

Market Perspective

THE WATT GROUP
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Market Overview: Q4 2024

By James Watt

Markets in 2025 will face a complex backdrop of uncertainty.

- With a new administration in Washington, what policy provisions will they propose around taxes, climate, and other domestic and international affairs? When it comes to tax policy will tariffs replace income taxes and what overall economic effects will such policy have on the economy?
- Innovative technological advancements that change consumer behavior. At a minimum we expect AI to drive productivity solutions that will drastically reshape certain industries.
- There are likely to be significant developments in healthcare solutions particularly for Baby Boomers with age-related diseases. Similarly how will weight loss drugs change food production needs.
- Interest rate adjustments: How low will they go and at what point will they actually result in lower mortgage rates which remain stubbornly high today.
- With an estimated eight trillion dollars in cash and money market funds, lower rates may force those balances to seek higher returns in both bonds and stocks.
- Uncertainty around a combined dynamic of immigration policy and tariffs. If tariffs force more low level manufacturing to come back to the states, will there be enough workers to fill those manufacturing jobs. AI efficiencies will help here but will they help enough.

Even with these changes within the market and economy, we believe 2025 should still be a positive year for our portfolios. One thing we will be watching for is the 2025 outlook from our Chief Market Strategist, John Stoltzfus. He has proven to be quiet prescient over the years.

Financial Planning Corner: *The Mega Backdoor Roth IRA*

By Jonathan Robinson, CFP®

In the retirement planning part of our financial planning process, we are often asked, how can I save more in a tax advantaged way? There are a couple of strategies we suggest including over funding life insurance. The one strategy we want to focus on today though is something called a mega back door Roth IRA contribution.

There are a lot of specifics to being able to make these types of contributions but if everything lines up the right way, you can end up with significant tax-free assets in retirement account.

First, you need to make sure your 401(k) plan has certain provisions in place. Every plan is different so you need to check with your employer but if your plan allows for:

- 1) After tax discretionary employee contributions and
- 2) In service withdrawals

Then a mega back door Roth IRA strategy could be appropriate.

The way it works in practice is, let's say you have put \$23,000 into your 401(k). That is your salary deferral. Between a salary deferral, employer match (if offered), and discretionary contributions, everyone may be allowed to receive up to \$69,000 in contributions to their 401(k) for 2024. Assuming the only contribution made to the plan was your \$23,000 salary deferral that leaves a potential after tax contribution amount of \$46,000. You deposit that amount in your 401(k), then immediately request an in-service withdrawal which allows you to roll that \$46,000 into a Roth IRA account. The term "in service" here referring to you still working at your company and withdrawing money from the plan.

And now you have a Roth IRA with a mega contribution of \$46,000 in it.

I should also mention that there is another way to complete a mega backdoor Roth. If the 401(k) permits Roth contributions, in-plan Roth conversions, and after-tax contributions, it could be done inside of the plan rather than rolling to an IRA.

If you'd like to explore how this strategy could fit into your overall financial plan, feel free to reach out for a personalized consultation.



Case Study of the Quarter: Do I Need a Life Insurance Policy?

By Peter Watt

Insurance, do we need it? This often comes up in our strategy meetings. The clients that are often most interested in this conversation are young couples that are planning to start a family, currently pregnant or already have a family. If you are curious about life insurance, you should ask yourself the following:

- 1) Does anyone rely on you financially?
*More specifically your non-investment income?
- 2) Do you have significant outstanding expenses or debt?
- 3) Is anyone wealthy enough to completely and willingly cover your family's lifetime expenses in the event of your passing?

These questions play an important role in your need for life insurance. Typically couples who decide to purchase life insurance choose a term policy where they effectively “rent” a life insurance policy for the length or term of the contract; typically 20 or 30 years. This will most likely cover you and your family until your children or future children will graduate college and become more financially independent. The next most important question to answer is how much insurance to buy. Through detailed conversations with our clients, we have a couple of ways to calculate what amount of insurance is right for your family.

A second common use for life insurance is for estate planning purposes. In these circumstances, a client with a large estate uses permanent life insurance (not term insurance) to pay estate taxes. Estates worth more than \$13.61 million (\$27.22 million for married couples) in 2024 are subject to taxation of up to 40%. This tax bill is often due within nine months of death. A quick turnaround like this can create issues particularly if your estate assets are illiquid. This often happens to business owners, farmers and even art collectors. An insurance payout can help pay these estate taxes since it gives your estate and immediate influx of cash.

If you have interest in whether or not your family could benefit from life insurance, please talk with us. Our team will ask the right questions to find out if it is truly necessary for you or your family. Or, if you already have a life insurance policy and you are wondering if it should be replaced or dissolved, we can lay out your options to make a clear and thoughtful decision.

The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization U.S. stocks. NASDAQ Composite Index (NASDAQ) is a market-value weighted index that measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ stock market. The performance of an index is not indicative of the performance of any particular investment; however, they are considered representative of their respective market segments. Please note that indexes are unmanaged and their returns do not take into account any of the costs associated with buying and selling individual securities. Individuals cannot invest directly in an index.

Dollar cost averaging does not guarantee a profit and does not protect against loss in declining markets. Investors should consider their ability to continue making purchases through periods of fluctuating prices.