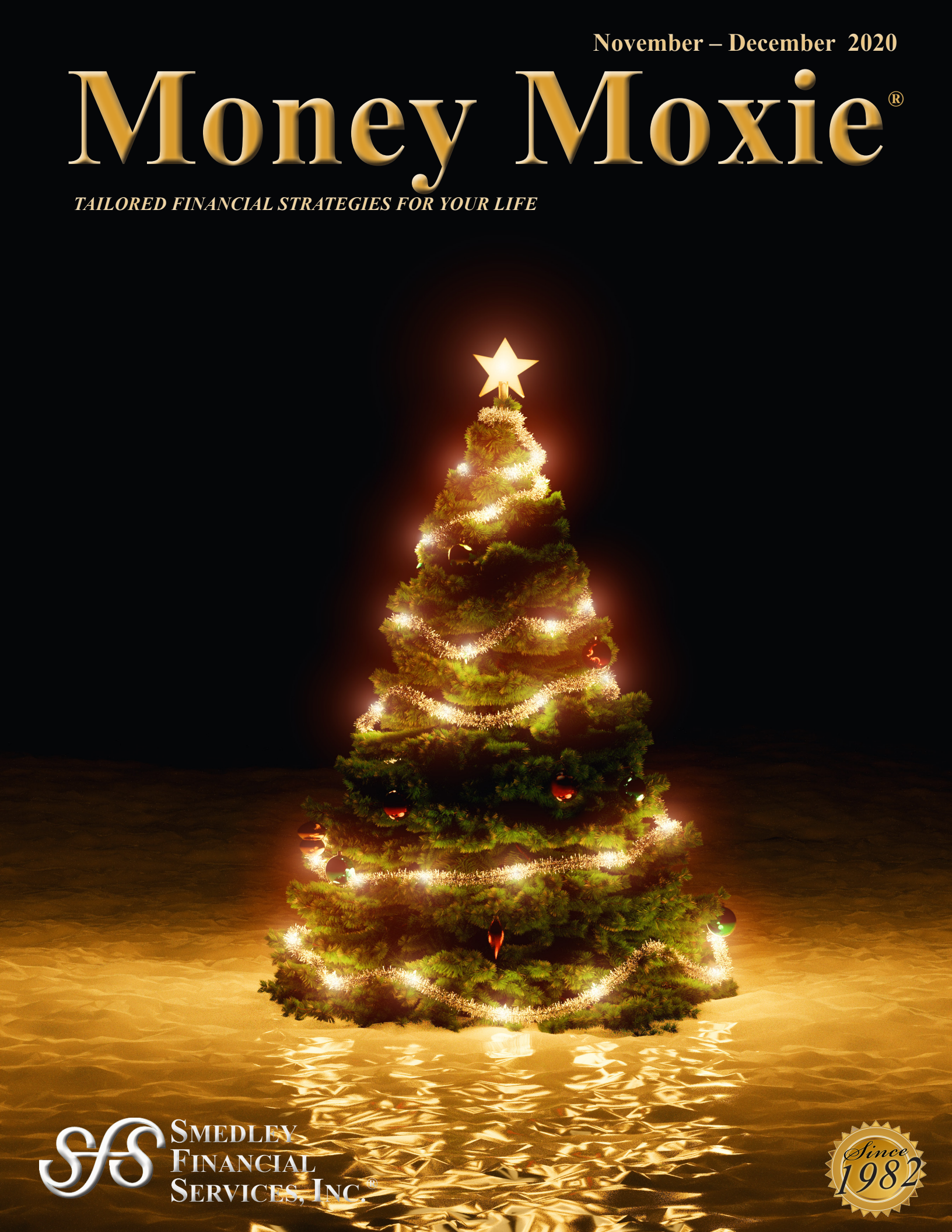
November – December 2020

Money Moxie®

TAILORED FINANCIAL STRATEGIES FOR YOUR LIFE



Smedley Financial Services, Inc.®

Since 1982

Market Resiliency Overcomes Biases

As we near the end of 2020, we can look back on what we have experienced over the last 12 months, and more importantly, what we have learned from our experiences. Good and bad, we have all been impacted by the events brought on by COVID-19.

Evaluating the past is helpful in looking forward to a new year and the seasons of life ahead. Unfortunately, it is easy for our perspective to be swayed by biases we have developed. Biases are subconscious thoughts that shape our opinions and drive our behaviors. A bias might cause us to make assumptions about the future, such as "The market has changed and will never be the same again," or, "Life as we know it has changed forever." These are examples of Recency Bias. Our brain takes a recent experience and uses it as an atlas for all future decisions. It is almost like tunnel vision; we can only see one outcome.

Over the past 26 years, I have learned that every experience is different. Each is driven by a new set of circumstances – always changing. Our personal situations, the economy, and financial markets are fluid, ever-shifting. No one can predict what will happen in the future, positive or negative.

The market has faced many headwinds in the past – the dot com bubble, the Great Recession, Brexit – and has recovered from each. The economy has ebbed and flowed through market cycles while dealing with inflation pressures, political change, unemployment, and many other factors.

When I think of these hurdles, which seemed insurmountable at the time, I cannot help but be awed by the resiliency that followed the hard times. It is that perspective that gives me hope and a positive outlook for what lies ahead.

While the next six months may look fuzzy and hard to predict, the longer-term picture appears more defined, clear, and encouraging.

I am grateful for you, our clients, and the opportunity to help shape your financial future. I wish you and your family health, happiness, and prosperity in the years to come.

Wishing you a safe and happy holiday season,

Sharla

Sharla J. Jessop, CFP®
President

Upcoming Opportunity To Save Money

Next year NFS will begin charging for printed trade confirmations and prospectuses. We are working to make sure our clients will not be charged. This will require some action on your part. If you have one or more NFS accounts, you will be receiving an email confirming that you would like to receive these forms electronically.

Within 5 days of receiving the email, you must confirm that you agree to receive electronic documents. Monthly statements and tax documents will still arrive by mail unless you previously requested to receive them electronically. Please help us keep costs down by responding to the email when it appears in your inbox. Please call us with any questions. Thank you!

Supersized Retirement Savings

By Mikal B. Aune, CFP®

If you want to supersize your retirement savings for early retirement or help you make up for lost time, consider a mega backdoor Roth. It can allow you to stash up to another $37,500 into retirement savings, which will grow tax-free. In an environment where taxes may go up because of government debt, this can be a very worthwhile proposition. It is especially beneficial for earners that make too much to contribute to a regular Roth or have too much in IRA assets to do a regular backdoor Roth. Of course, there are hurdles and restrictions.

The first hurdle is maxing out your 401(k) or Roth 401(k) contributions. In 2020, the limit is $19,500, or $26,000 if over age 50. If you aren't contributing enough to hit these thresholds, then a mega backdoor Roth doesn't apply. If you are hitting these thresholds, then your normal contributions should probably be pre-tax, and the backdoor Roth can serve as your after-tax savings. (It may not make sense to put all of your contributions into the Roth bucket if you are taxed at 37% federally.)

If you earn less than $124,000 or $196,000 filing jointly, then you are still eligible to contribute to your normal Roth IRA. Make that contribution first, which can be $6,000 or $7,000 if over age 50. If you earn more than the limits, then a mega backdoor Roth is your only retirement savings option.

The next big hurdle is your 401(k) plan. Only 43% of companies allow for after-tax contributions. In addition, the company 401(k) plan needs to allow for in-service distributions into the Roth. If the plan checks both of these boxes, then the contributions go into the after-tax portion, and the plan administrator can convert those assets into a Roth.

If the plan doesn't allow for in-service distributions, then you can still put money in after-tax, but the earnings will only be tax-deferred. Usually at age 59½ or at retirement, you can place the after-tax portion into a Roth IRA, and the tax-deferred portion can go into a traditional IRA. This somewhat defeats the purpose as the goal is to get as much as possible into a Roth as soon as possible to allow for tax-free growth.

If you have jumped over these hurdles, then you are ready to stash money away. In 2020, you can put a maximum of $57,000 into a retirement plan, including your contributions and the company's match. So, if you put in $19,500, and the company matches $5,500, then you can put in up to $32,000 more in the mega backdoor Roth. Talk about supersizing your retirement savings!

The major benefit of a mega backdoor Roth over a regular backdoor Roth conversion is not having to deal with the pro-rata rule. In a normal backdoor Roth, whatever you convert is proportionate across all of your IRAs. So, if you have any sizable amount in pre-tax IRA (i.e., traditional IRA), then you have to convert and pay taxes on the proportional amount converted from the IRA. Depending on the size of your IRA, and if you are under age 59½, this can really hurt. Since the mega backdoor Roth takes place in a 401(k), that pro-rata rule doesn't apply.

While there are hurdles and restrictions, the mega backdoor Roth can be a great way to supersize your retirement savings. If you have any questions on how this can help you reach your goals, please contact our Private Wealth Managers. SFS

SFS and its representatives do not provide tax advice; it is important to coordinate with your tax advisor regarding your specific situation.

Year-End Tax Planning

By Sharla J. Jessop, CFP®, Mikal B. Aune, CFP®, and Jordan R. Hadfield, CFP®

Harvest losses now to help your next tax return

If you have investments that have gained money this year and others that have lost, you can sell some of both in order to reduce the tax liability when you do your taxes next year. This is known as tax-loss harvesting. You can consult with Smedley Financial and/or your accountant to see how to best maximize your tax situation.

Qualified Charitable Distributions

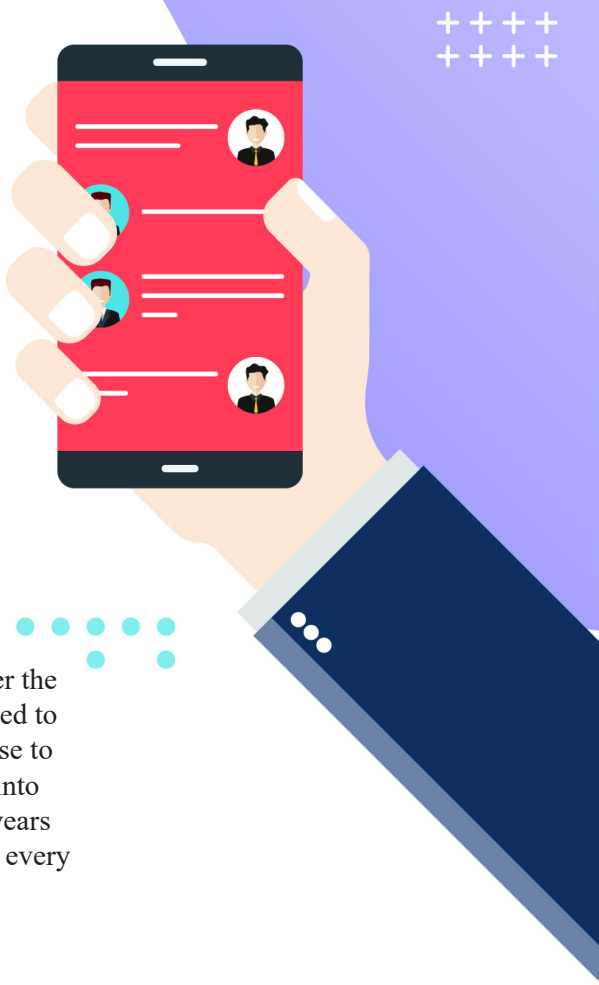
If you are over age 70 ½ and are charitably inclined, then you still have time to do a Qualified Charitable Distribution or QCD. This year you don't have to take a Required Minimum Distribution (RMD), so many people are considering not doing their QCD as well. However, we are still concerned the tax rates may go up in the future, so we would like to get as much money out of IRAs as possible tax-free. If you are going to make charitable donations anyway, a QCD is still a great option.

Convert your IRA to a Roth IRA

You can reduce future tax liabilities and take advantage of the current favorable tax environment by converting all or a portion of your tax-deferred retirement account to a Roth IRA. The conversion must be completed before December 31st. You can also use this strategy to maximize a low tax-bracket. For example, if you are married filing jointly, and your taxable income is $30,000, you can increase your taxable income to $40,125 and remain in the 12% tax-bracket. To get the full value of the conversion, plan to pay the taxes on the conversion from another account, such as a savings account.

Donate appreciated stock

If you have appreciated stock in your portfolio, you can donate the stock to a charity and avoid paying tax on the gain. Even better, if you itemize your taxes, you can receive a deduction for the value of the stock on the day the donation is made. One catch: you must have owned the stock for over one year before making the donation. Then you can invest the cash you would have donated to make a future donation.



Bunching deductions

The number of tax filers using the standard deduction has increased over the last couple of years. This is because the standard deduction was increased to a level that exceeds most filers' tax deductions. However, if you are close to the standard deduction, you might consider bunching deductible items into one tax year. For example, you can make charitable donations for two years at a time or push medical expenses into one year. Then you can itemize every other year.

Why Investors Feel So Bullish

By James R. Derrick Jr., CFA®

The stock market exploded higher in November along with cases of COVID-19, just as it did in April. Despite all the challenges of 2020, it seems the market is so bullish that it can only go one way. The reality is that anything could happen. The future is not predetermined, and the market does not think for itself. It is merely a compilation of investors' views – a popularity contest, or as Warren Buffet calls it, "a voting machine." For most of 2020, investors have viewed all good and bad news as positive. "Heads I win. Tails I win." It is all a matter of perspectives–perspectives that I would like to explore.

Government Help

Stimulus in Spring and Summer was 6 times greater and was spent 6 times faster than that for the Great Recession of 2008/2009 (David Kelley, JP Morgan). The impact was incredible! It immediately forced stocks upward. Then it lifted spending, especially on items like homes, cars, furniture, and laptops.

Many Americans are in great need of more help and may get it. This additional stimulus may not come until February and will likely be much smaller than in May. However, with the economy already doing okay, the stimulus would be viewed as positive from the perspective of investors.

Low Rates

The Federal Reserve said it would build a financial bridge to the end of the pandemic, and it has stuck to that statement. It has lowered interest rates and promised to keep them low unless inflation averages move well beyond 2%. This has pushed investors away from low-yielding bonds and into riskier assets, pushing stock prices even higher.

These low rates have also increased the affordability of homes, which has, in turn, pushed those prices up.

One major risk is stocks could get too hot – a problem that contrasts with the uncertainty of 2020.

Improvement

The COVID-19 pandemic won't last forever. With positive vaccine news, we can now see the light at the end of the tunnel.

With investors and consumers already feeling optimistic, there is the potential for more economic growth.

Investors have anticipated this improvement and continue to push up prices. While we are enjoying the higher market, we recognize that the more hot stocks get, the greater the chance of them being overcooked. We continue to emphasize the need for a good strategy and personalized plan.

What's Your Estate Plan?

By Jordan R. Hadfield, CFP®

I was recently reminded of the importance of having a thorough and reliable estate plan. I can tell horror stories of family feuds and legal actions taken when the passing of an individual happens without a proper plan for their estate. I can speak of heartbreak when a loved one is suddenly placed on life support, and the family is unsure of how to proceed or unauthorized to make decisions for the hospitalized party. I can assure you that an estate plan is well worth your time and money. If one is not in place, unnecessary stress and complications will ensue.

A proper estate plan will contain multiple documents that protect an individual's assets, healthcare wishes, and beneficiaries. The following are key documents in every estate plan. Please make sure they are a part of yours.

Will/Trust - A will or trust is used to control property from the grave. This control will ensure the transfer of property to the intended beneficiaries and avoid obstacles that can significantly reduce the benefit that heirs would otherwise enjoy. We highly recommend the use of an estate-planning attorney when creating these documents.

Executor of the Estate - An executor of an estate is an individual appointed to handle the affairs of the deceased person's estate. He/she is responsible for making sure all assets in the will are accounted for, along with transferring these assets to the correct parties. We recommend that the executor of the estate is chosen carefully.

Power of Attorney - A power of attorney (POA) is a legal document giving a person (the agent) the power to act for another person (the principal). The agent can have broad legal authority or limited authority to make legal decisions about the principal's property, finances, or medical care. A power of attorney is frequently used in the event of a principal's illness or disability.

Living Will - A living will is a legal document that states a person's choices about end-of-life medical treatments. It lays out the procedures or medications one does, or does not, want to prolong life. A living will is only valid if its creator is unable to communicate.

Medical Power of Attorney - A medical power of attorney gives someone else (the agent) the ability to make health care decisions for another person (the principal). The agent only has the power to act on the principal's behalf when the principal is incapacitated, whether from loss of consciousness or mental ability.

Your SFS Team

Smedley Financial Services, Inc.® is an independent registered investment advisory firm. We work for our clients. Our wealth managers have the flexibility to implement our financial plans, retirement plans, and income distribution plans using the strategies that work towards each client's needs and goals. We work with individuals, businesses, and family estates. We provide financial solutions for your life.

Wealth Accumulation
- Managed Accounts
- Indexed Investing
- Mutual Funds
- Exchange Traded Funds (ETFs)
- Stocks and Bonds
- Alternative Investments

Family Protection
- Term Insurance
- Whole Life Insurance
- Universal Life Insurance
- Variable Universal Life Insurance

Retirement
- Social Security Maximization Strategies
- Medicare Supplement
- Guaranteed Income (Annuities)
- Lifetime Income Planning

Disability (Injury)
- Short-Term Disability Insurance
- Long-Term Disability Insurance

Elder Care
- Long-Term Care Insurance
- Hybrid LTC

Employers and Self Employed
- Health Insurance
- 401(k) Plans

Roger M. Smedley, CFP®
CEO
Founded 1981

Sharla J. Jessop, CFP®
President &
Private Wealth Consultant
Joined 1994

James R. Derrick Jr., BFA™, CFA®
Vice President &
Chief Investment Strategist
Joined 2000

Mikal B. Aune, CFP®
Vice President of
Wealth Management
Joined 2006

Shane P. Thomas
IT Specialist &
Advisor Relations
Joined 2003

Jordan R. Hadfield, CFP®
Private Wealth Consultant
Joined 2018

Lynette S. Watts
Client Service Specialist
Joined 2000

Nashaela Lyons
Client Service Specialist
Joined 2013

Smedley Financial Services, Inc.®, a registered investment advisory firm since 1982
102 South 200 East, Suite 100 P.O. Box 4133 Salt Lake City, Utah 84110-4133
801-355-8888 800-748-4788
info@SmedleyFinancial.com
SmedleyFinancial.com