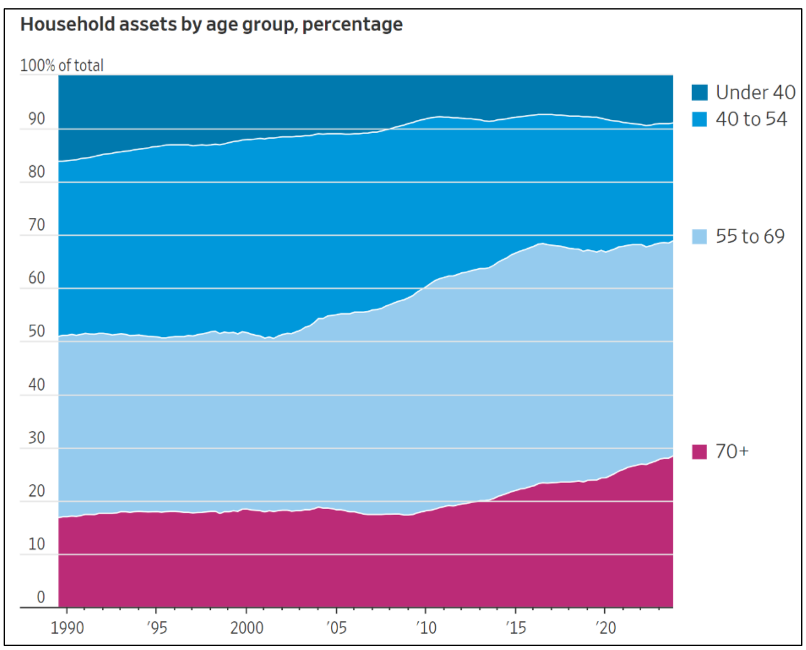
MONEY TALKS

The U.S. equity market continued to advance after a strong start to the year, moving higher by 3.9% in the second quarter. Midway through 2024, the S&P 500 is up 14.5% YTD, however, most of these gains remain attributable to mega cap technology companies that may stand to benefit from artificial intelligence development or application. Notably, five companies contributed about 60% of the YTD return, and in the second quarter, they drove nearly all gains as market breadth weakened. The S&P 500 Equal Weighted Index was down -3.1% in the second quarter, implying most S&P 500 companies traded lower, and has returned just 4.1% YTD, trailing the S&P 500 by more than 10%. The Federal Reserve's "higher for longer" approach to interest rates persists, however, cooling economic, inflation, or labor data, as well as the upcoming Presidential election, could adjust that narrative. As market concentration and interest rate levels have been a focus for several quarters, RMC wanted to pivot to a topic that could use more attention. Family wealth planning is a critical piece to protecting your assets for future generatons, and can be difficult given opposing perspectives or expectations, but avoidance can lead to unnecessary burdens for family members.

Successful family wealth transitions rely on early communication and transparency between generations to clearly set the goals of the family and the financial objectives of individuals. RMC has been guiding intergenerational wealth planning since its inception and is now working with many third-generation clients (and even a few fourth generation clients!). RMC was incorporated in 1979 to manage the wealth of John G. Martin, former Chairman of Heublein, Inc. Like many modern "family offices," RMC was born out of a major liquidity event. After Heublein was sold to R.J. Reynolds, RMC became a Registered Investment Adviser (RIA) in 1984 to manage the assets of Mr. Martin, other Heublein directors, and their families. RMC now provides investment management for hundreds of families and institutions but remains an independent RIA rooted in the high level of service expected in a family office environment.



The importance of planning for intergenerational wealth transfers has become more critical as the Baby Boomer generation ages. As shown above, those 55 years and older own about 70% of all household assets, which is significant wealth as compared to other generations[i]. As asset prices have risen, in the form of equity markets and home values, this wealth gap isn't surprising as older Americans accumulated these assets many years ago. Those 55 years and older hold about $31 trillion of the $40 trillion in corporate equities and mutual funds. Additionally, Baby Boomers own half of the $32 trillion in home equity in the U.S., while about 28% of all U.S. homes with three or more bedrooms are owned by those aged 60 to 78 living by themselves or another adult[ii]. While many would prefer to move, downsizing may actually cost more because mortgages are paid off and home-buying affortability has fallen to its lowest level in 40 years[iii]. Discussing money with family members can be challenging for many reasons. There are concerns that an inheritance can create a sense of entitlement or a feeling that heirs don't have the ability to handle the money. Many believe money is a private matter, even if their adult "children" are approaching retirement age themselves. Whatever the reasons may be, the risks of family discourse, unnecessary taxes, costly estate fees, and avoidable loss of family wealth outweigh the perceived discomfort of planning ahead. Bringing children and grandchildren into the conversation earlier, gradually allowing them to be a part of the decision-making process, and working alongside professionals opens the potential for family values and goals to be carried on. There is a misconception with many families that there is not enough "wealth" to plan around, however, the total value in real estate, possessions, and investment accounts, for example, can be very meaningful in the context of education expenses, charitable giving, and other family goals.

RMC has advised clients through a variety of unique situations, but a topical example is that of Inherited IRA's, as it is common for a large portion of investable assets to be held in retirement accounts. The IRS rules for Inherited IRA's depend on what type of beneficiary the inheritor is and when the original account owner passed away. The withdrawal rules were changed with the SECURE Act, thus if the account holder died after 2019 the new rules apply, but if they died before 2020, the rules are not subject to the SECURE Act changes. As an example, if an adult "child" inherits the IRA of a parent who passed away before 2020, the "stretch IRA" option allows required minimum distributions (RMD's) over their lifetime based on the inheritor's life expectancy. This minimal distribution requirement meant that the inheritance could be intact for much longer and even passed on a second time. Conversely, if the parent passed away after 2019, all assets in the account must be distributed within 10 years. If the deceased was not already taking RMD's, the inheritor can distribute as they choose over the 10-year period. If the deceased already started taking RMD's, the inheritor must take distributions in each year of the 10-year period, however, the IRS just extended a reprieve of this requirement through 2024. There has been considerable confusion from taxpayers and financial institutions on how to apply this rule, and the final language from the IRS is still pending. Inherited IRA's can just be one part of a complicated family wealth transition. When family wealth is combined with each inheritor's own financial picture, the process can feel even more daunting without prior planning. If you or your family have any questions on how to get started, RMC can work with you and your tax advisor to determine the best course of action for your situation.

[i] The Wall Street Journal; Federal Reserve
[ii] Redfin; Federal Reserve
[iii] National Association of Realtors