

## August 2022 Monthly Commentary

Sept. 1, 2022

### Stock Market & Portfolio Performance

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**August 2022:** U.S. and international stocks fell for the month, giving back some of their July gains. Bond prices also fell as the rate on the 10-year U.S. Treasury rose.

	Aug 2022	YTD 2022	Description:
Without Dividends:			
S&P 500	-4.2%	-17.0%	500 Largest Public U.S. Companies
Russell 2000	-2.3%	-17.9%	2000 of the smallest U.S. stocks
MSCI EAFE	-5.0%	-21.2%	international stock index
U.S. Aggr Bond	-3.0%	-10.7%	index of U.S. bonds
With Dividends, after all fees:			
MAM portfolios	-2.9%	-14.1%	non-very conservative MAM portfolios
MAM Consvr	-2.1%	-11.4%	portfolios with 45%+ bond allocation

*The returns showed above are unaudited. Past performance is not indicative of future results. Returns for McCarthy Asset Management Portfolios (“MAM Portfolios”) are net of management fees and transaction costs, and reflect the reinvestment of dividends. Results represent a composite of clients using a similar investment strategy, individual results will vary.*

*Returns for the indices are provided solely as a general indication of current market conditions. MAM Portfolios are not invested in a style substantially similar to any index. Indices do not reflect the deduction of management fees or transaction costs or the reinvestment of dividends. Performance for the indices would be lower if these costs were reflected.*

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After reaching a year's low on June 17<sup>th</sup>, in July, the S&P 500 recovered nearly 50% of its 2022 losses. The market then gave back some of those gains in August. Was the strong July performance just a bear market rally? That's a good question that can't be answered definitively. As we have discussed over the last few months, much depends on how quickly inflation, which likely peaked at 9.1% in June, drops down to a level that the Federal Reserve is comfortable with.

The stock market fell so much earlier this year due to a significant shift in Fed policy to quickly raise interest rates to fight inflation. The fear was that this could cause the U.S. economy to slip into a recession. Our feeling has been that the economy is not yet in a recession due to strong consumer spending and employment growth.

Stocks prices started to recover in July as investors became optimistic that the Fed will get a handle on inflation, and start to cut interest rates in 2023. While stock prices may continue to rally over the remainder of 2022 as recession risks abate, our fear is that stocks could start falling again if it becomes clear the Fed will not cut rates in 2023.

Furthermore, a second wave of inflation fueled by rising wages could begin by mid-2023, forcing the Fed to raise rates to 5%. The 10-year U.S. Treasury yield could rise above 4%. While financial conditions are currently not tight enough to induce a recession, they could be by the end of next year.

For the remainder of this year, we will closely monitor how much inflation declines. If it stays stubbornly high by year-end, we may add some further downside protection to portfolios to protect against a possible recession in 2023.

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## Credit for Purchase of Clean Vehicles— Inflation Reduction Act of 2022

On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022 ("the Act") into law. This is a massive set of rules, with more than 300 pages of tax-related changes. This article will just address the revisions to the tax credit for the purchase of a clean vehicle (which includes both electric and fuel cell vehicles). The new rules are complicated. In particular, under the Act, some popular electric vehicles may become eligible for a tax credit again. Additionally, some other cars that were previously eligible may not be for at least the foreseeable future. Here are some of the key provisions:



- The credit is extended through 2032.
  - The Act eliminates the current credit's 200,000 limit on the number of vehicles produced by a specific manufacturer.
  - The new credit requires final assembly of the vehicle in North America. Also, starting in 2023, the credit phases in sourcing requirements for critical components of the vehicle and the battery system.
  - The maximum amount of the credit remains at \$7,500, but includes income limitations, as well as limitations on the manufacturer's suggested retail price (MSRP). The buyer's income must not exceed \$150,000 if single, \$225,000 if head of household, or \$300,000 if married. The MSRP can't exceed \$55,000 for sedans or \$80,000 for vans, SUVs and pickup trucks.
  - A new credit of up to \$4,000 is also available for the purchase of a previously-owned clean vehicle, subject to income limitations, through 2032.
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## Credit for Purchase of Clean Vehicles– Inflation Reduction Act of 2022– Con't

According to the Alliance for Automotive Innovation, which represents automakers like Ford, GM, Hyundai, Toyota and Volkswagen, no electronic vehicles currently available for purchase will qualify for the full credit when sourcing requirements go into effect in 2023. Furthermore, according to the trade group, 70% of electric, hybrid and fuel cell vehicles eligible for purchase in the US are now ineligible for any credit.

To add further complexity, some electric vehicles and plug-in hybrids remain eligible until the end of 2022 due to a quirk in the bill. The North American assembly provision took effect when Biden signed the bill, but nothing else. Automakers and consumers are in a state of limbo for 2023 until the government finalizes the rules. It's unclear, for example, how the government will determine if a vehicle meets the battery minerals and battery component thresholds. Ultimately, the IRS is likely to provide a list of vehicles that qualify for the credit.

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## Cryptocurrency Taxation By Lauren Be, CPA, MBT



Have you noticed lately that your tax preparer or your annual tax organizer will ask: “Did you receive, sell, send, exchange, or otherwise acquire any financial interest in any virtual currency?” In 2019, the answer to this question was reported on Schedule 1 of Form 1040. In 2020, the IRS moved the question to the first page of Form 1040 – to the very front of the tax return, under the section with your name and address.

On July 27, 2022, the IRS released the 2022 draft of Form 1040, U.S. Individual Income Tax Return. One of the most notable changes to the face of the tax return is the question: “At any time during 2022, did you: (a) receive (as a reward, award, or compensation); or (b) sell, exchange, gift, or otherwise dispose of a digital asset (or a financial interest in a digital asset)?”

Why is this newsworthy? First, the change of placement and the change in question wording should be the signifying indicator that the IRS is keeping a close eye on cryptocurrency. Second, the subtle change from “virtual currency” to “digital asset” broadens the definition and scope of crypto activity the IRS is scrutinizing to include items such as non-fungible tokens (NFTs). And finally, the question has been expanded into two parts, which alerts the IRS of potentially taxable events related to crypto – the receiving and/or disposition of the digital assets.

About 86% of the U.S. population has heard of cryptocurrencies and 16% of the U.S. adult population have invested in or traded cryptocurrencies. If you are one of the 16%, please see my full article which briefly discusses the taxation of digital assets. Areas covered in the article are:

- **General Cryptocurrency Guidance**
- **Receiving Digital Assets**
- **Disposition of Digital Assets**
- **Other Income from Digital Assets**

### Conclusion

In most cases, the receipt of crypto assets - other than outright purchase or receipt of a gift or inheritance, is a taxable event. In most cases, the sale or trade of crypto assets is also a **taxable** event.

There is a good chunk of people who become involved with virtual assets because they do not believe that they will pay tax on crypto assets. However, as a rule of thumb, one must default to IRC Section 61(a): “Except as otherwise provided in this subtitle, gross income means all income from whatever source derived.” This means “all gains or undeniable accessions to wealth, clearly realized, over which a taxpayer has complete dominion, are included in gross income.” And, with the IRS issuing John Doe Summons to Coinbase, Circle Internet Financial, and Payward Ventures demanding customer information as well as announcing that virtual currency is amongst the top five of its campaigns, there is increasing scrutiny on tax returns with crypto transactions. Don't put red flags on your income tax return. Talk to your tax advisor on information needed for your tax return preparation.

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## Our Services

McCarthy Asset Management, Inc. (MAM) is an independent, privately owned Registered Investment Advisor firm. We provide clients with the peace of mind that comes from knowing professionals are managing their financial affairs. The services we offer include:

### Investment Management Services:

- MAM creates and manages customized investment portfolios based on each client's investment objectives, timeframe and risk tolerance.

### Financial Planning Services:

- The Net Worth Analysis (NWA) tracks the accumulation of Invested Assets for pre-retirees and the retention of Invested Assets for retirees. Updated annually.
- "Retirement Analysis" a comprehensive analysis of your retirement goals, which produces easy-to-read, interactive working plan, stored in the cloud. Updated as needed for life events.
- Social Security Planning is an analysis of the best strategy for when and how to start claiming Social Security benefits.

Tax Services: Clients have the option of utilizing the income tax services provided through the firm Stephen P. McCarthy, CPA. These services are offered at an hourly rate and may include:

- Tax Return Preparation
- Income Tax Projections
- Tax Minimization Ideas
- Tax Authority Representation

Other Services: MAM has retained outside experts, whose services are available at no cost to our clients:

- Long Term Care Planning– Allen Hamm of Superior LTC Planning Services, Inc.
- Medicare Advisory Program (MAP) - Eileen Hamm

## Reminders/Updates

- Estimated Tax Payments: Third quarter 2022 estimated payments are due on September 15th.



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