



## The Last Innings of 2024: Planning with Investment Perspectives

The end of the calendar year is a time for myself to visit with clients, review progress, discuss the events shaping the investment landscape, and revisit goals for both the near term and the long term. I have our year-end planning checklist in the appendix. While it is focused primarily on tax and investment matters, it is also helpful in identifying key focus areas for the next few weeks as we begin the countdown to 2025.

### USA Ratio of Total Market Cap over GDP: 202.1 (As of 2024-10-14)

● USA Ratio of Total Market Cap over GDP

The chart displays the USA Ratio of Total Market Cap over GDP from 1979 to 2024. The ratio starts around 80% in 1979, dips to a low of 32% in the early 1980s, then rises to a peak of 201.80% in late 2023. It then drops sharply to around 120% in early 2024 before recovering. The chart includes a shaded blue area representing the 1-sigma confidence interval and a dashed line for the long-term average.

| Year | Ratio (%) |
|------|-----------|
| 1979 | 80        |
| 1988 | 60        |
| 1997 | 100       |
| 2006 | 100       |
| 2015 | 120       |
| 2024 | 201.80    |

“Have the courage of your knowledge and experience. If you have formed a conclusion from the facts and if you know your judgement is sound, act on it—even though others may hesitate or differ. You are neither right nor wrong because the crowd disagrees with you. You are right because your data and reasoning are right.” — Benjamin Graham, *The Intelligent Investor*

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Review

Market Performance:

- Equities: Stocks had a strong quarter, with major indices rising 5% to nearly 10%. Small and mid-caps outperformed large caps, and value stocks led growth. Mega-cap tech stocks, which led in 2023 and early 2024, lagged this quarter.
- Bonds: Bonds delivered strong returns as the 10-year Treasury yield fell from 4.48% at the start of the quarter to 3.81% by its end.

Inflation and Employment:

- Inflation: Inflation continued to ease, with the headline Consumer Price Index (CPI) reported at 2.5% in August, while the headline Personal Consumption Expenditures (PCE) came in at 2.2%.
- Unemployment: The unemployment rate was reported at 4.2% in August.

Federal Reserve Actions:

- Rates: In September, the Fed cut short-term rates by 0.50% to prevent further softening in the labor market, while reaffirming its confidence that inflation is under control.
- Outlook: Fed officials anticipate two additional 0.25% rate cuts in 2024, followed by four more 0.25% cuts in 2025.

Investor Focus:

- Key indicators such as inflation, employment, and economic growth.
- Geopolitical tensions and the upcoming Presidential election are expected to capture investor attention.

| Total Return %                                             | 3-Month | YTD   | 1-Year | 3-Year |
|------------------------------------------------------------|---------|-------|--------|--------|
| (Investment Strategies- broadly diversified to aggressive) |         |       |        |        |
| Multi-Asset Class 40/60 Strategy                           | 4.73    | 9.66  | 18.58  | 1.8    |
| Multi-Asset Class 60/40 Strategy                           | 4.79    | 12.89 | 23.41  | 4.44   |
| Multi-Asset Class 80/20 Strategy                           | 4.78    | 15.57 | 27.34  | 6.48   |

|                           |       |        |         |
|---------------------------|-------|--------|---------|
| Stocks                    |       |        |         |
| Index                     | 3Q    | YTD    | 3 Years |
| S&P 500 Index             | 5.90% | 22.10% | 11.90%  |
| S&P Equal Weighted Index  | 8.90% | 15.20% | 8.20%   |
| DJ US Dividend 100 Index  | 9.80% | 14.20% | 5.10%   |
| Russell Midcap Index      | 9.20% | 14.60% | 5.80%   |
| Russell 2000 Index        | 9.30% | 11.20% | 1.80%   |
| MSCI EAFE Index           | 7.30% | 13.00% | 5.50%   |
| MSCI EM Index             | 8.70% | 16.90% | 0.40%   |
| Fixed Income              |       |        |         |
| Index                     | 3Q    | YTD    | 3 Years |
| Bloomberg Aggregate Bond  | 5.20% | 4.50%  | -1.40%  |
| Bloomberg Int. Gov/Credit | 4.20% | 4.70%  | 0.20%   |

## Inside Insights into our Investment Positions

### Axsome Therapeutics \$85.42 (Small Cap)

We believe Axsome is misunderstood and well-positioned to become the frontline treatment for Alzheimer's Disease Agitation (ADA). For brevity, we'll skip summaries of Axsome's other late-stage drug indication readouts that are imminent, as well as its migraine drug, which is set for approval next quarter. All of this combined could give the company the earnings power of a third blockbuster (+\$1B annual revenue), alongside ADA and major depression. The ADA indication would mark the company's second blockbuster treatment. Axsome has already reported two Phase 3 trials for ADA, both showing consistent performance and safety. This consistency is rare in psychiatry companies and mirrors what we saw in Axsome's four major depression clinical trials. Their depression drug was fast-tracked and granted priority review by the FDA, with an approval that unusually came without a black box warning—a rarity in the depression space, which is dominated by SSRI drugs.

For ADA, the only other approved drug, Rexulti, was introduced less than two years ago. Its results were inconsistent, leading to a black box warning and an FDA advisory meeting prior to approval. Typically, a biotech company needs two positive Phase 3 trials for FDA approval. Axsome made the bold decision to stop its second Phase 3 ADA trial early when relapses in the patient population fell short of projections. The first part of the trial was open-label before patient responses, approved by the FDA, and then conducted as a blinded, randomized trial during the withdrawal relapse stage against a placebo.

Stopping the trial early turned out to be a positive move, as it indicated something was wrong with the projections. We now know that the drug works and is highly effective in preventing ADA relapses, especially in patients aged 65 to 90. Comparing Axsome's drug to Rexulti, we see significant demand for ADA treatments based on Rexulti's prescription sales, despite its risks. Axsome now awaits its imminent Phase 3 readout to meet the FDA's two-trial requirement. Additionally, Axsome must complete its safety database requirement of 300 patients treated for six months and 100 patients treated for one year in the ADA space.

It's important to note that we already have safety insights from the four Phase 3 trials in major depression, which included patients over 65. There may also be crossover effects, as 40% of ADA patients are also depressed. We already have data from two Phase 3 trials, despite one being stopped early. Moreover, Axsome managed to fit in a fourth Phase 3 trial to read out close to the third, thanks to a unique randomized relapse prevention design approved by the FDA. This strategic move is brilliant given the current market dynamics, Rexulti's performance, and Axsome's drug efficacy in ADA.

Sales growth for Axsome's ADA drug is expected to be three times faster than for its major depression drug in reaching \$1B+ in annual revenue, due to industry rules. Insurance and payors generally require patients to try 1–3 generics before a branded depression drug like Axsome's can be prescribed and reimbursed. However, in ADA, there are no generics, as Rexulti was the first approved drug in this space two years ago.

Based on our thesis and Axsome's strong growth in major depression, its unique brain pathway target compared to the declining depression drug segment for big pharma, we believe Axsome offers a highly attractive return on investment.

### Celsius Holdings \$34.01 (Mid Cap)

We are increasing our position in Celsius, the energy drink company, and here's why. In August 2022, Pepsi partnered with Celsius through a U.S. distribution agreement. Pepsi invested \$550 million at \$75 per share in the form of convertible preferred equity, securing an 8% stake at a cost of capital of 5%. In hindsight, revenue for 2023 was massively overstated as Pepsi ordered excessive inventory to initially stock stores and distribution centers. This explains, in part, why the stock surged from \$26 to \$95 in 2023, much to my clients' satisfaction.

However, this year, Pepsi has significantly reduced its purchases from Celsius to optimize inventory levels. This inventory pullback, combined with a hot summer and consumer challenges with declining purchasing power, worsened the sentiment and perception of a slowdown in the category.

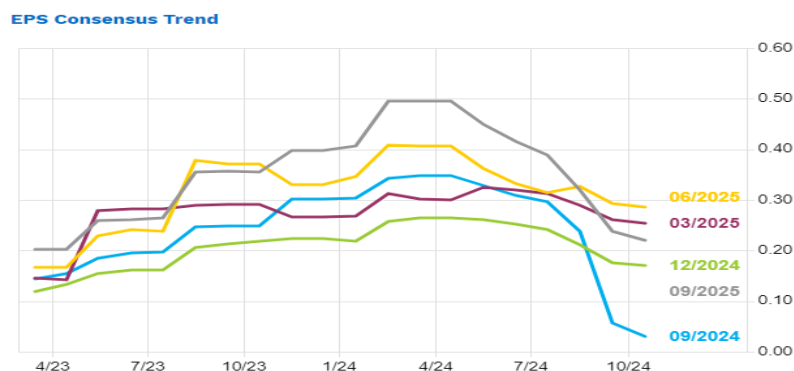
We believe there are three major earnings growth tailwinds over the next 12 months:

1. **Stock Buyback Imminent:** Celsius has \$903 million in cash, representing 13% of its market value. The company's cash balance is expected to surpass \$1 billion next quarter. We believe it's imminent that Celsius will announce its first stock buyback program, providing tailwind #1.
2. **Pepsi's Inventory Destocking Nearing End:** We anticipate Pepsi's inventory destocking is nearly complete, based on the timing and comments from Pepsi at recent conferences. Celsius continues to strengthen its competitive position in the minds of consumers, appealing to a broader mass market than Red Bull or Monster. Over the past year, Celsius has introduced new flavors for even wider appeal and gained shelf space relative to competitors—tailwind #2.
3. **International Expansion:** Foreign sales, which currently make up just 5% of total revenue, are poised for significant growth. Celsius recently launched in Canada and the U.K., and by the end of this year, will expand into France, Australia, and New Zealand—tailwind #3.

A lesson from Coca-Cola's experience with Monster shows the importance of timing. One of Coca-Cola's biggest regrets was not acquiring Monster at a lower valuation. Instead, they secured a 20% equity stake distribution deal when Monster was a \$10 billion company, compared to its current \$52 billion market cap.

We know Celsius is growing intra-quarter revenue by 10%, and this doesn't even account for another \$100–\$120 million reduction from the same quarter last year. The returns on capital in this industry are compelling. Both Monster Energy and Celsius generate a 25% return on equity. However, Celsius has been riding the extremes of the analyst cycle—from euphoria to what now feels like a coma, with forward earnings estimates reflecting that.

The market doesn't wait for a recovery or recession to be fully realized before pricing it in. We believe this is the last quarter affected by Pepsi's inventory misstep (see EPS chart below), and that the two other earnings growth tailwinds we've outlined will soon converge.



### Wesco International \$174.86 (Mid cap)

In a market where most stocks are trading at rich valuations or above average earnings, we believe Wesco, trading at 12x 2024 and 14x 2025 earnings, is positioned to benefit from secular trends, particularly big enterprise data center spending. This drives its logistics services for enterprise and cloud computing customers. We see a twofold opportunity for Wesco: first, its multiple can expand, and second, its earnings can grow faster than current street expectations.

Wesco's data center business is experiencing double-digit growth, driven by the increasing demand for AI-driven data centers. This growth is a key factor driving overall margin improvements. Additionally, the company is positioned to benefit from multiple secular drivers, including increased power generation, electrification, IoT automation, and the re-shoring of global supply chains.

Moreover, the company's inflection in free cash flow and its consistent track record in mergers and acquisitions give us confidence that Wesco will continue to exploit these secular trends across its businesses.

## **UroGen Pharma 12.26 (Small Cap)**

Bladder cancer is the 10th most commonly diagnosed cancer and has the highest lifetime treatment costs per patient due to its prolonged course and the need for repeated surgical and treatment interventions, according to the NEJM. Approximately 80% of new bladder cancer diagnoses are non-muscle-invasive bladder cancer (NMIBC). In the U.S., the American Cancer Society estimates that this year there will be 83,000 new cases and 17,000 deaths from bladder cancer. At the time of diagnosis, about 70-80% of cases are NMIBC, where the cancer is confined to the inner layer of the bladder wall.

One challenge urologists face when treating bladder cancer is that chemotherapy delivered via a catheter drains too quickly from the urinary tract, often leaving noninvasive surgery as the primary recourse for some patients. This chemotherapy method, known as a chemo wash, involves administering the drugs mitomycin C or bacillus Calmette-Guerin (BCG) directly into the bladder. Patients are instructed to hold their urine for maximum drug exposure, typically for 1-2 hours. The Journal of Urology reports that this method can reduce the risk of recurrence and progression by 40%, which is why it's mainly used for patients with recurrences. Immunotherapy has also been used, yielding similar response rates of around 40%.

The gold standard for NMIBC treatment is transurethral resection of bladder tumor (TURBT), a non-invasive outpatient procedure where a resectoscope is inserted through the urethra. However, due to various factors, tumors are sometimes missed or undetected, leading to follow-up TURBTs for reassurance. This situation contributes to bladder cancer being the most expensive cancer to treat over a patient's lifetime. After complete tumor removal via TURBT, 15-61% of patients will experience cancer recurrence within 12 months, and 41-78% within five years. Notably, 70-80% of patients will experience cancer recurrence two or more times, and 23% will recur five or more times, highlighting a standard treatment method that hasn't changed in 50 years.

UroGen recognized this problem, and their solution is a logical extension of the chemo wash. They aim to enhance drug exposure in the bladder and upper urinary tract by significantly extending the dwell time of the active drug to conform to the anatomy of these areas. This approach allows for improved drug tissue coverage. The average dwell time for the standard mitomycin formulation is approximately five minutes, whereas UroGen's RTGel formulation extends this to about six hours. UroGen's solution employs a reverse-thermal gel process: the gel, which includes Mitomycin C, is delivered cold via catheter and solidifies at body temperature, allowing for sustained drug release over several hours.

UroGen's pivotal Phase III study, Envision, reported a 79% cancer-free rate at three months, with 82% remaining cancer-free one year later—exceeding the benchmark set by the standard TURBT at one year. These results align with the Phase II Atlas study, which showed that 70% of patients were cancer-free at three months, with 80% of those still cancer-free one year later, indicating a total complete response rate of 66% at one year. These consistent results from smaller trials suggest a potential shift in how bladder cancer is initially treated, with a base case of combining TURBT and UroGen's bladder drug.

Currently, there's a materially negative bias built into UroGen's valuation due to past disappointments surrounding high expectations for their upper tract drug, Jelmyto. This drug was approved to treat upper tract urothelial carcinoma in the kidney, a patient population that is just a fraction of the NMIBC cases—only 10% with about 4,000-7,000 new cases annually. The FDA classifies these populations as orphan settings, which provide expedited drug approvals with lower hurdles to reach patients. Jelmyto has demonstrated a 59% complete response with 56% remaining cancer-free over time compared to the standard of care. However, market disappointment stems not from management's explanations but from real-world factors: 27% of practitioners noted ureteral stenosis (clogging of the tube connecting the kidney to the bladder) as a reason for its limited use as a primary treatment method. This complication, known as ureteral stenosis, is particularly common in older men due to prostate enlargement, although it is easily treatable.

In contrast, the urethral tube is significantly shorter than the ureteral tube. Research indicates that 0% of women and only 1% of men experience clogged urethras. The larger patient population for NMIBC, the recurring nature of bladder cancer, and UroGen's better results compared to standard TURBT treatment make us optimistic about a significant reset in the company's valuation. Even if we model UroGen's drug in a combination setting for both new treatments and recurrences, we believe the company is still materially undervalued. Given all the previously mentioned factors and the company's pipeline to treat more aggressive cancer forms, we think the value of UroGen's drug delivery method supports a strong forward return on investment worth waiting for.

## **Cytokinetics \$54.50 (Mid Cap)**

About 1 in 500 people have hypertrophic cardiomyopathy (HCM), a condition that can lead to blood clots, strokes, and sudden cardiac death. In 2022, the FDA approved Bristol-Myers Squibb's first drug to treat HCM, marking it as the most common genetic heart disease. This first-in-class cardiac myosin inhibitor (CMI), Camzyos, targets the underlying pathophysiology of HCM and was the centerpiece of Bristol's \$13.1 billion acquisition of MyoKardia in 2020. Analysts at Bernstein project that Camzyos could generate over \$2 billion in sales by 2026, with Bristol pricing the drug at \$89,500 per year.

Historically, doctors have treated HCM patients with widely used and inexpensive heart medications, such as beta blockers and calcium-channel blockers. Some patients have even undergone surgery to remove part of the thickened heart muscle. However, administering Camzyos may pose challenges, as physicians will need to adjust doses based on echocardiogram results—a practice not typically associated with existing treatments.

Some analysts forecast that Cytokinetics' drug, aficamten, could generate up to \$3.6 billion in sales by 2032, surpassing Bristol's projected \$2.9 billion for Camzyos. The reason for this optimism lies in the warnings associated with Camzyos: it carries a risk of heart failure (HF) linked to reduced left ventricular ejection fraction (LVEF) and systolic dysfunction, which could potentially lead to heart failure. The Camzyos label flags this LVEF risk, necessitating a Risk Evaluation and Mitigation Strategy (REMS) that imposes strict oversight and monitoring of the drug's use.

Development of alternatives, like aficamten, focuses on improved efficacy and safety, along with a reduced incidence of LVEF complications. Additionally, treatment with aficamten has demonstrated enhanced exercise capacity and an absence of low LVEF events that could interrupt treatment. Cytokinetics is also conducting further trials aimed at reducing the frequency of echocardiographic monitoring from every three months to every six months during maintenance treatment.

We believe aficamten represents a potential best-in-class therapy for patients due to its ability to help them reach effective drug doses more quickly and stably. The consistent treatment effect across various patient subgroups could support broader usage of the drug, and its safety profile may allow for a less restrictive REMS program compared to Camzyos.

Cytokinetics is well-capitalized, having raised \$500 million at \$51 per share back in May, and currently holds \$1.4 billion in cash. They have also partnered with Royalty Pharma for additional funding. The U.S. FDA rolling submission is expected to conclude this year, with drug approval submissions in Europe and China also set for year-end.

#### **Nerdy \$1.03 (Micro Cap)**

Nerdy, more commonly known as Varsity Tutors, is the largest online platform in the U.S. for K-12 tutoring, online classes, and learning resources. The product platform offers students and school districts a range of services, including one-on-one instruction, small group tutoring, large format classes, tutor chat, essay review, adaptive assessments, and self-study tools.

We believe that the perceived risks and threats posed by AI tutoring are currently overestimated and factored into the company's valuation. Nerdy has no debt and holds \$70 million in cash, with its current enterprise valuation reflecting a 30% discount from its annual trailing revenue of \$200 million. We see several levers for potential growth at this valuation, including near-term positive inflections in free cash flow, profitability, and institutional expansion.

Investors seem to be missing the broader picture, especially considering Nerdy's strategy of enrolling school districts, which enhances brand recognition. While the company has undergone three shifts in its business strategy over the last five years, the current long-term growth strategy focuses on targeting school districts by offering free access and demonstrating tangible results that show improvements in student learning and district-wide test scores through tutoring.

Nerdy's tutoring platform has evolved to provide full control and tailored learning experiences, whether managed by teachers, school districts, or students/parents. This adaptability serves as a competitive advantage against traditional AI tutoring solutions.

We believe that Nerdy's integration of AI into the tutoring process and content generation is transitioning from a perceived threat to a significant strength, especially as the platform scales and free cash flow increases. Looking ahead, it's not far-fetched to envision Nerdy evolving into the "Facebook of tutoring," leveraging diverse revenue streams. The company is either reducing costs or driving personalization with AI in a manner that ultimately delivers a superior experience in a digital format compared to in-person interactions, thereby accelerating earnings growth with scale.

This conviction is underscored by the recent actions of the founder and CEO, who purchased an additional \$16 million (7.5%) of company shares, bringing his total buyback to \$50 million since the company went public, most of which is underwater in hindsight. As the float of the stock has diminished and control remains firmly in the hands of the founder, we believe that the execution of growing partnerships with school districts nationwide, alongside the addition of former Senator Roy Blunt's wife, Abigail Blunt, to the board, will pleasantly surprise patient investors.

## Estate Tax Law Changes

Pending any action from Congress, the estate tax exemption amounts are set to decrease to approximately \$7 million per person when the 2017 Tax Cuts and Jobs Act expires on December 31, 2025. If your estate exceeds this threshold, we can explore several common strategies to effectively reduce taxable estates:

- a. **Irrevocable Life Insurance Trust (ILIT):** This allows you to remove life insurance from your taxable estate, providing liquidity for beneficiaries without increasing the estate tax burden.
- b. **Spousal Lifetime Access Trust (SLAT):** A SLAT permits a spouse to access trust assets while removing them from the taxable estate, offering financial flexibility and estate tax benefits.
- c. **Irrevocable Trust for Children and Descendants:** Establishing an irrevocable trust for your children or descendants can help shield assets from estate taxes while providing for their future needs.
- d. **Family Limited Partnership (FLP) Valuation Discounts:** By using an FLP, you can transfer family-owned business interests or investment assets at discounted values, reducing the overall taxable estate.
- e. **Maximize Annual Gifting to Family Members:** Leveraging the annual gift tax exclusion allows you to gift assets to family members each year, effectively reducing the size of your taxable estate over time.
- f. **Make Direct Payments for Education and Medical Costs:** Directly paying for education or medical expenses for family members can be excluded from the taxable estate, allowing you to support them without tax implications.

By considering these strategies, you can take proactive steps to manage your estate effectively and mitigate potential tax liabilities.

## Social Security Benefit Highlights

**Maximum Benefit:** The maximum monthly Social Security benefit is \$4,873, determined by the highest 35 years of a worker's income.

**Age Considerations:** When considering when to sign up for Social Security, it's essential to understand the implications of age:

- Workers who enroll at age **62** will receive a **25%** reduction in monthly payments if their full retirement age (FRA) is **66**, and a **30%** reduction if their FRA is **67**.
- For anyone born in **1960 or later**, the full retirement age is **67**.

**Delayed Retirement Credits:** Delaying your claim for Social Security benefits past your full retirement age can increase your payments. You will earn **delayed retirement credits**, boosting your monthly benefit by **8% for each year** you delay your claim up to age **70**. After age 70, there is no further incentive to postpone starting your payments.

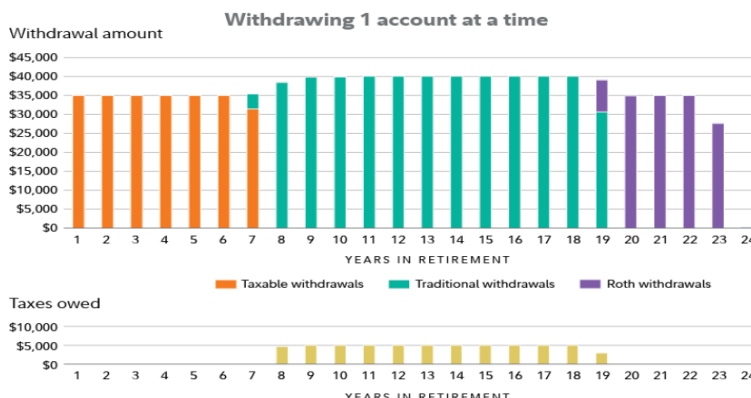
**Spousal Benefits Strategy:** This strategy allows individuals to claim Social Security payments worth up to **50%** of their spouse's benefit if it exceeds their own payment. To receive the full **50%**, you must sign up for spousal benefits at your full retirement age, which is **66** for most baby boomers. If you claim spousal payments before your full retirement age, the amount will be reduced. Ex-spouses can also qualify for spousal payments if the marriage lasted at least **10 years**.

**Taxation of Benefits:** Depending on your income level and tax filing status, you may pay taxes on up to **85%** of your Social Security benefits. The government considers Social Security benefits, employment earnings, and investment interest as income.

- **Tax-free Threshold:** Under federal law, Social Security benefits become taxable if your **combined income**—which includes your adjusted gross income (AGI), nontaxable interest, and half of your Social Security benefits—reaches at least **\$25,000** for individual taxpayers and **\$32,000** for married couples filing jointly.
- **Taxation Brackets:** If your combined income is between **\$25,000 and \$34,000** (single) or **\$32,000 and \$44,000** (couple), up to **50%** of your benefits may be taxable. For combined incomes exceeding **\$34,000** for singles and **\$44,000** for couples, up to **85%** of benefits are taxable.

## Retirement Stage Strategies for Withdrawals

A withdrawal strategy that prioritizes withdrawals from taxable savings, followed by retirement accounts like Roth IRAs or Roth 401(k)s, and then tax-free accounts. This approach minimizes immediate taxable income, allowing other accounts to grow and compound. Conversely, using taxable savings in the early years and transitioning to tax-free withdrawals in the later stages of retirement, promotes greater growth and compounding off the larger base later in life.



A flexible withdrawal strategy allows retirees to adjust their withdrawals based on their needs, as long as they stay within set guardrails. While fixed-rate rules can be inferior in practice, they may offer planners and clients a sense of peace of mind regarding their financial standing. For example, withdrawing a constant 5% from a \$1 million portfolio means a \$50,000 withdrawal. However, if the account drops to \$800,000, that 5% withdrawal becomes 6.25%, exceeding the recommended ceiling of 6%. This situation signals a need to reduce spending to optimize the longevity of savings. In contrast, retirees who strategically plan for major expenditures or gifts tend to fare better with income planning.

**Required Minimum Distributions (RMDs):** RMDs are the minimum amounts that owners of tax-deferred accounts, such as IRAs and retirement plans, must withdraw annually, beginning in the year they reach age 72 (or 73 if they turn 72 after December 31, 2022).

### Traditional "Rules-Based" Withdrawal Strategies:

- **Dollar-Plus-Inflation Strategy:** This method involves spending a percentage of your portfolio in the first year and adjusting that amount annually based on inflation.
  - The "4% rule" is a popular example of this strategy. You withdraw 4% of your portfolio in your first year of retirement and then increase the withdrawal amount each subsequent year based on inflation. This strategy can help ensure you cover your yearly costs for as long as the portfolio lasts, provided your expenses remain relatively stable throughout retirement.
  - However, this approach does not consider market conditions, which could result in running out of money during downturns or underutilizing funds during market upswings.
  - It may be best for those planning to maintain consistent spending from year to year.
- **Percentage-of-Portfolio Strategy:** This strategy entails withdrawing a fixed percentage of your portfolio annually.
  - It provides confidence in achieving the goal of not running out of money.
  - However, it leads to spending amounts driven by market performance, which could fall short of actual living expenses.
  - This strategy is suited for those primarily concerned with portfolio longevity and who can adapt their budget to varying spending needs.
- **Fixed-Dollar Withdrawal Strategy:** This approach involves taking the same amount of money from your retirement account every year for a predetermined period, after which you reassess.
  - It offers a predictable income stream, beneficial for budgeting and planning, as you know precisely how much money you'll withdraw each year.
  - It also adds simplicity, making it easier to manage withdrawals without constant adjustments.
  - However, it exposes you to inflation risk.
- **Fixed-Percentage Withdrawal Strategy:** Here, you withdraw a fixed percentage of your retirement portfolio annually, regardless

of market conditions.

- This strategy is straightforward to understand and implement, naturally adjusting withdrawals based on market fluctuations.
  - However, the year-to-year income variability can complicate financial planning.
- Withdrawal "Buckets" Strategy: This method divides retirement savings into three buckets: short-term, intermediate-term, and long-term.
  - The short-term bucket should contain funds needed for the next 3–5 years, ideally invested in safe, liquid assets like cash, cash equivalents, and short-term bonds.
  - The intermediate bucket should hold funds for expenses over the next 5–10 years, potentially including longer-term, high-quality bonds and select stocks, such as utilities and REITs.
  - The long-term bucket should be invested in growth-oriented assets, such as stocks and long-term bonds, designed to appreciate throughout retirement.

## ANNUAL PLANNING CHECKLIST

### INCOME TAX

- ☐ Review opportunities for tax loss harvesting to offset realized gains.
- ☐ Review opportunities to accelerate/decelerate income and capital gains, based on current tax environment and future tax exceptions.
- ☐ Review charitable gifts and assets to maximize deductions.
- ☐ Review estimated tax plans made in 2022 and determine if additional payments should be made to qualify for safe harbor.
- ☐ Review all income tax strategies in advance of any change in residency (for both domestic and cross-border changes).
- ☐ Ensure optimal timing of state tax payments.
- ☐ Review all income tax strategies in advance of any change in residency (for both domestic and cross-border changes).
- ☐ Maximize retirement plan contributions.
- ☐ Consider Roth IRA conversion(s) if ultimate beneficiary is intended to be your heirs.

### TRANSFER TAX

- ☐ Review use of annual exclusion gifts (for Crummey trusts, insurance trusts, 529 Plan funding, etc.).
- ☐ Review use of gift exclusion for payments of tuition and medical expenses.
- ☐ Review lifetime gift and GST gifting opportunities.
- ☐ Evaluate options for advanced planning vehicles.
- ☐ Review intrafamily loans, payments, interest rates and maturity dates.

### PHILANTHROPY

- ☐ Consider use of long-term appreciated securities for charitable gifting.
- ☐ For IRA owners over 70½, consider use of up to \$100,000 for direct gifts to charity (this can fulfill annual distribution requirements).
- ☐ Consider various structures—donor-advised funds, private foundations, lead and remainder trusts, etc.—for achieving philanthropic goals.
- ☐ For private foundations, consider transfers of appreciated securities (this can satisfy distribution requirements and avoid excise tax).

### INVESTMENTS

- ☐ Revisit asset location to achieve best long-term balance of liquidity and tax efficiency.
- ☐ Review outstanding mortgages and other loans to identify opportunities to improve structure.
- ☐ Review portfolio for alignment with any sustainability or impact goals.
- ☐ Review all Third Party Affiliations (Standing Fund Transfer Instructions, Reporting/Data Feeds, Interested Parties).

### PROTECTION

- ☐ Review property and casualty insurance in light of changes that may have taken place with your tangible assets.
- ☐ Review beneficiaries of retirement plans and life insurance policies.
- ☐ Review health care proxies, living wills, and powers of attorney.
- ☐ Complete annual review of estate planning documents to ensure the fiduciaries and dispositive provisions align with goals.

### EDUCATION

- ☐ Review opportunities to fund IRAs for young adults with earned income and/or establish matching programs to raise level of engagement.

### FAMILY GOVERNANCE

- ☐ Review any family mission statements or other statements that describe family culture, values and communication.
- ☐ Review and update any family statements defining wealth and its purpose for your family.

### FINANCIAL PLANNING

- ☐ Review financial plan to assess the path to success for lifetime goals.

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