# *Market Insights & Planning Highlights*

**Q4-2024**

DLAK

Where clients come first.

**PORTFOLIO MANAGEMENT**

## *Buy Nvidia or Diversify? That is the question.*

*by Robert Koscik*

Even the most casual investor has probably heard that most common of blanket disclosures: “Past performance is not an indicator of future returns.” Rings a bell, right?

In and of itself, it’s an accurate statement. The reason the disclosure is repeated ad nauseum is because far too many individuals—when left to their own devices—will implement an investment strategy that goes 180 degrees against that very disclosure. What does that questionable strategy look like?

Well, within the more than $8 Trillion invested in U.S. based 401(k) retirement plans, we have seen a growing trend of individuals allocating the majority of their money (if not all) within a singular investment “style.” This is typically some sort of S&P 500 Index or U.S. Large Cap Equity fund equivalent. When asked why, the average investor will say that they looked at the fund performance and saw how well it had done over the past five to ten years. They might add something like “hey, if it did well in the past, then it’s obviously a better investment than the other funds whose performance pales in comparison.” Guess what? That’s not usually the case. In fact, history tells us that if an investment has performed well in the past, we typically see the *opposite* occurring in the future.

Source: 401k Assets - Investment company Institute

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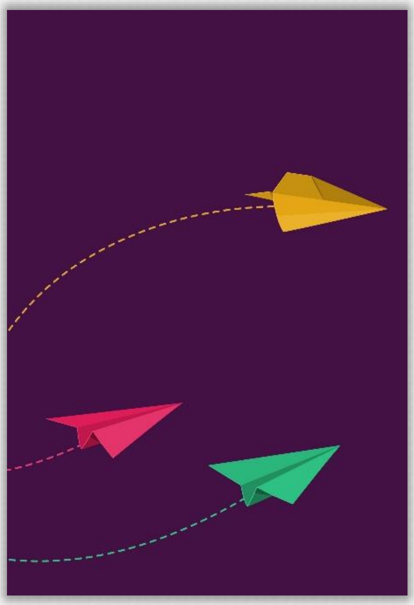
PORTFOLIO MANAGEMENT

# *Buy Nvidia or Diversify? That is the question. (continued)*

However, it's important to recognize that the recency effect has been pretty compelling. Momentum *is* important. Over the past 15 years, we have seen a longer trend of U.S. Large Cap stocks (specifically growth stocks) outperforming the broader market. I am not saying I know the future and that this trend will reverse, but a trend that long runs up against the statistical likelihood that there will inevitably be a reversion to the mean—one which can be very hard on the above-mentioned "style" investor. Or in the simplest of terms: *what goes up must come down.*



**Look to History**

All of that said, I'm not predicting U.S. Large Cap Growth stocks to underperform, and that you need to diversify out of these investments or suffer the consequences. My goal is educate you on what has happened in the past, vis-à-vis concentrations in the investment world, and how you might decide to act on such knowledge.

Whether it's the S&P 500 or a U.S. Large Cap growth fund, what we have begun to see is that these indexes are beginning to become overconcentrated to specific (mostly tech-based) stocks. Some of you may be familiar with the nickname these companies have been tagged with: "The Magnificent Seven." Apple, Nivida, Microsoft, Amazon, Meta, Google and Tesla account for over 31% of the S&P and on average over 50% of most US Large Cap Growth funds. Source: Investor's Business Daily, Motley Fool

With people moving high portions of their 401k balances to be completely invested within one of these two funds, what they're really doing is investing a majority of their retirement assets into these seven companies. So, the question becomes, what has history taught us when investors become overconcentrated in specific segments of the market?

## PORTFOLIO MANAGEMENT

# *Buy Nvidia or Diversify? That is the question. (continued)*

### Lessons from the Tech Boom

Let's take a trip back in time to the late 1990s/early 2000s. During that period, we had a little-known invention come out called the "internet." Thirty years into the future we can all agree that statements made that the internet would "change the world," were in fact correct. However, the notion that every company who tied some part of the business to the internet was going to be a huge success was obviously not the case.

Following the creation and the implementation of the internet, we saw a BOOM in technology stock investments. I started in the industry in 1993. By 1995, the greatest bull market I have ever seen took hold, and it was one heavily concentrated run. In the charts at right, you will see how well Large Growth stocks performed. Today the Large Growth index is comprised of more than 50% technology stocks. U.S. stocks well outperformed all other macro stock categories by comfortable margins.

This is a great example of FOMO (Fear of Missing Out) as we watched CEOs and CFOs fancying themselves money managers and reevaluating the funds within their company's 401(k). Way too often they would load the 401(k) investment menus with a big assortment of funds containing pretty much all the same technology stocks. Everyone became so enamored with not missing out on returns, and making sure the historical performance looked good, that they forgot that nothing lasts forever.

| 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|
| US Large Cap Value 38.35 | Real Estate 35.75 | US Large Cap Value 35.18 | US Large Cap Growth 38.71 | Emerging Markets 67.11 |
| US Large Cap Growth 37.19 | US Large Cap Growth 23.12 | US Mid Cap Value 34.37 | Intl. Dev. Equities 20.33 | US Mid Cap Growth 51.30 |
| US Mid Cap Value 34.93 | US Large Cap Value 21.64 | US Small Cap Value 31.79 | US Mid Cap Growth 17.86 | US Small Cap Growth 43.09 |
| US Mid Cap Growth 33.98 | US Small Cap Value 21.37 | US Large Cap Growth 30.49 | US Large Cap Value 15.63 | US Large Cap Growth 33.16 |
| US Small Cap Growth 31.04 | US Mid Cap Value 20.26 | US Mid Cap Growth 22.54 | US Bonds 8.67 | Intl. Dev. Equities 27.30 |
| US Small Cap Value 25.75 | US Mid Cap Growth 17.48 | Real Estate 18.87 | US Mid Cap Value 5.08 | US Large Cap Value 7.35 |
| High Yield Bonds 19.17 | High Yield Bonds 11.35 | US Small Cap Growth 12.95 | Cash 4.86 | Cash 4.68 |
| US Bonds 18.48 | US Small Cap Growth 11.26 | High Yield Bonds 12.77 | High Yield Bonds 1.87 | High Yield Bonds 2.39 |
| Real Estate 0.00 | Emerging Markets 9.37 | US Bonds 9.68 | US Small Cap Growth 1.23 | US Mid Cap Value -0.11 |
| Intl. Dev. Equities 11.55 | Intl. Dev. Equities 6.36 | Cash 5.26 | US Small Cap Value -6.45 | US Bonds -0.83 |
| Cash 5.60 | Cash 5.21 | Intl. Dev. Equities 2.06 | Real Estate -18.82 | US Small Cap Value -1.49 |
| Emerging Markets -8.42 | US Bonds 3.62 | Emerging Markets -14.74 | Emerging Markets -22.01 | Real Estate -6.48 |

| 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|
| US Value 37.03 | US Growth 21.88 | US Value 34.83 | US Growth 35.02 | US Growth 33.83 |
| US Growth 36.57 | US Value 21.60 | US Growth 28.74 | US Value 13.50 | US Value 6.65 |

| Cumulative | |
|---|---|
| 1995-1999 | |
| S&P Large Growth | 252.60% |
| Emerging Markets | 85.40% |
| International | 11.30% |

Source: Callan Institute

# Buy Nvidia or Diversify? That is the question. (continued)

Enter 2000. With technology skyrocketing for five years straight, historical valuations began to reach stretched levels that had never been seen in history. Companies were pricing future growth for the next 10+ years into the stock price and everyone was making up excuses as to why the numbers were justifiable. Does this sound familiar to what we've been hearing today about the Magnificent 7? Well, the party finally came crashing down. Let's look at the 8 years starting in 2000:

| Cumulative | |
|---|---|
| 2000-2007 | |
| S&P Large Growth | -30.48% |
| Small Cap | 155.40% |
| Emerging Markets | 312.55% |
| International | 150.63% |
| S&P Large Growth 2008 | -34.92% |

Source: Callan Institute

What we see is tech stocks plummeting 80%. This unfortunately was also the trend seen in people's individual 401(k) accounts. Those same plans that thought stuffing its menu with technology funds was a great idea now exposed its participants to tremendous losses. And it wasn't just 401(k)s. Many individual investors outright did this to themselves. Those who put most of their money in S&P Large Growth lost 30% from 2000 to 2007 and then lost 35% more in 2008.

Take the unfortunate 65-year-old investor who threw diversification out the window in 1999 and went all in on large growth stocks. Consider also that he correspondingly decided to retire with one million dollars in investable assets and a requirement for 50,000 in supplemental income from investments. If said investor also required an inflation adjusted distribution increase of 2.5% per year, they ***run out at 77 and the diversified investor still has 900,000 at 78.***

As a hypothetical example, If that same investor had instead maintained an allocation which many would define as the lowest risk way to attain a 6.5% return per year at the lowest risk level possible—**35% AGG , 35% SPY, 12% EFA, 4% EEM, 14% small cap value**—at 78 the diversified investor would still have over $900,000 still to live on. [1]

1) This example is for educational purposes only and is based on portfolio value of $1,000,000. The results were calculated from the Callan Periodic Table of Returns and Yahoo Finance.com and is intended only to provide investors with historically relevant information. Past performance is not a guarantee of future results.

PORTFOLIO MANAGEMENT

## *Buy Nvidia or Diversify? That is the question.* *(continued)*

There is a prevailing thought that investors need for diversification will be just as prevalent in the coming years. Goldman Sachs, Vanguard, and Robert Shiller of Yale Business have each predicted around 3% yearly growth in the S&P over the next decade. Source: gspublishing

Outperformance is extremely important, and I understand that if DLAK can't outperform our benchmark, we have an issue. Unfortunately, I have yet to meet anyone in possession of the old crystal ball. There are numerous tools I use and can be used to decide where outperformance, and underperformance, may lie in the future. That being said, it is my educated opinion that the importance and value of diversification is not dead. It's just on a little hiatus. If you disagree, you better not get left holding the bag. As many investors in the early 2000s learned, it's pretty darn hard to make up losing 50% of your money over a 8-9 year time period.

**Know the Rules**

Finally, don't forget the other important rule of thumb. If diversification is the #1 rule of investing then "Buy Low and Sell High" is 1A. Buying low and selling high has worked pretty well within its own right—especially when integrated with diversification. As always, don't hesitate to bring up these topics during future talks.



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RETIREMENT PLANNING

# *Longevity Risk: How Not to Outlive Your Savings*

*by Jason Phipps*

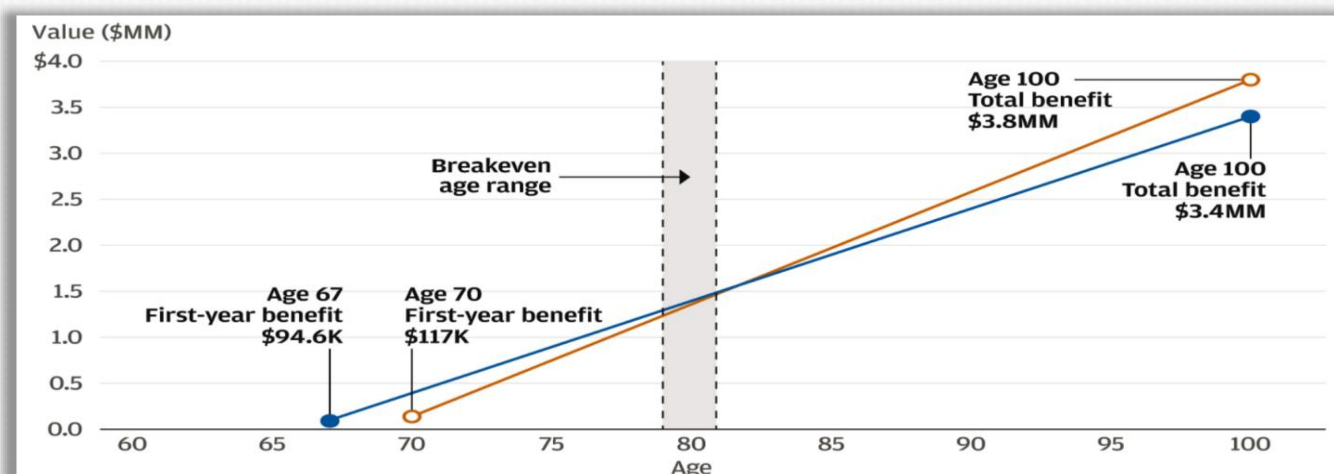
Who doesn't want to live a long, happy, healthy life? (No "show of hands" necessary 😉). Thanks to advances in healthcare, life expectancy continues to rise. A 65 year-old female in average health has a 46% chance of living to age 90, while a 65 year-old healthy male has a 35% chance. A 65 year-old couple has a 20% chance that one will live past 95.

But that blessing of a potentially long life carries a concern. According to a 2023 study by Cerulli Associates, retirees top worry is outliving their assets—AKA "longevity risk."

What steps can you take to make sure you're addressing this risk? The following tips will help you confront the topic and prepare for retirement with confidence.

**1. Taking Social Security at the right time.**

Waiting to take Social Security is not right for everyone, but it can add up. You would enjoy an 8% increase, adjusted for inflation each year that you wait between your full retirement age and 70. It does take time for the increased monthly benefit to make up for the years you delayed, and for most the break-even point is in your early to mid 80s. The chart below shows the potential benefit of delay. A high-earning 65 year-old receives $450,542 more if they wait until 70 to draw and subsequently live to 100.




Hypothetical example for illustrative purposes only

# Longevity Risk: How Not to Outlive Your Savings (cont.)

**2. Have the appropriate asset allocation**

A common misconception is that when you retire, you should move all of your money to safe investments. If you plan to spend thirty or more years in retirement, you can't afford to do that because inflation will work against the value of your future purchasing power. Just think about what you spend at the grocery store today versus five years ago. If such a period took place during retirement, your savings would be adversely affected. That said, your portfolio should have a mixture of safe investments like bonds and cash, but also have an allocation to stocks. Stocks, although volatile at times, provide you the growth that is needed to build some of your retirement assets faster than the rate of inflation.

At DLAK, we have a seven-year rule. It states that seven years worth of retirement expenses should be in bonds and cash. The goal is to provide assets to draw income from without having to sell stocks during a bear market. A properly diversified portfolio can keep your money safe enough to keep your retirement paychecks coming and build the portfolio to protect against inflation.

**3. Plan for all expenses**

Anyone who has gone through our retirement budgeting process can attest that we want to know *every* expense. Many articles on this topic will single out healthcare expenses in particular. However, it is very important to factor ALL expenses. One of the key variables to building retirement income is how much you will need to draw out every year. When we go through a retirement budget, we find that people often leave out several expenses. For example, many clients no longer have a car payment. We add the auto expense back by determining the amount of money you would spend on a car and how often you buy one. This way, when it is time to replace a car, it has already been planned for. Another item we build into your retirement budget is the "unforeseen" category. Unforeseens are things like a roof replacement, a new oil burner or air conditioner, or major car repairs. We also build in vacation and travel budgets, college expenses, or gifts for grandkids.

# *Longevity Risk: How Not to Outlive Your Savings (cont.)*

**4. Make a plan**

The items above are all part of a plan but they are not *a plan*. Having a comprehensive roadmap in place will help you successfully navigate your retirement. It ensures that the amount you draw each month will allow you to live your golden years the way you envisioned, and takes into consideration your unique goals and priorities. A plan puts you in firm control of your retirement.

**Here to Help**

At DLAK, we certainly want clients enjoying life and not worrying about living too long. If you've been with us long enough, you can attest that we have a rigorous process in place—one that ensures we are helping you properly prepare and execute a retirement income strategy that eases the fear of outliving your assets. Cheers to a long, healthy and happy life!

TAX MATTERS

# *Are You Being Tax Efficient?*

Many investors often get so caught up in their investments and the returns they generate, that they rarely take into consideration how much of that return they actually get to keep. Reaping a hefty nominal return might be something to brag about to friends and coworkers, but your *after-tax return* is really what matters.

Being mindful of tax-efficiency is a sure way to save yourself actual money…

***by Matt Ringle***

**The Right Registration**

Currently there are four major “tax registrations” within the investing world: traditional individual retirement accounts (IRAs) and 401(k)s, Roth IRAs and Roth 401(k)s, Trusts, and taxable brokerage accounts. (We are not including HSAs or kid accounts like UTMAs and 529s)

At a macro level, tax registration determines how your assets within a particular account are taxed by the IRS. For example, assets held within pre-tax IRAs or 401(k)s are a tax write-off on the front-end but are taxed as ordinary income when withdrawn during retirement. Post-tax accounts like Roth IRAs and Roth 401(k)s on the other hand, are taxed upfront and then income tax-free when withdrawn in retirement.

Utilizing the right tax registration is based on a number of factors including age, risk appetite, income over time and spending needs—just to name a few. The bottom line: choosing the right tax registration is a highly personalized concept, and always requires an in-depth discussion with a financial professional. That said, my goal today is to share a single example of how this topic can impact you…

# *Are You Being Tax Efficient? (continued)*

Below is a hypothetical example of "Investor A" and "Investor B." Investor A has done a great job of saving for retirement and has built up a total investment portfolio of $1M at the age of 45. That $1M is evenly divided with $500K in a traditional pre-tax IRA and $500K in a post-tax Roth IRA. Investor A is somewhat conservative for this example and wants to keep 50% of the retirement savings in stock-like investments and 50% in bond-like investments. If Investor A ignores taxes and allocates both accounts the same way (50% stock, 50% bond) and is able to obtain a 6% return, he will have roughly $2.145M in the IRA and $2.145M in the Roth IRA at the end of a 25-year period.

If we now assume that Investor A withdraws his money and has to pay taxes at a total rate of 28% (considering federal, state, etc.), what we find is Investor A gets to keep 100% of the money he made in his post-tax Roth IRA, but only gets to keep $0.72 on the $2.145M of the money in the pre-tax IRA. The gross Investment account balance of $4.29M really only generates $3.691M of spending money.

| | | Pre-Tax IRA (50/50) | | | | | | Post-Tax Roth (50/50) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Portfolio Value (Beg.) | Distributions (Contributions) | Value Net of Distributions | Growth Rate | Annual Growth | Portfolio Value (End.) | Portfolio Value (Beg.) | Distributions (Contributions) | Value Net of Distributions | Growth Rate | Annual Growth | Portfolio Value (End.) |
| 40 | 2024 | $500,000 | $0 | $500,000 | 0.06 | $30,000 | $530,000 | $500,000 | $0 | $500,000 | 0.06 | $30,000 | $530,000 |
| 41 | 2025 | $530,000 | $0 | $530,000 | 0.06 | $31,800 | $561,800 | $530,000 | $0 | $530,000 | 0.06 | $31,800 | $561,800 |
| 42 | 2026 | $561,800 | $0 | $561,800 | 0.06 | $33,708 | $595,508 | $561,800 | $0 | $561,800 | 0.06 | $33,708 | $595,508 |
| 43 | 2027 | $595,508 | $0 | $595,508 | 0.06 | $35,730 | $631,238 | $595,508 | $0 | $595,508 | 0.06 | $35,730 | $631,238 |
| 44 | 2028 | $631,238 | $0 | $631,238 | 0.06 | $37,874 | $669,113 | $631,238 | $0 | $631,238 | 0.06 | $37,874 | $669,113 |
| 45 | 2029 | $669,113 | $0 | $669,113 | 0.06 | $40,147 | $709,260 | $669,113 | $0 | $669,113 | 0.06 | $40,147 | $709,260 |
| 46 | 2030 | $709,260 | $0 | $709,260 | 0.06 | $42,556 | $751,815 | $709,260 | $0 | $709,260 | 0.06 | $42,556 | $751,815 |
| 47 | 2031 | $751,815 | $0 | $751,815 | 0.06 | $45,109 | $796,924 | $751,815 | $0 | $751,815 | 0.06 | $45,109 | $796,924 |
| 48 | 2032 | $796,924 | $0 | $796,924 | 0.06 | $47,815 | $844,739 | $796,924 | $0 | $796,924 | 0.06 | $47,815 | $844,739 |
| 49 | 2033 | $844,739 | $0 | $844,739 | 0.06 | $50,684 | $895,424 | $844,739 | $0 | $844,739 | 0.06 | $50,684 | $895,424 |
| 50 | 2034 | $895,424 | $0 | $895,424 | 0.06 | $53,725 | $949,149 | $895,424 | $0 | $895,424 | 0.06 | $53,725 | $949,149 |
| 51 | 2035 | $949,149 | $0 | $949,149 | 0.06 | $56,949 | $1,006,098 | $949,149 | $0 | $949,149 | 0.06 | $56,949 | $1,006,098 |
| 52 | 2036 | $1,006,098 | $0 | $1,006,098 | 0.06 | $60,366 | $1,066,464 | $1,006,098 | $0 | $1,006,098 | 0.06 | $60,366 | $1,066,464 |
| 53 | 2037 | $1,066,464 | $0 | $1,066,464 | 0.06 | $63,988 | $1,130,452 | $1,066,464 | $0 | $1,066,464 | 0.06 | $63,988 | $1,130,452 |
| 54 | 2038 | $1,130,452 | $0 | $1,130,452 | 0.06 | $67,827 | $1,198,279 | $1,130,452 | $0 | $1,130,452 | 0.06 | $67,827 | $1,198,279 |
| 55 | 2039 | $1,198,279 | $0 | $1,198,279 | 0.06 | $71,897 | $1,270,176 | $1,198,279 | $0 | $1,198,279 | 0.06 | $71,897 | $1,270,176 |
| 56 | 2040 | $1,270,176 | $0 | $1,270,176 | 0.06 | $76,211 | $1,346,386 | $1,270,176 | $0 | $1,270,176 | 0.06 | $76,211 | $1,346,386 |
| 57 | 2041 | $1,346,386 | $0 | $1,346,386 | 0.06 | $80,783 | $1,427,170 | $1,346,386 | $0 | $1,346,386 | 0.06 | $80,783 | $1,427,170 |
| 58 | 2042 | $1,427,170 | $0 | $1,427,170 | 0.06 | $85,630 | $1,512,800 | $1,427,170 | $0 | $1,427,170 | 0.06 | $85,630 | $1,512,800 |
| 59 | 2043 | $1,512,800 | $0 | $1,512,800 | 0.06 | $90,768 | $1,603,568 | $1,512,800 | $0 | $1,512,800 | 0.06 | $90,768 | $1,603,568 |
| 60 | 2044 | $1,603,568 | $0 | $1,603,568 | 0.06 | $96,214 | $1,699,782 | $1,603,568 | $0 | $1,603,568 | 0.06 | $96,214 | $1,699,782 |
| 61 | 2045 | $1,699,782 | $0 | $1,699,782 | 0.06 | $101,987 | $1,801,769 | $1,699,782 | $0 | $1,699,782 | 0.06 | $101,987 | $1,801,769 |
| 62 | 2046 | $1,801,769 | $0 | $1,801,769 | 0.06 | $108,106 | $1,909,875 | $1,801,769 | $0 | $1,801,769 | 0.06 | $108,106 | $1,909,875 |
| 63 | 2047 | $1,909,875 | $0 | $1,909,875 | 0.06 | $114,592 | $2,024,467 | $1,909,875 | $0 | $1,909,875 | 0.06 | $114,592 | $2,024,467 |
| 64 | 2048 | $2,024,467 | $0 | $2,024,467 | 0.06 | $121,468 | $2,145,935 | $2,024,467 | $0 | $2,024,467 | 0.06 | $121,468 | $2,145,935 |
| 65 | 2049 | $2,145,935 | $0 | $2,145,935 | 0.06 | $128,756 | $2,274,691 | $2,145,935 | $0 | $2,145,935 | 0.06 | $128,756 | $2,274,691 |

**TAX MATTERS**

## *Are You Being Tax Efficient? (continued)*

Now, let's look at Investor B. Everything is the same as Investor A EXCEPT Investor B got the scoop that paying attention to tax registration is key. Investor B has equal amounts in stock-like and bond-like investments but decides to allocate the tax registrations in the most efficient way possible. Investor B does so by putting the higher return stock vehicles solely within the post-tax Roth IRA (where they get to keep 100% of the returns), while putting the lower earning bond investments in the pre-tax IRA (where the government will eventually collect their cut).

Holding all other factors the same (including rate of return), we can see the total gross portfolio balance comes out to be the same at roughly $4.29M. However, when we consider withdrawals at the same 28% total tax rate, the spendable amount for Investor B is actually $4.004M, which is over $300k higher than Investor A!

| | | Pre-Tax IRA (0/100) | | | | | | Post-Tax Roth (100/0) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Portfolio Value (Beg.) | Distributions (Contributions) | Value Net of Distributions | Growth Rate | Annual Growth | Portfolio Value (End.) | Portfolio Value (Beg.) | Distributions (Contributions) | Value Net of Distributions | Growth Rate | Annual Growth | Portfolio Value (End.) |
| 40 | 2024 | $500,000 | $0 | $500,000 | 0.03 | $15,000 | $515,000 | $500,000 | $0 | $500,000 | 0.09 | $45,000 | $545,000 |
| 41 | 2025 | $515,000 | $0 | $515,000 | 0.03 | $15,450 | $530,450 | $545,000 | $0 | $545,000 | 0.088349 | $48,150 | $593,150 |
| 42 | 2026 | $530,450 | $0 | $530,450 | 0.03 | $15,914 | $546,364 | $593,150 | $0 | $593,150 | 0.086829 | $51,503 | $644,653 |
| 43 | 2027 | $546,364 | $0 | $546,364 | 0.03 | $16,391 | $562,754 | $644,653 | $0 | $644,653 | 0.085429 | $55,072 | $699,725 |
| 44 | 2028 | $562,754 | $0 | $562,754 | 0.03 | $16,883 | $579,637 | $699,725 | $0 | $699,725 | 0.084139 | $58,874 | $758,598 |
| 45 | 2029 | $579,637 | $0 | $579,637 | 0.03 | $17,389 | $597,026 | $758,598 | $0 | $758,598 | 0.082948 | $62,924 | $821,522 |
| 46 | 2030 | $597,026 | $0 | $597,026 | 0.03 | $17,911 | $614,937 | $821,522 | $0 | $821,522 | 0.081847 | $67,239 | $888,762 |
| 47 | 2031 | $614,937 | $0 | $614,937 | 0.03 | $18,448 | $633,385 | $888,762 | $0 | $888,762 | 0.080829 | $71,838 | $960,599 |
| 48 | 2032 | $633,385 | $0 | $633,385 | 0.03 | $19,002 | $652,387 | $960,599 | $0 | $960,599 | 0.079884 | $76,736 | $1,037,336 |
| 49 | 2033 | $652,387 | $0 | $652,387 | 0.03 | $19,572 | $671,958 | $1,037,336 | $0 | $1,037,336 | 0.079005 | $81,955 | $1,119,291 |
| 50 | 2034 | $671,958 | $0 | $671,958 | 0.03 | $20,159 | $692,117 | $1,119,291 | $0 | $1,119,291 | 0.078185 | $87,512 | $1,206,803 |
| 51 | 2035 | $692,117 | $0 | $692,117 | 0.03 | $20,764 | $712,880 | $1,206,803 | $0 | $1,206,803 | 0.077418 | $93,428 | $1,300,231 |
| 52 | 2036 | $712,880 | $0 | $712,880 | 0.03 | $21,386 | $734,267 | $1,300,231 | $0 | $1,300,231 | 0.076696 | $99,722 | $1,399,953 |
| 53 | 2037 | $734,267 | $0 | $734,267 | 0.03 | $22,028 | $756,295 | $1,399,953 | $0 | $1,399,953 | 0.076013 | $106,415 | $1,506,367 |
| 54 | 2038 | $756,295 | $0 | $756,295 | 0.03 | $22,689 | $778,984 | $1,506,367 | $0 | $1,506,367 | 0.075364 | $113,526 | $1,619,893 |
| 55 | 2039 | $778,984 | $0 | $778,984 | 0.03 | $23,370 | $802,353 | $1,619,893 | $0 | $1,619,893 | 0.074742 | $121,074 | $1,740,967 |
| 56 | 2040 | $802,353 | $0 | $802,353 | 0.03 | $24,071 | $826,424 | $1,740,967 | $0 | $1,740,967 | 0.074143 | $129,080 | $1,870,047 |
| 57 | 2041 | $826,424 | $0 | $826,424 | 0.03 | $24,793 | $851,217 | $1,870,047 | $0 | $1,870,047 | 0.07356 | $137,561 | $2,007,608 |
| 58 | 2042 | $851,217 | $0 | $851,217 | 0.03 | $25,536 | $876,753 | $2,007,608 | $0 | $2,007,608 | 0.072989 | $146,533 | $2,154,141 |
| 59 | 2043 | $876,753 | $0 | $876,753 | 0.03 | $26,303 | $903,056 | $2,154,141 | $0 | $2,154,141 | 0.072424 | $156,011 | $2,310,152 |
| 60 | 2044 | $903,056 | $0 | $903,056 | 0.03 | $27,092 | $930,147 | $2,310,152 | $0 | $2,310,152 | 0.07186 | $166,009 | $2,476,160 |
| 61 | 2045 | $930,147 | $0 | $930,147 | 0.03 | $27,904 | $958,052 | $2,476,160 | $0 | $2,476,160 | 0.071294 | $176,535 | $2,652,695 |
| 62 | 2046 | $958,052 | $0 | $958,052 | 0.03 | $28,742 | $986,793 | $2,652,695 | $0 | $2,652,695 | 0.07072 | $187,598 | $2,840,293 |
| 63 | 2047 | $986,793 | $0 | $986,793 | 0.03 | $29,604 | $1,016,397 | $2,840,293 | $0 | $2,840,293 | 0.070133 | $199,199 | $3,039,491 |
| 64 | 2048 | $1,016,397 | $0 | $1,016,397 | 0.03 | $30,492 | $1,046,889 | $3,039,491 | $0 | $3,039,491 | 0.06953 | $211,336 | $3,250,828 |
| 65 | 2049 | $1,046,889 | $0 | $1,046,889 | 0.03 | $31,407 | $1,078,296 | $3,250,828 | $0 | $3,250,828 | 0.068906 | $224,003 | $3,474,830 |

# *Are You Being Tax Efficient? (continued)*

### Don’t Overlook It

In conclusion, tax efficiency is an essential aspect of financial investing. My example above is the mere tip of the iceberg. Implementing tax efficiency across all facets of your financial life is not something easily accomplished and certainly takes personalized in-depth analysis of your financial situation. For this very reason, most individuals never achieve the efficiency I am talking about on their own. The labor-intensive analysis that is needed is also one reason many of our peers won’t help you achieve tax efficiency either.

However, here at DLAK we are committed to taking the deep dive into your personal situation and helping you achieve tax efficiency in every aspect of your financial life by implementing concepts such as the above asset location, limiting active trading in after-tax brokerage accounts to avoid taxability, tax loss harvesting in after-tax brokerage accounts to offset future gains/income, paying medical expenses with pre-tax HSA funds rather than post-tax income, and so much more!

For those who have worked with us before, you know our unfailing commitment to working hard and providing every financial strategy that you deserve. For those who haven’t worked with us yet, we look forward to the opportunity to proving to you our work ethic, so that you can experience the DLAK Difference.

Source: https://www.wsj.com/personal-finance/taxes/roth-ira-401k-hsa-529-8a0ffdd8?mod=personal-finance_feat2_taxes_pos1

INSURANCE ISSUES

# *Medicare Negotiated Drug Prices: What You Need to Know*

*by Anthony Scassellati*

In a step towards reducing prescription drug costs, the Centers for Medicare & Medicaid Services (CMS) have announced the first set of Medicare-negotiated drug prices. These newly negotiated prices, targeting some of the costliest medications under Medicare, are set to go into effect on January 1, 2026.

This development marks an important milestone for Medicare beneficiaries, especially those on Part D, who may benefit from more affordable access to vital medications.

| Drug Name | Negotiated price 2026: 30 day supply | List price 2023: 30 day supply | Discount % | Number of Medicare users 2023 |
|---|---|---|---|---|
| Januvia | $113.00 | $527.00 | **79%** | **843,000** |
| NovoLog | $119.00 | $495.00 | **76%** | **785,000** |
| Farxiga | $178.50 | $556.00 | **68%** | **994,000** |
| Enbrel | $2,355.00 | $7,106.00 | **67%** | **48,000** |
| Jardiance | $197.00 | $573.00 | **66%** | **1,883,000** |
| Stelara | $4,695.00 | $13,836.00 | **66%** | **23,000** |
| Xarelto | $197.00 | $517.00 | **62%** | **1,324,000** |
| Eliquis | $231.00 | $521.00 | **56%** | **3,928,000** |
| Entresto | $295.00 | $628.00 | **53%** | **664,000** |
| Imbruvica | $9,319.00 | $14,934.00 | **38%** | **17,000** |

Source: Medicare.gov

The first batch of ten drugs, which will see a reduction in prices, includes some of the most widely used medications by Medicare recipients. These drugs were selected based on their high cost and volume of use, which placed a significant financial burden on the Medicare program and its beneficiaries.

While the exact list of medications has been released, here are some key highlights…

# Medicare Negotiated Drug Prices *(continued)*

**1. Reduced Prices Effective January 1, 2026**

The negotiated prices for these ten drugs will come into force at the beginning of 2026, allowing beneficiaries to see savings when they refill their prescriptions.

**2. Selection Criteria**

The drugs were chosen based on their cost impact on the Medicare system, aiming to target medications with the highest spending and widespread use.

**3. Gradual Expansion of Negotiations**

This initial step is just the beginning. By next year, Medicare will have the authority to select up to 15 additional drugs for negotiated pricing. The expansion doesn't stop there; beginning in 2027, Medicare will choose up to 20 drugs each year to be added to the list of negotiated prices.

**Additional Changes for Medicare Part D Recipients**

New $2,000 Cap on Out-of-Pocket Costs: For the first time, Medicare Part D recipients will benefit from a limit on how much they pay for prescription drugs in a given year. The $2,000 cap will apply starting in 2025, offering substantial savings for those with high medication expenses. This cap could be adjusted after 2025 based on further legislative changes or inflation adjustments.

# *Medicare Negotiated Drug Prices (continued)*

**What These Changes Mean for Medicare Beneficiaries**

By negotiating prices and capping out-of-pocket expenses, Medicare aims to ensure that beneficiaries can access necessary medications without financial hardship. While the first ten drugs represent a small fraction of the overall medication costs under Medicare, the expansion to up to 20 additional drugs per year could significantly broaden the impact, potentially bringing more medications under the price negotiation in the coming years, and a bunch more money added to the deficit.

**Looking Ahead: Continuous Expansion and Adjustment**

With the upcoming changes, Medicare will gradually expand its list of negotiated drugs. The annual cap on out-of-pocket costs also sets a precedent for potentially more significant reforms in the future. As negotiations continue and more drugs are added to the list each year, beneficiaries can look forward to more accessible and affordable prescription medications.

**All of this sounds great, but we don't have the money**

I know that many if not most of you think this is a good idea. I must provide the delta to you before I finish the article. There's a reason initiative like this haven't been fully implemented before—primarily due to the significant costs associated with Medicare. For context, Medicare spending reached $848 billion in 2023, compared to $162 billion in 1994—a 423% increase over 30 years, while overall inflation rose by 210% during the same period. In Rob's opinion the 1st thing the pharmaceutical companies should be doing is getting a higher price from the international community so there is more wiggle room for American purchasers. Regardless of your side of the aisle, one thing is clear: Hope we don't end up being sorry for what we asked.

Sources: https://www.kiplinger.com/retirement/medicare/medicare-first-negotiated-drug-prices-list, https://www.medicarerights.org/medicare-watch/2024/08/15/biden-harris-administration-announces-billions-in-savings-from-drug-price-negotiations

**REAL ESTATE**

## *Are Pre-Sale Home Improvements Worth It?* – *by Jason Phipps*

If the time has come to put your home on the market, you're no doubt hoping to get the highest price you can. Many sellers in the same position will first launch a number of home improvement projects to raise their listing price. But is that always worth it?

Before you jump in, it's important to first consider how much of the cost of the improvements you can reasonably expect to get back when you sell the home. To help you out, the chart below (and continued on the next page) illustrates the 2023 average for cost, resale value, and percentage of recouped expense on several improvements.

| PROJECT | JOB COST | RESALE VALUE | % RECOUPED |
|---|---|---|---|
| GARAGE DOOR REPLACEMENT | $4,302 | $4,418 | 102.7% |
| MINOR KITCHEN REMODEL (MIDRANGE) | $26,790 | $22,963 | 85.7% |
| WINDOW REPLACEMENT (VINYL) | $20,091 | $13,766 | 68.5% |
| SIDING REPLACEMENT (VINYL) | $16,348 | $15,485 | 94.7% |
| WINDOW REPLACEMENT (WOOD) | $24,376 | $14,912 | 61.2% |

REAL ESTATE

# *Are Pre-Sale Home Improvements Worth It? (continued)*

| PROJECT | JOB COST | RESALE VALUE | % RECOUPED |
|---|---|---|---|
| DECK ADDITION (WOOD) | $17,051 | $8,553 | 50.2% |
| ENTRY DOOR REPLACEMENT (STEEL) | $2,214 | $2,235 | 100.9% |
| ROOF REPLACEMENT | $29,136 | $17,807 | 61.1% |
| BATH REMODEL (MIDRANGE) | $24,606 | $16,413 | 66.7% |
| MAJOR KITCHEN REMODEL (MIDRANGE) | $77,939 | $32,574 | 41.8% |
| MASTER SUITE ADDITION (MIDRANGE) | $157,855 | $47,343 | 30.0% |

As you can see, exterior projects typically provide a higher return on investment than interior remodels. Only two of the items, Entry and Garage Door replacement, recoup your total cost. Major kitchen remodels and many of the discretionary internal remodels usually offer the lowest ROI.

REAL ESTATE

## *Are Pre-Sale Home Improvements Worth It? (continued)*

One item you don't see on the list is adding a pool. Many buyers don't want to pay more for a home just to have a pool, an important consideration. Additionally, when choosing kitchen cabinets, countertops and flooring, use classic or neutral colors and styles. This is highly recommended to appeal to a wider range of potential buyers.

It is important to consult with a realtor when deciding how a remodel will impact the value of your home for resale. They will have a much better understanding of how other factors impact your remodel ROI, such as…

**Neighborhood:** You don't want to over-improve your home. For example, if you are in a neighborhood where the typical home is worth $200,000 you aren't going to want to remodel your home to be worth $300,000.

**Market:** Understanding the inventory levels and current demand is yet another factor in determining if a project will improve the value of your home.

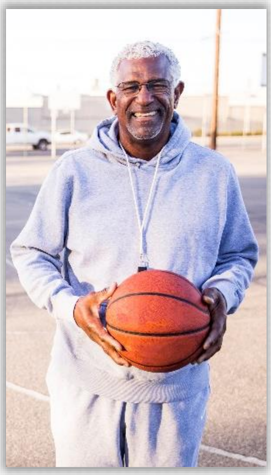
**Timeline:** The more time that goes by from the remodel, the more likely you are to recoup the cost of the project. Understanding how long you plan to stay in the home is another important consideration.

For many, your home is a meaningful part of your overall net worth. It is expected that we are going to see an increase in movement in the real estate market as rates move lower. It is difficult to exchange a 3% mortgage for a 7.5% mortgage. It seems much more palatable when rates are in the 5% range. That said, a targeted home improvement can indeed boost the value of a house going up for sale soon.

Source: Remodeling Magazine 2023

NEWS TO USE

## *Over the Hill? Or Riding a Wave? – by Matt Ringle*



"Over the Hill." It's a phrase synonymous with hitting middle age and the aches and pains that come with it. Is it a coincidence to start "feeling" older when we hit certain life milestones? Is it all in your head? Not necessarily, according to the latest scientific studies that have been conducted on human aging.

Stanford scientists hypothesize that aging is not a linear endeavor. Their study of thousands of individuals ranging in age from 25 to 95 suggest that aging and certain biomolecular shifts actually happen in waves. They believe that most individuals experience these shifts around the age of 44 and 60.

More specifically the biological markers at age 40 were related to an individual's ability to metabolize alcohol and fats. These types of changes can lead to gradual weight gain and a greater sensitivity to alcohol. At age 60 the markers were more closely linked to carbohydrate metabolism, kidney function and immune regulation. This may offer clues as to why individuals 60+ are more susceptible to the flu and COVID-19. However, biological markers at both stages showed signs of skin and muscle aging, highlighting the importance of strength training.

So, what is the key to stop aging? Spoiler alert…I don't have the answer. Cracking the code on aging is something people have been trying to solve for generations. However, there are practical applications we can take away from this study:

1. It is important to remain active, especially the older you get. Both from a cardiovascular and strength training standpoint.
2. Watch for the signs of aging. It can be a more rewarding trip if you monitor cognitive shifts – which will better prepare you for future decision making.
3. Ensure you have a plan in place. We all want to be young forever, but Father Time has a perfect track record. Keep him at bay for as long as you can!

Source: https://www.wsj.com/health/wellness/feeling-suddenly-older-scientists-see-aging-waves-at-44-and-60-1a3fd814?mod=hp_featst_pos4

NEWS TO USE

# *Did You Know?*

### Salaries are Slipping

The average fulltime salary offer received in the past four months was $68,910, according to the New York Fed's national Labor Market Survey. That's down more than $10K from the peak reading of $79.2K in November 2023 but up roughly $20K since the survey began ten years ago in 2014. Source: New York Federal Reserve

### Gambling is Soaring

Between lotteries and online betting, consumers are wagering more and more of their hard-earned cash. The State of Ohio alone made $936M in tax revenue off bets. Source: Ohio Capital Journal

### Points Worth Taking

Credit card points have lost 20% of their value since 2018. Experts say it is best to spend points right after you receive them to avoid "pointsflation." Source: WSJ

### The House is Crowded

Rising rent costs and high home prices are keeping more and more grown kids living with their parents—from 7% in 1970 to 17% by the current decade.

### A Cashless Society is Coming

Just 18% of transactions were by cash in 2024, down from 36% in 2016.

### Debt is Back (to School)

Expected back-to-school spending is down versus last year, while 31% of U.S. shoppers will need to take on debt to pay these expenses. 13% of those surveyed plan to use buy-now-pay-later services like Affirm, Afterpay and Klarna. Source: Bankrate

### Some Bucks are Bigger

The highest denomination of U.S. currency ever printed was $100,000. The bill was only meant to be used between federal reserve banks. Its last print was in 1945.

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