As always, we appreciate your trust in us and are looking forward to a great 2025. From all of us here at Sullivan & Associates, we wish you and your family a happy, healthy, and prosperous new year!

DID YOU KNOW?

Cost-of-Living Adjustment (COLA) Information for 2025:
Social Security and Supplemental Security Income (SSI) benefits for more than 72.5 million Americans will increase 2.5 percent in 2025. The 2.5 percent cost-of-living adjustment (COLA) will begin with benefits payable to nearly 68 million Social Security beneficiaries in January 2025. Increased payments to nearly 7.5 million SSI recipients will begin on December 31, 2024. (Note: some people receive both Social Security and SSI benefits)

Higher 401(K) Catch-up Contributions:
Employees can now defer up to $23,500 into 401(k) plans for 2025, with an extra $7,500 for workers age 50 and older. Starting in 2025, workers aged 60 to 63 can boost annual 401(k) catch-up contributions to $11,250 or 150% of the catch-up limit, whichever of the who is greater.

Roth Catch-up Contributions:
Another secure 2.0 change will remove the upfront tax break on catch-up contributions for higher earners by only allowing the deposits in after-tax Roth accounts. The change applies to catch-up deposits to 401(k), 403(b), or 457(b) plans who earned more than $145,000 from a single company the prior year. The amount will adjust for inflation annually.

Retirement Plan Contributions Limits	2024	2025
401(k)/403(b)/457 Elective Deferrals	$23,000	$23,500
Catch-Up Contribution Limit	$7,500	$7,500
SIMPLE Employee Deferrals	$17,600	$17,600
SIMPLE Catch-Up Deferrals	$3,850	$3,850
Traditional/Roth IRA Contribution Limit	$7,000	$7,000
Catch-up Deferrals Contribution Limit	$1,000	$1,000

WINTER/ SPRING 2025 MARKET CLOSURES

Monday, January 20th - MLK Jr Day
Monday, February 17th - President's Day
Friday, April 18th - Good Friday

Source: Osburn, Nate, et al. "Social Security Announces 2.5 Percent Benefit Increase for 2025." SSA, 10 Oct. 2024, blog.ssa.gov/social-security-announces-2-5-percent-benefit-increase-for-2025/. "401(k) Limit Increases to $23,500 for 2025, IRA Limit Remains $7,000." Internal Revenue Service, www.irs.gov/newsroom/401k-limit-increases-to-23500-for-2025-ira-limit-remains-7000. Accessed 30 Dec. 2024.

12 Wishes For The New Year

1

For harmony to grow, and conflicts to cease, our fondest wish: one year of world peace.

2

As the Fed declares victory over inflation, we sing and cheer, "Hooray, 2% is here!"

3

As we fill up our tanks to reach our destination, Gas under three dollars would be a sensation!

4

With the Fed's guiding light, we wish with de-light, 4% unemployment would make our year bright!

5

GDP growth for five years in a row, would set our spirits all aglow.

6

Mega-cap tech stocks have taken flight, we hope the six biggest climb to new heights!

7

A new year, a new record for S&P, to touch 7,000- what a gift that would be!

8

With over $8 trillion in Treasuries coming due, strong auction demand would be a dream come true!

9

With corporations in good health, their strength is clear, may investment grade spreads stay low (under 0.9%) this year.

10

With AI tailwinds here to stay and broadening on the way, we cheer for ten percent earnings growth- hip hip, hooray!

11

With strong earnings that hopefully beat, eleven sectors in the green would make Wall Street's spirits complete!

12

Fed voting members are twelve in all, may the doves prevail, and interest rates fall.

Source: Raymond James

PROTECT YOURSELF AND YOUR PARENTS FROM TAX FRAUD

Identity thieves are stealing other people's personal information and using it to file tax returns. These criminals often file fraudulent tax returns as early as possible in an effort to have the bogus return processed before you can file your own legitimate return. You may therefore be unaware you've been victimized until you attempt to file your taxes.

These scammers are stealing money from the government while also hindering your ability to file a genuine tax return, not to mention creating undue stress as you take efforts to rectify the situation. It's important to be aware of this scheme and take steps to prevent this from happening to you and your loved ones.

Warning Signs
Be on the lookout for IRS notices that appear to be inaccurate. These may include notices that more than one tax return was filed with your Social Security number, that you owe an additional tax that appears to be inappropriate or that you've received wages from an unknown employer.

IRS FAQs
Will the IRS contact me via email? The IRS will never initiate contact with you via e-mail, text messages or social media with a request for personal or financial data. Be extremely careful with any unsolicited email that claims to be from the IRS.

What should I do if I receive an email or text message claiming to be from the IRS or another tax service that asks for sensitive information? Do not reply. Do not click on any links or download any attachments. Forward any IRS-related emails to phishing@irs.gov.

What should I do if I discover a website claiming to be the IRS that I

suspect is not legitimate? Do not click any links, download any files or submit any information. Send the URL to phishing@irs.gov.

Are there any trusted resources I can use to identify email scams or websites claiming to be the IRS? The IRS website highlights examples of email scams and bogus websites. Find this information online at www.irs.gov/uac/report-phishing.

What should I do if I receive an unsolicited phone call or letter claiming to be from the IRS that I suspect may not be legitimate? Contact the IRS yourself to confirm any requests made via phone or letter, particularly those that are threatening or demand immediate payment. Visit www.irs.gov/uac/report-phishing for phone numbers and other tips.

Consider an IP PIN

In some instances, you may be eligible for a number called an Identity Protection PIN (IP PIN). An IP PIN is a six-digit number given to qualified taxpayers to help prevent the filing of false tax returns. Once a taxpayer obtains his or her unique IP PIN, all of his or her tax returns must be filed using this number, which can help ensure that no other fraudulent returns are filed. Please note that this PIN is different than the four-digit e-file signature PIN, which is used for filing online returns.

If you are interested in obtaining an IP PIN, you can register your PIN by following the steps at irs.gov/Individuals/Get-An-Identity-Protection-PIN. For more information on IRS tax return fraud and prevention methods, visit irs.gov.

Prevention Tips

- Keep your Social Security number, as well as other personal information, stored in a secure place (i.e., not your wallet), and avoid mentioning it on the phone or online unless absolutely necessary.
- Consider installing extra security on your computer.
- Be sure to check your credit report and Social Security Administration earnings regularly, looking for anything suspicious or irregular.
- Be aware that the IRS does not routinely email, make phone calls or communicate through social media. Any communication from those sources is likely to be fraudulent and should immediately be reported to **phishing@irs.gov.**
- Assume that unexpected calls from the IRS urging you to give or confirm financial information are fraudulent. They should be reported to **treasury.gov.**

KATEE'S KORNER

SOCIAL MEDIA BOMBSHELL

Recently an acquaintance shared on social media that she had received $49,000 worth of Tesla stock into her SEP IRA account before Christmas. Lots of people were saying, “Merry Christmas to you” or “Wow, jackpot! Cash it out now.” The thing is, this wasn't her money. It was an error made by the brokerage firm into her dormant account. She does not work with a financial advisor and is trying to work with the brokerage firm to have the funds removed. An employee told her they could not help her and gave her the name and account number of the person who inadvertently transferred the funds into her account, which is a big no-no. That was the extent to which her robo-advisor brokerage firm was willing to offer her.

Which brings me to two points:

1. Consider working with a financial advisor who is willing to go to bat for you and do what needs to be done, and

2. Taxes. If she had not caught this error, how long would it have taken the brokerage firm to realize the mistake? If she had listened to those on social media and did “cash it out”, what would have been the legal and tax ramifications to her? Selling a stock you don't legally own could result in penalties, interest, or lawsuits. Always confirm with your financial advisor before acting.

Let's imagine that she did sell the stock. She just became $49,000 richer in a matter of minutes. Did this accident bump her into the next tax bracket? What would she owe in capital gains? What could the brokerage firm or person who held the Tesla stock do when they realized the error? Reversing the transfer would no longer be an option. They could take legal action against her because she knew it was not hers and sold anyway.

In the end, she did the proper thing and reached out to the SEC for next steps and gave them all the information she had. She also reached out to the person whose stock was inadvertently transferred through LinkedIn, and their response was, “Thank goodness for honest people!” She's also switching to a local financial advisor who is better equipped to assist her. She said she now understands the importance of building a relationship with a financial advisor, rather than being a random number on someone's computer system when she calls in. ☐

This case study is for illustrative purposes only. Individual cases will vary. It is presented only as an example and not intended as investment advice. Investing involved risk and there is no assurance that any investment strategy will be successful.

5 TAX TRAPS TO NAVIGATE HEADING INTO 2025

Tax-sensitive investors must stay alert to traps that can impact after-tax returns. This guide highlights 5 key tax traps to watch for.

1. CAPITAL GAIN DISTRIBUTIONS:
Mutual funds calculate realized gains and losses annually (typically Nov. 1–Oct. 31), distributing net gains as capital gains to investors. Taxable investors should consider the tax implications, as some of the largest distributions occur in flat or negative market years. Evaluating potential capital gain distributions can help determine if tax-managed investing fits your strategy.

2. TAX-LOSS HARVESTING:
Market pullbacks offer tax-loss harvesting opportunities, but November and December are often strong months, making year-round tax management essential. Explore additional strategies throughout the year to maximize after-tax returns and improve financial outcomes.

3. CASH ON THE SIDELINES:
While CDs and Money Market Funds offer high yields, consider their real return after inflation and taxes. With taxes on CDs reaching up to 40.8%, municipal bond funds, which are federally tax-free, may offer better after-tax returns. Be mindful of inflation's impact, and evaluate your investments holistically for better tax efficiency.

4. POTENTIAL TAX INCREASES ON THE HORIZON:
U.S. public debt surpassed $35 trillion in July 2024 and is projected to reach 107% of GDP by 2029, surpassing the post-WWII peak. The Congressional Budget Office predicts the debt will grow for the next 30 years, potentially reaching 166% of GDP by 2054. To manage this, future tax increases are likely. Given historical shifts in tax rates, it's important to consider how potential changes may impact investment portfolios.

5. TAX CUTS AND JOBS ACT (TCJA):
With two tax filings remaining before the TCJA expires, investors should brace for potential tax hikes after 2025, which could affect after-tax income and investment gains. Consider the long-term impact when making financial decisions.

By staying informed and proactive, tax-sensitive investors can better navigate these challenges and make decisions that protect their wealth and maximize after-tax returns in an evolving tax landscape. □

Source: 5 tax traps to navigate heading into 2025. (n.d.). Retrieved from https://russellinvestments.com/us/blog/5-tax-traps-to-navigate-heading-into-2025

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