BROKERAGESELECT NEWSLETTER

Taxes

It's time to gather your receipts, W-2s, 1099s and other tax information needed to complete your return. Don't delay. Start compiling. Also, it's a good idea to check in with your tax preparer to find out new rules that might help lower your tax bill.

IRA RMDs

The IRS has updated the life expectancy tables used for the RMD calculation to reflect longer lives. This means, other things being equal, the annual RMD will be lower as the requirement will be stretched over a longer time period.

Think EV Think Used

As time has passed since the first Electric Vehicles (EVs) came to market, there is now a supply of used EVs available. There are a lot of factors like battery-life to consider and the transferability of warranties. A 2 or 3 year old EV could offer significant discount and value compared to a new vehicle.

Perspectives

Welcome back. Happy New Year. Unfortunately COVID is still with us as we start 2022. We all have been dealing with this pandemic for two years. A new year brings new possibilities and we hope we will not be writing about COVID in 2023. Like us humans, the markets and the economy have been dealing with COVID too. As vaccination and therapies were developed we all began to stir, resuming consumption and increasing demand for goods and services. While aggregate demand returned, the effects of COVID on the workforce did not allow for a commensurate supply response. The result is price inflation for goods and services. While we all seem shocked at the higher grocery and fuel bills, inflation did not appear overnight. Asset prices have been rising steadily and significantly for some time. Housing, stocks, cryptocurrency, art, and wine have been booming. While COVID kept us from spending on stuff, money flowed into all sorts of assets. Once we could start spending again, prices for our everyday items took off. This is ushering in a different dynamic. After the financial crisis, there were strong deflationary pressures that caused Central Banks to take "extraordinary" measures to try to raise prices and promote growth. Now, inflationary pressures are in the system and Central Banks are signaling a reverse in policy and a desire to move towards "normalization". This means higher interest rates. An inflection in policy will likely create turbulence in the markets. Three important factors that determine stock prices are interest rates, company profits and investor sentiment. The Fed has signaled that interest rates will go higher. All things being equal, this should depress equity prices. If we see COVID moving to a more manageable illness, company earnings should grow as consumers spend. In 2021, the government passed an infrastructure bill that should also support demand. A strong earnings environment can offset the downward pressure higher rates place on the stock market. If investors believe that "normalization" is good, that too could help support stocks. After all, if the Fed is not going to "normalize" now, then when?

Something Else

Gardening in the winter is possible with the use of a "cold frame". A cold frame is a glass structure that uses sunlight to keep warm and allow you to grow vegetables and flowers in the winter. A fresh salad from the garden in February sounds pretty good. There are many videos and articles that can show you how to build and use a cold frame. Such structures can also be purchased already or partially constructed. Gardening is a fun activity to pass the winter.

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Out Of The Box

There will be a few themes I'll be following in 2022. The first is whether the Fed has popped the bubble of the high flying e-commerce and internet stocks. The announced change in Fed policy seems to have sparked a re-valuation in the stocks that trade at very high multiples. Many companies lost a lot of market cap in the 4th quarter of 2021 and the slide is still going on and may continue. Valuation has a habit of catching up to investors. The second theme to watch is whether some beaten down stocks in 4Q21 will bounce back to become winners in 2022 - a sort of "Dogs of the Market". Many stocks that suffered at the end of last year were not high flyers with crazy high valuations. Did tax loss selling and momentum algorithms create overly sold shares of good businesses? A lot of very solid companies with real business models saw their stock prices tumble 20-30% from their highs - think fintech, renewable energy. Do these moves reflect a correction that is only a pause in long-term uptrends? If you look at the charts of Amazon and other winners, you notice they experienced significant declines along the way to higher and higher prices. Third, will inflationary pressures ease as 2022 unfolds? The market seems to have moved away from the view that inflation is "transitory". Is it possible that some aspects like supply bottlenecks will yet prove to be solvable? The answer will depend on the path of COVID and the ability of firms to increase production. If prices do not ease, the Fed will need to continue its tightening path which will be a headwind for asset prices. The last theme to keep an eye on is "re-shoring". In 2020 and 2021 the relationship with China changed significantly. A feeling that manufacturing needs to return to the US and Europe could present opportunities for investors. Capital may flow to firms that are re-engineering the supply chains in key sectors like semiconductors, solar panels, and mining. This commentary has a lot of question marks but investors should be able to follow events and economic data. The art will be in how investors position themselves. It's always important to be responsive to changes and to create robust portfolios to manage risks.
