GLOBAL WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

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Mining the Bitcoin ETF Buzz

Above the Fray
January 26, 2024
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Industry pundits are buzzing about the recent launch of spot Bitcoin ETFs. Before adding the cryptocurrency to their portfolios, investors should ask themselves: "Why would I expect a positive return?"

Stocks entitle you to a portion of a company's future profits. Bonds provide interest payments and return of capital upon maturity. These can be sound reasons to expect a positive return. But Bitcoin offers neither. For an investor to expect a positive return from merely holding Bitcoin, the investor must hope someone will be willing to pay them more for the coins in the future than what they paid.

Hope can be an exciting motivator. It's why my husband buys Mega Millions lottery tickets a couple of times a year. But we don't want to rely on hope in our long-term investment plan when our wealth and future depend on it. As new investment opportunities arise, a thoughtful approach can help investors mind the buzz and decide whether the fill-in-the-blank investment belongs in your portfolio. ❍❍❍

A Personal Note from Global Wealth Advisors

Once again, the Federal Reserve Board met last month and decided to keep interest rates unchanged at 5.25% to 5.50%. The board still feels that although inflation has slowed, it is still not at the benchmark 2% rate they are looking for. The next meeting is this month on Tuesday July 31st and the markets are expecting interest rates to remain unchanged.

However, fast forward to the estimates for the September 18th meeting and the markets are anticipating the first twenty-five basis point interest rate cut. That is, of course, up to the board and the evaluation of its preferred inflation measure, the core personal consumption expenditures index (PCE) price index. It had risen 2.8% in April on a year over year basis.

If the PCE price index does continue to trend down and the Feds reduce interest rates, that will lower the cost of borrowing for both businesses and consumers alike. That in turn should help the US equity markets continue to rise and help provide that "soft landing."

That is what everyone is looking for in going from higher interest rates to lower rates without triggering a recession. Stay invested, you will be glad you did. ❍❍❍

Global Diversification Still Requires International Securities

Above the Fray
Jun 06, 2024
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Investors often ask if globally diversified stock portfolios are necessary when the US stock market has many multinational companies or those earning revenues from non-US countries. The data suggest these companies are no more successful at global diversification than a faux mane is at turning a golden retriever into a lion.

We can test the global diversification benefit of companies with non-US revenues by looking at their average returns in months when US stock returns and international returns diverge. Stocks offering sufficient non-US exposure should presumably move more in line with the international market. However, companies with non-US revenues appear to merely track the broader US market on average. In particular, when the US market is down—and investors would hope for global diversification to kick in— companies with non-US revenues are similarly down. These results echo academic evidence showing that stock prices tend to move based on where they trade more than where the business resides.[1]

Developed ex US and emerging markets stocks combine for about 39% of the global stock market.[2] That's a meaningful chunk of the equity investment opportunity set, and based on these results, they have potential to be a pivotal complement to the US market. ❍❍❍

Exhibit 1

One of These Things Is Not Like the Other

Average monthly returns when US and developed ex US stock returns have opposite signs, January 1979–December 2022

Past performance is not a guarantee of future results.

Source: Dimensional, using CRSP and Compustat data. The eligible universe includes ordinary common US stocks of all capitalizations traded on NYSE, NASDAQ, and NYSE MKT. We identify a company with and without foreign sales exposure using Compustat's annual geographic segment data. Value-weighted portfolios are formed on eligible stocks with and without foreign sales. Portfolios are rebalanced annually in January based on the annual geographic segment data.

Tax-Deferred Compounding

Very few people like to think about income taxes. But that lack of consideration often leads to a lack of understanding. Once you start to understand it better, the more you realize you have more control over how much you pay.

Much of your control depends on the type of strategy that you use. For instance, contributing to your company's 401(k) plan or an IRA will reduce your current year income taxes. Familiarizing yourself with federal and local deductions and credits, then planning accordingly, can save you thousands come tax season. If you discuss your tax situation with a professional, he/she can help you find any areas in which you are missing out on potential savings.

Sometimes your tax strategy can boil down to smart timing. When it comes to major financial transactions, like selling a home or investment, your tax bill is largely affected by the circumstance. For instance, if you purchased a home and lived in it for less than two of the last five years, you will have to pay capital gains tax on your profits from the sale. This tax can be avoided if you stay in the house for a full two years. Knowing this beforehand and planning out life changes in advance (as much as possible) can help you plan out and time these transactions wisely.

Maintaining good tax records is not only essential when it comes to backing up your claims, but also reminds you of what resources you've expended over the past year. Not everything is deductible, but the more records you keep, the better prepared you are to claim and support deductions.

It is important to remember that the decisions you make in life should not be made solely for tax reasons. Of course, you want to minimize the amount you have to pay in income taxes, but any transaction has to be ultimately beneficial for you and your family. Just because one situation is better for your tax bill doesn't mean it is better for you — but understanding the true tax ramifications of your transactions will help you make more informed decisions for your circumstances. ❍❍❍

The Basics of Wash Sale Rules

To reduce their tax liability, many investors will sell stocks that have fallen below their purchase price, claiming them as a capital loss to offset their capital gains on other investments.

There are specific IRS rules on capital losses. One rule you should be aware of is the wash sale rule. With this rule, an investor cannot claim a capital loss on their tax return if the investment in which the loss originated is repurchased within thirty days of the sale.

For example, let's say you purchased a stock at $50 per share, and over the course of several years, the company suffers financial trouble and the stock price drops to $5 per share. You then decide to sell the stock and report it as a capital loss.

Even though you sold the stock, you still feel it has the potential for significant growth, so you decide to repurchase the stock three weeks later. The problem? The wash sale rule kicks in. You now cannot claim it as a capital loss.

Repurchasing a stock you believe in at a much lower price can be a prosperous strategy. The key to executing this strategy successfully is to ensure your timing is right so that you avoid the wash sale rule. ❍❍❍

Financial Thoughts

An estimated 41.8 million people in the U.S. are caregivers for an adult over the age of 50, according to a 2020 survey by the National Alliance for Caregiving (NAC) and AARP. And among millennials, more than one in five now care for an adult.

Due to rising interest rates and low inventory, NAR found that the average income of a homebuyer between July 2022 and June 2023 was $107,000, up from $88,000 the year prior. More and more homebuyers are single women. The share of single women buying homes is almost double that of men. They're also slightly older — a single woman buying her first home is 38 on average, while a single man is 33. Buyers are older. The average first-time homebuyer is 35, up from 29 in the 1980s, but it's older people who are buying up the three-bedrooms after selling their starter homes: NAR found that the median age of a repeat homebuyer last year was 58. In 1981, it was 36.

The share of Americans over age 65 working this year was almost double that of 35 years ago, according to the Pew Research Center (19% in 2023, compared to 11% in 1987). ❍❍❍

Managing Bond Risks

All investments are subject to risk, although the types of risk can vary. While you can't totally eliminate those risks, you can develop strategies to minimize them. For bonds, consider these strategies:

Interest rate risk — Interest rates and bond prices move in opposite directions. A bond's price will rise when interest rates fall and decline when interest rates rise. This occurs because the existing bond's price must change to provide the same return as an equivalent, newly issued bond paying prevailing interest rates. The longer the bond's maturity, the greater the impact of interest rate changes. Also, the effects of interest rate changes tend to be less significant for bonds with higher-coupon interest rates.

To reduce this risk, consider holding the bond to maturity. This eliminates the impact of interest rate changes, since the total principal value will be paid at maturity. Thus, selecting a maturity date that coincides with your cash needs will help reduce interest rate risk. However, you may still receive an interest income stream that is lower than current rates. Selecting shorter maturities or using a bond ladder can also help with this risk.

Reinvestment risk — You typically know what interest income you will receive from a bond, but you must then take the periodic income and reinvest it, usually at varying interest rates. Your principal may also mature at a time when interest rates are low.

Staggering maturities over a period of time (laddering) can lessen reinvestment risk. Since the bonds in your ladder mature every year or so, you reinvest principal over a period of time instead of in one lump sum. You may also want to consider zero-coupon bonds, which sell at a deep discount from par value. The bond's interest rate is locked in at purchase, but no interest is paid until maturity. Thus, you don't have to deal with reinvestment risk for interest payments, since you don't receive the interest until your principal matures.

Inflation risk — Since bonds typically pay a fixed amount of interest and principal, the purchasing power of those payments decreases due to inflation, which is a major risk for intermediate- and long-term bonds.

Investing in short-term bonds reduces inflation's impact, since you are frequently reinvesting at prevailing interest rates. You can also consider inflation-indexed securities issued by the U.S. government, which pay a real rate of return above inflation.

Default and credit risk — Default risk is the risk the issuer will not be able to pay the interest and/or principal. Credit risk is the risk the issuer's credit rating will be downgraded, which would probably decrease the bond's value.

To minimize this risk, consider purchasing U.S. government bonds or bonds with investment-grade ratings. Continue to monitor the credit ratings of any bonds purchased.

Call risk — Call provisions allow bond issuers to replace high-coupon bonds with lower-coupon bonds when interest rates decrease. Since call provisions are generally only exercised when interest rates decrease, you are forced to reinvest principal at lower interest rates.

U.S. government securities do not have call provisions, while most corporate and municipal bonds do. Review the call provisions before purchase to select those most favorable to you.

Keep in mind that the assumption of risk is generally rewarded with higher return potential. One of the safest bond strategies is to only purchase three-month Treasury bills, but this typically results in the lowest return. To increase your return, decide which risks you are comfortable assuming and then implement a corresponding bond strategy. Please call if you'd like help with your bond investing strategy. ○○○

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