

MAY 2024 INSIGHTS

INVESTMENT OVERVIEW

MC SHANE PARTNERS BOOK CLUB—*THE TRUST*

Hernan Diaz's 2023 Pulitzer Prize winning "The Trust" takes the reader into a fictional world that closely tracks the 1929 crash that resulted in the Great Depression. This book was selected for the McShane Partners Book Club because without being too pedantic or jargon-jammed, the book explores the limits of capitalism, the influences of psychology and the implications of mania on the markets. There are subtle investment and individual lessons woven into the intricate layer cake of fiction.

With this book selection, we want to gauge interest in a book club that meets quarterly to discuss books that are investment related without being a lesson or textbook. The point is an enjoyable, relatable experience that imparts wisdom and perspective, not exasperation from dense text.

Given the momentum-fueled market currently driven by the prospects of AI (which are real) and extreme levels of cash on the sidelines, the general population is beginning to speculate in individual security selection without completely understanding the risks. This book does an exemplary job of depicting how the drivers of the bubble might be different, but a bubble bursts in the same fashion. Although the book is set in the early 1900s, there is an eerily current analogy at play.

Secondarily, the book does a good job of weaving a story about a couple in the throws of capitalism and challenges the ethics and mechanics of the stock market and financial titans. The reader is left to their own conclusion, but there are

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WEALTH ADVISORY OVERVIEW

CHANGES COMING FOR ITEMIZED DEDUCTIONS

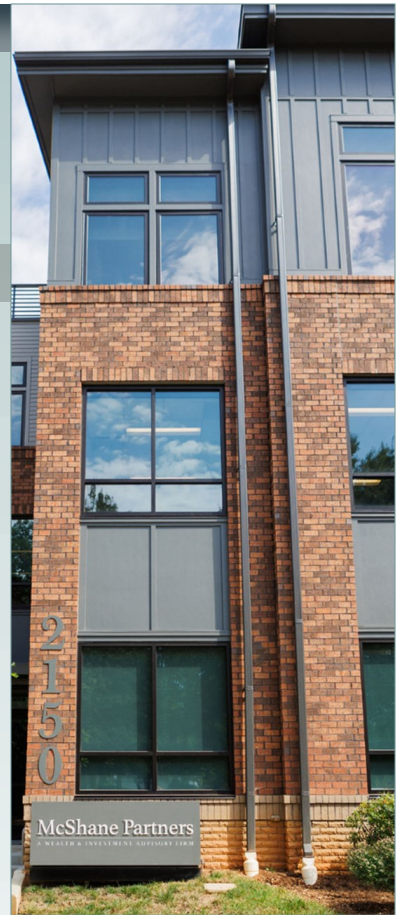
As I discussed in my article last month, the provisions in the 2017 Tax Act (the "TCJA") were enacted as largely temporary provisions to help the legislation comply with budgetary requirements. With the 2017 Tax Act, the projected cost of the law at enactment was a \$1.5 trillion increase to the deficit between 2018 and 2027. The current estimate of extending the expiring provisions is a \$3.5 trillion increase to the deficit over 10 years.

One of the largest changes under the TCJA was to increase the standard deduction and significantly curtail available itemized deductions. These two provisions changed the way millions of Americans filed and paid taxes over the last 6 years. Without an extension of the provisions, we will revert back to the previous system of deductions. The marginal rate increases described in my last article may be largely offset by the itemized deduction changes detailed below.

Standard Deduction

The standard deduction in 2024 for a single taxpayer is \$14,600 (\$29,200 for joint filers). The standard deduction will revert back to previous levels starting in 2026, adjusted for inflation. The standard deductions in 2017 were \$6,350 and \$12,700 for single and married taxpayers. A rudimentary estimate of the 2026 numbers would give me approximately \$8,000 for single taxpayers and \$16,000 for

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POINTS OF INTEREST

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INVESTMENT OVERVIEW**McSHANE PARTNERS BOOK CLUB—*THE TRUST***

anecdotes that create questions and an unsettling feeling regarding the average investors susceptibility to the mechanics of the market which are largely dominated by players with large pools of capital.

Finally, the novel introduces the idea that female investors might have a perspective that provides an advantage in investing. We have seen studies supporting this such as the 2021 Fidelity study found that women outperform men in investment returns by 0.4%, but this introduces the idea when women were nowhere near the Wall Street ticker tape and relegated to the typewriter.

Please send myself daniele.donahoe@waverly-advisors.com or Chantal chantal.bettin@waverly-advisors.com an email if you are interested in being a part of the book club as we are trying to gauge interest in quarterly meetings or even just twice a year. Also, email us if you simply want a copy of the book.

“Waiting helps you as an investor and a lot of people just can’t stand to wait. If you didn’t get the deferred-gratification gene, you’ve got to work very hard to overcome that.” - Charlie Munger

MONTHLY INDEX REVIEW
USD TOTAL RETURN

DATA AS OF APRIL 30TH 2024	APRIL 2024	2024 YTD	2023	2022
S&P 500® Index	-4.08%	+6.04%	+26.29%	-18.11%
Dow Jones Industrial Average	-4.92%	+0.92%	+16.18%	-6.86%
NASDAQ Composite	-4.38%	+4.52%	+44.64%	-32.54%
Russell 2000	-7.04%	-2.22%	+16.93%	-20.44%
MSCI Emerging Markets	+0.72%	+2.83%	+9.83%	-19.74%
MSCI EAFE	-2.45%	+3.08%	+18.24%	-14.01%
Bloomberg U.S. Aggregate Bond Index	-2.53%	-3.28%	+5.53%	-13.01%

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CHANGES COMING FOR ITEMIZED DEDUCTIONS

married taxpayers in 2026. Using those estimates, reverting to the lower standard deduction would reduce those automatic deductions by \$7,000 (\$14,000 for married couples).

State and Local Taxes

State income taxes, sales taxes, and property taxes may be deducted from federal taxable income. Prior to 2018 the amount of the deduction for those taxes was unlimited. Since 2018 the deduction for all state and local taxes paid is limited to \$10,000/year. Taxpayers with \$300,000 of taxable income at a 4.25% state rate would owe \$12,750 in income taxes alone and would likely owe property taxes as well. The \$10,000 annual limit has significantly reduced the ability of higher income taxpayers to deduct their state taxes. The estimate of the percentage of taxpayers benefitting from the state and local deduction fell from 25 percent in 2017 to 10 percent in 2018. The benefit amount fell even more dramatically, with the benefit to individual taxpayers falling 75 percent from 2017 to 2018!

Mortgage interest deduction

Prior to 2018 taxpayers could deduct interest paid on qualifying mortgages on first and second homes of up to \$1,000,000. Since 2018 the limit on deductible debt was reduced to \$750,000. That number will increase back to \$1,000,000 in 2026. The estimate of the percentage of taxpayers benefitting from the mortgage interest deduction fell from 20 percent in 2017 to 8 percent in 2018. The benefit amount for Mortgage interest fell by roughly two thirds from 2017 to 2018.

Miscellaneous deductions

These were largely eliminated under the TCJA but will spring back into life in 2026. Impacted deductions include personal casualty and theft losses, gambling losses, unreimbursed employee expenses, and tax preparation fees.

In addition, moving expenses not paid by an employer will be deductible again starting in 2026. Note that the moving expense deduction is not a part of itemized deductions but is an “above the line” deduction from gross income.

Overall limitation on itemized deductions

If you itemized deductions prior to 2018, you may have run into the overall limitation on those amounts. Also known as the “Pease limitation,” high income taxpayers must reduce their itemized deductions by 3% of income over a certain amount of gross income (\$261,500 for single filers and \$313,800 for joint filers in 2017). The overall limitation may not reduce deductions by more than 80%. For the examples below I am assuming an inflation adjusted AGI limitation of \$329,500 in 2026.

Examples

Let’s look at a couple of examples of how the interaction between revised marginal rates and the changes to itemized deductions might play out.

We will assume a single taxpayer at various income levels (wages of \$250,000, \$500,000, and \$750,000) paying state income tax at 4.5%, property taxes of \$5,000, with a home mortgage of \$800,000 at 5% (current year interest of \$40,000), and charitable contributions of \$20,000. These are estimated numbers only, as inflation-adjusted brackets and limitations for 2026 have not been released.

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Wages	250,000	250,000	500,000	500,000	750,000	750,000
Itemized deductions	(67,500)	(76,250)	(67,500)	(82,385)	(67,500)	(86,135)
Taxable income	182,500	173,750	432,500	417,615	682,500	663,865
	Taxable income of \$182,500 @ 2024 rates	Taxable income of \$173,750 @ 2026 rates	Taxable income of \$432,500 @ 2024 rates	Taxable income of \$417,615 @ 2026 rates	Taxable income of \$682,500 @ 2024 rates	Taxable income of \$663,865 @ 2026 rates
10%	1,160	1,160	1,160	1,160	1,160	1,160
12%/15%	4,266	5,333	4,266	5,333	4,266	5,333
22%	11,743		11,743		11,743	
25%		16,756		16,756		16,756
24%	19,674		21,942		21,942	
28%		16,682		34,728		34,728
32%			16,568		16,568	
33%				59,207		92,286
35%			66,071		127,969	
35%						757
37%					27,066	
39.6%						56,963
	36,843	39,930	121,750	117,183	210,713	207,982
Effective tax rate	20.19%	22.98%	28.15%	28.06%	30.87%	31.33%

As you can see from the examples, the taxpayer at \$250,000 and \$750,000 in wages pays a higher tax bill after the “tax cuts” expire while the taxpayer at \$500,000 in wages would have a lower tax bill after the expiration. This is almost exclusively driven by the increased deduction for state and local taxes after 2025. At \$250,000 in earnings the increase in rates is more pronounced and the taxpayer pays higher taxes of 2.8%.

These are very simplified examples and do not reflect other changes that may or may not occur, including the return of the personal exemption, the changes to the health insurance premium tax credit, the pass-through deduction for qualified business income, changes to the child tax credit, lower exemptions for AMT, and many more.

My message remains the same, the tax legislation that was enacted in 2017 made a lot of adjustments to our U.S. tax system. Depending on your specific facts, the expiration of those provisions may be more or less favorable to you, but it may not be as dramatic a difference as you might think. To get an accurate idea of the impact of taxes on your finances it’s important to have an updated financial plan that incorporates the new (old) tax rules. Contact your advisor to discuss the impact on any planning that may need to be revisited or refreshed.

SENIOR PLANNING: IRS KICKS THE RMD “CAN” DOWN THE ROAD FOR INHERITED IRA



Lorri Tomlin, FPQP™
Partner | Wealth Advisor

The SECURE Act, signed into law in December 2019, changed the long-time rules regarding distributions from Inherited IRA accounts (among other things). As the IRS continues to finalize these new regulations, there has been a lot of uncertainty and confusion regarding annual Required Minimum Distributions (RMDs) from IRA accounts that are inherited from an account owner who died after December 31, 2019.

Prior to the SECURE Act, beneficiaries could “stretch” the annually required distributions over their own life expectancy. After the SECURE Act, beneficiaries of IRA accounts that were inherited from an account owner who died after January 1, 2020, were divided into several subcategories which determined how and when distributions from inherited IRAs would be required.

The distribution rules for “Non-Eligible Designated Beneficiaries” (beneficiaries who are not surviving spouses or fall under one of the other subcategories) have been particularly confusing, especially regarding annual required distributions.

Non-Eligible Designated Beneficiaries are required to empty the inherited retirement account by the end of the 10th year after the decedent’s death. They could no longer “stretch” the distributions over their own life expectancy. The expectation was that Non-Eligible Designated Beneficiaries would NOT be required to make annual distributions during this 10-year period.

However, In February 2022, the IRS issued proposed regulations that would require Non-Eligible Designated Beneficiaries, who inherited accounts from decedents who died **on or after** their Required Beginning Date, to be subject to both the 10-year rule AND annual RMDs. These proposed regulations created uncertainty regarding whether distributions needed to be taken in 2022 (and should have been taken in 2021) to avoid potential penalties. Then, in October 2022, the IRS issued a notice waiving any potential penalties for Non-Eligible Designated Beneficiaries for 2021 and 2022 for missing RMDs from their inherited IRA accounts but did not provide any clarity on requirements for 2023 and beyond. In July 2023 the IRS again waived potential penalties for failing to take “potential” RMDs for 2023.

Where are we on this issue in 2024? Will Non-Eligible Designated Beneficiaries who inherited retirement accounts from an owner who died on or after their Required Beginning Date be required to make a Required Minimum Distribution in 2024?

The IRS recently issued Notice 2024-35, again waiving potential penalties for not taking potential RMDs in 2024. A couple additional items to note:

RMDs do not apply to inherited Roth IRA accounts because Roth IRAs never have annual RMDs. The original Roth IRA account owner is always “assumed” to have died before reaching the Required Beginning Date. But remember, the beneficiary of the inherited Roth IRA is still required to empty the inherited retirement account by the end of the 10th year after the decedent’s death.

While not “required” to take annual distributions, beneficiaries of inherited IRA accounts may always take “voluntary” distributions. Distributions from non-Roth IRA accounts will, however, be taxed at ordinary income tax rates.

If you have any questions regarding potential RMDs from your inherited IRA accounts, your McShane Partners Wealth Advisor is here to help.

NEXTGEN: ENTRY LEVEL OF ESTATE PLANNING



Ryan Vaudrin, CFP®, CDFA®
Wealth Advisor

Establishing an estate plan and getting the documents drafted can seem overwhelming and often gets pushed down the priority list. However, establishing a comprehensive estate plan is essential to ensure that your final wishes are followed. So, what are the Entry Level Estate Practices and estate documents that everyone needs?

Financial Power of Attorney

The financial power of attorney delegates financial decision-making to another individual on your behalf. It empowers them to execute financial transactions or to sign legal documents. Depending on the state, the Power of Attorney can be durable, meaning that it will stay intact even if the original principal person becomes incapacitated.

Health Care Power of Attorney

The health care power of attorney is a legal document where a named “health care agent” can make health care decisions for you when you are not able to make those decisions for yourself. This person could make life and death decisions, so it is important to select someone who is

able and willing to make those decisions. Any competent person who is at least 18 years old may be your health care agent.

Beneficiary Designations

Something that is often overlooked or not updated adequately are beneficiary designations. Proper beneficiary designations are crucial for assets like 401(k)s, IRA’s or Life Insurance Policies. Assigning beneficiaries can supersede a Will and help avoid the probate process. In addition, a POD or TOD designation may be added to bank or investment accounts to transition the accounts to a new owner without the use of a Will or Trust.

Wills and Trusts

Typically, most estate planning can be accomplished with the Power of Attorney documents and with beneficiary designations. As circumstances change and either as wealth increases or a life event occurs (i.e. marriage, children, inheritance, etc.), introducing a Will or a Revocable Living Trust becomes essential. These documents allow a more in-depth way to ensure that assets are distributed to the proper beneficiaries.

As with any plan, it is important that documents be periodically reviewed and updated. As laws change over time it is wise to consult with professionals like McShane Partners to assess your situation and determine the best course of action for setting up your estate plan.

NEXT GEN: MITIGATING CYBER SECURITY THREATS



Daniel Hudspeth, CFP®
Associate Wealth Advisor

As we continue forward in this digital age, online processes are constantly evolving in ways that streamline time and financial resources. While these advancements work to make life easier, it is important to minimize the risks associated with online activity, especially when dealing with finances. This month's article will address steps that advisors and clients can take in an effort to mitigate these risks.

Steps for Advisors to Protect Clients

A common security feature is 2 factor authentication. This process layers an additional password on top of a standard password. This additional password is generated when someone logs in with a standard password and is only valid for a specific time (such as 30 seconds). For example, a website may send the code to registered contact via a text message, email, or phone call. This helps ensure that the person logging in is who they say they are.

Wealth Advisory Vault – at McShane Partners, we use a Wealth Advisory Vault which requires a secure login. We use this vault for client documents such as tax forms, account statements, and financial planning information. The vault provides greater security vs. standard email when exchanging data.

Investment Portal – the client portal is another secure access point for our clients. The documents within this portal typically include investment reports and other miscellaneous account information.

Email File Encryption – email encryption is another option for sending sensitive information. The email includes a secure login to access files instead of merely password protecting the document.

Steps for Clients

One major security key is keeping devices updated with the latest software version updates. This also applies to anti-virus software as it is important to keep those programs up to date as well.

Privacy and security settings for devices such as cell phones and computers can be adjusted based on user preferences and security needs. For example, if someone is on their secure home internet connection, extra precautions may not be needed. However, stricter settings and precautions are necessary when using public or free Wi-Fi. Various internet browsers can also provide optional safety features and settings.

Reviewing credit reports annually can help to identify if a data breach has occurred. The Federal Trade Commission enables everyone in the US to receive free annual credit reports from 3 credit reporting bureaus (Experian, Equifax, and TransUnion). It is a good practice to take advantage of these reports and make sure there are no suspicious credit inquiries or usages. Credit reports can be one of the “first line” indicators that something is wrong.

It can also help to prepare for a *what if*. Identity theft is prevalent and taking a proactive approach can be beneficial as opposed to a reactive one. Fast action may help to mitigate the effects of a breach theft. There are also companies that monitor personal data which can alert suspicious activity as soon as it happens.

As always, please contact your McShane Partners Wealth Advisor if you have any questions or would like more information regarding cybersecurity.

AROUND McSHANE PARTNERS



BABY MEYER IS HERE

Wilhelmina Rae Meyer was born on 4/18/2024 at 5:08am. She was 18 inches long and weighed 7 pounds. Pictured to the left are the proud parents, Kelly & Corey Meyer. Pictured to the right is proud Grandmother Lorri Tomlin. Wilhelmina is Kelly's maternal grandmother's name and Rae is Corey's material grandmother's name. Wilhelmina is affectionately called by "Mina". Everyone is doing great.



THE ELIZABETH 8K ROAD RACE



McShane Partners was a first time sponsor for the 38th year of this annual neighborhood event. The office was designated as Water Station #1 for the 1,300 runners this past Saturday. This was the largest participated event for the race in it's history. Pictured above are Abby, Ryan, Tracy, Becky, Lorri and Chantal who were on hand to support.



CHARLOTTE WINE & FOOD

McShane Partners was a sponsor for the 3rd consecutive year of Charlotte Wine & Food which benefits local children's charities—A Child's Place, Augustine Literacy Project, GenOne and The Learning Collaborative.



Ryan Vaudrin and his wife Sonja attend the grand tasting this year. They are pictured centered. Joining them are Phil Jester who is a friend of the firm, his girlfriend Rachel along with Ryan's friends Allie & Dillon. The organization closed it's most recent year of fund-raising with a record year distributing \$580,000 to charity.

McSHANE PARTNERS

Wealth management is our only business; therefore, our attention is undivided, and our intentions are transparent.

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