



OCTOBER 2023

Q3 2023 OUTLOOK



YOU CAN'T TAKE IT WITH YOU

By Managing Director & Senior Advisor Jennifer Smiljanich, CFP®

Giving to family members or charitable organizations is a highly personal decision, often tied with emotional strings. We make gifts aligned with our values, and our choice to give, or not to give, tells other people something about us. I have always felt a strong connection to Catholic Charities. In 1951, my father's family emigrated to the United States from Germany with a few suitcases and a dream of a better life. His family received clothing from Catholic Charities to make their transition to America easier. Now I want to give that opportunity to someone else!

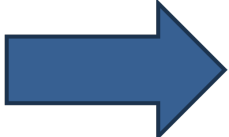
For some, gifting to family takes precedence over making donations to charity. Keep in mind that you may gift up to \$17,000 per individual in 2023, without generating gift tax. Gifts can be made to individuals using cash or securities.¹ Various types of account structures, including 529 Plans, trusts, and Roth IRAs, may be used to help your loved ones accomplish their future goals, and your own.

In addition to family gifting, many individuals support giving to organizations that aim to help their communities. Below, we've highlighted some strategies to make the most of your giving dollars:

INSIDE THIS ISSUE

You Can't Take It With You	1
In The Hopes Of A "Soft Landing", There May Be A Crack In The Foundation	3
Looking Forward To Q4 2023	5

- 1. Consider making gifts using IRA dollars:** for those age 70 ½ or older in 2023, you may request that your IRA custodian cut a check directly to a charity (called a qualified charitable distribution (QCD)). This strategy works well for individuals who cannot itemize deductions on their tax return. Each IRA dollar given to a qualified non-profit organization does not count as taxable income to the IRA owner. Additionally, for those taking required minimum distributions (RMDs), these donations can be used to satisfy your RMDs.²
- 2. Donate highly appreciated securities:** if you are making a meaningful gift to a qualified charity, you may be able to donate a stock, mutual fund, or exchange traded fund (ETF) in kind. By doing so, you can avoid realizing the gain on the security at sale (and the resulting tax). The charity can sell the security and does not realize the gain if they are a qualified organization.³ A win for both the giver and receiver! Consider this example of donating \$50,000 of securities directly to charity:

\$25,000 Investment Cost Basis  **\$50,000 Investment Market Value**

Selling Securities & Donating The Proceeds To Charity	
Long-Term Capital Gains Taxes (20.0% Federal Capital Gains Rate + 3.8% Medicare Surtax)¹	\$5,950
Net Proceeds To Charity	\$44,050

Donating Securities Directly To Charity	
Long-Term Capital Gains Taxes	\$0
Net Proceeds To Charity	\$50,000

Potential Tax Savings Of Donating Securities Directly²	\$5,950
--------------------------------------------------------------------------	----------------

¹ This example assumes that the realized gains are subject to the maximum federal long-term capital gains tax rate of 20% and the Medicare surtax of 3.8%. State and local taxes are not considered.

² Potential tax savings may be less depending on your eligible deductions associated with the donation. See Important Disclosure Information.

3. **Donor advised funds:** these types of accounts can be held through a community foundation or custodian, including Schwab, Fidelity, and Vanguard. An individual can donate cash or securities to fund an account; using highly appreciated securities is most advantageous. At the time of funding, the donor receives a tax deduction up to the value of the securities / cash donated. The original securities are then sold and may be invested in other securities. Then, the donor may use the account to make donations all at once, or over time, to charitable organizations. There are some caveats - the receiving charity must be a legitimate qualified charity and the donor cannot use donor advised funds in a way that the donor receives some benefit (i.e. to pay for a gala dinner).⁴ Unfortunately, a QCD from an IRA may not be directed to a donor advised fund.
4. **Cash is always an option:** for smaller gifts, one-time gifts, and gifts to smaller organizations that might not have a brokerage account to receive securities, cash might be the simplest and most effective option.

Finally, some states offer tax credits for charitable donations that might be used to help families paying private school tuition or to aid other charitable organizations. Tax credits reduce taxes due dollar-for-dollar. Ohio recently began a tax credit program to support scholarship granting organizations (such as some private schools), up to \$750 per individual or \$1,500 per married couple.⁵ Arizona also offers tax credits for donations to selected charitable organizations and foster care organizations.⁶

We are available to help you, in coordination with your tax or estate professional, consider how to best accomplish your giving goals to family or to organizations aligned with your values. While gifts must be completed before December 31st to count for the current tax year, giving can be done throughout the year to support the people and causes that are near and dear to you.

IN THE HOPES OF A "SOFT LANDING", THERE MAY BE A CRACK IN THE FOUNDATION

By Chief Investment Officer Tom Kelly, CFA

The housing market is often viewed as a cornerstone of financial stability. The home signifies a sanctuary, a place where one can relax, enjoy, live, and grow. In the 2008 housing crisis, we experienced how fragile the economy can be when the cornerstone is shaken. While global stock markets have broadly recovered since high inflation and fed rate hikes caused a recessionary scare last year, the housing market has continued to face seismic shifts that may put the chances of a so called "soft landing" on shaky grounds.⁷

In 2023, mortgage rates reached heights not seen in two decades, with the 30-year fixed rate mortgage average hitting a recent high of 7.31% in September.⁸ At the same time, potential homebuyers found themselves in a daunting landscape with the number of homes for sale dwindling to 1.1 million as of August, with inventory over the last couple years reaching the lowest

levels since 1982.⁹ In stark contrast to the pre-pandemic era, there are now only around two-thirds as many homes available on the market.⁹ With mortgage demand hitting a 26-year low in September, largely due to the scarcity of available housing inventory and little incentive to refinance, there doesn't appear to be much opportunity for those looking to make a move.¹⁰

30-Year Fixed Rate Mortgage Average In The U.S.



Source: "30-Year Fixed Rate Mortgage Average in the United States". Federal Reserve Bank of St. Louis, 1971-2023, fred.stlouisfed.org. See *Important Disclosure Information*.

But the challenges don't stop there. Rental prices have also seen a steady rise. The average rent for primary residences in U.S. cities remains 7.8% higher than a year ago as of August.¹¹ These elevated rental levels represent the most significant increases we've witnessed since the early 1980s.¹¹ Additionally, the Federal Reserve Bank of Atlanta estimates that the amount of income the median household needs to spend yearly in order to own a median priced home in the U.S. is 43.8% as of July, significantly higher than the 28.5% amount in December 2019.¹² While many homeowners are locked in to 3-4% mortgages, the next generation of buyers and families may be renting for a little while longer.

The various factors contributing to these unsettling trends in the housing and rental markets are multifaceted and complex. Markets tend not to like extremes, and the quest for stability and security in housing has become more elusive. The future of the housing market is uncertain, and its resilience will be a crucial factor in the broader economic landscape.

LOOKING FORWARD TO Q4 2023

As we enter the fourth quarter of 2023, we want to highlight a few dates and events to keep in mind:

- **Monday, October 9th:** U.S. bond markets and banks closed in observance of Columbus Day. U.S. stock markets will be open.
- **Tuesday, October 31st - Wednesday, November 1st:** Federal Open Market Committee (FOMC) Meeting.
- **Friday, November 10th:** U.S. bond markets closed in observance of Veterans Day. U.S. stock markets will be open.
- **Thursday, November 23rd:** U.S. stock and bond markets as well as SJS offices closed in observance of Thanksgiving.
- **Friday, November 24th:** U.S. stock markets close early at 1:00 PM EST.
- **Tuesday, December 12th - Wednesday, December 13th:** FOMC Meeting.
- **Monday, December 25th:** U.S. stock and bond markets as well as SJS offices closed in observance of Christmas.
- **Monday, January 1st:** U.S. stock and bond markets as well as SJS offices closed in observance of New Year's Day.
- **Throughout:** Wishing you a happy Autumn and a fire-in-your-hearth-start to Winter!

ABOUT SJS INVESTMENT SERVICES

SJS Investment Services has been serving as investment advisor and co-fiduciary for families, individuals, business owners, foundations, public entities, retirement plans, and corporations since 1995 through our proprietary process called MarketPlus Investing®.

With more than \$2.0 billion* in assets under management, we bring you major money center investment experience and a team of people whose small-town values put you first, all the time, every time.

*As of 09/30/2023

You come first. All the time. Every time.™

Important Disclosure Information & Sources:

- ¹ "Frequently Asked Questions on Gift Taxes". Internal Revenue Service, 2023, [irs.gov](https://www.irs.gov).
- ² "IRA FAQs - Distributions (Withdrawals)". Internal Revenue Service, 2023, [irs.gov](https://www.irs.gov).
- ³ "About Publication 526, Charitable Contributions". Internal Revenue Service, 2023, [irs.gov](https://www.irs.gov).
- ⁴ "Donor-advised Funds". Internal Revenue Service, 2023, [irs.gov](https://www.irs.gov).
- ⁵ "Scholarship Donation Credit". Ohio Department of Taxation, 2023, tax.ohio.gov.
- ⁶ "Credits for Contributions to QCOs and QFCOs". Arizona Department of Revenue, 2023, azdor.gov.
- ⁷ "SJS Weekly Market Update". SJS Investment Services, sjsinvest.com.
- ⁸ "30-Year Fixed Rate Mortgage Average in the United States". Federal Reserve Bank of St. Louis, 1971-2023, fred.stlouisfed.org.
- ⁹ "United States Total Housing Inventory". Trading Economics, 1982-2023, tradingeconomics.com.
- ¹⁰ "Mortgage Applications". Mortgage News Daily, 1991-2023, mortgagenewsdaily.com.
- ¹¹ "Consumer Price Index for All Urban Consumers: Rent of Primary Residence in U.S. City Average". Federal Reserve Bank of St. Louis, 1915-2023, fred.stlouisfed.org.
- ¹² "Home Ownership Affordability Monitor (HOAM)". Federal Reserve Bank of Atlanta, 2023, atlantafed.org.

There is no guarantee investment strategies will be successful. Past performance is no guarantee of future results. Diversification neither assures a profit nor guarantees against a loss in a declining market.

Statements contained in this report that are not statements of historical fact are intended to be and are forward looking statements. All forward looking statements are inherently uncertain as they are based on various expectations and assumptions concerning future events and they are subject to numerous known and unknown risks and uncertainties which could cause actual events or results to differ materially from those projected.

Indices are not available for direct investment. Index performance does not reflect the expenses associated with management of an actual portfolio. Index performance is measured in US dollars. The index performance figures assume the reinvestment of all income, including dividends and capital gains.

Advisory services are provided by SJS Investment Services, a registered investment advisor (RIA) with the SEC. Registration does not imply a certain level of skill or training. SJS Investment Services does not provide legal or tax advice. Please consult your legal or tax professionals for specific advice.