Winter 2024

MAJESTIC FINANCIAL

"Take the first step in faith. You don't have to see the whole staircase, just take the first step." - Martin Luther King Jr.

A Message from Sean Budlong *CFP®, CEO, Majestic Financial, Financial Consultant, RJFS*

As I sit here watching the 2024 NCAA football National Championship (Go Blue), I am struck by how quickly life changes. And how much stays the same.

Three years ago, the 2021 National Championship was an Alabama blow out of Ohio State. Jim Harbaugh was under significant pressure because he hadn't managed to beat OSU a single time while coaching at Michigan. The 2020-21 Detroit Lions had a typical 5-11 season and it was the last season under head coach Matt Patricia. The fans couldn't boo the team, because no one was allowed at the games due to Coronavirus restrictions. The Kalamazoo weather was unseasonably warm – December 2020 had 16 days of 50 degrees or warmer temperatures followed by a January with only four days above 40 degrees. The Capital was stormed by protesters on January 6, just ahead of President-elect Biden's vow to bring healing to a divided America. President Donald Trump insisted that the election was stolen from him as he was impeached by a Democratic House twice. On January 8, 2021, the DJIA was at 30,959 and the S&P 500 index was at 3,829.

On January 8, 2024, the Michigan Wolverines will face the Washington Huskies in a battle of undefeated teams. For Michigan, it's the third season in a row of beating OSU, but Jim Harbaugh is under pressure for potential NCAA violations. Lions head coach Dan Campbell is facing pressure himself – the pressure to beat the Los Angeles Rams and Lion's former QB Matt Stafford – in the Lions' first home playoff game since 1993. The Kalamazoo weather has been above average temperatures for the first week but looks to add some snow and rain in the coming days. Donald Trump and Joe Biden are the front runners for the Presidential nominations. President Biden is under investigation by the Republican House with the possibility of impeachment. Trump insists he can restore the economy to pre-pandemic growth. On January 8, 2024, the DJIA closed at 37,688. The S&P 500 closed at 4,763.

What is the purpose of my rambling? To remind everyone that anyone who says that either they "have never seen this before," or "we won't ever see this again…" Think again. In 2021, the market roared higher as the world began functioning after COVID. But a 2-year bear market began in January of 2022 and didn't end until December of 2023. The warm weather was a sign of global warming in 2021, but in 2022, over a foot of snow fell over Christmas and New Year's Day 2023. I won't even try to explain the current political environment – and I dare you to try. Finally, the person who puts this newsletter together is flying in for a Detroit Lions home playoff game, and hopefully wearing a UM 2024 National Championship shirt.

Happy 2024!

Beyond the Mountain Range

A blog written by Sean Budlong, CFP®

Expectations

To start this year I would like to explore how expectations have changed in a relatively short time frame.

Going back pre-social media and pre-pandemic (do you remember those days?), expectations were set on a local level. Family units, local school systems, and the local economy helped create an individual's expectations. A college education could have been a family expectation. Spending the summer hanging out at the lake might have been the perfect vacation. The school district expected students to be in their seats all day from 8am until 3pm, when extracurricular activities would start. An employer probably expected the employees to be at their desks from 8 until 5 pm Monday through Friday.

Fast forward to today's world. Due to social media, kids' expectations of vacations have changed dramatically. As an example, a few years ago my daughter mentioned how jealous she was of a friend who was posting pictures in the Bahamas for Christmas – while my daughter was on her way home from the airport where she flew home from London, England! Schools offer both in person and online classes. In many cases, employers still haven't returned full time to the office. Finally, jobs have changed to the point where many people are getting paid serious money to be an "influencer" on social media. This is incomprehensible to "old people" like me.

What does this have to do with investing? Lately, the media and "experts" have commented on interest rates, saying things like "historically high rates," and making predictions about the effect the rates will have on the market and the economy. While the level of interest rates will certainly influence the markets and the economy, these statements do more to establish expectations for investors and consumers than explain current events. As of December 18, 2023, the Fed Funds rate is 5.25-5.5%. The average mortgage is between 7 and 8%. Both numbers are considerably higher than 2020, when the Fed Funds rate was around 1.75% and the average mortgage was closer to 3 ½%. Frightening?

Well, let's look back over time. Anyone who bought a house, or a certificate of deposit in the 1990's would chuckle at the idea that interest rates are high. Back in the 1990's mortgage rates hovered in the 7-11% range, with the Fed Funds rate on July 13, 1990, hitting 8%. By May 16, 2000, the Fed Funds rate dropped to 6.5%, and mortgages stayed in the 7% range. When did the Fed Funds rate significantly change (along with mortgage rates)? On June 25, 2003, the Fed Funds rate was 1% and mortgages were down to around 4%. The rates stayed the same (even dropping to effectively 0%) over the next 17-19 years. I personally refinanced my mortgage twice over the past 5 years to below 3%.

So back to expectations…if you bought a home in the 1990's, you felt pretty good if you only paid 7% on your mortgage. Yet today, if you are asked to pay 7%, it's historically high? This type of change in expectations occurs daily when reviewing portfolios too. Over the last 30 years, the S&P 500 (including dividends) has averaged 9.862% rate of return. However, individual years tell a very different story. The Total Return of the S&P 500 in 1995 was +37.58%, +32.39% in 2013, and +23.63% as of 12/15/23. In 2002, it was down 22.10%, -37% in 2008 and -18.11% in 2022. Depending on your portfolio holdings, you could be higher or lower than each of these numbers. Were you a rockstar with a 10% average return or upset that you only had a 30% return in 2013?

My point to this blog is simple. Expectations need to be set based on your personal goals, experience, risk tolerance, time horizon and asset allocation. When you allow someone who doesn't know you to set your expectations, you will be disappointed even when you perform extremely well under conditions.

Catch up on past blog posts and stay up to date with future posts at InvestMajestic.com.

Brandon's Office Trivia

What is the shortest chapter in the Bible?

What flavor of pop tarts does Buddy the elf use in his spaghetti in ELF?

Who are the four presidents on mount Rushmore?

What was the first listed company on the New York stock exchange?

What were the last 3 years that Michigan beat Ohio State 3 years in a row?

Answers on page 4

Letter from Chief Investment Officer
"Markets: Mild or Spicy?"

Written by Lawrence V. Adam, III, CFA, CIMA®, CFP®,
Chief Investment Officer, Raymond James

Lights, camera, cook! On Top Chef, one of America's most popular kitchen competition television shows, contestants walk in with knowledge and experience—but no idea what challenges they are about to face. Their goal: to prepare a dish that pleases the expert chefs judging them. But the judges toss in a mix of ingredients that no contestant would expect. The aspiring chefs have to think on their feet, improvise and beat the clock.

Sound familiar? Not only was fast footwork the investment story in 2023, the competition is set to get stiffer in 2024. Here are our ten themes for the upcoming year—our basic menu. Count on more than a few surprise ingredients throughout the year to spice up the financial markets! Let's head into the kitchen and see what's cooking as we enter 2024.

US Economy: 'Rotisserie' Cycles

The most talked about recession in history has yet to materialize. Many economists have stopped waiting for the delivery and have revised the menu. We still believe that a recession will start in 2Q, but it will likely be the mildest ever. Indeed, it may be so mild that markets barely notice it—just a morsel to whet the appetite for the recovery to follow. We expect the recession to be mild because there are no excesses in the economy, and like a rotisserie oven, many parts of the economy have been rotating from hot to cold independently over the last few years. Case in point: in 2023, travel and leisure were toasty while housing cooled. This rotation reduces the potential for all components of the economy becoming chilled at once—the usual recipe for a more severe recession. Even with a mild recession, a recovery by year end should help US GDP warm to a ~1% growth rate for the entire year.

Monetary Policy: Chairman Powell, The Top Chef

The Federal Reserve (Fed) is led by our favorite Top Chef: Jerome Powell. Under pressure to cool inflation, he served up a steady course of interest rate hikes over the last eighteen months and whipped inflation from 9% to 3.1% currently. Since that restrictive diet is done, the Fed will turn its attention to fattening the economy as growth concerns mount (i.e., a modest rise in unemployment and a potential recession). Markets are salivating over the possibility of as many as six interest rate cuts in 2024, but we believe that is overly optimistic; we favor three or four. More rate cuts than that would likely mean the economy is struggling more than we anticipate.

Fixed Income: A Makeover 'Rescue'

Like the guests on Bar Rescue, fixed income investors for the last few years may have felt like they were in bad shape, just like the shabby drinking establishments on the show. In both cases, the underlying business and fundamentals are in place and a makeover is all that's needed. That makeover occurred in the bond market as the sharp reset to higher interest rates gave long-term investors an attractive entry point. What was old is new again. At today's elevated yields, the traditional role of fixed income—providing income and diversification from equities—has been restored.

Read the rest of the article here.

Seasonal Recipe

By Becky Sharp

For those of you that don't know me, I love to cook and bake. However, I don't always follow a recipe. I am always tweaking recipes. And I don't always measure… it's a spoonful or scoop of this or a splash or squirt of that.
With this recipe, you can adjust to your likes and taste, change veggies, add more or less veggies, add more or less Sriracha (we like spicy, occasionally) Soo, HAVE FUN AND MAKE THIS YOUR WAY! I made the following version every Friday night during wrestling season for over eight years, easy to transport to tournaments on Saturdays. The pan came back empty every time!

Veggie Pizza

Ingredients:
• 2 tubes Crescent Rolls
• 1 -2 tsp dill weed, and/or Pampered Chef Dill Mix *
• 8 oz cream cheese, room temp
• 4 oz sour cream
• 1 Tbsp Sriracha sauce (more or less) ** optional
• 1 /2 – 3 /4 Cup fresh broccoli, chopped ***
• 1 /2 – 3 /4 Cup fresh cauliflower, chopped ***
• 1 /2 – 3 /4 Cup shredded carrot ***
• 1 /2 – 3 /4 Cup shredded cheddar cheese

Cooking Directions:
• Preheat oven to 350*
• Spray 11 x 15 pan (jelly roll) with non-stick spray. Spread crescent rolls in pan, press to seal edges. * Sometimes I will sprinkle dill weed on crescent rolls before baking. Bake according to package, or slightly golden. Cool
• In medium glass bowl, cream together cream cheese and sour cream. * Here I will add 1-2 tsp PC dill mix and ** Sriracha sauce – both optional, start with a little and add more, if preferred. Spread over cooled crust.
• Start sprinkling veggies on top of cream cheese layer. *** choose whatever veggies you like, other options… diced peppers, green onions, quartered cherry tomatoes, mushrooms
• Top with shredded cheese, cut and ENJOY!

How does SECURE Act 2.0 change saving for retirement?

Washington Policy Analyst Ed Mills outlines key components of the new legislation. Read the full article here.

RETIREMENT & LONGEVITY

The year-end fiscal 2023 government funding bill contained legislation that makes the most significant changes to the U.S. retirement savings system in decades. The SECURE 2.0 Act builds on retirement savings changes passed in 2019 and contains new provisions that further raise the required minimum distribution (RMD) age, shift to automatic plan enrollment and provide for new matching/emergency withdrawal opportunities.

Most of the key provisions are effective in the 2024-2025 timeframe, but smaller adjustments (such as increasing to 73 the age for starting RMDs) are effective in 2023.

The SECURE 2.0 Act is the second bipartisan bill designed to boost access to retirement savings.

The SECURE 2.0 Act is a follow-up bill to the original SECURE Act passed in 2019, which began the process of increasing the RMD age from 70 1/2 and increasing participation in retirement savings plans through various tax incentives. The Act also eased administrative rules for employer-sponsored retirement plans.

The new legislation goes well beyond the original iteration and seeks to expand participation in retirement savings plans through mandatory enrollments, as well as increased flexibility in the individual use of advantaged savings accounts. The Act also extends the savings timeframe before RMDs are required to age 75 by 2033 – an almost five-year increase from the original RMD distribution age.

Overall, the changes enacted by the legislation (to be phased in over a multiyear period) are likely to boost the asset base for asset managers through increased participation and interest in retirement savings plans.

Key changes will be phased in over a multiyear period.

The Act also features an allowance for matching contributions to be made for student loan payments (expanding the retirement savings of younger adults), higher catch-up limits for those ages 60-63, and additional opportunities for penalty-free withdrawals and lower penalties for missed RMDs that are corrected.

Eligible employees will soon be automatically enrolled into new employer-sponsored retirement plans. Under-the-radar provisions in SECURE 2.0 include an expansion of multiple employer plans (MEPs) and pooled employer plans (PEPs) to include 403(b)s, 529 to Roth IRA rollovers (to a maximum of $35,000), and employer-offered de minimis financial incentives (such as gift cards or other financial awards) to increase employee participation in retirement plans.

Here are more detailed descriptions of the key provisions in SECURE 2.0:

- Automatic enrollment: Eligible employees are required to be automatically enrolled in new 401(k) and 403(b) retirement savings plans with a contribution between 3% and 10%, rising by 1% annually (up to 15%) unless employees opt out. Automatic enrollment is effective starting 2025.
- Higher RMD age: The RMD age increases to 73 in 2023 and 74 in 2030, and bumps to 75 in 2033.
- MEP and PEP access for 403(b) plans: Access to multiple employer plans (MEPs) and pooled employer plans (PEPs) is expanded to include 403(b) plans.
- Matching contributions for employee student loan payments: Plan sponsors may make matching contributions to 401(k), 403(b) and simple IRA plans for qualified student loan payments made by employees effective 2024.
- Expanded emergency expense distribution allowances: Emergency distributions of up to $1,000 are permitted for unforeseeable or immediate financial needs relating to personal or family emergency expenses once per year, to be paid back within three years (effective 2024).
- Tax-free and penalty-free rollover from 529 to Roth IRA: Beneficiaries of 529 college savings accounts are permitted to rollover up to $35,000 from a 529 account in their name to a Roth IRA account. Rollovers are subject to IRA annual contribution limits and are available for 529 accounts that have been open for more than 15 years. Rollovers are permitted starting 2024.
- Reduced penalty for failure to take RMDs: The 50% tax penalty for failure to take RMDs is reduced to 25%. For IRAs, the tax is further reduced to 10% if corrected. Reduction is effective as of the bill's signing.
- Higher catch-up contribution allowances. For those ages 60-63, the catch-up contribution limit is raised to the greater of $10,000 or 50% higher than the regular catch-up amount. The higher allowance is effective starting 2025.
- Emergency withdrawals for domestic abuse survivors: Emergency withdrawals for the expenses of individuals escaping domestic abuse situations are provided at the lesser of $10,000 or 50% of the value of the account, to be repaid over three years with a refund of income taxes paid on the repaid amount. Withdrawals permitted starting 2024.

Trivia Answers from page 2
1) Psalm 117; 2) Bank of New York; 3) Chocolate pop tart; 4) 1995, 1996, 1997; 5) Teddy Roosevelt, George Washington, Thomas Jefferson, Abraham Lincoln

Preparing Taxes – Do it yourself or pay?

Written by Sean Budlong, CFP®, CEO, MF, Financial Conslutant, RJFS on 1/10/2024

We celebrate Tax Freedom Day on April 16, 2024. This is the day that the Tax Foundation (a private company) calculates you will finally keep a penny of your earnings – assuming that you paid all taxes out of your pocket starting on January 1. This means you will finally be free of taxes for the year on the day after taxes are due for last year.

One common area of conversation with clients at Majestic Financial is about tax preparation and tax planning. Clients want to know if it is worth it to pay a CPA to do their taxes or should they use software at home. Often the questions clients ask are about tax planning, not preparation – but the client is unaware of the difference. I will address some of these questions from the Financial Planning standpoint.

I will not offer tax advice. I am not a CPA, nor do I play one on tv. I can offer advice on what you should consider, and even what you should ask the CPA. I can provide the tax documents generated in your accounts at Majestic Financial. I will not be filling out or filing any tax forms for clients. Majestic Financial does not have any financial arrangements/ agreements with any CPA's. We are not paid to recommend any CPA.

What is the difference between tax preparation and tax planning? Broken down to its simplest form, tax planning is done prior to paying taxes and is forward looking, preparation is calculating what has already happened. Planning costs more than preparation, but if done properly may reduce the taxes owed. Less commonly known areas of the tax code may benefit you if you take specific steps over the course of the year. When a client owns a business, has complex financial situations, or has had tax issues in the past, tax planning can be beneficial even with the cost. Talking to a CPA every 3, 6, or 9 months may be worth it if it means you are not sending a larger check into Uncle Sam.

When you prepare your taxes or pay someone else to do it, you need backward looking forms that show income, expenses, taxes paid, taxes generated, etc. While there may be some steps you can take to reduce your tax burden at this point (contributing to an IRA), these opportunities are very limited. Many CPA's will charge per form filled out, and there is not a discussion of what you should have done. For a client with limited sources of income (only W2 or social security income) and using the standard deductions, it may not make any sense to pay someone to prepare tax forms. However, if you have social security income, capital gains and/or losses, rental income, a pension, and you invest in non-qualified option contracts...this may be getting more complicated than an hour in front of your computer.

Here is one last difference between using a CPA for planning versus doing it yourself. Raymond James will generate and send/post tax documents by February 15th. Which means you may be surprised when you are doing your taxes in March. With tax planning done properly, you may still wait until February 15 to receive the forms, but you won't be surprised.

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Upcoming Local Events

2024 Ice Fest
St. Joseph, MI
Feb. 2nd - 4th

The Chocolate Stroll
Downtown Plainwell
Feb. 10th

Garage Sale Art Fair
Kalamazoo Expo Center & Fairgrounds
Feb. 24th

Midwest Rad Fest
Kalamazoo
Feb. 29th - Mar. 3rd

Ice Cream Challenge
Air Zoo, Kalamazoo
Jan. 27th

Majestic Financial Quarterly Webinar: Options
Online - Zoom
Jan. 22nd

Jesus Christ Superstar
Miller Auditorium
Mar. 26th & 27th

Majestic Finanical Charity Golf Outing
Saskatoon Golf Club
Aug. 2nd

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