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MONTEITH WEALTH, LLC.

HEADS OR TAILS

TWO SIDES OF THE SAME COIN

The topics discussed in this and future letters are for informational purposes only. We hope our thoughts on investing and the related fields of taxes will help you achieve and enjoy financial independence. We believe only when you combine knowledge of both can you be a successful investor.

Heads: Investments

Another One Bites The Dust

The bankruptcy and fraud of FTX, the second-largest crypto exchange, will be in the history books. After all, FTX is likely a bigger scandal than Enron. Easily unnoticed are the slew of other crypto firms falling into the void. Bitfront is another exchange that has closed its doors. BlockFi, better known than Bitfront, has declared bankruptcy due to its financial links to FTX. And one cannot forget crypto lenders Celsius and Voyager going bankrupt as well. It would be overkill to mention the hedge funds that have failed due to crypto ventures. Does the crypto craze remind you of anything from the late 1990s-2000? The dot-com bubble certainly comes to mind.

At the end of the day, people involved in these companies and groups lost a lot of money. Crypto is supposed to change the world, and like the internet, it truly does have potential – though likely less of a game changer than the internet itself. If crypto has so much potential, why are we at Monteith Wealth, LLC so critical of it?

Some investors have indeed become extremely wealthy from crypto investments, but more investors have become poorer. It is easy to notice similarities between crypto investing and a Ponzi scheme. The concept of cryptocurrency, such as bitcoin, has merit and if implemented widely could somewhat revolutionize the financial industry. But the best test of a new concept is time, and without time, the concept is merely an experiment. So, we ask you, do you want to experiment with your savings?

It simply comes down to risk. We do not speculate for personal investments or our clients. If you're investing in something new like crypto, you better be willing to lose every penny invested in it. That happened for those invested with FTX. In the stock market, you are generally rewarded for taking risks – more risk equals more return. But it's not that simple in reality. Most of the time risk and return do not move in proper synchronicity. We feel this is the case with crypto. You have to risk total loss, for what, the hope to double or triple your investment? Even if you were able to triple your investment, this is only going to be worth it if you bet big – you invested all or a substantial portion of your portfolio. But if you bet big, you can lose big, as many have already.

When investing in a new type of investment, consider if you're investing because of fear of missing out. New promising investments will always come along, and only those who win big will be highlighted. Our investment approach is based on over 100 years of investment knowledge and data; it is time-tested. If you want to gamble, go to the horse track, but for us and our clients, we'll stick to a time-tested investing approach.

Tails: Taxes

The Tax Side of Personal Financial Planning

1. Establish relationships with a financial advisor, a CPA or Enrolled Agent, and a Family Attorney. These professionals must have the ability to communicate with each other.

2. Know when to invest in a Roth or a Traditional IRA. If you are young, prioritize investing in a Roth. Roths allow your money to grow tax-free and come out tax-free. Even though you lose the tax reduction you get with a Traditional IRA, the Roth is usually worth it if you have 10 years or more before you need to access it. In most scenarios, we favor the Roth regardless of age. Their ability to grow tax-free, come out tax-free, and have this apply to your beneficiary is extraordinary. If you are older or have a substantially high income, the Traditional IRA may be for you. The more you earn, the more taxes you can save with the IRA. There are income limits that determine Roth eligibility, but there are strategies available for high earners if you still want to utilize Roths. For business owners, there are several tax-deductible retirement plans available.

3. Take advantage of catch-up contributions. Taxpayers age 50 or older can contribute an extra $1,000 to a Roth or IRA, up to $7,500 for 2023.

4. Minimize tax consequences from investments. Understand the difference between short and long-term capital gains, take advantage of tax-loss harvesting, and steer clear of illiquid investments. To clarify the latter, illiquid investments are those that are difficult to sell, or cannot be sold. We see these types of investments often; they come with large commissions and sometimes hidden tax burdens. Some of these investments make money, but don't distribute it to shareholders. Shareholders are then liable for their portion of the taxes owed by the investment, even though they never actually received a penny. Put simply, you can be stuck with an investment that costs you money yearly and you can't sell.

5. Utilize insurance. As you begin building your wealth, protect your family with life insurance. In most cases, inexpensive term life insurance will provide the protection needed. Life insurance payouts are not taxable. Take advantage of employer-provided disability insurance. If you become disabled, this insurance should provide replacement income, tax-free. And while we're on the subject, consider an umbrella liability policy. This may protect you in the following scenarios: a tenant at your rental property falls and injures themselves, you are involved in a serious auto accident where you are at fault, your dog bites a neighbor's child, certain lawsuits, personal liability situations, and more.

6. Strategically choose when to draw Social Security. Social Security benefits may be taxable; tax planning is important for maximizing your after-tax benefits.

7. Ensure your estate is in order. Your family attorney can help you design wills, trusts, and medical directives which will provide an orderly and cost-efficient transfer of your assets and wishes upon your death. Gifting can be an important process in transferring your estate to heirs, but it should be done strategically for tax purposes. For example, gifting cash may be more beneficial than gifting stocks or property, since stocks and properties receive a step up in basis at your passing.

8. When in doubt, ask. Many actions are irreparable; if you think there may be tax implications then consult with a tax expert beforehand. Don't pay more than you have to, and don't accidentally surprise yourself with an unnecessary tax burden.

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