Financial Strategies

News You Can Use!!

Managing Director - Investments
Oppenheimer & Co. Inc.
Hal Perkins
711 Louisiana
Suite 1500
Houston, TX 77002
713-650-2119
713-650-2142 Fax
hal.perkins@opco.com
https://www.oppenheimer.com/perkinsgroup/

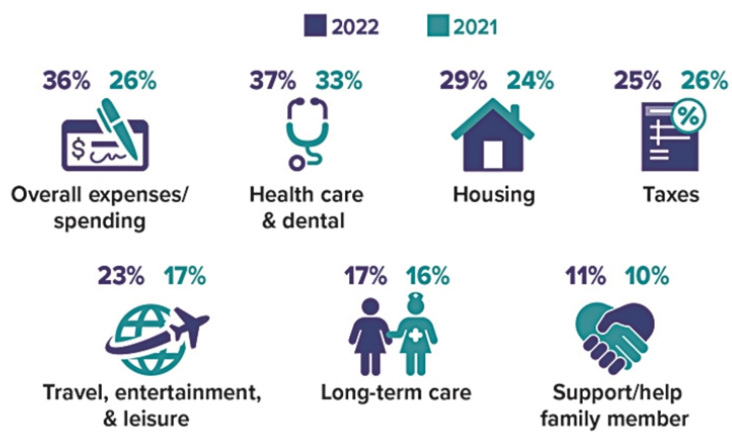
65.4%

Percentage of U.S. adults ages 55 to 64 who were working as of May 2022, nearly the same rate as in February 2020 (65.5%) before the pandemic. The rate dropped during the summer of 2022 due to seasonal variation, but this represents a strong and unexpected rebound for this age group. Many economists expected that near-retirees who left the workforce during the pandemic might choose early retirement.

Source: U.S. Bureau of Labor Statistics, 2022

Spending Higher Than Expected for More Retirees in 2022

Considering high inflation, it's not surprising that the percentage of retirees who said their spending was higher than expected increased in 2022 over 2021. These surveys were conducted in January of each year, so with inflation continuing to run high, it's likely that even more retirees may be experiencing unexpected spending.



Source: Employee Benefit Research Institute, 2022

November 2022

Consider a Bond Ladder for Rising Interest Rates

After dropping the benchmark federal funds rate to a range of 0%–0.25% early in the pandemic, the Federal Open Market Committee of the Federal Reserve has begun raising the rate aggressively in response to high inflation and a stronger economy.

Following 0.25% and 0.50% increases in March and May 2022, the Committee implemented successive 0.75% increases at its June and July meetings — the first 0.75% increases since 1994 — to a target range of 2.25%–2.50%. June projections (most recent available) indicate the rate could rise to a range of 3.25%–3.5% by the end of 2022 with an additional one or two 0.25% increases in 2023.[1]

Rates and Bond Prices

Raising the federal funds rate places upward pressure on a wide range of interest rates, including the cost of borrowing through bond issues. When interest rates go up, the prices of existing bonds typically fall, because new bonds with higher yields are more attractive. Investors are also less willing to tie up their funds for a long time, so bonds with longer maturity dates are generally more sensitive to rate changes than shorter-dated bonds. Yet shorter-dated bonds usually have lower yields.

Despite the challenges, bonds are a mainstay for conservative investors who may prioritize the preservation of principal over returns, as well as retirees in need of a predictable income stream.

Step by Step

One way to address rising rates is to create a bond ladder, a portfolio of bonds with maturities that are spaced out at regular intervals over a certain number of years. For example, a five-year ladder might have 20% of the bonds mature each year. This strategy puts an investor's money to work systematically, without trying to predict rate changes.

With rates projected to continue rising, it might make sense to create a shorter bond ladder now and a longer ladder when rates appear to have stabilized. Keep in mind that these are only projections, based on current conditions, and may not come to pass. The actual direction of interest rates might change.

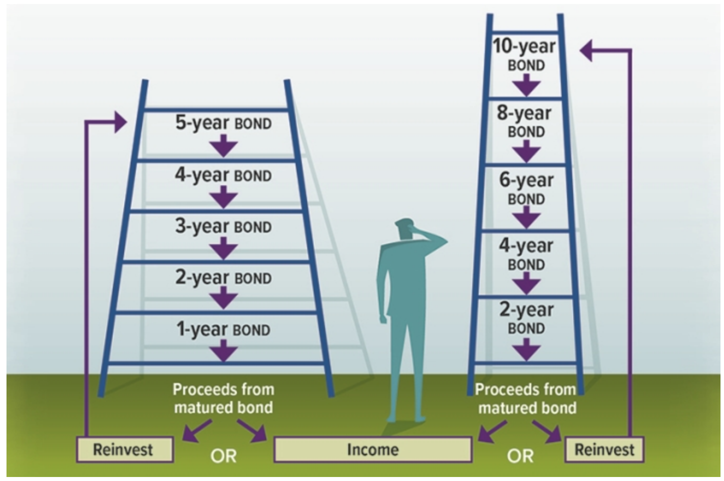
Reinvesting or Taking Withdrawals

When bonds from the lowest rung of the ladder mature, the funds are often reinvested at the long end of the ladder. When rates are rising, investors who reinvest the funds may be able to increase their cash flow by capturing higher yields on new issues. Or a ladder might be part of a withdrawal strategy in which the returned principal from maturing bonds is dedicated to retirement spending.

Bond ladders may vary in size and structure, and could include different types of bonds depending on an investor's time horizon, risk tolerance, goals, and personal preference. Owning a diversified mix of bond investments might also help cushion the effects of interest rate and credit risk in a portfolio. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

Rung by Rung

Here are two sample structures for a bond ladder. When bonds mature, the proceeds can be used for income or reinvested in bonds to fill the longest maturity rung.



Individual Bonds vs. ETFs

Buying individual bonds provides certainty, because investors know exactly how much they will earn if they hold a bond to maturity, unless the issuer defaults. However, individual bonds are typically sold in minimum denominations of $1,000 to $5,000, so creating a bond ladder with a sufficient level of diversification might require a sizable investment.

A similar approach involves laddering bond exchange-traded funds (ETFs) that have defined maturity dates. These funds, typically called target maturity ETFs, generally hold many bonds that mature in the same year the ETF will liquidate and return assets to shareholders. Target maturity ETFs may enhance diversification and provide liquidity, but unlike individual bonds, the income payments and final distribution rate are not fully predictable. Bond ETFs are subject to the same inflation, interest rate, and credit risks associated with their underlying bonds.

Exchange-traded funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) Federal Reserve, 2022

Donor-Advised Funds Combine Charitable Impact with Tax Benefits

A donor-advised fund (DAF) is a charitable account offered by sponsors such as financial institutions, community foundations, universities, and fraternal or religious organizations. Donors who itemize deductions on their federal income tax returns can write off DAF contributions in the year they are made, then gift funds later to the charities they want to support. DAF contributions are irrevocable, which means the donor gives the sponsor legal control while retaining advisory privileges with respect to the distribution of funds and the investment of assets.

Donors can take their time vetting unfamiliar charities and exploring philanthropic opportunities. They can wait to take advantage of matching fund campaigns, have money ready to aid victims when disaster strikes, or build up funds over multiple years to make one large grant for a special purpose. Grants can generally be made to any qualified tax-exempt charitable organization in good standing.

Under current law, there are no rules about how quickly money in DAFs should be granted. However, legislation has been introduced — the Accelerating Charitable Efforts (ACE) Act — that would impose a 15-year limit on the donor's advisory privileges, among other changes. You may want to watch for future developments if you are interested in using donor-advised funds to execute a charitable giving strategy. (Any legislation passed in 2022 likely would not take effect until 2023.)

Tax-Efficient Timing

Gifts to public charities, including donor-advised funds, are tax deductible up to 60% of adjusted gross income (AGI) for cash contributions and 30% of AGI for non-cash assets (if held for more than one year). Contribution amounts that exceed these limits may be carried over for up to five tax years.

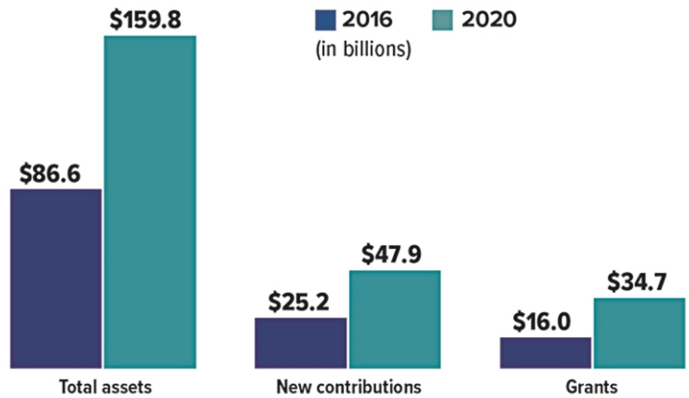
DAF contributions can be timed to make the most of the tax deduction. In an especially high-income year, for example, a larger contribution might keep a taxpayer from climbing into a higher tax bracket or crossing a threshold that would trigger Medicare surcharges or the net investment income tax.

Now that the standard deduction has been expanded ($12,950 for single filers and $25,900 for joint filers in 2022), many taxpayers don't benefit from itemizing deductions, including those for charitable donations. But with advance planning, it may be possible to bunch charitable contributions that would normally be donated over several years in a single tax year, ensuring that itemized deductions surpass the standard deduction.

A similar approach may appeal to pre-retirees in their peak earning years. Those who expect to be in a lower tax bracket and/or might claim the standard deduction during retirement might consider making deductible contributions to a donor-advised fund while they are still working.

Growth in Donor-Advised Funds

Contributions to DAFs accounted for about 10.1% of total U.S. charitable giving in 2020.



Source: National Philanthropic Trust, 2021

Gifting Appreciated Assets

Contributions to a donor-advised fund can be made with cash, publicly traded securities, and more complicated assets such as real estate, valuable art and collectibles, or a stake in a privately held business, offering a convenient way to gift appreciated assets. Fund sponsors typically have experience in evaluating and liquidating donated assets (a qualified appraisal may be needed). This way, a donor can make a single contribution to a DAF that eventually benefits multiple charities, including smaller organizations that are not able to accept direct donations of appreciated assets.

Giving appreciated assets to charity can provide lucrative tax savings. A donor may qualify for a tax deduction based on the current fair market value of the contribution while helping reduce capital gain taxes on the profits from the sale of those assets. This strategy may be helpful when family businesses or shares of privately held companies are sold, or any time a larger tax deduction is needed.

DAFs have fees and expenses that donors giving directly to a charity would not face. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Is It Time to Buy an Electric Vehicle?

Record-breaking fuel prices may have you thinking about buying an electric vehicle sooner rather than later. All electric vehicles (EVs) or plug-in electric vehicles (PEVs), as they're also called, run on electric energy stored in a rechargeable battery rather than on fuel. Plug-in hybrid electric vehicles (PHEVs) that can run on either type of power are also popular. The market is evolving quickly: 126 additional hybrid and EV models were introduced between 2020 and 2021, and U.S. sales nearly doubled.[1]

Cost and Battery Range

Saving money at the pump and benefiting the environment will generally cost more upfront, in part because of high battery and production costs. Prices are likely to rise in the short term, too, as demand and raw material costs increase. However, maintenance costs may be lower because EVs have fewer moving parts. And the more you drive, the more your energy savings could add up.

Tax credits or incentives may help offset the cost of purchasing a new electric or hybrid vehicle. Starting in 2023, an updated tax credit of up to $7,500 will be available for the purchase of new clean vehicles, including some EVs and PHEVs. There is also a new tax credit of up to $4,000 for some pre-owned EVs purchased from a dealer.

Check on credit availability before you buy, because not all vehicles will qualify, and you may not be eligible to claim the tax credit (income limits apply). Tax credits and other incentives may also be offered at the state or local level. You can find more information about tax credits and incentives at fueleconomy.gov.

A special concern for EV shoppers is battery range. Fortunately, most EVs can easily handle daily driving, with typical driving ranges of 150 to 400 miles on a single charge.[2] Vehicles can charge at home via a standard outlet, but you may opt to pay an electrician to install a high-powered charger to greatly increase charging speed (incentives or rebates may help offset the cost). You'll also want to consider the availability of public charging stations; networks are expanding rapidly, but are still not found everywhere.

Get in Line

Like their gas-powered counterparts, EVs come in many makes and models, including cars, crossovers, sports utility vehicles, and trucks. To find your favorites, read reviews and test drive if possible. Once you're serious about buying, one way to ensure you're in line to purchase the model you want is to get on a manufacturer's waiting list, though there may be a fee. Wait times will likely fall as more manufacturers ramp up production and new models are introduced. So if you decide not to buy an EV now or can't find one in stock, you should have plenty of opportunity to buy one not too far down the road.

1-2) U.S. Department of Energy, 2022

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