Spectrum FINANCIAL PARTNERS | Commonwealth

The Full Spectrum News

~ FALL 2021 ~

IT'S MORE THAN THE MATH. IT'S YOUR PATH.

krista@spectrumfp.net
eric@spectrumfp.net
matt@spectrumfp.net

BELLEVUE OFFICE
11911 NE 1st St., Suite 103A
Bellevue, WA 98005

SEATTLE OFFICE
3715 S. Hudson St., Suite 104
Seattle, WA 98118

Phone: 425-598-2919
Fax: 425-526-5867
Twitter: @ SpecFinPart

www.spectrumfp.net

IN THIS ISSUE:

NEW CAPITAL GAINS TAX IN WASHINGTON

Effective January 1, 2022, a 7.0% capital gains tax will go into effect in Washington. Before you go selling all your taxable assets this year to avoid the tax next year, note that the tax is only applied on profit above $250,000.

Unless your capital gain for the tax year is more than $250,000 the tax will not apply to you – and you are not required to file. Real estate (e.g., your house) is excluded and "gain from sale of a family-owned small business" is deducted.

Consequently, this tax will apply to only a few Washingtonians. But for those who are impacted, it's a sizable tax that could benefit from tax planning.

See the state website for more information:
Dor.wa.gov/taxes-rates/other-taxes/capital-gains-tax

WA HAS NO GIFT TAX

Washington state does not have a gift tax, but it does have an estate tax that starts at 10% and increases to 20% assessed on estates larger than $2,193,000. Why mention gift tax and estate tax in the same sentence? Because they are two halves of the same thing: giving money away to non-charitable entities. The only difference, from a taxability perspective, is whether you are alive or dead.

This concept is baked into the federal gift and estate taxes. The IRS requires us to report gifts above the annual exclusion each year (Form 709) and then adds this lifetime amount to our taxable estate at death to see if our estate owes any estate tax.

In Washington, however, the lack of gift tax means that you can reduce the amount of estate tax your estate might owe (after your death) by making gifts while you are alive.

In other words, if you are thinking of making gifts to children or grandchildren or other people in your life, you may enjoy an estate planning benefit in addition to the gratification of helping others.

MEET OUR MID-TERM ACCOUNT

Do you have a large balance – above what you need for emergency savings - in your savings account because you're not sure when you might need it? Or perhaps you are in retirement and holding onto cash to fund your spending over the next several years. It's an understandable quandary. You don't want to commit the money to a long-term investment like stock, but sitting in savings, the money isn't earning squat. What to do?

We have a portfolio solution nicknamed the "mid-term account." This portfolio is designed with the primary purpose of providing income, and growth a distant second. It invests in mostly higher income-paying / lower risk investments such as preferred stock, utilities, bonds, and long-short equity strategies. For funds outside of retirement accounts, we add municipal bonds for some tax-free income. Accounts are fully liquid so you can cash out same day when you need the money.

Foundational to our approach to investing is matching the risk and liquidity of an investment to its purpose in your life and for your goals. We've designed this portfolio specifically to meet a short to medium-term timeframe. Call us to discuss if this portfolio could be useful for you.

WILL EVERGRANDE BECOME CHINA'S (AND THE WORLD'S NEXT) LEHMAN BROTHERS?

There's been a good bit of news recently about a gigantic real estate firm in China and how it's potential collapse could cause economic havoc in China and throughout the global financial system. So what's going on?

From BBC.com - "Evergrande Real Estate currently owns more than 1,300 projects in more than 280 cities across China. The broader Evergrande Group now encompasses far more than just real estate development. Its businesses range from wealth management, making electric cars and food and drink manufacturing. It even owns one of the country's biggest football teams - Guangzhou FC.

Evergrande expanded aggressively to become one of China's biggest companies by borrowing more than $300bn. Last year, Beijing brought in new rules to control the amount owed by big real estate developers. The new measures led Evergrande to offer its properties at major discounts to ensure money was coming in to keep the business afloat.

Now, it is struggling to meet the interest payments on its debts.

This uncertainty has seen Evergrande's share price tumble by around 80% this year. Its bonds have also been downgraded by global credit ratings agencies."

(Continued to next page)

WILL EVERGRANDE BECOME CHINA'S (AND THE WORLD'S NEXT) LEHMAN BROTHERS? *(Continued to page 2)*

Back to 2008?

The narrative recalls the financial collapse of 2008, and in particular the part that the Lehman Brothers bankruptcy played in that event.

Let's start with Evergrande itself. Despite the worry, so far this looks like a corporate bankruptcy and not something worse. It's a big one, to be sure, but one that can be handled within the system. Bondholders will lose money, other companies will be affected, and life will move on. So far, that situation is what we see and not something bigger.

Second, even if this does turn into something bigger, something that affects the Chinese economy and markets, the Chinese government has more money—and more legal powers—to contain the damage than the U.S. and western governments did back in 2008. The Chinese government can and will try to contain the damage before it starts to threaten the economy. The U.S. could do it in 2008, and the Chinese can do it now. They have, in fact, contained similar crises before.

Third, even if they don't (or can't), the Chinese financial system and the rest of the world are much less integrated than the developed world was in 2008. The contagion possibilities are simply more limited. We have seen several significant episodes of financial turbulence in China that did not cross over to the developed markets, the most recent of which has been the disruption of the Chinese tech companies in the past couple of months. We have repeatedly seen that China can have significant turmoil without disrupting the rest of the world.

Finally (and which ties in with the previous three points), the bus that you are watching is rarely the one that ends up hitting you. Both the U.S. government and regulators, and U.S. banks and financial institutions, are very aware of the situation in China, and they are at least thinking about how to minimize the risks. That was not the case in 2008. Since this is not coming out of the blue, any damage will be contained—and likely much less than is now feared.

Sources: https://www.bbc.com/news/business-58579833 and Brad McMillan, CFA®, CAIA, MAI, managing principal, chief investment officer, at Commonwealth Financial Network®.

INFLATION

1

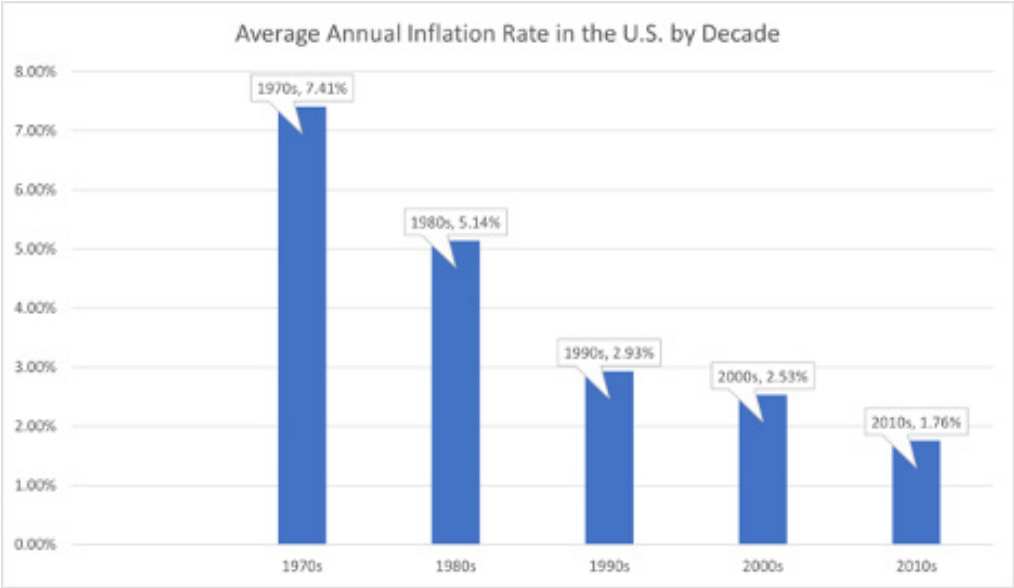
According to the Bureau of Labor Statistics, the Consumer Price Index for All Urban Consumers rose 5.4 percent over the last 12 months through September. That last time inflation was at this level was in 1990 when it was 6.11 percent.

2

Inflation ran 1.36 percent in 2020.

3

The chart below shows the average 10-year inflation rates for each of the previous five decades.



Source: macrotrends.net

INFLATION *(Continued to page 3)*

4

This year's rate is relatively high by historical standards. It feels especially high – and financial news sites can tell a compelling story - because we haven't experienced anything close to this level for more than 30 years.

5

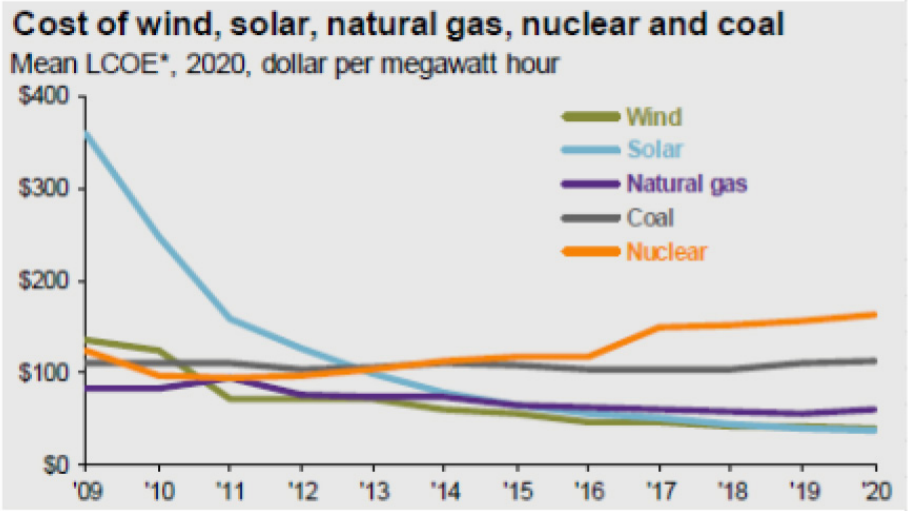
But one year does not a trend make. If inflation continues to run at this rate for several years, we could start to see systemic impacts on the economy. But one year, especially a year that is still extensively impacted by the pandemic (e.g., surging demand, supply chain disruptions), is too brief a period with (what we still hope is) a transitory cause to hit the inflation panic button.

6

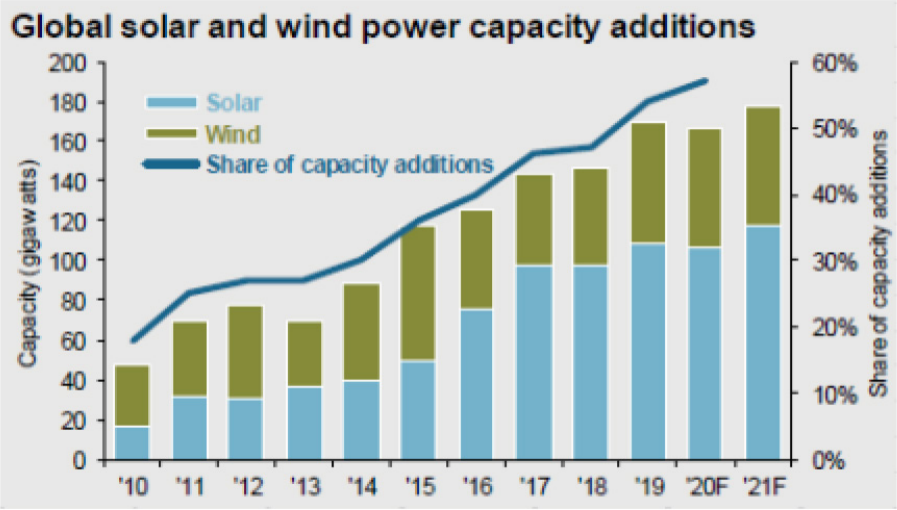
This isn't to say you aren't paying higher prices at the supermarket and the toy store. You are and prices may go higher. But the cause thus far seems heavily weighted to disruptions caused by the pandemic. It is too early to know whether the inflation we are experiencing has deeper roots throughout the economy, such as long-term wage increase without an increase in productivity, that will have longer-term consequences.

GRAPHS TELL THE STORY – A SUSTAINABLE INVESTMENT OPPORTUNITY

Wind and solar cost less than coal for electricity generation.



And their use is on the rise. More than 50% of all new power generation capacity built in 2019 was generated by solar and wind power.



Source: JPMorgan Asset Management, Guide to the Markets, U.S. 4Q 2021.

Spectrum Financial Partners

Commonwealth

425-598-2919
info@spectrumfp.net

11911 NE 1st St. Suite 103A
Bellevue, WA 98005

3715 S Hudson St. Suite 104
Seattle, WA 98118

www.spectrumfp.net

SHARE THIS REPORT OR PASS IT ALONG!

If you know someone who would like this report, call Krista at 425-598-2919.