ANOTHER ROARING TWENTIES?

By Fred Dunbar

Merry Christmas … er, I meant to say Happy Memorial Day to all. You can see how I may have been confused, since our Uncle Sam has been handing out money at a record pace to help keep the economy going. If you earned less than $75,000 ($150,000 per couple), chances are you received a $1,400/person stimulus check whether you needed it or not— what a beautiful thing. The latest statistics as reported by CNBC, based on the U.S. Census Bureau Household Pulse Survey, Week 25, Feb. 17 to March 1, show that 28% of Americans who received the stimulus check spent it, 53% used it to pay off or down debt, while 19% saved it. The idea of stimulus was to stimulate the economy.

So, Merry Christmas to those who didn't have to rely on stimulus money to pay for food and the basics of life but could use for savings or paying down debt. My mind goes to the 1976 song by the Steve Miller Band that says, "Go on, take the money and run." Maybe, instead of just handing out money to those who made less than a certain amount, the government could have targeted more money to those who lost their businesses through no fault of their own because of this relentless respiratory virus. They were shut down by the government due to quarantine mandates intended to save lives; they weren't able to or simply could not possibly adapt, they went out of business, and many will never reopen.

I'm writing this on April 10, and much of the talk has been about the latest stimulus package for infrastructure that President Joe Biden signed into law on March 11 for $1.9 trillion — which is an inconceivable amount of money, and there is talk of another massive bill in the near future.

I'm starting to hear how this year and how this decade may be like the Roaring Twenties. I get the similarities, but we'll have to see how it plays out, since I'm not so sure. In the 1920s, the U.S. saw a decade of economic growth and prosperity. This was driven by the end of World War I and the start of a construction boom. As you know, the Roaring Twenties ended badly with the stock market crash of Oct. 29, 1929 and the start of the Great Depression. Throughout 2020 and the COVID-19 pandemic, many Americans saw their personal savings go up, as they were not out spending, traveling, and living their lives as they had been accustomed. Americans are saving more but earning less with bank rates at all-time lows. Is there a construction boom like the 1920s? Some will argue yes, due to low interest rates and demand, with Americans looking for larger properties where they will feel comfortable working from home. So, there are some arguable similarities, but let's hope that history does not repeat itself at the end of the decade.

Companies are hiring, and that will help consumer confidence. Businesses are already confident and should keep hiring and investing. The fundamentals of our economy are solid and should continue to get better. We also have a strong housing market. For example, look no further than what your shore home is worth, driven by low interest rates, lack of inventory, and people wanting vacation homes where they can also work. This should help with continued spending throughout the year.

As of April 9, almost 19% of Americans were fully vaccinated and 34% of the population had received one vaccination shot. President Biden is aiming to have all adults vaccinated by Memorial Day. Many Americans are tired of being told what they have to do and are looking to bust loose and howl at the moon. That could give this country that euphoric Roaring Twenties feeling.

What will that do to your investments? Today, markets are at or near their all-time highs. Will it continue? Well, that is the million-dollar question — or, should I say, trillion-dollar question? If your investments are based on your risk tolerance, how much risk you are comfortable accepting to meet your goals, then do nothing. Continue to rebalance your investment portfolio every six months or so. If you feel that your investments need a tune-up, then sit down and get it done. I know you are busy, but are you too busy to protect your nest egg? Hopefully not. If you are unsure, then hire a professional fee-based adviser to help you.

After years of rebalancing clients' portfolios, we know that people do not like to pay taxes on investments. It is one of the most common items for which clients ask additional clarification. We will delve into this in more detail later this year, once we know what the Biden administration proposes and Congress passes into law regarding tax increases. Capital gains taxes on your investments will probably go up. The number I keep hearing is 28%. Hopefully, the new tax law when passed will become effective Jan. 1, 2022 and not be retroactive to Jan. 1 of this year. This will give you time to make any adjustments to your portfolio and pay lower capital gains taxes now on your non-retirement investment accounts.

We have a client, possibly like some of you reading this today, who purchased stock years ago, and if they sell any of it, their capital gains will be substantial. This client, we will call her Betty (not her real name), has owned Apple stock since the beginning. She invested $1,000 and now owns more than 10,000 shares valued at more than $1.3 million. Her cost basis, what she paid plus the dividends reinvested, is less than a $1 per share. If she sells one share, she will have approximately $132 in capital gains. Right now, her capital gains tax rate is 15% based on her income. So, for each Apple share Betty sells, she will owe $19.80 in taxes ($132 Apple price times 15% capital gains tax rate) and take home $112.20.

Betty is considering doing some work on her home in New England. We discussed taking a home equity loan due to current low interest rates. This make sense now, but when Congress passes tax legislation and if the capital gains tax rates go up, Betty might be better off selling shares of Apple now and paying lower capital gains taxes this year.

In Betty's case, she invested $1,000 years ago buying Apple stock. Hypothetically, if she sells 10% of her shares that she initially purchased for $100, she pays $19,800 in federal taxes and nets $112,200 in gains. It is always better to have your investments working harder than you do, and it is OK to pay capital gains taxes. Her thoughts have always been to leave these Apple shares to her children when she dies. They would receive a step up in cost basis (the value of Apple shares on her date of death). However, that may also be changing with a new tax law. Stay tuned.

So, the Roaring Twenties may be here, and Americans will soon be out spending again. Buckle up for a great summer. Grab your book, chair, and favorite beverage, and head to the beach. Start putting your to-do list together on what you want to do now that you are allowed to be out and about.

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Actual performance and results will vary. This example does not constitute a recommendation as to the suitability of any investment for any person or persons having circumstances similar to those portrayed, and a financial adviser should be consulted for your specific situation.

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