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SUMMIT WEALTH PARTNERS, LLC

THE Rational Optimist™

Bucket Strategy Planning

BY JASON PRINT, CFP®
CO-PRESIDENT & CEO

Planning for retirement isn't just about saving money – it's also about ensuring you have a solid strategy for withdrawing your funds. Given the increasing life expectancy and the changing financial landscape, retirees need to make informed decisions about distributing their retirement savings so they can do it wisely.

Working hard for decades and saving for your old age is a significant achievement. However, in order to maximize your assets, it's important to consider the right withdrawal method(s) for you. When working with our clients, we analyze their situation and help develop the best strategy to withdraw assets in a sustainable and tax-efficient manner. In this article, we delve into some retirement planning withdrawal strategies to make you aware of the options.

Systematic withdrawal strategy

This is the most straightforward method where retirees withdraw a fixed percentage of their portfolio annually. For example, the 4% rule suggests taking out 4% of your initial portfolio balance in the first year and adjusting it for inflation in subsequent years.

Developed by William Bengen over 30 years ago, this strategy continues to be discussed in financial advisor circles. While simple and fairly straightforward to implement, it doesn't account for market fluctuations. In bear markets, this strategy can lead to selling assets during low periods to meet the systematic withdrawal.

Required minimum distributions (RMDs) strategy

One option for investors who have a significant amount of their assets in qualified accounts is an RMD-type method. RMDs are mandated by the IRS for tax-advantaged retirement accounts such as traditional IRAs and 401(k)s. Once you reach the RMD age, you must withdraw a specific percentage of your account each year.

While this strategy ensures you're taking money out, it may not align with your individual needs. A significant downside is that you take a higher percentage of your portfolio as you get older and your life expectancy is lower. Thus, a 75-year-old will be drawing much less from their portfolio each year than a 90-year-old. Some people may not be as active and willing to spend as much money when they are 90; they would prefer to travel and spend money in their 70s.

The bucket account strategy

The bucket account strategy is a more sophisticated approach to retirement withdrawals, aimed at providing retirees with financial security while allowing for flexibility and minimizing tax consequences. It involves dividing your retirement portfolio into three main "buckets."

- **Cash and short-term investments (Bucket 1):** This is your short-term fund, containing enough cash and highly liquid assets to cover your living expenses for the next 1-2 years. Bucket 1 ensures you won't need to sell during a market downturn to meet immediate needs, thus reducing the risk of locking in losses.

Continued on page 2

FEATURES

EVENT SCHEDULE

Naples Shred Event
Friday, April 19 from 9-11 a.m.
999 Vanderbilt Beach Rd., Naples, FL 34108

All About Travel Meet Up Dates:
Monday, April 29
Euro Bistro, 6080 28th St SE, Grand Rapids, MI 49546

connect@mysummitwealth.com

- **Fixed-income investments (Bucket 2):** This one consists of bonds and other fixed-income assets, providing a stable source of income for the next 3-10 years. Bucket 2 is designed to weather market volatility and generate a consistent income stream, allowing the other buckets to grow.

- **Equity investments (Bucket 3):** This is the long-term growth portion of your portfolio. It contains primarily stocks and other high-return potential assets. You tap into Bucket 3 only when Buckets 1 and 2 are depleted. Over time, you replenish Buckets 1 and 2 by periodically selling assets from Bucket 3 or by rebalancing.

Advantages of the bucket account strategy include:

- **Financial security:** This approach provides a asense of security since you know you have immediate access to cash for living expenses.

- **Tax efficiency:** By planning your withdrawals strategically, you can minimize tax consequences. For instance, capital gains tax on Bucket 3 assets can be delayed until they are sold. This also lets you customize how much and when funds are pulled from retirement accounts.

- **Flexibility:** This strategy allows for flexibility in adjusting your withdrawals according to market conditions and your changing needs.

- **Peace of mind:** Knowing you have a well-structured plan can reduce financial stress and allow you to focus on enjoying your retirement.

While the bucket account strategy offers multiple benefits, it's not without its challenges. Issues to consider include:

- **Asset allocation:** Maintaining the right mix of assets in each bucket requires ongoing monitoring and adjustment.

- **Market risk:** Bucket 3 assets are exposed to market volatility, which can impact the long-term sustainability of your retirement plan.

- **Inflation:** Ensuring that your income keeps pace with inflation is crucial, especially in the long term.

Retirement planning doesn't end when you stop working; it extends to how you withdraw and manage your savings during retirement. The right strategy for each of our clients depends on whether their assets are in retirement or taxable accounts, how much they are looking to withdraw from the portfolio, and the timing of their cash needs. Our advisors may employ one of these strategies or a combination of them based on the specifics of a client's situation. We may also deploy the bucket strategy without necessarily opening a separate account. For efficiency and simplicity, we may include several buckets in one account. As always, don't hesitate to contact your advisor with questions or thoughts on your strategy.

Jason

Tax Deduction Best Practices

BY KRISTIANA DANIELS, CFP®, EA, BFA™
WEALTH ADVISOR

Are you making the best use of your tax-deductible expenses? A married couple filing jointly gets a standard deduction of $29,200, and most households do not itemize their deductions. If you are one of the few who has itemized deductions close to the standard amount, you might greatly benefit from additional tax planning.

One approach we often use for our clients is called bunching deductions. When utilizing this strategy, we consider and plan your tax situation two years at a time. In one year, we pay and take as many itemized deductions as possible. In the subsequent year, we choose to take the standard deduction. This approach benefits you by maximizing the allowable itemized deductions.

Here are a few common deductions we can consider when planning to bunch yours:

Medical expenses: We realize that most medical expenses are not planned; however, if you have been putting off costly prescription purchases or elective surgery, it would be wise to try and group those items in the same year. (The medical expense deduction is the amount that exceeds 7.5% of your AGI.)

Property taxes: If you have the tax bill in hand, you can pay next year's taxes before the end of the year. In this case, you would be able to claim that amount as a deduction for the current tax year. (Note: The deduction for state and local taxes is capped at $10,000.)

Charitable contributions: This may be the most practical way to bunch your deductions. Provided you donate regularly to a charity and have appreciated assets held in a taxable account, it is often most advantageous to make all of your donations for two years in your designated itemized deduction year. The most common objection to this strategy is that you want the charity to receive your contribution every month, as usual. Still, there is a solution to this problem – a donor-advised fund (DAF). A DAF allows you to donate the appreciated assets all in one year and then direct the funds to your favorite charities on a time frame of your choice.

In this way, you can take your larger itemized charitable gift deduction in the year that the gift of appreciated assets is made to the DAF. The charity will never know your gifting strategy is different, but you will be able to utilize your deductions as efficiently as possible.

Assigning a tax purpose to each year enables us to plan in a way that lets you take maximum advantage of all of the tax relief within the current tax code. We are always looking for effective strategies to implement into your financial plan to help you achieve your goals, so give us a call to discuss tax planning details!

Kristiana

As a value-added service to you, please feel free to tell your family, friends and colleagues that they may use us as a sounding board for their financial concerns free of charge and without obligation.

The Best Performing Asset Class Over the Last 15 Years

BY JEFFREY JANSON, AIFA®, CFP®, CBDA
SENIOR WEALTH ADVISOR

Supply and demand is the stuff you learn about on the first day of your economics class. When you have too much supply of a product and not enough demand, the price must decline. Conversely, when demand outstrips supply, the price inevitably rises.

With this Econ 101 intro in mind, here is a question for you: What if there was a product that has created constantly rising year-over-year demand for most of the last 15 years, but whose new manufactured supply is cut in half every four years? Any theories on what would happen to its price? Would you be surprised to learn that, on an investment basis, it was the best-performing asset class over the last 15 years?

What is this miracle of finance, you ask? It's Bitcoin. I know, I know...I can clearly picture the eye-rolls, but hang in with me here for a minute. Yes, Bitcoin's manufactured supply halves every four years. It has since the cryptocurrency's inception in 2009, and this will remain the case until 2140. This supply constraint is built in as the foundational level of Bitcoin's operating algorithm. As it happens, the manufactured supply is slated to halve again in April of 2024. Read on to have your mind blown!

According to Cointelegraph, Bitcoin's price has risen a staggering 8,990,000% since the launch of this digital currency 15 years ago! No other asset class comes even remotely close.

However, we need to unpack that and understand the risks associated with an asset class like this. Let's start by checking out the trailing year-over-year returns for the last 15 years.

Rise of Bitcoin

2009	n/a
2010	+30,203%*
2011	+1,467%
2012	+187%
2013	+5,870%
2014	**-61%**
2015	+35%
2016	+124%
2017	+1,338%
2018	**-73%**
2019	+94%
2020	+302%
2021	+60%
2022	**-66%**
2023	+156%

** Based on 2009 price from New Liberty Exchange Source*

I want to direct your attention to 2014, 2018, and 2022, which delivered losses of 61%, 73%, and 66%, respectively. Clearly, this is not an investment for the faint of heart. However, one could also conclude – at least historically – that if you held your investment for a few years after such a precipitous decline, you would have more than made up for the loss.

Bitcoin was far from easy to invest in over the last 15 years, but as of January 11, 2024, it is. That's when the Securities and Exchange Commission (SEC) approved (all on the same day) 11 spot Bitcoin ETFs which you can now hold in your brokerage or retirement plan account. To be crystal clear, the SEC does not endorse Bitcoin as an investment; in fact, the regulator resisted approving it for as long as it could. It has now simply allowed it, with all the associated volatility, whereas before, it prevented the asset from being sold in an ETF wrapper to investors of any sort.

Still interested in considering Bitcoin for your investment portfolio? If so, what percentage of your portfolio might be appropriate for a rollercoaster investment such as this? Many might rightly conclude 0%, and that's fine. If you share this view, you can simply stop reading now – this article should in no way be construed as an encouragement to invest in Bitcoin.

However, for those who can stomach some volatility in a portfolio, 1% to 3% might be appropriate. That's what the CFA Institute recommends to those who invest in the asset class as part of a diversified portfolio. It believes that including a "sliver percentage" (such as 1% to 3%) of Bitcoin will increase the return and decrease the volatility of a portfolio over time as Bitcoin has tended to be uncorrelated to other portfolio asset classes. Some well-known financial advisors have pragmatically pointed out that if 1% of your portfolio blows up, this will probably not change the outcome of your retirement; however, a 1% allocation does have the potential to meaningfully impact your long-term rate of return in a positive manner.

So, is a spot Bitcoin ETF appropriate for you? This is definitely not a question I can answer in a newsletter article. Instead, I would encourage you to discuss the matter with your financial advisor as there are multiple aspects to consider when making this decision. We are here to help you find answers, so don't hesitate to call us!

And also from the desk of Jeff Janson...

Stock Market Halitosis

One could be forgiven for thinking a stock market index is a broadly diversified basket considering that the number of stocks is literally in its name: The S&P 500. Many mistakenly believe that if they invested $500 in the S&P 500, roughly $1 would go into each of the underlying stocks. However, what they don't realize is that the index is market-cap weighted, not equally weighted. This means the largest companies by market capitalization (what they are worth in their entirety) have a disproportionate influence over the index's returns, either good or bad.

At the time of writing, Whirlpool was the 500th company on the list, and its weighting in the index was 0.01%. What are we talking about here in real terms? Let's say you have $500 invested in the S&P 500. In that case, a 0.01% weighting gives you only five cents invested in Whirlpool – a de minimis amount, to be sure. If Whirlpool's stock suddenly doubled in value, you would have 10 cents – big whoop. So, in reality, the stocks on the low end of the S&P 500 Index don't move the needle much.

Let's now consider the impact of the so-called "Magnificent Seven," a group of very large technology stocks that currently represent a disproportionate percentage of the S&P 500 Index. This group is comprised of Alphabet (formerly Google), Amazon, Apple, Meta (formerly Facebook), Microsoft, Nvidia, and Tesla.

Collectively, these seven stocks account for over 29% of the S&P 500 Index value weighting. Let's do the same math we did for Whirlpool and see where we come out. If you invest $500 in the S&P 500 Index, how many dollars will be allocated to these stocks? $146.05! In other words, as these stocks go, so goes the index – for good or bad. Recently, it has been for good. Fueled primarily by the artificial intelligence (AI) boom, these technology stocks rallied hard last year and so far this year. In fact, Nvidia, which alone accounts for 4.34% of the S&P 500's weighting, is up 50% for the year at the time of writing.

What is the lesson here? In a very real sense, the current market has bad breadth, meaning the advancing issues – the number of stocks achieving new highs – rest in an ever-smaller number of companies. In contrast, a healthy stock market has a large number of companies from various sectors of the economy all achieving new highs; it exhibits good breadth.

Right now, we do not have good breadth, yet to the untrained eye, the market – as represented by the S&P 500 Index – seems to be doing just fine. In fact, it is up 5.59% year to date. However, when you pop the hood to see how this market engine is working, you quickly realize that most of the return is coming from a handful of tech companies in the index. These happen to be the names with the most weight within the S&P 500. When things are going great, this works very well, as is the case right now.

What happens if the tech sector takes a breather (at the risk of over-playing the pun, I'm sticking with my halitosisinspired analogy)? Worse yet, what if technology stocks see a significant retracement of value? Can't happen, you say? Speaking as someone who has been in this industry long enough to witness many market cycles, I direct your attention to Exhibit A: the tech wreck of 2000.

Between 1995 and 1999, the S&P 500 enjoyed four back-to-back years of significant double-digit gains, driven primarily by the euphoric promise of the benefits worldwide internet access could deliver to global society. Was the internet a revolutionary invention? Absolutely! Did it change the way commerce was done? Yes! Did that mean the valuation of internet stocks could continue to grow with reckless abandon? Nope! At some point, valuations mattered again. Ultimately, the value of a company's stock had to re-calibrate to the appropriate level of earnings it could produce for investors. Trees don't grow ad infinitum. (Sorry, but someone had to say it.)

As a result, a comeuppance of biblical proportions started in March of 2000 and didn't relent until the end of 2002 – three negative years in a row that resulted in a cumulative 46% decline in the value of the S&P 500 Index. By the way, the tech sector's weighting in the S&P 500 just prior to this decline was a whopping 35%! When you compare this with the current 29%, you can see that tech valuations appear to be getting overstretched again. For those who have seen this movie before, the parallels between today's AI-fueled tech stock rally and yesteryear's internet craze are simply too numerous to miss.

So, what is a prudent investor to do? I would recommend talking to your Summit advisor about how to properly position your portfolio based on your risk tolerance and outlook for the market. Our quiver has many arrows that can be used to mitigate portfolio risk! Worried about market halitosis? We've got a pocket full of Tic Tacs, and we're willing to share. All you have to do is ask!

The Challenge of Stock Picking

BY RYAN GAVIN, CFA™
PORTFOLIO MANAGER

Hendrik Bessembinder's groundbreaking paper "Do Stocks Outperform Treasury Bills?" is a comprehensive exploration of the long-term performance of US stocks versus Treasury bills[1]. Published in The Journal of Financial Economics in 2018, the study challenges conventional wisdom and sheds light on the distribution of stock returns over time.

Bessembinder's research covers a period of almost 90 years, from 1926 to 2016. This extended timeframe allows for a thorough examination of the historical performance of US stocks and Treasury bills. The primary objective of the study is to answer a fundamental question in finance: Do stocks consistently outperform Treasury bills over the long run?

The traditional view in finance has been that stocks offer superior returns compared to less risky assets such as Treasury bills. This perspective is grounded in the notion of a risk premium, which posits that investors should expect higher returns for bearing the additional risk associated with stocks. While this has been true for the broader stock market, it has not been the case for many individual stocks.

One of the key takeaways from Bessembinder's research is the uneven distribution of stock returns. While it is commonly believed that a small number of high-performing stocks drive the positive returns of the overall market, the reality is even more skewed.

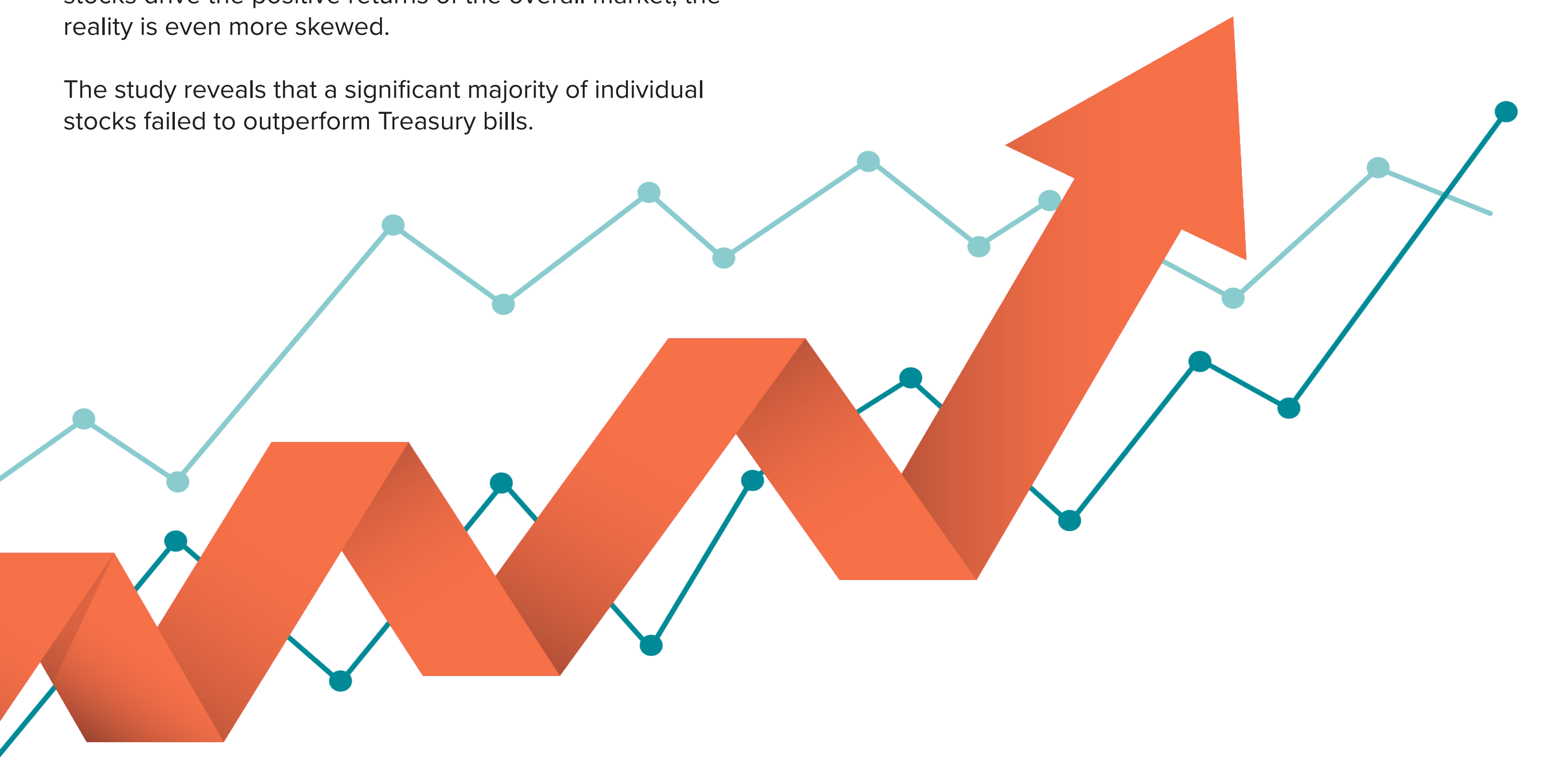
The study reveals that a significant majority of individual stocks failed to outperform Treasury bills.

In fact, Bessembinder found that all wealth created by stocks in excess of Treasury bill returns from 1926 to 2016 could be attributed to a mere 4% of stocks. The other 96% collectively matched one-month Treasury bills[2].

This finding has profound implications for investors and portfolio managers. It suggests that consistently identifying the few winning stocks among a large pool of underperformers has been a challenge. Most investors would be better served by owning a diversified portfolio of stocks rather than trying to pick the winners. As Jack Bogle said, “Don’t look for the needle in the haystack. Just buy the haystack!”

In summary, Hendrik Bessembinder’s research highlights the challenges in picking winning stocks. This may be discouraging for some market participants, but the good news is that investors can guarantee they own the winners (which largely drive the returns of the overall market) by investing in broadly diversified index funds. In an era where market dynamics and investor behavior continue to evolve, this study constitutes a valuable contribution to our understanding of stock market performance and the associated risks and rewards.

Ryan



SUMMIT SPOTLIGHT

A LOOK INTO THE LIVES OF THE SUMMIT TEAM

If you've been a longtime Summit client, you know that Amanda & her husband Russell put travel high up on their priority list. Having been to over 18 countries together before starting a family, they decided it was time to get a few stamps in their 2.5 year old son, Carter's, passport. In January, they left from Phoenix, Arizona and embarked on a two day long journey to Vietnam. They ventured to Ho Chi Minh, Da Lat, Hanoi, Ninh Binh, Ha Long Bay, Hoi An, and Da Nang, before flying over to Taipei, Taiwan. Amanda's favorite highlights of the trip was seeing Carter amazed by all of the motorbikes, and realizing he loved Vietnamese cuisine as much as they do. When asked if they would travel again with a toddler, Amanda said "Absolutely. The memories we made will last a lifetime.

The Summit Family is growing, at 7:58 PM on November 21, 2023 the Stork Market hit its highest mark yet when Baby Grace was born to Chloe & Denzel. The little bundle of joy arrived healthy at 5 lb and 13 oz.

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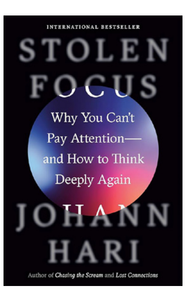
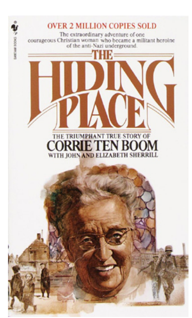


Stolen Focus | *by Johann Hari*
NEW YORK TIMES BESTSELLER • Our ability to pay attention is collapsing. From the author of Chasing the Scream and Lost Connections comes a groundbreaking examination of why this is happening—and how to get our attention back.



The Hiding Place | *by Corrie Ten Boom*
Corrie ten Boom, a Dutch watchmaker, defied Hitler's regime during WWII, risking her life to save Jews and resistance members. Despite enduring Nazi concentration camps, she emerged as a heroic evangelist, her family tragically perishing. "The Hiding Place" recounts their courageous efforts, demonstrating faith's triumph over evil. Repackaged for new readers, it continues to inspire, affirming that God's love conquers all, offering hope, healing, and restoration even in the darkest of times.

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