*Our Report for Year-End 2025*

## OVERVIEW

2025 was another exceptional year for the S&P 500. However, like the previous year, it was not without its moments of volatility and investor anxiety. The market experienced seven 3% corrections, and there was a bear market from February to April, marked by a 1,679-point drop in the Dow on April 3. This decline was driven by fears that President Trump's new tariff plans would trigger a global trade war and push the U.S. economy into recession. The next significant decline occurred in mid-November when the S&P 500 registered one of its sharpest intraday reversals of the year, linked to renewed doubts about the Artificial Intelligence (AI) sector following Nvidia's earnings report. Although Nvidia posted strong results, investor sentiment turned negative, leading to a broad selloff. And just like the year before, those who held onto their investments during these challenging declines were ultimately rewarded. By year-end, the stock market concluded with double-digit gains.

For the 12 months of 2025: **The S&P500 gained 16.4%, DJ Dividend Index gained 12.9%, the 10-Yr US Bond gained 3.1%. The S&P Conservative Allocation Index gained 7.6%, the S&P Moderate Allocation Index (stocks and bonds) gained 9.9% and the S&P Aggressive Index (primarily stocks) gained 16.9%.**

These are benchmark returns for diversified portfolios which most investors have. A diversified portfolio is designed to reduce risk by spreading risk over different asset classes (bonds, equities, international, cash, real estate, currencies, commodities, etc.). Your risk level should be compatible with your risk tolerance and your goals. **Let us know if your risk tolerance has changed**. A diversified portfolio will not look like the return of a one asset portfolio such as all stocks or all bonds. Your personal return will differ based on the timing of when assets were bought or sold. A portfolio that is designed to meet one index such as the S&P500 means your portfolio would have to be in those stocks that make up the index. (*Benchmarks from iShares Blackrock*).

*"Markets reward those who understand cycles and ignore noise."*

Linda Parker

The Federal Reserve's decision to wind down its program of "quantitative tightening" has become a helpful boost for financial markets. In simple terms, the Fed had been pulling money out of the financial system since 2022, and now it's stopping that process. The last time the Fed did this—in 2019, stocks jumped more than 17% in just a few weeks.

All eyes and ears are on the Fed's and what the Fed says may matter as much as what it does. Markets react strongly to the tone of Fed announcements. Currently sentiment is for lower rates as evidenced by the decline in the two-year Treasury yield. That usually signals expectations that the Fed will take a gentler, more supportive approach. With unemployment rising a bit and housing prices cooling, the Fed is likely to lean toward a more normalized approach, which tends to help stocks, bonds, and even crypto. Inflation hasn't gone away which is why longer-term interest rates (i.e. mortgage rates) remain elevated. The Fed's don't need to stimulate the economy, it's already strong, it just needs to get rates more normalized.

Beyond interest rates—investors are concerned that maybe the stock market has simply become too expensive which is why large sums of money remain on the sidelines. Throughout 2025, company profits remained strong, and many businesses earned more than expected justifying stock prices. Investment in artificial intelligence (AI) continued to be a major source of growth, and because AI is still in its early stages, that spending is likely to continue into 2026 and beyond. Another sign that the market may still be reasonably priced is that gains are no longer limited to the biggest tech and AI companies. Value stocks and more traditional, economically sensitive sectors have also been improving. When a rally broadens like this, it usually suggests a healthier and more sustainable market trend.

While many expect 2026 to be a continuation of 2025, we should always respect the most powerful force in investing: *the principle of "reversion to the mean."* The S&P 500 has posted strong annualized returns of 20% plus over the last three years. This is well above the long-term average annual return of roughly 10% to 11% with dividends reinvested. Such elevated returns over a short period suggest that the market is trading well above its historical trend. When markets reach this level of extension, two patterns emerge: increased volatility and weaker forward returns. What may be the saving grace here is that the Fed is done draining cash from the system and may be ready to begin a loosening program, and that shift removes a significant structural drag on equities since markets perform well during periods of a Federal Reserve rate-cutting cycle.

**What we Are Doing**

Tax-loss harvesting is one of the simplest and most effective ways to reduce taxes in a taxable investment account, and that is a strategy we implement every year, not just at the end of the year but throughout the year. The idea is straightforward: when an investment is worth less than what you paid for it, you can sell it and "harvest" the loss. Those losses can offset capital gains elsewhere in the portfolio, and if losses exceed gains, up to $3,000 can be used each year to reduce ordinary income. Any remaining losses carry forward to future years. For retirees, this can be especially valuable because lowering taxable income can also help reduce Medicare's Income-Related Monthly Adjustment Amount (IRMAA), which increases Medicare premiums for higher-income households.

Required minimum distributions (RMDs) are another key part of the tax picture. Once you reach the age at which RMDs begin, the IRS requires you to withdraw a certain amount from your traditional IRA or 401(k) each year. These withdrawals are taxed as ordinary income, which can push retirees into higher tax brackets and trigger higher IRMAA surcharges.

For those who are charitably inclined, qualified charitable distributions (QCDs) offer one of the most powerful tools for reducing both taxes and IRMAA exposure. A QCD allows individuals age 70½ or older to transfer annually an amount (up to $115,000 for 2026) directly from an IRA to a qualified charity. The amount donated counts toward the RMD but is excluded from taxable income. Because the income never shows up on the tax return, it can help keep adjusted gross income—and therefore IRMAA—lower. This makes QCDs especially attractive for retirees who already give to charity and wish to do so in a more tax-efficient manner. Our QCD calculations seek to identify value to those taking RMD's.

When used together, these strategies can meaningfully reduce a retiree's tax burden and help manage Medicare premiums. Tax-loss harvesting lowers taxable gains in brokerage accounts, QCDs reduce the taxable portion of RMDs, and thoughtful RMD planning helps prevent income spikes that lead to higher IRMAA brackets. The result is a smoother, more predictable tax profile and more control over retirement income.

Throughout the year, we've been reviewing Schwab accounts to make sure they're set up in a way that avoids probate (probate is a court-supervised proceeding that authenticates your Will and approves your named Executor so he or she can distribute your property and belongings.). For anyone new to estate planning, probate is the court process that happens when assets are left in someone's individual name. It can be time-consuming, public, and expensive—so the goal is to keep as much as possible out of probate.

There are two common ways to do that with investment accounts:

- *If you already have a Living Trust: It's important to change the registration of an Individual account so it's owned by the trust. This is called funding the trust. Be sure to let us know if you have a trust.*

- *If you don't have a trust: You can convert the Individual account to a Beneficiary account (same as Trade on Death and Paid On Death), which allows the assets to pass directly to the named beneficiaries. Joint Accounts With Rights of Survivorship also bypass probate.*

The most complete way to avoid probate is to create a Revocable Living Trust and register all assets that can be titled—investment accounts, bank accounts, real estate, and even your car—in the name of the trust. Creating a trust alone is not enough; you must actually move assets into it by titling the account to the name of the trust. An unfunded trust does not avoid probate. It's also important to understand that a Will is not a trust. Anything that passes under a Will must go through probate. For example, if your bank account is titled in your individual name—not in a Living Trust and not registered with beneficiaries—it will go through probate even if your Will clearly states that the account should go to your children.

Beneficiary designations can help with certain accounts, but they don't work for everything. Some states do not allow homes or cars to be transferred by beneficiary designation, which means those assets would still go through probate unless they are owned by a trust.
Joint accounts offer only partial protection. When one spouse passes away, the account typically transfers to the surviving spouse without probate. However, once the surviving spouse becomes the sole owner, the account is back in an individual name. If they don't immediately place it into a trust or add beneficiaries, that account will be subject to probate when they pass.

This is why a Revocable Living Trust is often the most reliable approach. It continues to function after either spouse passes away, and it keeps the family's assets organized, protected, and out of probate.

**Planning**
Starting in 2026, a new rule will change how higher-earning workers age 50 and older make "catch-up" contributions to their retirement plans. Right now, many people can put extra money into their 401(k) before taxes are taken out. Beginning in 2026, if you earn more than $145,000, those extra "catch-up" dollars must go into a Roth account, which means:

- You pay taxes now on the money you contribute.
- The money then grows tax-free.
- You can withdraw it tax-free in retirement.

For many of our clients, this rule applies directly to them. It means you'll pay taxes on your catch-up contributions during your high-earning years instead of waiting until retirement, when your income—and possibly your tax rate—may be lower. But there's an upside:
Roth money can be a powerful planning tool, especially for families who expect to leave assets to the next generation.

Why Roth can be better for your heirs: Many high-earning clients don't end up spending all their retirement accounts. When children inherit a traditional IRA, they also inherit the tax bill that comes with it—often during their own peak earning years. A Roth account is different. Your heirs receive the money tax-free. So while you lose the tax deduction today, you may be giving your family a much more valuable asset tomorrow.

Ask yourself: Is my tax rate today higher or lower than it will be in retirement?
If you expect to be in a similar or higher tax bracket later, paying tax now through Roth contributions may actually work in your favor. And with today's historically low tax rates, building up more Roth savings can give you—and your family—greater flexibility and long-term tax benefits.

Despite not offering an immediate tax benefit, contributing to a standard brokerage account can be another helpful strategy for workers who have excess income they're looking to invest. It diversifies your tax buckets, as well as giving you flexibility to postpone Social Security, while providing a step up in basis to beneficiaries. While many investors tend to favor one type of retirement account over another, we believe having a mix can provide flexibility in managing taxes in retirement and position assets for growth, preservation or inheritance in the most efficient way possible.

Enclosed Statements
Our managed clients will be mailed a personalized report: The "Position Performance Summary Report" which shows performance for the period 12/31/2024 through 12/31/2025 (twelve months of 2025). The Actual IRR Column is a percentage change (not a dollar change); it is not annualized. The IRR discounts all cash flows and is net of fees (Money Plans fees and any trading costs). Included will be a quarterly invoice for the previous quarter management (do not pay this as it is deducted from your account and is reported on your Schwab statement as Advisor fee).

Our ADV and Code of Ethics are available upon request and can be found on our website, www.moneyplans.com.

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