Yanni & Associates Investment Advisors, LLC

We are proud to announce that 2021 will be YAIA's 15th year in business. We want to thank all of our wonderful clients who have continued to remain committed to us.

Further, in 2020 our assets under managements (AUM) increased and is approaching the $100 million level to where we will likely be transitioning from State registration to SEC registration in 2021. A large majority of the increase in AUM took place as a result of existing client additions and market growth of existing assets, rather than new client additions.

FOURTH QUARTER – 2020 CLIENT NEWSLETTER
REVIEW OF THE MARKETS:

Index:	4Q20	2020
S&P 500	12.15%	18.40%
S&P Mid-Cap	24.37%	13.66%
S&P Small Cap	31.31%	11.29%
Morgan Stanley's EAFE (International Stocks)	16.05%	7.82%
Barclay's US Aggregate (Bonds)	0.67%	7.51%

ECONOMY & MARKETS:

The stock markets continued to rally from their March lows. As noted in past newsletters, the stock markets' recovery had been done in somewhat of a disjointed manner with large companies performing well ahead of their peers. Further, the tech-heavy Nasdaq Composite gained 44%. Large-techy names were by far, the winners of the Covid crisis. As we progressed into the fourth quarter and particularly after news of vaccine approvals, we quickly made numerous investment adjustments as stock market trends changed. While there still remains a disconnect between the overall stock market and economy, certain stock market segments that were laggards, now became leaders.

GDP for the second quarter came in at -31.4% and sharply rebounded in the third quarter at +33.4%. Despite another stimulus package being passed in December, we still believe unemployment will remain high for the foreseeable future. The December Jobs Report was not favorable as non-farm payrolls fell by 140,000 against an estimate of a 50,000 gain (unemployment rate held steady at 6.7%). A large portion of job cuts have been from leisure, hospitality, and other areas that are unlikely to return in the near-term. There appears to be a strong likelihood that many companies across many industries may not rehire all of their staff back over the next few months (keeping unemployment high). Further, transition to "work-at-home", its effects on conducting business, the commercial real estate market, and other aspects of the economy do not appear to be reverting back to pre-Covid levels anytime soon. Towards the end of the fourth quarter, news of Covid vaccines approval gave everyone hope that the extreme part of this pandemic may soon be coming to an end. However, there still are many questions surrounding the vaccines including long-term effects, longevity, whether individuals can still contract or spread Covid, etc… Our general belief is that masks will remain with all of us indefinitely. Regardless, we are still extremely excited!

Moving into January, we will have a change in Administration with President-elect Joseph Biden's inauguration on January 20th. The House of Representatives remained under Democratic majority, despite losing a few seats. The Senate will now be 50/50 with the tie-breaking vote to Vice President-elect Kamala Harris. Heading into 2021, there has been some discussion surrounding "SECURE Act 2.0". The first SECURE Act (discussed in more detail on the next page) increased the Required Minimum Distribution (RMD) Age from 70.5 to 72. SECURE Act 2.0, a bi-partisan effort that may get passed in 2021, is anticipated to raise the RMD age up to 75. Stay tuned!

Heading into 2021, we are anticipating another good year for the stock market. Once again and despite a relatively high unemployment rate and weaker manufacturing, we do not see major signs of a recession on the horizon. However, as we all witnessed this past March, sharp market pullbacks can occur at any point in time. Stock market valuations have become slightly elevated at 22.6 times forward earnings. The recent strong performance of stocks has been referred to as a "sugar high" from the news of the Covid vaccines. However, the Fed's zero interest-rate policy has once again helped support these higher valuations.

Our expectation for the bond market for 2021 is with a bit less enthusiasm. Prior to the Covid outbreak, the Federal Reserve (The Fed) was slowly raising short-term interest rate benchmarks. When Covid struck, the Fed quickly lowered short-term interest rates to near zero (longer-term interest rates fell too). Interest rates remained low across the board in what was termed a flattening of the yield curve. The Fed is not projected to increase short-term rates in 2021. However, many economists are predicting longer-term rates to gradually rise this year if the economy continues to recover. This may put pressure on bond prices and as such, proper adjustments have been made to our bond holdings.

The SECURE Act's Elimination of the Stretch IRA for Non-Spousal Beneficiaries

As we have outlined in our 4Q19 newsletter, the SECURE Act (enacted on January 1st, 2020) had many positive features, including increasing the Required Minimum Distribution (RMD) age for retirement accounts from 70.5 to 72. However, in order to pay for these benefits, the Government eliminated "The Stretch IRA" for most non-spousal beneficiaries.

Prior to the SECURE Act – The most tax advantageous method non-spouses could maintain in an Inherited IRA was utilizing a method termed "Stretch IRA". Generally speaking, that meant non-spouses inheriting retirement accounts would be required to start taking an annual RMD in the year following their decedent's passing. The non-spousal beneficiary's RMD could be based on his/her lifetime, not the decedents. In the case of a child inheriting an IRA, that meant a lower RMD than what the now deceased parent would have been taking. *Due to legalities and it being a "tricky" calculation, some custodians will not calculate nor monitor Inherited IRA RMDs.* <u>*We do both for our clients!*</u>

Post passage of the SECURE Act – The new rule eliminated the Stretch IRA and now forces beneficiaries to withdrawal the entire portion within 10 years after the deceased's date-of-death. Exceptions to this rule include assets left to a surviving spouse, a minor child, a disabled or chronically ill individual, and beneficiaries who are less than 10 years younger than the decedent *(for example: If you (age 66) inherit an IRA from your deceased brother (age 68), being within 10 years younger than him <u>still</u> permits you to use a Stretch IRA.)*

Individuals who have larger Traditional IRA account balances today with lower spending needs and a strong desire to mitigate future tax consequences of leaving these monies to their beneficiaries should consider adjustments to their financial plan. Strategies to consider for retirement account owners today (assume parents) and non-spousal beneficiaries (assume children) in the future include:

1. <u>Parents executing partial Roth IRA conversions today.</u> This popular method will enable parents to maintain control of their assets while moving money from Traditional IRAs to Roth IRAs. It's a taxable event to the parent today. However, in the long-run and while inherited Roth IRAs will still have to follow this new 10-year liquidation rule, those withdrawals will be tax-free. Further, tax-rates could be lower for parents today than their children and in addition, any taxes paid today will escape inheritance taxes.
2. <u>Parents withdrawing additional money from their IRAs today for spending needs, just transferring those proceeds to their own non-retirement accounts, or even gifting directly to their children today.</u>
3. <u>Parents could change the beneficiary to a Charitable Remainder Trust (CRT).</u> This method permits the child to receive income for life and upon the child's demise, the balance goes to charity.
4. <u>Parents could change beneficiaries to include grandchildren.</u> This option would create multiple Inherited IRAs to perhaps those in lower tax brackets.
5. <u>Parents could adjust the beneficiary percentages based on the tax brackets of their children</u>. For example, the parent could leave a majority of Traditional IRA monies to the child in a lower tax bracket and Roth IRA monies to the child in a higher tax bracket. The parent could also incorporate adjusting non-retirement account beneficiaries as well.
6. <u>Parents could buy life insurance with IRA distributions today.</u>
7. <u>The surviving spouse could "disclaim" part of their spouse's retirement account.</u> Disclaiming is the act refusing to inherit a portion or all of an inheritance thereby permitting it to pass to the next of kin. While this decision would not have to be made until the first spouse's date-of-passing, we thought this clever idea should be considered. It would essentially create an Inherited IRA for a child upon the first parent passing (starting one 10-year clock). Then, upon the second parent's passing, the child would inherit a second Inherited IRA, which would start a second 10-year clock.
8. <u>Children strategically timing their Inherited IRA RMDs based on their tax situation</u>. Children can leave the balance intact until the 10th year, can adjust how much they take on an annual basis, and even take a distribution in the actual year of parent's passing thereby spreading the RMD over 11 years.

<u>**Please note many generalizations were made in the outline above. As the interpretation of this rule is quite complex as well as the potential tax consequences, there are many unique instances that could not be addressed. We would always recommend also consulting with an estate attorney, a CPA, or both. Timing partial Roth IRA conversions, accelerated parental withdrawals could have an impact on Medicare Premiums, AMT, the Kiddie Tax, or other adverse tax affects.**</u>