THRIVE

Financial Insights to Enrich Your Life

1Q | 2021 | 2Q | 3Q | 4Q

Planning Alternatives
Wealth Advisors For Life

WELCOME

Nathan Mersereau, CFP®

It finally feels as if we are entering a season of new beginnings. The Covid-19 vaccine rollout has gained momentum. Stimulus money is working its way through the economy. Unemployment figures are improving. There's pent-up demand for consumer goods. Domestic travel is picking up. A return to something that might resemble "normalcy" seems to be on the horizon. The road to economic recovery has certainly not been easy, but there are signs that the U.S. is moving into a stage of the rebound that makes me optimistic about 2021.

And while there is anticipation of experiencing life as we once knew it, a level of caution remains. In fact, I recently experienced a moment of excitement when I learned that my daughter's college graduation will be held in-person in May, but then discovered many restrictions were still in place. Since last March, we've all had many important life events and celebrations put on hold or held virtually. So, for me, attending Alison's ceremony will be all the more meaningful, even if there are limitations on what normal looks like.

One positive to be taken from living through a pandemic, is to be more grateful for shared experiences. I've gained clarity around being fully present and in the moment, and I look forward to reconnecting with my team and our clients face-to-face. You can read more on where we currently stand with our office availability in the News and Events section on page 3.

I've also been reflecting on the wealth management profession and the services Planning Alternatives provides. The Covid-19 crisis reinforced just how essential it is to focus on prudent planning in many areas of life. There have been many times in the past year we've seen and heard how our financial planning services and approach to crafting investment portfolios have helped clients navigate a turbulent time with a greater sense of security.

I speak for the entire team at Planning Alternatives in saying just how much we appreciate your trust and your business.
As always, we are here for you.

Nathan Mersereau

Nathan Mersereau, CFP®
President

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INVESTOR PROTECTION CORNER

UNDERSTANDING CYBERSECURITY THREATS AT TAX SEASON

Tax season can be a particularly active time for fraud and identity theft, especially because technology can make it easier for criminals to pose as the IRS. Tax season is a stressful time because you are reviewing financial documents under a tight deadline. This can create conditions for unsuspecting tax filers to fall prey to scammers. The following information can help you spot scams.

IRS PHONE SCAMS

Tax season scams aren't necessarily advanced. For example, consider the IRS impersonation phone scam, in which the victim receives a phone call or voice mail message from someone claiming to be from the IRS. The fraudster insists that you must pay your taxes now — via a wire transfer — or else there will be negative consequences. The IRS does not make phone calls demanding immediate payment; they will mail you bills if money is owed.

FRAUDULENT TAX RETURNS

Another tax season scam is one in which a fraudster files a tax return on behalf of another individual in hopes of receiving that individual's refund. Unfortunately, with wealthy Americans seeing their tax refunds increase in recent years, such individuals can be attractive identity theft targets.

EMAILS FROM FAKE TAX AGENCIES

An email from a fake tax agency has emerged as another scam. In this scheme, the victim receives a letter threatening an IRS lien or levy, based on bogus delinquent taxes owed to a non-existent agency, with a name such as "Bureau of Tax Enforcement." The IRS cautions that there is no such agency, and "the lien notification scam also likely references the IRS to confuse potential victims into thinking the letter is from a legitimate organization."

FRAUDULENT TAX RETURN PREPARERS

The "ghost" tax return preparer is another potential danger. According to the IRS, a ghost preparer is paid to prepare a tax return but does not sign it, either electronically or on paper.

FINAL WORDS

With some extra vigilance, individuals can protect themselves against fraudsters not just during tax season but also moving forward. It's helpful to use a range of measures to ensure that your assets are protected.

WELCOMING OUR NEW TEAM MEMBERS

Chris Hylen, MBA, CFP®
Senior Wealth Advisor

Chris joins Planning Alternatives as a Senior Wealth Advisor and has more than 25 years of experience in financial planning, wealth advisory, and portfolio management. He focuses on working with clients to craft a personal financial plan that helps reduce complexity while meeting their financial goals. Chris previously served as the national practice management consultant and regional director with Swan Global Investments and has held senior leadership positions with CNL Securities, LPL Financial, and WaterOak Advisors. Chris earned a BA in business administration from James Madison University and an MBA in finance from Rollins College.

Laurie Coil
Client Service Administrator

Laurie Coil joined the Planning Alternatives team earlier this year and brings more than 25 years of experience in administration and customer service in the financial services industry. As Client Service Administrator, Laurie assists clients and advisors in all administrative matters relating to servicing their investment accounts. Laurie attended Wayne State University for her undergraduate degree in liberal arts and will be pursuing her BA in finance at Walsh College this fall.

SERVING YOU DURING THE PANDEMIC

Several clients have asked when we will be opening our offices again for client meetings and visits.

At this time, according to the State of Michigan's public health guidance, employers must require employees to perform their work remotely where it is feasible for them to do so. This means that currently our office remains closed to the public and our clients. From the start of the pandemic through today, we have had business continuity plans in place to ensure our service to you continues uninterrupted. Although we continue to work remotely, we have business strategies in place so that our operations remain both flexible and resilient and our employees are available to you.

The safety of our employees and clients is of utmost importance. We will update you on our reopening plans as they evolve. We look forward to continuing to care for you and your family as we move towards the end of this pandemic.

KEY FINANCIAL DATA TO KNOW

Please be aware that the IRS recently moved the personal tax filing deadline to May 17th.

It's never too early to start creating effective tax strategies that reduce your tax bill. Please visit our website to access Key Financial Data 2021 to answer questions you may have around tax rates, deductions, distributions, credits, and more.

Contact your wealth advisor to explore how you can reduce your taxes in 2021.

FINANCIAL PLANNING ESSENTIALS

TAX PLANNING STRATEGIES FOR 2021

It is never too early to start planning tax reduction strategies. While a number of changes to the tax code are being debated in Congress, taking time to review your financial plan now can help you save on taxes in 2021. Here are a few areas to explore with your wealth advisor.

1. TAKE ADVANTAGE OF LONG-TERM CAPITAL GAIN RATES

Selling an asset — such as a stock, bond or shares in a mutual fund — when held for longer than one year means a preferential tax rate of only 0%, 15%, or 20% will be applied to the capital gain, depending on the investor's income level. These tax rates have the potential to help the investor, as they are encouraged to buy and hold securities for a longer period of time.

Conversely, if an asset is held for less than a year before selling, the capital gain is taxed at ordinary income rates, which are much higher in most cases.

To grow wealth over the long term, it is to your benefit to understand the difference between long-term and short-term capital gains rates. For 2021, you will apply one of three tax rates for long-term capital gains – 0%, 15%, or 20% – which is based on your total taxable income. For example, a married couple filing jointly would pay 20% on their long-term capital gains if their taxable income is above $501,600; and for single filers if income is above $445,850. Keep in mind that capital gains are included in a 3.8% net investment income tax when your modified adjusted gross income is more than $250,000 (married) or $200,000 (single). This means that your total tax rate will be higher if your income exceeds these thresholds.

2. MAXIMIZE YOUR RETIREMENT CONTRIBUTIONS

Making contributions to employer-sponsored retirement plans or personal IRAs can help reduce tax obligations. For calendar year 2021, the limit for contributing to a 401(k) is up to $19,500 for those under age 50, and $26,000 for those 50 and older. Self-employed individuals can contribute up to $58,000 per year to a solo 401(k).

The 2021 traditional IRA contribution limits are $6,000 for individuals under age 50 and $7,000 for those 50 and older.

3. CONSIDER CHARITABLE CONTRIBUTIONS

To encourage the continued support of charitable organizations, the adjustments to itemized donations enacted in the 2020 Coronavirus Aid, Relief and Economic Security Act (CARES) still apply in 2021.

You can deduct cash contributions up to 100% of your adjusted gross income (AGI) under the CARES Act, up from the standard 60%. These limits do not apply to contributions to donor-advised funds. You can deduct up to 60% AGI in cash and up to 30% AGI in appreciated assets when contributing to donor-advised funds. If your donations exceed your AGI deduction limits, you may carry forward excess deductions for up to 5 subsequent tax years.

Another opportunity to gift to charity is through an IRA qualified charitable distribution (QCD). Individuals age 70½ and older may donate up to $100,000 from their IRA and gift directly to charity without recognizing the distribution as taxable income.

4. REVIEW ESTATE PLANNING GIFTS

The gift and estate tax exemptions increased in 2021 to $11.7 million for individuals and $23.4 million for a married couple. Estates valued more than this amount are generally taxed at the top estate tax rate of 40%.

Keep in mind that an additional amount each year can be gifted without incurring gift or estate taxes. This annual exclusion remains at $15,000 per person in 2021. For example, a married couple with four children could give their children a total of $120,000 each year ($15,000 from each parent to each child) without owing any tax and without it counting toward the lifetime exemption.

It is also worthwhile to note that when trusts are used for estate planning, many are taxed as legal entities. For trust and estate income above $13,050, the tax is $3,146 plus 37% of the amount over $13,050.

FINAL THOUGHTS

There are other possible tax changes on the horizon. For instance, President Biden's administration has proposed:

- Increasing tax rates for those whose income exceeds $400,000.
- Discontinuation of preferential rates for qualified dividends and long-term capital gains for those with more than $1 million in income.
- Capping itemized deduction benefits at 28%.
- Removal of some tax treatments in real estate.
- Decrease the current tax exemptions for gift, estate, and generation-skipping transfer tax.

It is recommended to wait until tax law is certain before building a final plan. Designing an income tax strategy is complex and should involve your professional team. Contact your wealth advisor to explore how tax planning in 2021 can benefit you.

INVESTMENT COMMENTARY

Jim Long,
CFA®, CFP®, CMFC®,
Director of Investments

PERFORMANCE

Stocks marched upwards in the first quarter of 2021, driven higher by improving corporate earnings and the hope that the vaccination effort will lead to significant economic growth in the second half of the year. Major U.S. stock indices all touched new record highs in March, led by small and mid-cap stock performance. Bonds suffered a loss in the quarter as longer-term interest rates rose. Alternative assets performed strongly as natural resource and commodity prices continued to recover.

STOCKS

U.S. stocks continue to benefit from an improving economic situation and more widespread vaccination against the coronavirus. The positive momentum of small-sized (S&P SmallCap 600) and mid-sized (S&P MidCap 400) companies sustained a trend that began last fall, as their returns widely outpaced large-sized (S&P 500) companies. Overall, U.S. stocks (Russell 3000) were up 6.3% for the quarter. Remarkably, the Russell 3000 has gained more than 89% since falling to a pandemic low on March 23, 2020.

International stocks (MSCI All Country World Index ex-U.S.) achieved positive returns over the first quarter, gaining 3.5% to finish slightly behind their U.S. counterparts. Developed markets (MSCI EAFE) bettered returns from emerging markets (MSCI EM) on a relative basis.

BONDS

Bonds (Barclays US Aggregate index) fell 3.4% during the quarter. Longer-term interest rates rose sharply in February and March as investors grew more comfortable with the economic growth outlook, even as the Federal Reserve affirmed its commitment to keeping short-term rates near zero for the foreseeable future. The year 2020 was a remarkably good one for bond performance, considering the economic calamity caused by the pandemic. Bond returns will likely be challenged this year, as the recovering economy exerts upward pressure on interest rates.

ALTERNATIVES

Natural resources (S&P Global Natural Resources) again led the alternative asset category's quarterly performance, while global real estate (FTSE EPRA/NAREIT Developed) and commodities (Bloomberg Commodity) also rose along with economic growth expectations. Overall, alternative assets rose 8.1% for the quarter.

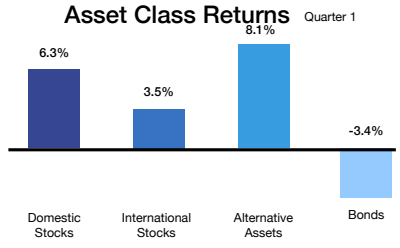

Chart Source: Planning Alternatives

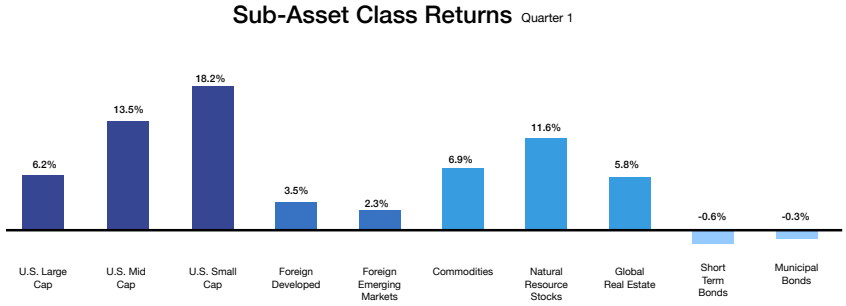

Chart Source: Planning Alternatives

INVESTMENT COMMENTARY

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PERSPECTIVE

"Inflation is when you pay fifteen dollars for the ten-dollar haircut you used to get for five dollars when you had hair."
– Sam Ewing

Merriam-Webster defines inflation as "a continuing rise in the general price level." To go a bit further, there are two main types of inflation: demand-driven (where consumer-driven demand for goods and services is greater than supply) and cost-driven (cost increases in goods and services where there is no available suitable alternative to consumers). An example of each: pandemic government stimulus spending could lead to demand-driven inflation by boosting the money supply quickly without a corresponding bump in supply, while cost-driven inflation could appear when oil production costs rise, which are then passed along to consumers.

Why is the concept of inflation so important? Because it affects just about everything, including interest rates, the return on your investment portfolio, and the prices of gas and groceries. It is important enough that the Federal Reserve uses it as one of two key considerations (along with employment in setting short-term interest rate policy. The Fed has historically targeted 2% as their desired inflation rate; however, inflation has been subdued since the financial crisis of 2008. As a result, the Fed recently signaled a willingness to allow inflation to run above target for longer before adjusting interest rates – but only when following an extended lower-inflation period.

Thus far during the recovery, the Fed has kept short-term rates near zero, and has signaled it will keep them there through 2023. But the Fed does not directly control longer-term interest rates, which are largely a function of expectations for growth and inflation. These longer-term rates have recently increased. Even though these rates are not elevated by any historical standards, the move has caused some market angst. The concern is that if economic growth expands too quickly and inflation rises significantly, the Fed will be forced into raising short-term rates sooner than expected.

Many economists believe that the Fed has historically done a poor job of timing rate hikes, and that the recovery could be prematurely stifled if the Fed acts too soon coming out of the pandemic.

The potential for higher inflation has led to some recent volatility in stock prices. However, the effect on bonds has been more pronounced. Inflation and rising rates can affect bond returns in two ways: via decreased purchasing power of interest payments, and potential price depreciation as existing bonds become less appealing than newly issued ones. But some perspective is in order. A bad year in bonds typically sees low-to-mid single digit percentage losses, whereas a bad year for stocks is typically much worse. A silver lining to increasing interest rates for bond investing is that higher interest payments on newly purchased bonds help to offset lower interest payments and price fluctuations of older bonds.

Our suite of active bond funds seeks to anticipate future inflation and interest rate moves and position their portfolios accordingly in an attempt to outperform the general bond index. With rates likely rising, it will be challenging to replicate last year's returns of bonds in the foreseeable future. However, the rationale for including bonds in portfolios remains valid: to diversify the risk from stocks and provide a ballast against stock market volatility.

POSITIONING

Our view is that economic growth will accelerate in 2021, especially in the second half of the year as the aggressive and robust vaccination effort reaches a high enough level to promote a sense that normal activity can resume. A sizeable amount of the more than four trillion dollars appropriated through government stimulus has already filtered into the economy. Bloomberg estimates that more than a trillion additional dollars of excess savings is held in the United States. A significant portion of this money is likely to be spent as the pandemic recedes, satisfying the pent-up demand of millions of consumers for travel, entertainment, dining out, and other pandemic-restricted activities.

Although all this anticipated economic growth and consumer spending may cause a short-term increase in year-over-year inflation metrics (when compared to the 2020 pandemic depths), we do not anticipate sustained elevated inflation levels over the next year for two main reasons:

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Director of Investments

1. Unemployment remains elevated due to the pandemic, evidenced by both the official unemployment rate as well as the increased number of individuals who left the workforce entirely. While this slack remains in the labor market, businesses should see employee wages remain fairly consistent and experience less upward pressure on their overall costs.

2. Even if GDP growth is strong in 2021 as projected, U.S. total economic output remains below the pre-pandemic trendline. This gap would likely need to be made up before sustained inflationary pressures would begin to build.

The longer-term outlook for inflation is slightly more concerning. If elevated economic growth and massive government spending continue for an extended period, and if employment numbers and productivity spike, the perfect storm of inflationary triggers could arise. While this is unlikely in the very near future, we are constantly examining these data points for clues on what the future may bring.

Regardless of the outlook for economic growth, inflation, stock prices, and interest rates, we remain committed to our core investment tenets of asset allocation, global diversification, cost sensitivity, and using a carefully constructed financial plan to inform investment decisions. This is the foundation upon which your portfolio is built.

Please contact us with questions, or just to chat!

Jim Long, CFA, CFP®, CMFC®
Director of Investments

DISCLOSURES & FOOTNOTES

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1. **Asset Classes:** Domestic Stocks are represented by the Russell 3000 Index, which measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. stock market. International Stocks are represented by the MSCI ACWI ex U.S. Index, a market capitalization weighted index that is designed to measure the global stock market performance of developed and emerging non-U.S. markets. Alternative Strategies are represented by the Morningstar Multialternative Fund Category, which consists of mutual funds that provide exposure to different alternative investment strategies that may take short positions, invest in currencies, derivatives or other alternative asset classes. Alternative Assets are represented by a blend of three indices: 33% *(Commodities)* Bloomberg Commodity TR Index, which is a broadly diversified index composed of 19 commodity futures contracts on physical commodities in seven sectors; 33% *(Natural Resource Stocks)* S&P Global Natural Resources Index, which is comprised of 90 of the largest publicly traded companies in natural resources and commodities businesses that meet investability requirements; 34% *(Global Real Estate)* FTSE EPRA/NAREIT Developed Index, which is designed to track the performance of listed real estate companies and REITs worldwide. Bonds are represented by the Barclays Capital Aggregate Bond Index, which represents most intermediate, investment grade bonds traded in the U.S., including Treasury securities; government agency bonds; mortgage-backed bonds; corporate bonds and a small amount of foreign bonds traded in the U.S. Short-term Bonds are represented by the Barclays U.S. Govt/Credit 1-5 Yr. TR index, which measures the performance of U.S. dollar-denominated U.S. Treasury bonds, government related bonds and investment grade U.S. corporate bonds that have a remaining maturity of greater than or equal to one year and less than five years. Municipal Bonds are represented by the Barclays 1-10 Year Municipal Blend Index, which is an unmanaged, total return, market value-weighted index that tracks the short and intermediate components of U.S. investment-grade tax-exempt bond market, including General Obligation, Revenue, Insured and Prerefunded bonds with a remaining maturity from 1 up to 12 years. Large Cap Stocks are represented by the S&P 500 Index, a group of 500 large companies selected by S&P and weighted by market capitalization. Mid Cap Stocks are represented by the S&P 400 Index, which is a group of 400 mid-size companies selected by S&P and weighted by market capitalization. Small Cap Stocks are represented by the S&P 600, which is a group of 600 small-size companies selected by S&P and weighted by market cap. Foreign Developed Stocks are represented by the MSCI EAFE Index, a market capitalization weighted index designed to track the performance of stocks in developed markets (excluding the U.S. and Canada). Emerging Market Stocks are represented by the MSCI Emerging Markets Index, which is a market capitalization weighted index designed to capture the stock market performance of emerging markets. Long/Short Stocks are represented by the Morningstar Long/Short Equity category, which captures the performance of mutual funds that hold sizable stakes in both long and short stock positions. Long/Short Bonds are represented by the Morningstar Nontraditional Bond category, which captures the performance of mutual funds that pursue strategies divergent in one or more ways from conventional practice in the broader bond-fund universe, such as tactical management of bond exposures, active management of duration, currency trading and/or shorting. Managed Futures are represented by the Morningstar Managed Futures category, which captures the performance of mutual funds that trade liquid global futures, the majority of which follow a trend-following strategy. Performance data is from Morningstar Office, Bloomberg and Tamarac Advisor View.

2. **Benchmark Performance:** The components of the benchmarks are listed below. Data from Tamarac AdvisorView/Schwab PortfolioCenter.

Benchmark	Domestic Stocks (Russell 3000)	International Stocks (MSCI ACWI x US)	Bonds (Barclays US Agg. Bond)	Cash (BOA/ML US T-Bill 0-3 Mo.)
Conservative 20-80	15%	5%	78%	2%
Moderate Conservative 40-60	30%	10%	58%	2%
Moderate Conservative Plus 50-50	37.5%	12.5%	48%	2%
Moderate 60-40	45%	15%	38%	2%
Moderate Plus 70-30	52.5%	17.5%	28%	2%
Moderate Aggressive 80-20	60%	20%	18%	2%
Aggressive 100-0	74%	24%	0%	2%