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THE “YOU MAY NOT KNOW REPORT”

A PUBLICATION OF RETIREMENT LIFESTYLE ADVOCATES

“Capitalizing on Uncertainty”

If you were asked to make a list of words that described 2020, ‘uncertainty’ would have to be on the list.

As uncertain as 2020 has been, as we get ready to move into 2021, this sense of uncertainty and lack of clarity will probably be intensifying. In this issue of the “You May Not Know Report”, I will attempt to help you capitalize on some of this uncertainty while trying to make some sense of it. In other words, we will look for what is certain in all this uncertainty.

As rapidly as things are changing and evolving, I recognize that this is not without risk. As I write this, the Thanksgiving holiday has just passed. The price of precious metals has pulled back, the Dow has recently hit 30,000 for the first time

in history, bond yields are near all-time lows, the Fed is warning about the consequences of money printing despite the fact that it is the Fed doing the money printing, there are more lawsuits relating to the election than one can easily count, vaccine talk is dominating the headlines and social unrest continues to persist.

All of these variables make someone trying to plan for a 'normal' retirement feel as if the proverbial rug has been pulled out from under them. And, in a sense, it has been.

The world has changed. It will probably be some time before we know exactly how much or how each of us will be impacted. To use another old cliché', the dust has not yet settled. It probably won't for awhile.

In his timeless classic, Napoleon Hill, author of "Think and Grow Rich", studied the habits and perspectives of some of the most successful people of his day. Mr. Hill undertook his study and wrote the book after he was commissioned to do so by none other than Andrew Carnegie. The book, published in 1937, is still extremely popular today for the success lessons it teaches.

One of the principles outlined in Mr. Hill's book is the idea that in every seed of adversity lies a seed of equal or greater opportunity.

Paraphrased, we might say that change creates opportunity. In this year-end issue of this publication, I'll look for these areas of opportunity based on what we now know. We will also speculate a bit.

Full disclosure – my crystal ball is far from perfect, just like everyone else's.

To begin this discussion, it's helpful to think about how perspectives have radically changed over the past year. In December of 2019, COVID was not on the radar and had anyone mentioned that the US economy would be almost completely shut down in response to a disease would have sounded like a conspiracy theory.

In December of 2019, even though the Federal Reserve had been engaging in sizable amounts of quantitative easing, a.k.a. money printing, had someone suggested to any reasonably informed person that within the year the Fed would expand the fiat money supply by 65% withing the next year, would have again sounded like a total nutjob conspiracy theorist.

At that same time, even though the US Government was already running massive $1 trillion deficits, had someone suggested that within the year the government's operating deficit would be larger than tax receipts, they would have been laughed at.

One year ago, had someone predicted that many major cities in the United States would be ravaged by rioting on an ongoing basis, the response would have been "not in the United States".

Finally, if someone had forecast all of the above and at the same time predicted that as all this was taking place, the stock market would reach new all-time highs, that person would definitely not be taken seriously.

Yet, here we are and all these events that would have seemed impossible just one year ago have taken place. Conspiracy theories that materialize are the new normal. As we move into 2021, I expect we will see more of the same. As crazy as the last year has been, when taking an objective look at where things are, attempting to set aside one's personal bias', it seems inevitable that more massive change lies ahead.

What we have now come to accept as the new normal will probably have to continue to evolve into another new normal. It's my guess that as

different as the world looks today compared to just one year ago, as another year passes, it will look even more different.

Why do I conclude this?

Simple. If something is unsustainable, it will have to change. To requote Herbert Stein, if something cannot go on forever, it will stop. There are many unsustainable trends currently.

Politics

As I write this at the end of November, most media outlets have called the presidential race in the United States for Joe Biden. While that seems like the most likely outcome, it seems that it is not a foregone conclusion.

If 2020 has taught us anything, it's that anything can happen and, as noted above, normal isn't normal anymore.

There are reported and documented instances of voter fraud. As past guest on the radio program, Karl Denninger, stated, there is fraud in every election. The question is, was there enough fraud to make a difference?

As of this writing, there are numerous lawsuits pending that have presented evidence that established protocols were not followed in many areas. Additionally, there are instances of more votes being counted than were possible. An example of such an issue is in the State of Pennsylvania where 1.8 mail in ballots were sent out and 2.5 million were counted.[1] Also in the State of Pennsylvania, during a hearing on the election, it was revealed that a spike in votes had a statistically implausible 600,000 votes for Biden and 3,200 for Trump.[2] (Link to video in the "Sources" section below).

If the finances of the United States don't make the country look like a banana republic, this election does. As I noted in a recent "Portfolio Watch", in an age where we have proven blockchain technology that has to this point been unhackable, it's unfathomable to me that we are conducting elections using the methodologies we are using.

The ultimate outcome of the election and the way in which these issues are resolved will strongly influence how assets are managed moving ahead and how tax planning is done. While I am skeptical of most media sources, I will assume the election is resolved when one of two things happens. One, the Electoral College votes and all potential legal remedies have been exhausted. Or two, Vegas pays out on the election bets. As of this writing, no bets on Biden winning have yet been paid by the bookmakers.[3]

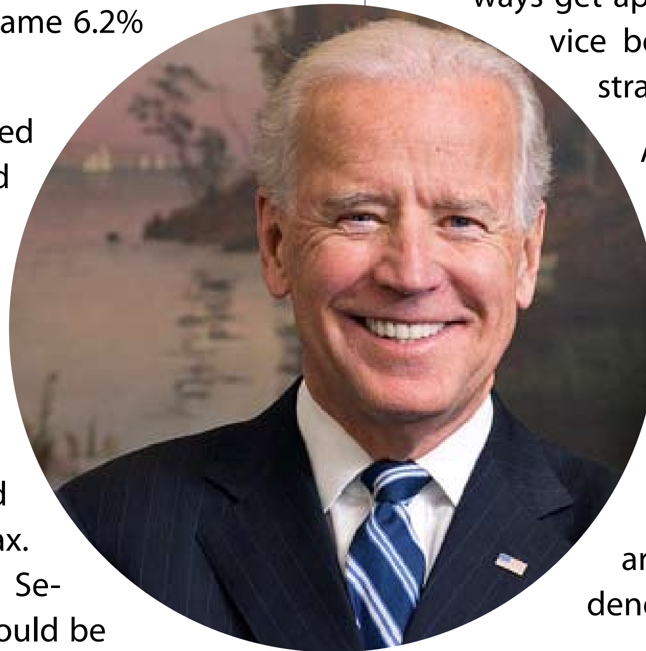
Taxes

Looking ahead, it's helpful to examine what tax policy might look like under a Biden administration.

It's important to note that what Biden proposed and what actually happens will likely be

two different things. The Democratic majority in the house has diminished and, as of this writing, the Senate is up for grabs, although control of the Senate by either party will be by just one or two seats. That said, let's look at what Mr. Biden proposed during the campaign.

One tax code change that was proposed was a new Social Security tax for those making more than $400,000 annually.[4] Presently, an employer pays 6.2% Social Security tax on an employee's wages until a cap of $137,700 is reached. An employee pays the same 6.2% tax to the same cap.



Under Biden's proposed plan, this tax would begin again once an employee's earnings reached $400,000. In other words, from $137,700 in earnings to $400,000, both employer and employee would pay no Social Security tax. In essence, a no Social Security tax 'donut hole' would be created.

For highly paid corporate employees this change could significantly increase taxes paid on income. Presently, an employee would pay 35% federal income tax on taxable incomes of about $414,000 or more. That 35% tax rate increases to 37% at approximately $622,000 in taxable income. Assuming a state income tax rate of 5%, total maximum tax on income would be between 40% and 42%. Under Mr. Biden's plan, it would increase to 46% to 48% as a result of the new Social Security tax on incomes over $400,000.

However, under Biden's plan, the top income tax rate would increase from 37% to 39.6% making the maximum tax for a high-earner living in a state with 5% state income tax more than 50%.

Mr. Biden's plan also limits itemized deductions for high earners.

For high earning business owners, there may be a strategy that could help reduce payroll tax liability. (Important note, tax and planning strategies presented here are for information and entertainment purposes only. This information should not be considered to be tax advice. Always get appropriate tax and/or legal advice before using any tax planning strategy.)

A high earning business owner might structure her business as a Subchapter S corporation. After paying herself a reasonable salary, she takes dividend distributions from her business. Salary is subject to payroll taxes (Social Security and Medicare taxes are payroll taxes) while dividends are not.

This from an article on the topic:[5]

Everyone wants to save money when it comes to taxes, so it should come as no surprise that a lot of freelancers turn to S Corps when they're deciding between different business entities.

How, exactly, do you save money?

Well, you don't have to pay payroll taxes on distributions from your S Corp. Distributions are the earnings and profits that pass through the corporation to you as an owner (shareholder). Keep in mind that distributions are not your employee wages.

With an S Corp, the larger your shareholder distribution, the less payroll tax you'll pay on

your business profits. Nice, right?

Let's do an example:

Let's say that Mel runs a Bitcoin mining business and earns $100,000 in profit this year. As a sole proprietorship, he'll pay payroll taxes on his entire profit.

But let's say he operates his business as an S Corp and pays himself a salary of $50,000 while taking $50,000 as a shareholder distribution. In this scenario, he'll only pay payroll tax on his $50,000 salary. And that means he saves thousands in payroll taxes each year!

This sounds amazing! But why would I want to take an employee salary? Can't I just pay myself in distributions?

Not really. While you wouldn't owe any Social Security and Medicare taxes, you would be breaking a major rule about S Corps.

A reasonable salary is a must

The IRS requires S Corp shareholder-employees to pay themselves a reasonable employee salary, which means at least what other businesses pay for similar services.

And if the IRS finds out that you tried to evade payroll taxes by disguising employee salary as corporate distributions, bad things can happen. Basically, the IRS can recharacterize your distributions as salary and require payment of back payroll taxes and penalties. These can include payroll tax penalties of up to 100%, plus negligence penalties.

Biden's tax plan would also eliminate the ability for real estate investors to do a 1031 exchange. A 1031 exchange allows a real estate investor to exchange one piece of property for another and defer capital gains taxes by allowing the cost basis in the first property to be transferred to another.

Other provisions of a potential Biden tax plan:

- Higher capital gains tax rates for many taxpayers
- Higher dividend tax rate for many taxpayers
- Higher corporate taxes

I would offer a couple thoughts for your consideration.

One, if you've been considering doing Roth IRA conversions, now may be a good time to look at this strategy very closely. For some taxpayers, it may make sense to convert traditional retirement accounts to Roth IRA accounts that are tax free once taxes are paid on the conversion.

Two, if you're thinking about selling real estate or appreciated assets, the current market and current tax rates may mean that it makes sense to consider such a move sooner rather than later.

Here is the reality of ANY new tax plan proposed by ANY politician or group of politicians – the fiscal problems of the United States are too large to be solved by raising taxes.

I thought I would walk you through the math.

According to "The Tax Foundation", Biden's plan would raise $3.3 trillion in additional tax revenue over the next ten years.[6]

The United States finished the most recent fiscal year with a deficit of $3.132 trillion.[7] That means Mr. Biden's plan, if adopted, raises enough tax revenue over a ten-year time frame to cover one year's operating deficit.

The only way this plan begins to solve the fiscal issues facing the country would be to IMMEDIATELY balance the federal budget. I am not aware of ANY political candidate, including Mr. Biden, who is discussing this very important

issue. Instead, I am hearing about new federal programs like student loan forgiveness and a green new deal that will increase government spending and keep the US Government operating with huge deficits.

How will these deficits be funded?

You know the answer.

Federal Reserve Policy

I have long been warning of the impact of monster levels of money creation by the Federal Reserve. History teaches us that putting private bankers in charge of monetary policy never ends well.

If you're a banker, the current central banking system is a great deal. You create money out of thin air, you loan it out, get it back with interest.

Savers, investors and the middle and lower classes suffer as a result of this policy. Savers and investors can't get a decent yield on their investments safely and wages don't keep pace with the real rate of inflation.

Government bureaucrats manipulate the reported inflation rate using methodologies like substitution, hedonics and weighting. Going into calendar year 2021, the official, reported inflation rate is 1.3%. If you're Social Security recipient, that's the cost of living adjustment that you will receive.

Anyone who buys everyday essentials knows that the actual rate of inflation is much higher than the reported rate.

Recent radio guest, Ed Butowsky, explained. Ed is the creator of The Chapwood Index, a private inflation measure. The Chapwood Index measures the real inflation rate logically. The Index has a team of volunteers in 50 different metropolitan areas in the US. Every 6 months, team members go out and price check 500 items that everyday Americans buy; items like movie tickets, oil changes, food items, take out pizzas and haircuts.

Depending on the part of the country in which one lives, this exercise concludes that the real inflation rate is closer to 8% to 13 % annually.

For purposes of this discussion, let's use 10% as an average round number. If the real annual inflation rate is 10% and a Social Security recipient gets a cost of living adjustment of 1.3%, that's a disparity of more than 8%. Let's look at the impact of that difference over time.

Say a visit to the doctor is $100. If it increases in cost at an annual rate of 10%, in just ten years, the doctor visit will cost $259. Assuming the doctor's patient collects Social Security of $2,000 per month and sees an annual increase in benefits over ten years of 2%, at the end of the same ten year time frame, the patient's income from Social Security will be $2,438.

To summarize, at the beginning of the ten-year time frame, the doctor visit consumed 5% of monthly income from Social Security. At the end of the ten-year time frame, the doctor's visit consumes between 10% and 11% of Social Security monthly income.

The same discussion could take place when examining the pay of a worker. According to the Social Security Administration's own data,[7]

median net income in the United States in 2019 was $34,248.45. Ten years prior in 2010, median net income was $26,363.55. That's an annual increase in median annual income of just under 3%.

When comparing that level of increase in wages to the real inflation rate as measured by The Chapwood Index, one discovers a similar, significant decline in real purchasing power.

These examples make the point that it is monetary policies put forth by the private central bankers that are largely responsible for the wealth gap. The ongoing social unrest mentioned previously has, at least in some part, come about because of this wealth gap.

In the words of past radio program guest, Gerald Celente, "when people have nothing left to lose, they lose it."

Now, as we move into 2021, ironically, the same private central bankers who have expanded the fiat money supply by 65% in 2020 are talking out of both sides of their mouth.

On the one hand, the Fed has very clearly signaled to congress that it will support more stimulus. What that means in plain English is that if congress wants to spend it, the Fed will print it.

On the other hand, the Fed is now warning about the dangers of excess money creation. The Fed's message seems to change based on the audience.

"Forbes" reported[9] (as well as many other media) that Federal Reserve Chair Jerome Powell openly stated that more stimulus is needed. Here is a bit from the article explaining Powell's rationale for more stimulus (emphasis added):

> *…..unlike the lending tools the Fed has to prop up markets,* ***direct spending from Congress can be used to target specific groups*** *that need income assistance during the crisis, Powell said during a virtual event for the Bay Area Council Business Hall of Fame.*
>
> *During a press briefing earlier this month, Powell said that for some Americans, "direct fiscal support" is a much better option that a loan backed by the Fed that the borrower may have trouble repaying.*

You read that correctly. The Federal Reserve Chairman is openly advocating for 'helicopter money' that would go directly from the printing press to the Americans that congress deems worthy.

Yet, at the same time, some members of the Federal Reserve Board are signaling that this mammoth level of money creation will have to stop (see Herbert Stein quote above). This from "Zero Hedge:[10]

> *Now, central bankers - dumb career academics as some of them may be - are not all idiots, and they clearly understand that what they are doing is merely buying time while in the process making a massive bubble even bigger, so much so that when the next crash comes, it could mean the end of fiat currency and western capitalism as we know it, especially if cen-*

tral banks lose what little credibility they have.

It may also explain why, amid the generally cheerful commentary in today's FOMC Minutes, according to which FOMC "participants saw the ongoing careful consideration of potential next steps for enhancing the Committee's guidance for its asset purchases as appropriate", there were two distinct warnings that the Fed's $120BN in monthly QE could lead to catastrophic consequences.

Of course, the Fed would never use alarmist language like that. Instead what the minutes did say was subdued, but just as alarming, to wit:

- *Several participants noted the possibility that* ***there may be limits to the amount of additional accommodation*** *that could be provided through increases in the Federal Reserve's asset holdings in light of the low level of longer-term yields,* ***and they expressed concerns that a significant expansion in asset holdings could have unintended consequences.***
- *A few participants expressed concern that maintaining the current pace of agency MBS purchases* ***could contribute to potential valuation pressures in housing markets.***

What this means translated into simple English, is that the Fed itself is starting to have doubts that its shotgun approach of stimulating the markets, or rather "the economy" as they call it, may be reaching its limits and that the next major expansion in QE could have "unintended consequences", i.e., a market crash. And just as bad, they also concede that just the current $40BN in MBS purchases could lead to another repeat of the housing bubble of 2006/2007... and its inevitable bursting.

The Fed has put itself into a tough place. If it stops the easy money policies, a crash will likely follow. That crash could and likely would affect stocks, bonds and housing. The alternative is to continue to print money which will cause its own set of problems down the road. As the "Zero Hedge" piece points out, should money printing continue, the next crash could threaten the very existence of fiat currencies.

I expect that the printing will continue. I reach this conclusion for one straightforward reason – in the eyes of a central banker a crash later is better than a crash now.

As I have been discussing for a long time, owning tangible assets in a portfolio makes sense moving ahead. For many investors, this means precious metals. While the amount of metals that is advisable to own varies according to the personal financial situation of each person, up to 20% of one's portfolio in precious metals may make sense.

Time Deposit Rates

At the time of publication, these rates were valid:

1-Year	1.50%
2-Year	1.75%
3-Year	2.40%

Call the office for details at **1-866-921-3613.**

Based on my study of history, never before has monetary policy been so extreme. While money creation has occurred many times over the course of history, this is the first time that every currency in the world has been a fiat currency, meaning there is not one currency in the world backed by something tangible like gold or silver as has been the case through most of history.

Because central banks can now create money at will and because there is a seemingly rabid interest in more massive government spending programs, I expect that the warning issued by Thomas Jefferson will now come to pass. This is what Mr. Jefferson said:

> *"If the American people ever allow private banks to control the issue of their currency, first by inflation then by deflation, the banks and corporations that will grow up around them will deprive the people of all property until their children wake up homeless on the very continent their fathers conquered."*

Since we've ignored these sage words from Mr. Jefferson it now seems that his prediction is playing out in real time.

Massive money creation, as we've discussed, will have to lead to price inflation which will trigger a move by the populace to tangible assets.

Once the inflation subsides, deflation, as Mr. Jefferson suggested, will have to kick in.

Inflation happens when money is printed. Money is printed when debt levels are unsustainable and too large to be paid with honest money. Inflation eventually destroys a currency. A currency reset occurs at which point debt is redenominated. Massive debt levels are deflationary.

With this inevitability in mind, let's briefly look at how asset classes may perform in 2021.

REAL ESTATE

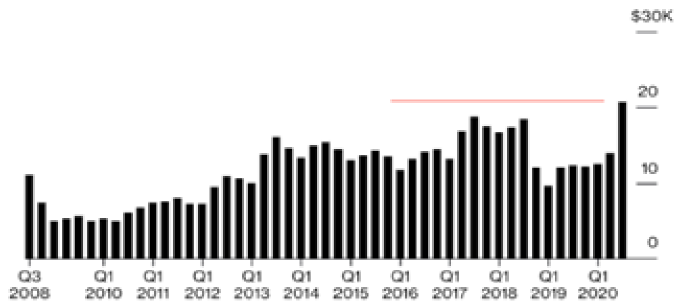
I expect that commercial real estate will continue to perform poorly. Lockdown responses to coronavirus have destroyed many businesses that will never reopen, and other businesses have now gone to operating 100% remotely. These factors will likely make commercial real estate underperform.

Residential real estate in some areas may continue to perform reasonably well in the short-term due to the literal exodus now taking place from big cities. Urban residential real estate will probably underperform while rural and suburban real estate may do well near-term. It is my view, that barring direct government or Fed intervention in the residential real estate market, that we are close to the peak in residential real estate as well.

Two of the driving forces behind the residential real estate boom in 2020 in addition to the migration from urban to rural were low down payment requirements and record low interest rates.

"Bloomberg" reported that the median down payment for a single-family home is $20,775 in

the third quarter of 2020.[11] That's a 69% increase from the median downpayment of $12,325 just one year ago. That level of down payment is the most in two decades as seen on the chart.



The increased down payment is reflective of lenders tightening lending standards and becoming more conservative in light of current economic conditions.

By the end of 2021, we expect that real estate will have peaked if it has not already peaked. Some of the proposed tax changes mentioned previously in this publication if enacted, will also contribute to the decline in real estate prices in my view.

STOCKS

Stocks have been overvalued for some time. While stock prices have been increasing on a nominal basis with the Dow recently rallying to a new high over 30,000, in real terms, stock prices have declined.

Many long-term readers of "The You May Not Know Report" know that I like to track the Dow to Gold ratio. It's a simple ratio to calculate. One takes the value of the Dow Jones Industrial Average and divides by the price of gold per ounce.

This calculation shows the value of stocks when priced in gold. It's a useful calculation since the US Dollar is losing purchasing power due to money creation. It is this US Dollar devaluation that makes the US Dollar a bad metric to use when valuing stocks.

Going back twenty years to calendar year 2000, the Dow reached nearly 12,000. The price of gold at the time was about $270 per ounce. Taking the value of the Dow and dividing by the price of gold per ounce, you find that the Dow to Gold ratio was about 44.

Today, with the Dow at 30,000 and the price of gold at about $1,800 per ounce as of this writing, the Dow to Gold ratio stands at between 16 and 17.

Comparing the Dow to Gold ratio at those two points in time, one finds that it took 44 ounces of gold to buy the Dow in calendar year 2000 while today it takes only 17. Priced in gold, what has historically been 'real money', stocks are worth less than they were twenty years ago.

US GOVERNMENT BONDS

I expect the Fed will continue to buy US Treasuries and keep interest rates suppressed. As discussed in this month's issue they have no choice unless they are willing to see a painful reset almost immediately. This could be slightly bullish for US Treasuries in the near term.

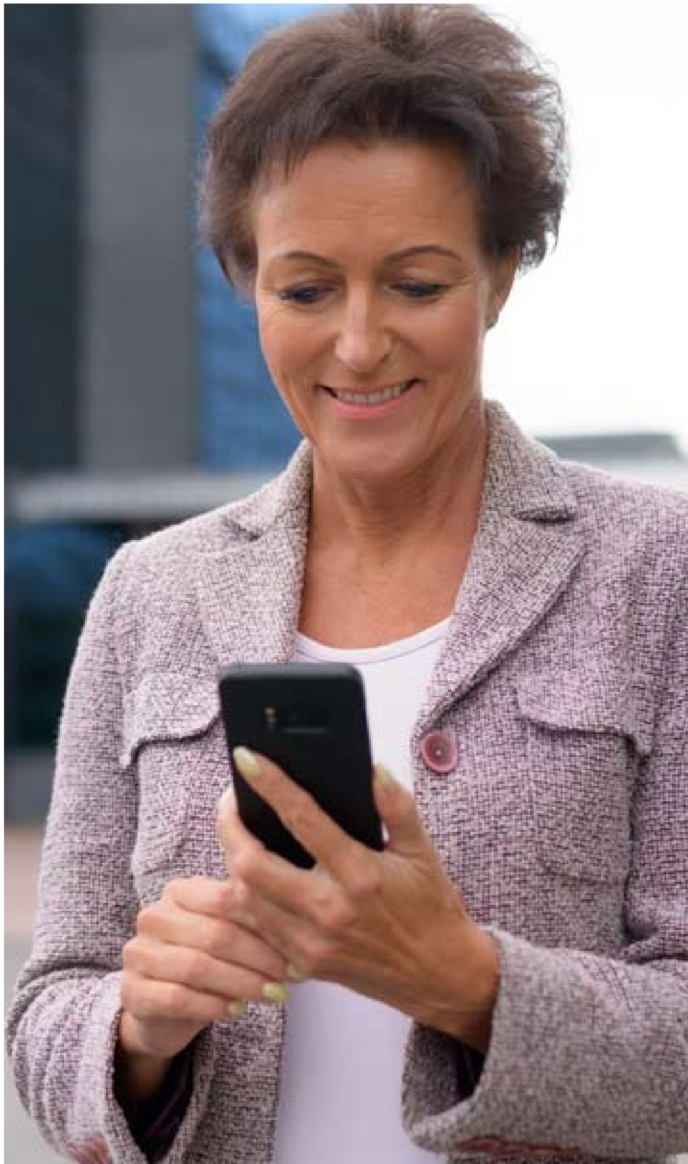
FREE – Essential Reports Group

As we move into 2021, we'd like to offer you a holiday gift. It's our Essential Reports group provided at no cost and no further, future obligation.

Your Essential Reports Group may show you:

- The best way to maximize your Social Security benefits even if you are already collecting Social Security
- How to reduce taxes on your IRA, 401(k) or other retirement account. As we discussed in this issue, as tax policy may dramatically change in the near future and become less favorable, taking steps now to understand how to possibly minimize taxes has never been more important
- What your current fee level is in your portfolio and what your historical drawdown risk might be. Understanding this information may help you avoid participating in the next market crash

To prepare these reports for you, we need only get some generic, non-personal information from you. We never ask for personal information, nor should you ever share that information with anyone. To request your reports, visit **www.MyEssentialReports.com.**



Resources to Help You Stay Informed

Thank you for your feedback on our weekly webinars designed to help you stay informed and to provide you with perspective and insight on financial matters during these unprecedented times. To participate in the live webinar held on Mondays at Noon Eastern time, download the Retirement Lifestyle Advocates app by visiting **www.RetirementLifestyleAdvocates.com**.

The app will allow you to view the webinar replay as well. If you know of someone who might appreciate getting this information during these challenging times, feel free to have them download the free app as well.

If you have questions when downloading the app or would like assistance, feel free to call the office. Our office phone is **1-866-921-3613**. Our office phone is answered 8 to 5 Monday through Thursday and 8 to Noon on Friday.

Best wishes to you and yours.

Sources

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