



# THE COMPASS

happy new year

celebrating 30 years

tax update

market update

JANUARY 2021



## HAPPY NEW YEAR AND HOPE FOR A BRIGHTER TOMORROW

By Kat Schraeder, CFP®  
RAA Vice President

"I have a dream that one day"... as I read the complete transcript, watched old television footage, and pondered the divided state of our current nation, I was humbled and struck by the underlying message of hope conveyed in Dr. Martin Luther King Jr.'s famous speech.

Hope is such a vital part of the very fabric of our great nation and as we continue to navigate this global pandemic and the resulting economic fallout, I'm reminded that sometimes the best way forward is to look back to the beginning.

A year ago, most of us were going about our lives worrying about things like traffic, schedules, or getting our kids to school on time. Then the pandemic hit, and not only did our lives change but the simple, ordinary endeavors - the things most of us tackle moment-to-moment - even those all suddenly became exponentially more challenging.

While these added challenges ushered in things like an increase in stress, the world's longest spring break, and a complete restructuring of our personal and professional lives, they have also created an atmosphere that has slowed us down and forced a re-evaluation of what's truly important.

While the pandemic is still raging, I know brighter days are ahead and that we are a resilient people that will have great stories to tell of this unprecedented year.

Years from now when you look back, while there'll be no ignoring the hardships we faced, there's also no ignoring the fact that, despite the chaos, millions of people have risen to the occasion, pulled together, and helped one another in ways large and small.

Just over a year ago, we formed a partnership with Allworth Financial. While the partnership was formed because Allworth and RAA are ideal matches on countless important levels, little did we know back then all the different ways that this partnership would be beneficial to all of us – especially you, our valued clients.

While there are several examples, one that resonates with me is that because Allworth had numerous existing long-term contacts with computer wholesalers, we were able to obtain laptops for every single one of our team members *both earlier and faster* than other companies. The fact is that only a few days into the pandemic, things like laptops and headsets - the very tools that enabled us to revector our efforts so fast to serving you remotely – were largely no longer available. Many of those supply chains have yet to be fully restored.

Whether in the arena of personal finance or business partnerships, when you make careful, well-reasoned decisions, and when you plan, unforeseen outcomes will often turn out to be beneficial.

From everyone here at RAA, we consider you family. It may be a cliché, but as a firm that exists to specifically serve our clients and their families, I don't feel at all hesitant to say it. We're all proud of it. In the coming weeks, please look for invitations to client webinars. We will host several in virtual locations with invites to

specific geographic regions. If we can't meet face-to-face, we can still share time with one another over Zoom and hopefully you can 'see' the same people you have come to expect to catch up with during our annual client seminars.

Here's to 2021. Here's to the future and the end of the pandemic. And, also importantly, here's to a new, 'old' beginning; one that has us all meeting face-to-face once again, sharing stories of how we survived the pandemic mixed in with the great stories of flying adventures. Thank you for your continued trust and confidence and please don't hesitate to let us know how we can continue to meet your needs.



## REQUIRED MINIMUM DISTRIBUTION AND QUALIFIED CHARITABLE DISTRIBUTION UPDATE

### Required Minimum Distribution (RMD)

2020 was a different year in many aspects of our lives. For only the second time in history, the Required Minimum Distribution (RMD) was waived. With the waiver of the RMD, many clients took advantage of this and deposited their distributions back into their IRAs (referred to as a 60-day rollover). We wanted to give you some quick updates on how this is reported on your tax forms. Please note that this should not be considered tax advice - please contact your tax preparer for specific advice for your particular situation.

Later this month you will receive your annual tax reporting statement from Fidelity (1099R) which shows your gross distributions from your IRA. Additionally, you will receive your 5498 which is used to show contributions to your IRA during the tax year. It is important to know that the 1099R will show the total that you took out of your IRA and will NOT net out the amount you put back in. The 5498 will show the amount that you "rolled" back into your account. When reporting your distributions, line 4a on your 1040 is where you put the amount shown on your 1099R (IRA distributions) and line 4b is where you enter the net/taxable amount. It is the individual's responsibility to report the gross and taxable amounts.

### Qualified Charitable Distribution (QCD)

Additionally, many people have taken advantage of the Qualified Charitable Distribution (or QCD) rule that allows you to send money directly to a qualified charity from your IRA to help meet the RMD requirement. When reporting these QCDs, you should also enter the net/taxable amount. While we are not able to track each QCD, it is important for you to have good records showing the amount and date of the charitable contribution.

Again, this is general information, so please discuss your situation with your tax professional. If you are looking for a tax professional for this year's return, RAA Tax Services are also available for tax preparation and guidance. Contact your advisor to learn more.

## CELEBRATING 30 YEARS!



Clay Caldwell, CFP®

30 years ago, many historical events occurred including Operation Desert Storm, Freddie Mercury (the lead singer of Queen) passing away, and the final flight by Eastern Airlines. While the final flight by Eastern was a sad day in the airline industry, it is an event that resulted in Clay Caldwell accepting a full-time position with what would become RAA.

The RAA team was excited to celebrate Clay's 30-year anniversary earlier this month in a virtual Zoom gathering. Many stories were shared of memories past.

What was also evident was Clay's deep love for sharing his knowledge and experience in estate planning and helping our clients with this critical piece of their overall financial plan, as well as the respect and admiration of the RAA team for how he helps our clients every day. Clay told the story of how he went from being a young Air Force pilot in training in Big Spring, Texas to creating and leading the estate planning division of RAA. After leaving the air force, Clay flew for Eastern from 1979 to 1989. He began working with Howard Pritchard in 1990 and officially started on January 1st, 1991. He is as passionate now about helping clients as he was when he started. He recalled a client in the early nineties that had received poor estate planning advice that could have cost hundreds of thousands of dollars in taxes. This led Clay to pursue his CFP® in 1994. He then went on to teach estate planning courses for the College for Financial Planning.

Clay's wife Lisa reflected that she didn't think her husband could be as passionate about something as he had been about flying, but she was wrong. She teared up as the team recognized Clay and his great contributions. Clay says, "The most gratifying thing about what we do is when a spouse or child of our clients says 'thank you' for taking care of them. Everything was smooth and just as we expected."

In April, we will celebrate another 30-year anniversary. Maria Fuentes is the Director of Operations for RAA and she has also been instrumental in forming RAA and in serving our clients. She leads a trading team that completes their job with precision and accuracy - a must to deliver the excellent service our clients have come to expect.

Paul Ochel, a Senior Advisor and Managing Director of our United, Southwest, and Spirit teams stated that Maria is the glue that keeps everything running smoothly. She is a unsung hero that is behind the scenes. It is common knowledge among the advisors and client service team that if an answer is not known, then 'we just ask Maria.'

Maria's earliest memory was being handed a credit card to go and get furniture, office supplies, and whatever else was needed to get the office running. It was then that she realized her role was going to reach far beyond client service and trading, and she has kept this attitude of being willing to help wherever is needed throughout her career.

Another memory that Maria shared was in the early days of RAA when she helped a distressed widow. This widow was at the airport and something wasn't working properly, and she didn't know who to turn to, so she called Maria. Maria helped calm her down and then continued to help her with all the transition of accounts and estate. Maria said that though she doesn't get to work directly with our clients anymore, she keeps this client in mind every day and uses the story to demonstrate the importance of what we do as she works with her team.

When asked if she had anything else to share, Maria said, "After 30 years, I am still very happy coming to work every day. I love my co-workers and I know we do important and meaningful work every single day. Not many people can say that...I'm still very happy."



Maria Fuentes



## 2021 TAX LAW CHANGES

By Kristi Cherry, CPA®  
Tax Services Manager

can be a mixture from both the state and local levels, including local income taxes, sales tax, and property taxes.

The medical expense deduction has been reduced. The threshold will increase to 10% from the 2020 amount of 7.5% of adjusted gross income, regardless of your age.

Miscellaneous deductions will remain at zero. Pilots should take note this includes unreimbursed employee business deductions, such as per diem expenses (out-of-pocket pilot expenses). Also included in miscellaneous deductions are home office expenses, tax preparation fees, and investment fees. However, a few states still allow these miscellaneous itemized deductions on the state tax return, such as California.

### Retirement-Specific Changes

The traditional and Roth IRA contribution limits will remain the same at \$6,000 for taxpayers under age 50 and \$7,000 for taxpayers age 50 and older. However, if you are married and your adjusted gross income exceeds \$198,000, then you will not be able to make a full contribution to a Roth IRA. In this case, a backdoor Roth would offer a workaround to allow you to continue to contribute to your Roth IRA.

The 401(k) employee contribution limits remain at \$19,500 for taxpayers younger than age 50 with a \$6,500 catch-up for taxpayers 50 or older for a total of \$26,000. The Defined Contribution Limit (415(c)), which represents the limit of total tax-deferred dollars allowed in a defined contribution plan, will increase from \$57,000 to \$58,000.

Keep in mind this applies to both employee and employer contributions. The Annual Compensation Limit (415(a)), which represents the salary limit that an employer can use when applying their matching formula, will increase to \$290,000. In many plans, the catch-up contribution for clients age 50 and older is a separate

It has obviously been a very unique time in all aspects of life, including tax law changes. The future of many tax laws in place due to the Tax Cuts and Jobs Act of 2017, The Secure Act, and The CARES Act remain unknown at this time as a new administration takes over this month. But, as of right now, the following are the inflation adjustments and some of the other tax changes that will go into effect for the 2021 tax season. It is important that you take these changes into consideration as you build out your financial plan for this year.

### Income Tax Changes

The top 2021 tax rate for single filers with income greater than \$523,600 and married couples filing jointly with income greater than \$628,300 will be at 37%. If you are not in that income tax bracket, refer to the chart on the next page for your 2021 tax rate.

### Standard Deduction and Exemption Changes

The standard deduction for the 2021 tax season will be \$12,550 for single filers and \$25,100 for married couples filing jointly. Married and filing jointly taxpayers who are age 65 or older will receive an additional standard deduction of \$1,300 each. Single taxpayers who are 65 or older will receive an additional standard deduction of \$1,650. Personal exemptions will remain at zero.

### Itemized Deduction Changes

All state and local tax deductions will remain limited to \$10,000 for the 2021 tax season. Itemized deductions

election. Also, please note the Secure Act increased the age at which taxpayers must begin taking Required Minimum Distributions (RMDs) from age 70<sup>1/2</sup> to 72 beginning in 2020.

### Other Tax Changes

The estate tax threshold for the 2021 tax season will increase to \$11,700,000 per taxpayer. Flexible Spending Account (FSA) contribution limits will remain at \$2,750. Health Savings Account (HSA) contribution limits will increase to \$3,600 for individuals and \$7,200 for families.

The CARES Act added a \$300 charitable contribution deduction outside of itemized deductions (above-the-line deductions). This is beneficial for taxpayers that take the standard deduction because they will be able to reduce their adjusted gross income by up to \$300 for any donations made to a qualifying charity.

### RAA Can File Your Tax Returns

Did you know that RAA can prepare your tax return(s) for you?

Our Tax Services Manager, Kristi Cherry, CPA®, has 20 years of tax return preparation experience, including six years of running her own CPA practice where she specialized in preparing airline pilot tax returns. This year, we have also partnered with Allworth Tax Solutions to serve you even more efficiently and comprehensively.

Keeping up with all of the recent tax law changes can be stressful and time-consuming, so we encourage you to lean on Kristi and her team of tax specialists to guide you through the upcoming tax season. If you would like RAA to prepare your 2020 tax returns, please contact your advisor or Sally Jilek at sally.jilek@raa.com, or call (800) 321-9123.

### 2021 TAX RATES:

- 35% for incomes over \$209,425 (\$418,850 for married couples filing jointly);
- 32% for incomes over \$164,925 (\$329,850 for married couples filing jointly);
- 24% for incomes over \$86,375 (\$172,750 for married couples filing jointly);
- 22% for incomes over \$40,525 (\$81,050 for married couples filing jointly);
- 12% for incomes over \$9,950 (\$19,900 for married couples filing jointly).
- The lowest rate is 10% for incomes of single individuals with incomes of \$9,950 or less (\$19,900 for married couples filing jointly).

## JANUARY MARKET UPDATE

By Andy Stout, CFA, CFP®

Let's face it, 2021 is a year that we are pretty much embarking on with the hope that the vaccines allow us to return to normal and enjoy a better quality of life compared to 2020.

If things go somewhat as planned, one of the major things I'm most excited about – besides seeing my friends and family without fear, obviously – is the 2021 Olympics.

I especially love watching track and field. One of my favorite Olympic athletes of all time is Carl Lewis. While his infamous singing of the National Anthem during the 1993 NBA Finals was off-key, his dominance at four different Olympics (the U.S. boycotted the 1980 games in Moscow, which would have made it five) is one of my favorite memories.

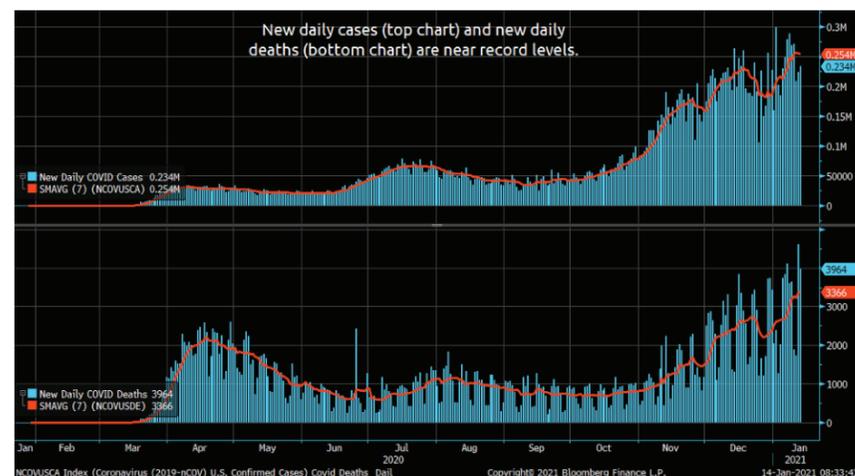
Speaking of races, the first race of the year already happened in Georgia when Democrats won both remaining undecided U.S. Senate seats. The Senate is now split between Republicans and Democrats, with Vice President Kamala Harris holding the tie-breaking vote.

This likely means that President Joe Biden will be able to push through a large fiscal stimulus package on top of the already-approved \$900 billion legislation. As he recently outlined, he wants this package to include, among other proposals:

- Support for state and local governments
- \$1,400 checks sent to qualifying individuals (this would be in addition to the previously-approved \$600 checks, for a total of \$2,000)
- An extension of unemployment benefits beyond the current March expiration
- Money to facilitate vaccine distribution

This stimulus is welcome news for the economy because it comes as virus cases are surging and economic data is weakening. New daily virus cases (~250k), along with new daily death totals (~3k), are close to record levels. (The orange line in the chart below is the 7-day moving average of new cases and deaths.)

While the vaccine rollout might not be as quick as initially hoped, it's moving forward. As of January 13, there have been 10.8 million doses administered in the U.S. It almost goes without saying that, until more people are vaccinated, the economy will remain under an atypical type of pressure.



We're already seeing this in the labor market.

With fresh lockdowns across the country, businesses are continuing to lay off hundreds of thousands of people. There were 140,000 jobs lost in December. Job losses were concentrated in the Leisure and Hospitality industry (with some 498,000 lost jobs in December), with restaurants/bars reporting most of that decline (372,000 lost jobs).

The headline number of 140,000 lost jobs, however, might not be quite as bad as it looks. Many other industries

reported job gains, including Construction and Manufacturing. Further, earlier, the prior two months of data were revised higher by 135,000. The most important reason that the jobs report might be tolerable is that the already-approved fiscal stimulus, along with the expected added fiscal stimulus, are very positive for the economy. This support will keep the economy afloat until we reach herd immunity later this year (~70% of the population vaccinated).

After we reach that point, the pent-up demand should result in continued economic improvement throughout the year. Should there be a second stimulus package, as is widely expected, then the economy could grow around 5-6% this year. This would push the size of the U.S. economy back to pre-crisis levels sometime later this year.

Monthly Jobs Gained/ Lost by Industry (in 000's)

Industry	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	Mar
<b>Private: Goods-producing Industries</b>	93	67	117	97	53	66	485	676	-2,388	-119
Mining and Logging	4	3	2	2	-1	-6	-7	-20	-53	-8
Construction	51	29	72	35	24	31	159	456	-1,018	-65
Manufacturing	38	35	43	60	30	41	333	240	-1,317	-46
<b>Private: Service-Providing Industries</b>	-188	350	808	833	975	1,460	4,244	2,560	-17,447	-1,237
Trade, Transportation, and Utilities	191	119	173	94	358	284	994	383	-3,248	-107
Information	-1	2	-16	53	23	-11	7	-40	-279	-6
Financial Activities	12	16	30	37	28	15	20	19	-261	-18
Professional and Business Services	161	88	245	127	184	162	311	160	-2,202	-94
Education and Health Services	-31	44	65	60	175	219	567	388	-2,603	-178
Leisure and Hospitality	-498	75	265	413	138	633	1,979	1,405	-7,575	-743
Other Services	-22	6	46	49	69	158	366	245	-1,279	-91
<b>Government</b>	-45	-81	-271	-219	465	235	52	-511	-952	-17
Federal	6	-86	-140	-36	252	29	-2	-8	7	19
State government	-19	-5	-71	-67	24	-9	17	-37	-169	-37
Local government	-32	10	-60	-116	189	215	37	-466	-790	1
<b>Total Monthly Jobs Gained/ Lost</b>	<b>-140</b>	<b>336</b>	<b>654</b>	<b>711</b>	<b>1,493</b>	<b>1,761</b>	<b>4,781</b>	<b>2,725</b>	<b>-20,787</b>	<b>-1,373</b>

Understandably, there is concern that all this stimulus will further increase our country's debt level. Yet, at this point, I would argue that the bigger risk is the lack of stimulus because that would cause the economy to recover much more slowly just as it's reopening. A "quick recovery" early on will reduce the amount of long-term unemployed people. This is critical because the longer someone is without a job, the more difficult it could be for some to get a job in the future.

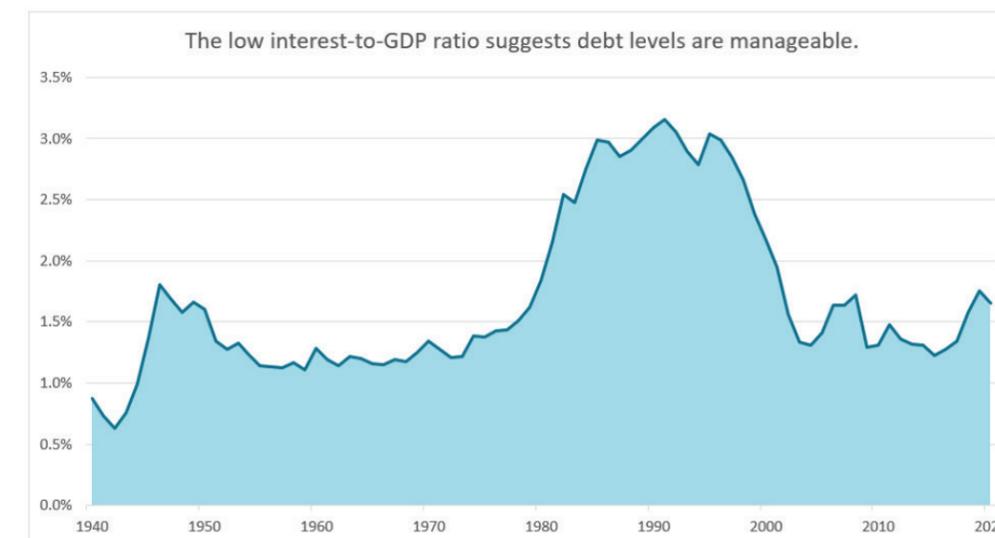
Another point on the increasing debt level is that the Federal Reserve, our nation's central bank, has been buying a good portion of what's being issued. This helps keep the interest paid by the U.S. Treasury low.

This is important because the ability of our government to service our debt is more important than the level of debt. With low rates, the debt service ability is quite manageable. We can measure this by looking at the interest-to-GDP ratio, which measures the amount of interest paid on Treasury bonds divided by the size of our economy.

This chart shows that the interest paid in 2020 compared to the estimated year-end GDP level is just 1.65%. This is lower than the 1.7% average since 1940 and the near 2% average over the past 50 years.

We expect this ratio to increase as the new stimulus will result in additional issuance of government bonds, but this shouldn't be an issue if interest rates stay relatively low.

It wouldn't be surprising to see slightly higher interest rates (but still historically low) because the stimulus coupled with a very high savings rate should lead to a jump in consumer spending later this year, and that could cause inflation to perk up.



However, we don't believe that inflation will be a long-term problem because of technology improving workplace efficiency, the lack of further deglobalization, and our country's demographics (the fertility rate of 1.8 births per woman is below the replacement rate of 2.1).

When looking at the big picture, 2021 should be much better for the economy than 2020 was; however, there will be twists and turns that need to be well navigated so you

can enjoy your financial future. Some obstacles that we are closely monitoring are potentially higher taxes, inflation, interest rate levels, vaccine rollout disruptions, and a corporate earnings scare.

If you have any questions about how this outlook affects your overall financial plan, please don't hesitate to contact your advisor.

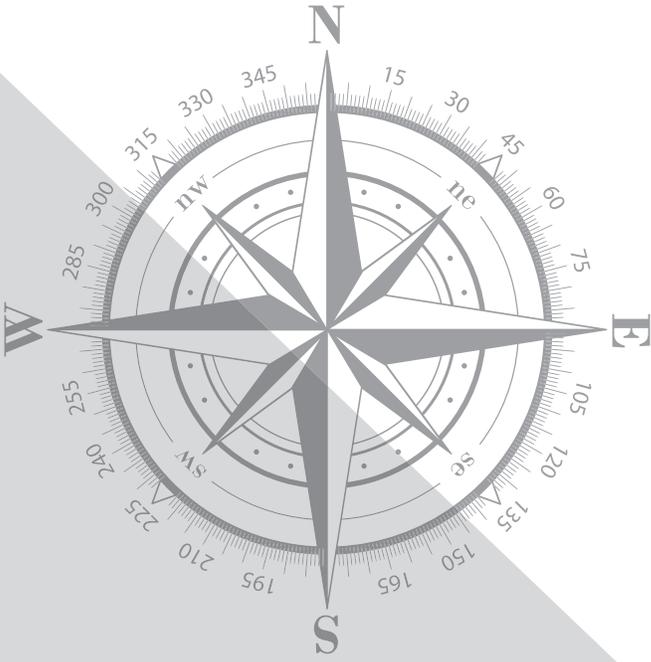
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