

January 15, 2021

San Asato, CFP®
John Comer, CFP®
Hiroshi Asato, AAMS®

Celebrating 50 Years!

Our practice's founding partner, Tom McNellis, died last May a week shy of his 83rd birthday and 50th anniversary of founding the practice. We were in shock and chose not to celebrate our 50th anniversary.

We are celebrating this year. We are unable to gather and party in person due to the pandemic, and virtual parties have limitations and challenges. So, instead we celebrate our 50th and Tom's memory with you in the following way.

Matching Charitable Donations

We would like to donate \$25,000 in total matching donations to your charity of choice. You choose the charity, donate \$1,000 minimum to the charity¹, and McNellis & Asato will match your donation up to \$1,000 in your honor and Tom's memory. The qualifying charitable donations must be a 501(c) organization verifiable on Charity Navigator² or Guide Star³.

What can you do?

If you are interested in participating, please email me (San.Asato@RaymondJames.com) with the following.

- **Memory:** write a short blurb about your memory of Tom, e.g., how you met Tom, what struck you about Tom, funny story about Tom).
- **Charity:** the name of your charity of choice, name, address, and website.
- **Verify:** the charity at Charity Navigator or Guide Star.
- **Reason:** your reason for choosing the particular charity.
- **Amount:** your gift amount to the charity.

Upon receipt of your email, we will cut a check to the charity of your choice with a letter stating the gift is in your honor and in Tom's memory. We will provide you with a copy of the letter. 5 charities will be randomly selected every month starting this month for the next 5 months through May.

Thank you for being in our life. You have made a difference and indelible mark on our life. It is our pleasure to have made a difference in yours.

Please feel free to contact me regarding this or just to chat at (952) 548-3130.

¹ If you have RMD this year, we encourage you to take advantage of QCD (Qualified Charitable Donation) from your IRA.

² [Charity Navigator](https://www.charitynavigator.org/index.cfm/bay/search.advanced), <https://www.charitynavigator.org/index.cfm/bay/search.advanced>

³ [Guide Star](https://www.guidestar.org/NonprofitDirectory.aspx), <https://www.guidestar.org/NonprofitDirectory.aspx>

Investment Outlook

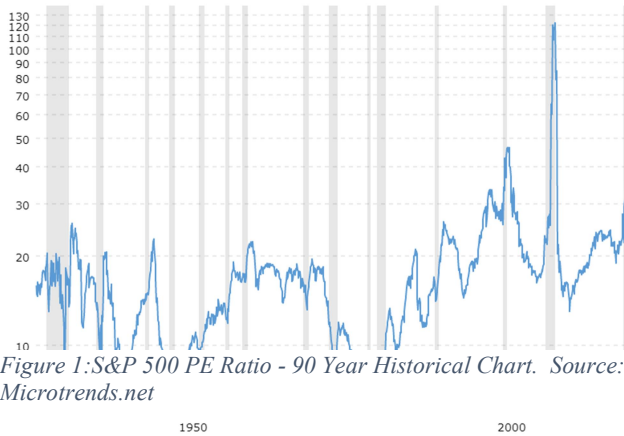


Figure 1: S&P 500 PE Ratio - 90 Year Historical Chart. Source: Microtrends.net

Our investment outlook for both long-term and near-term remains unchanged: optimistic and cautious, respectively. The reason for this is that stocks⁴ closed 2020 with a forward estimated P/E ratio (price to earning) at 26⁵. The historical mean or average for the trailing P/E is 17 and median is 16⁶.

Our main scenario is that stocks will try to grind higher but mostly range trade at current high levels until the underlying economy and corporate earnings catch up to the stock price and valuation normalize.

We will manage your portfolio with this in mind. We will maintain your portfolio's asset allocation at neutral; adjust whenever we meet, through periodic distributions, or when we notice your portfolio is more than 5% overweighted in your quarterly reports.

New year's blessings to you and your family. San

Save Money While Doing Good

Many people enjoy supporting charities. Many people I know claim that the benefits to the giver often outweigh the benefits to the charity. It feels good to help others. It makes you feel wealthier because you can share your wealth. It creates a positive frame of reference for you.

Almost all gifts start with a desire to help others or an admiration of the work an organization is doing. Other gifts start because the donor is looking for a tax deduction that is a small percentage of the gifts. For us, the conversation about charity starts with the charity also. Once you have decided to give to charity, we like to look at ways to give most efficiently. After all, there is no point in paying \$1,000 for an outcome that can be achieved for \$760.

Itemized Deductions

If you can reduce the cost of your donation, you may be doing so by itemizing the deductions on your tax return. Itemizing was a lot easier before 2018 when the Standard Deduction was increased from \$12,700 for couples to \$24,000 and from \$6,350 for single people to \$12,000. There are a few other deduction categories but the big three are state taxes, mortgage interest and charitable contributions.

In 2020, a married couple who spends \$7,000 on state taxes, \$8,000 on mortgage interest and \$7,000 on charity, is able to take a standard deduction of \$24,800. Although they only spent \$22,000 on all those categories, they can deduct \$24,800. That means that if they decide to increase their charity to \$8,000, they get no tax benefit for spending the extra \$1,000. Back in 2017, they would have only deducted \$22,000 but, if they increased their charity, they could increase their deduction. In either case it may be a good idea for you to give another \$1,000, especially during the upheavals of 2020, but you get no additional tax benefit.

Special \$300 Deduction

⁴ Represented by S&P 500 Stock Index.

⁵ Source: PE & Yields on Major Indexes, Wall Street Journal.
<https://www.wsj.com/market-data/stocks/peyields>

⁶ Calculated using Excel's functions =AVERAGE and =MEDIAN respectively using data obtained from MacroTrends.net.
<https://www.macrotrends.net/2577/sp-500-pe-ratio-price-to-earnings-chart>

Those upheavals during 2020 did lead to a change in the law. Even if you deduct \$24,800 as a married couple, if you donate \$300 you are allowed to reduce your income by \$300. Do not overlook this as you prepare your taxes.

This special deduction was continued for 2021 and increased for married couples. In 2020, the deduction of \$300 was per tax return. In 2021, the deduction is per taxpayer.

Qualified Charitable Distribution

Taxpayers over 70 ½ have a special tax break called a Qualified Charitable Distribution (QCD). Initially, this was put in place to allow taxpayers who were subject to Required Minimum Distributions (RMD) but did not need the money for their lifestyle, to efficiently donate the money to charity. Now, even though Required Minimum Distributions start at age 72, the QCD is still available at 70 ½.

Mechanically, the contribution goes directly from your IRA or 401(k) to your charity. The contribution meets the requirements for RMD but is not added to your income or deducted under Itemized Deductions. Since it is not included in your Itemized Deductions, you can still take the Standard Deduction and receive the tax break for the donation. The reason is that, otherwise, you would have to add the RMD to your income and pay tax on it.

The maximum QCD is \$100,000 regardless of your RMD. In other words, you can have an RMD of \$6,000 but donate more, up to \$100,000, to charity. The way this interacts with your tax return also has benefits for Medicare costs.

Donation of Stock instead of Cash

You might be planning to spend your investments in an individual or joint account. When you spend some of your investments from these accounts, you pay tax on the increase in value of the shares, capital gains. When you give shares of stock to someone else, they receive your cost basis and they would pay tax on the capital gains. When you give the stock to a charity, the charity does not pay tax so no tax is due to anyone.

Since you would have to pay capital gains but a charity would not, you should not give cash to a charity and then replenish your cash by selling appreciated stock. In fact, it is wise to do the opposite if you want to donate out of your income: give appreciated stock then use your income to buy back the stock. That effectively increases the cost of your shares, allowing you to save capital gains when you sell the shares in the future.

When you give shares of stock to a charity, you get to use the current market value of the shares as a deduction on your tax return if you itemize. So, you not only do not have to pay tax for the increase in value, you also get to reduce your income by the full market value.

One caveat is that we are talking about appreciated securities. If you want to donate share that have a market loss, you would sell the shares and give the cash. That way, you can use the loss to reduce your other income on your tax return.

Doubling Up Donations to Allow Itemizing

We have discussed a few ways you can reduce your taxes even if you use the Standard Deduction.:

- you can deduct \$300 in donations;
- if you are 70 ½ years old, you can use a Qualified Charitable Distribution

- if you donate stock, you can avoid capital gains tax

In addition, if you donate stock you can claim the full market value if you itemize deductions. You can also double up or even triple up your deductions to get the deductions high enough to itemize.

Using the hypothetical situation cited earlier, a married couple who spends \$7,000 on state taxes, \$8,000 on mortgage interest and \$7,000 on charity, we deduct two years of donations every other year. We do not have to increase our total charitable donations or change our charities; we just group our donations together.

In year 1, we donate \$14,000 and are able to deduct \$29,000 with itemized deductions. We have actually spent \$29,000.

In year 2, we do not donate but have \$15,000 in spending for state taxes and mortgage interest. This year, despite only spending \$15,000, we get to take the standard deduction of \$24,800.

In year 3, we double up the spending again.

You can double up the donations either by sending the money directly to the charities every other year or you can contribute the money to a Donor Advised Fund in year 1, distributing the money over year 1 and year 2 as you normally would. Also, if you normally give out of cash flow but do not have enough free cash to double up, take the donation from savings or investments and replenish the savings through your cash flow. Donors are urged to consult their attorneys, accountants or tax advisors with respect to questions relating to the deductibility of various types of contributions to a Donor-Advised Fund for federal and state tax purposes.

If you would like to learn more about some of these ideas, please ask San, John or Yoshi.

John

12 Financial Resolutions

Instead of hauling out those familiar New Year's resolutions about eating less and exercising more, think about focusing on something that's also very good for you in the long run – and even sooner? We're talking about your financial plan – your fiscal health, if you will. The approach of a new year – or any time, for that matter – is a great time to review your plan and make whatever revisions might be indicated. With that in mind, here are 12 suggested resolutions that, if followed, could help you go a long way toward attaining your financial goals. We will help you with this process!

1. Get your balance sheet in order
2. Review your budget and spending habits
3. Review the titling of your accounts
4. Designate and update your beneficiaries
5. Evaluate your cash holdings
6. Revisit your portfolio's asset allocation
7. Evaluate your source of retirement income
8. Review your social security statement
9. Review the tax efficiency of your charitable giving
10. Check to see if your retirement is on track
11. Make the indicated changes
12. Setup a regular review schedule with us

Happy New Year! Yoshi

New Year Deadlines

With the beginning of the year comes planning for tax return filing. 2020 contributions to IRAs and Roth IRAs are due by your tax filing deadline, generally April 15.

New Look for Reports

As you review your year-end report, you may notice that it is a little bit different. We have substituted the executive summary with a page titled Account Specific Information. Other than specific holding information, this is an easy-to-read summary of your investment allocation percentages, your risk tolerance and your beneficiaries. As these reports are prepared for you, we welcome your feedback on this change!

Contact Information

As always, we thank you for your trust in us! We will continue to endeavor to “go the extra mile” as best as we can in serving you. If anyone of us can be of service, please feel free to call us directly at (952) 548-####. Our general line is (952) 548-3123.

San Asato, CFP®	Managing Advisor	Planning & investment	3130
John Comer, CFP®	Financial Advisor	Planning & investment	3134
Yoshi Asato, AAMS®	Financial Advisor	Para-planning & investment	3110
Marsha Virgin	Business Manager	Office & appointments	3114
Jennifer Cole	Sr. Client Services Assoc.	Funds withdrawal & forms	3112
Sam Luetgers, CFS®	Investment Associate	Investment reporting & analysis	3113

HAPPY NEW YEAR!

Investing involves risk, and investors may incur a profit or a loss. All expressions of opinion reflect the judgment of McNellis & Asato, Ltd. and are subject to change. There is no assurance that any of the forecasts mentioned will occur. Economic and market conditions are subject to change. Past performance may not be indicative of future results. The performance noted does not include fees or charges, which would reduce an investor's returns. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. You cannot invest directly in any index.

Securities offered through Raymond James Financial Services, Inc., member FINRA/SIPC.

© 2020 Raymond James Financial Services, Inc., member FINRA/SIPC. Investment advisory services offered through Raymond James Financial Services Advisors, Inc. McNellis & Asato, Ltd. is not a registered broker/dealer and is independent of Raymond James Financial Services.

