Financial Focus

A Publication of Fortune Wealth Management, LLC

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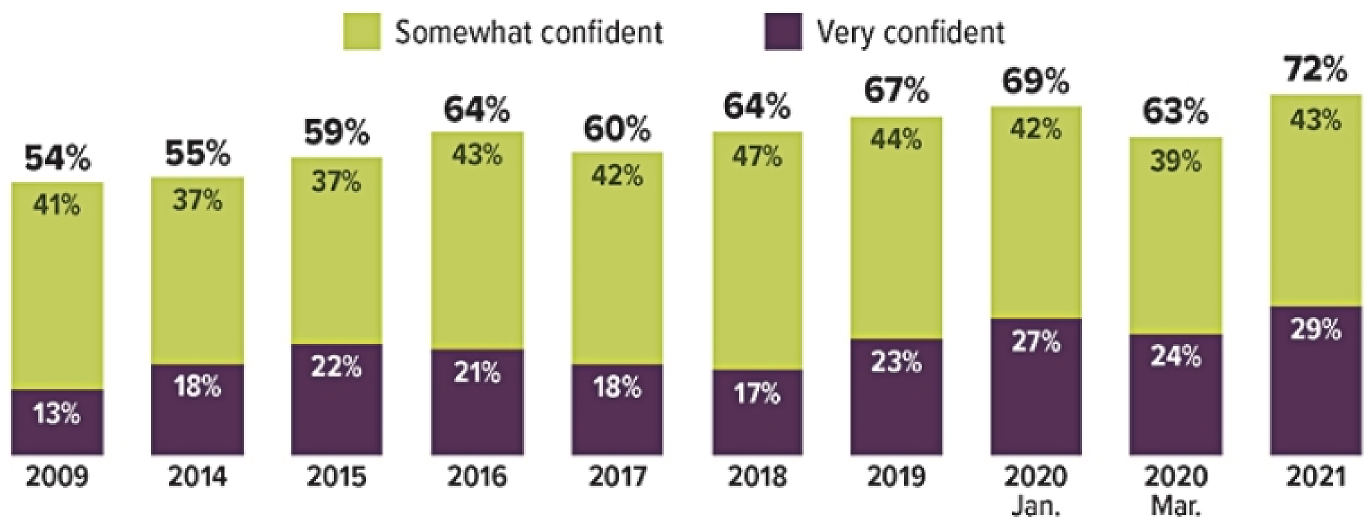
Can You Fund Your Retirement?

In January 2021, more than seven out of 10 workers were very or somewhat confident that they would have enough money to live comfortably throughout their retirement years. This was the highest confidence level since 2000 and a significant rebound from levels in March 2020 after the pandemic began. Overall, retirement confidence has trended upward since the Great Recession.



Source: Employee Benefit Research Institute, 2021 (two surveys were conducted in 2020)

Stock Market Risks in the Spotlight

During March 2021, the widening availability of COVID-19 vaccinations, signs of improving economic conditions, and a third, $1.9 trillion stimulus package brought about more optimistic growth projections. Even though a healthy economy could be good news for many businesses and the financial markets, rising inflation expectations caused a multi-week sell-off in U.S. government bonds that pushed up longer-term yields and sent the Nasdaq Composite Index into correction territory on March 8, 2021.[1]

Promising a patient approach, the Federal Reserve stated that it would not raise interest rates until the labor market fully recovers and inflation moderately exceeds the 2% target for some time.[2] But some investors worry that sharply higher inflation could force policymakers to boost rates sooner than originally expected.

Here's a closer look at some specific types of investment risk that could influence individual stock prices and/or cause broader market swings during the second half of 2021.

Inflation and Interest-Rate Fears

Inflation and interest rates are two different but closely related investment risks. The Federal Reserve is tasked with fostering full employment and controlling inflation. One way it balances these two goals is by lowering interest rates to stimulate business activity or raising rates to help slow inflation when the economy is heating up too fast.

High inflation erodes the value of investment returns, but when interest rates rise, bond values fall (and vice versa). These risks are obvious considerations for bond owners, but they also impact stocks. When goods, services, and credit cost more, consumers have less purchasing power, which can hurt company earnings and stock prices as well.

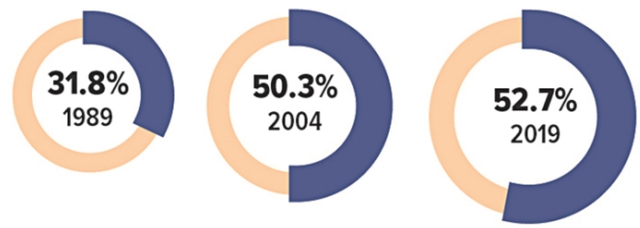
Rising bond yields might continue to have a negative effect on stock values, because as they move up, borrowing costs for most businesses also rise, cutting into profits. Higher yields could also entice risk-averse investors to sell their stocks and buy more stable bonds instead.

Legislative or Regulatory Impacts

Some government actions (such as antitrust lawsuits, higher taxes, and more stringent regulations or standards) make it more difficult and expensive for companies to do business, which can adversely affect their earnings and stock prices. On the other hand, government subsidies and tariffs on foreign products can provide competitive advantages.

The Justice Department, Federal Trade Commission, and numerous states are in the midst of antitrust lawsuits or major investigations into the business practices of several market-dominating tech companies.[3] In another example, the Securities and Exchange Commission is considering new standards for corporate disclosures related to environmental, social, and governance risks.[4]

Percentage of U.S. Households Who Own Stocks*



*Owned directly or indirectly through investment vehicles

Source: Investment Company Institute, 2021 (data from Federal Reserve Board Survey of Consumer Finances)

Event or Headline-Driven Volatility

Headline risk refers to the possibility that events reported in the media could hurt a company's reputation and/or earnings prospects. Troubling news can cause market backlash against a specific company or an entire industry. Companies try to manage this risk through public relations campaigns and other efforts to generate positive news that leaves a good impression on consumers. Events that threaten to disrupt business activity nationwide, regionally, or around the world can cause sudden stock market declines.

The market responds to news, good or bad, almost every day. For this reason, your portfolio should be designed to weather a range of market conditions and have a risk profile that reflects your ability to endure periods of market volatility, both financially and emotionally.

The principal value of bonds may fluctuate with changes in interest rates and market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost. The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

1) *The Wall Street Journal,* March 8, 2021

2) Federal Reserve, March 17, 2021

3) Reuters, December 16, 2020

4) *The Wall Street Journal,* February 24, 2021

Child Tax Credit for 2021: Will You Get More?

If you have qualifying children under the age of 18, you may be able to claim a child tax credit. (You may also be able to claim a partial credit for certain other dependents who are not qualifying children.) The American Rescue Plan Act of 2021 makes substantial, temporary improvements to the child tax credit for 2021, which may increase the amount you might receive.

Ages of Qualifying Children

The legislation makes 17-year-olds eligible as qualifying children in 2021. Thus, children ages 17 and younger are eligible as qualifying children in 2021.

Increase in Credit Amount

For 2021, the child tax credit amount increases from $2,000 to $3,000 per qualifying child ($3,600 per qualifying child under age 6). The partial credit for other dependents who are not qualifying children remains at $500 per dependent.

Refundable Credit

The aggregate amount of nonrefundable credits allowed is limited to tax liability. With refundable credits, a taxpayer may receive a refund at tax time if they exceed tax liability. For most taxpayers, the child tax credit is fully refundable for 2021. To qualify for a full refund, the taxpayer (or either spouse for joint returns) must generally reside in the United States for more than one-half of the taxable year. Otherwise, under the pre-existing rules, a partial refund of up to $1,400 per qualifying child may be available. The credit for other dependents is not refundable.

Advance Payments

Taxpayers may receive periodic advance payments for up to one-half of the refundable child tax credit during 2021, generally based on 2020 tax returns. The U.S. Treasury will make the payments for periods between July 1 and December 31, 2021. For example, monthly payments could be up to $250 per qualifying child ($300 per qualifying child under age 6).

Phaseout of Credit

The combined child tax credit (the sum of your child tax credits and credits for other dependents) is subject to phaseout based on modified adjusted gross income (MAGI). Special rules start phasing out the increased portion of the child tax credit in 2021 at much lower thresholds than under pre-existing rules. The credit, as reduced under the special rules for 2021, is then subject to phaseout under the pre-existing phaseout rules.

Phaseout of Credit in 2021 Based on MAGI

Credit can be reduced to $2,000 per qualifying child, or $500 per other dependent, based on MAGI	
Single/Married filing separately	Over $75,000 to $200,000
Married filing jointly	Over $150,000 to $400,000
Head of household	Over $112,500 to $200,000

Credit can be reduced to $0, based on MAGI	
Single/Married filing separately	More than $200,000
Married filing jointly	More than $400,000
Head of household	More than $200,000

For 2021, there is no reduction in the credit if the taxpayer's MAGI does not exceed $75,000 ($150,000 for joint returns and surviving spouses, $112,500 for heads of households). The credit is partially phased out for MAGI exceeding these income limits. At this stage, the credit is reduced by the lowest of the following three amounts:

- $50 for each $1,000 (or fraction thereof) of MAGI exceeding these thresholds
- The total increase in the credit amounts for 2021 [e.g., if 3 qualifying children (2 under the age of 6), then $10,200 increased credit minus $6,000 pre-existing credit = $4,200 increase in credit]
- $6,250 ($12,500 for joint returns, $4,375 for heads of households, $2,500 for surviving spouses); these amounts are equal to 5% of the difference between the higher pre-existing phaseout thresholds and the special thresholds for 2021

The credit cannot be reduced below $2,000 per qualifying child or $500 per other dependent at this stage under this special rule for 2021.

However, the credit can be fully phased out for MAGI in excess of $200,000 ($400,000 for a joint return) under the pre-existing phaseout rules. The credit as reduced in the preceding stage is further reduced by $50 for each $1,000 (or fraction thereof) by which the taxpayer's MAGI exceeds these thresholds.

Three Reasons to Keep Your Personal and Business Finances Separate

If you are launching a new venture, you may wonder whether it's necessary to open a dedicated bank account for your business. Even if your company is established and already has separate checking and credit-card accounts, you may be tempted to pay business expenses from personal accounts on occasion — or vice versa — particularly during tough times.

The more your business and personal outlays become entwined, the harder it is to manage your company's cash flow, payroll, and taxes. It might also be difficult to keep tabs on the company's financial performance.

Here are three key reasons to draw a clear line between your business and personal finances — and do your best never to cross it.

To Increase Purchasing and Borrowing Power

To open a business bank account, you may be required to obtain an Employer Identification Number (EIN) from the Internal Revenue Service. Building a relationship with a bank that serves small businesses might provide access to other important financial services and resources, such as a merchant account, a line of credit, and a business credit card.

Using a business credit card responsibly is one way to establish the positive credit history that could help you qualify for larger business loans with better rates and terms, and without personal guarantees, in the future.

To Make Life Easier at Tax Time

Maintaining separate bank and credit accounts means you won't have to spend time sorting business purchases from personal ones.

As a small-business owner or independent contractor, you may be eligible for a long list of tax deductions that don't apply to regular wage earners. Careful tracking of your business expenses can help you and your tax professional take full advantage of deductions and reduce your tax burden.

To Protect Personal Assets

If your business struggles, it could pose a threat to your personal assets and credit. Paying business expenses directly from personal accounts might help substantiate a creditor's claim that your business was being run improperly.

Keeping your financial accounts separate may be especially critical if your business is incorporated as a C corp, an S corp, or a limited liability company (LLC). The corporate veil, which refers to the legal distinction between a corporation and its owners, is designed to protect the owners from liability related to the company's actions. However, commingling personal and business funds could pierce the corporate veil and leave your personal assets vulnerable to business debts, losses, and lawsuits.
