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Market Musings

Victoria Capital Management, Inc.

A newsletter brought to you by Victoria Capital Management, Inc.

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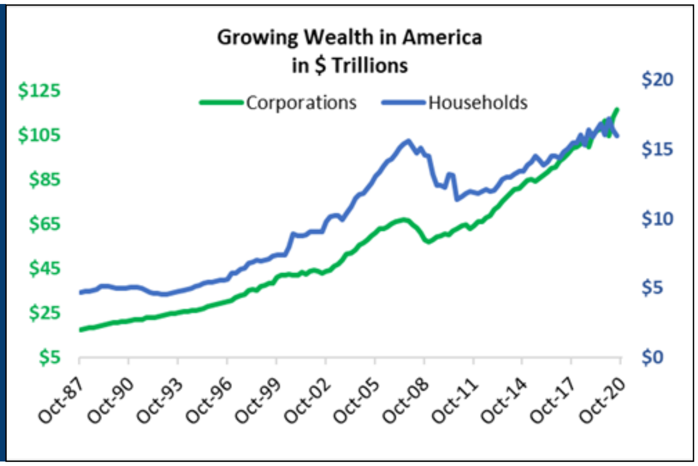
The chart to the right reflects the growing wealth in America. Both individual and corporate net worth are near record levels and continue to grow, suggesting that equity markets can continue to rise for the foreseeable future.

Source: Federal Reserve



Using Charitable Remainder Unitrusts for RMDs

For older investors who are required to take distributions from retirement plans, the term "Required Minimum Distribution" has a negative connotation. As of this year, individuals aged 72 who have accumulated assets in their retirement plan to sustain a desired standard of living in retirement are required to withdraw a specific dollar amount based on government regulations. Basically, the government wants to ensure that individuals pay taxes on retirement savings sooner rather than later.

One way to reduce the tax on that distribution is to create a charitable remainder unitrust (CRUT) and contribute the RMD to the trust. By donating the RMD, an individual gets a moderate tax deduction (possibly between 30-50%) partially offsetting the tax on that distribution. More importantly, if the CRUT is structured correctly, there is the possibility that the trust becomes the equivalent of a second retirement plan where an individual receives an annual tax-favored distribution as well as the potential for growth over time. The maximum percentage distribution from the trust will be set by a government formula based on the individual's age. The older you are, the higher the distribution rate. However, there is a minimum distribution of 5%. Distributions can be almost tax free depending on what types of securities are in the CRUT and how those investments are managed. Or they can even be subject to the lower capital gains tax rate. As we have demonstrated in prior commentaries on the use of a CRUT, there is the possibility that such a trust will grow in value over time, even with distributions, that can benefit both the individual and a charity.

Recent proposals to substantially increase taxes on income and capital gains makes this strategy even more viable for RMDs and portfolios in general. This is the time to do additional research on how a CRUT works and how it can benefit your long-term investment goals.

"It's not whether you're right or wrong that's important, but how much money you make when you're right and how much you lose when you're wrong ."

- George Soros

Market Commentary

January marked a volatile start to the year due to increasing variations of the coronavirus, mixed earnings reports reflecting stronger expectations for the "winners" and larger losses for the "losers". By the end of the month, volatility spiked due to a trading frenzy and a squeeze on short sellers of such securities as Gamestop and AMC Entertainment. While not names you may be familiar with, professionals that were short these stocks lost billions of dollars and caused a ripple effect across equity markets. On balance the markets ended mixed for the month with the DJIA and S&P 500 falling 2% and 1%, respectively. The NASDAQ was up 1.4% and the Russell 2000 small cap index rose 5%!

After declining for 10 months during the 2020 pandemic, the monetary value of goods shipped worldwide in November exceeded its previous high-water mark achieved in December 2019.

Source: Netherlands Bureau for Economic Policy Analysis