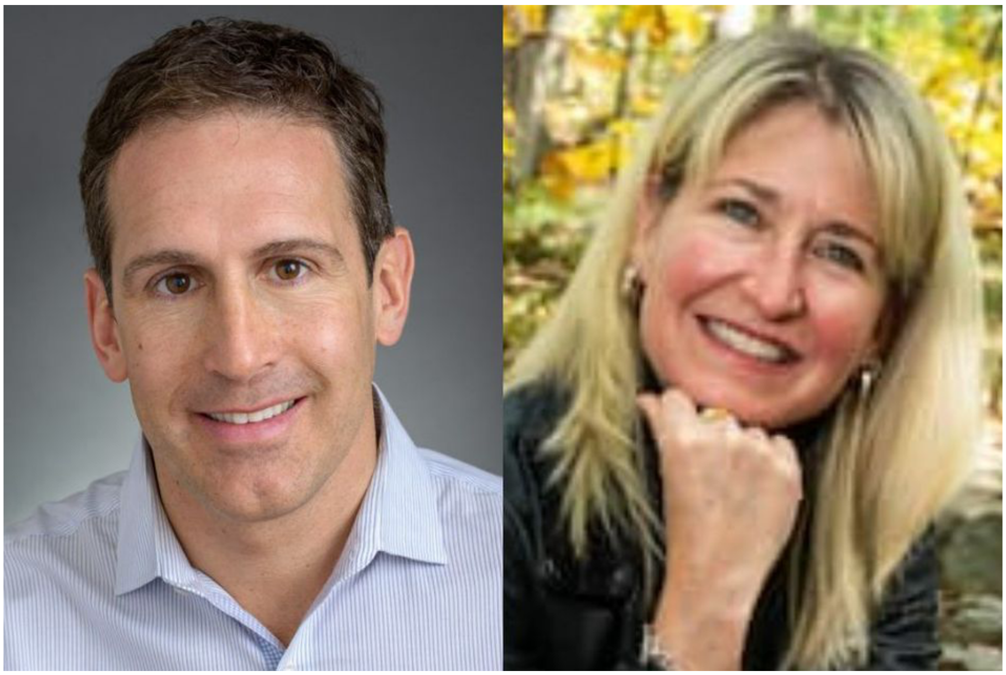
NEWS Practice Management

Before the ball drops on 2023: Advisors' year-end checklist



Brandon Opre of TrustTree Financial and Catherine Valega of Green Bee Advisory

Before kissing 2023 goodbye, advisors had better check a few things off their to-do lists.

November 27, 2023 *By Gregg Greenberg*

Hold on, financial advisors! Don't flip that last calendar page just yet. There's still work to be done.

New Year's Day may still be a month or so away, but if you listen closely you can practically hear the strains of "Auld Lang Syne" emanating from advisory offices across the country. Wealth managers, like most American workers, are eager to put down their pencils, power down their laptops and call it a year.

And who can blame them for bursting into song, albeit a little early?

The S&P 500, powered by the so-called "Magnificent 7" tech stocks, is up almost 20% for the first 11 months of 2023, an equity return that any client would be thrilled to see on their account statement. And while the iShares Core US Aggregate Bond ETF is down 2.2% year-to-date, it is yielding a healthy 3.2%, which is more than enough to satisfy the coupon-clippers still recovering from years in the low-to-no yield wilderness.

Seriously, after last year's drubbing across both asset classes, it's totally understandable that financial advisors are anxious to take a knee and run out the clock with the score lopsided in their favor.

Before popping the cork and kissing 2023 goodbye, however, advisors had better check a few things off their to-do lists, or they could wind up with a whole lot of regrets once 2024 rolls around.

DON'T FORGET THE TAXMAN

Rob Schultz, senior partner at NWF Advisory, puts two items front and center of his year-end client checklist: ***required minimum distributions*** and tax-loss harvesting.

“When it comes to RMDs, we check to make sure we have everything completed, especially considering the recent changes in requirements,” Schultz said. “And this year we are looking at tax-loss harvesting, especially in bond funds. We figure we might as well take advantage of one of the worst periods for the fixed-income market ever.”

Eric Amzalag, CEO and founder of Peak Financial Planning, is also concentrating on tax-loss selling, but this year he's keying in on big-cap tech stocks when it comes to rebalancing portfolios to minimize tax liability.

“We are trimming back positions that are exposed to the ***Magnificent 7*** and using profits from those areas to increase positions in longer-duration U.S. Treasuries, as well as value stocks, specifically consumer staples and healthcare,” Amzalag said.

Like Schultz, Peter Salkins, financial planner at Integrated Partners, said his team will be spending a lot of time this year on RMDs because the rules have changed dramatically and the penalties for mistakes are substantial.

“The original SECURE Act, which was enacted in 2019, changed the starting age of RMDs from 70.5 to age 72. The ***SECURE Act 2.0*** again changed the starting age to 73 and is increasing the age to 75 over the next 10 years. This has caused a great deal of confusion among people who would have been starting their RMDs,” Salkins said.

Nina Lloyd, president of Opus Financial Advisors, part of Osaic, says her team is “laser-focused” in the last month of the year on making sure clients have satisfied their RMD requirements and submitted any last-minute requests for annual gifts to loved ones or charitable organizations.

“With the high standard deduction and a low number of seniors itemizing deductions, we encourage our clients over age 70.5 with philanthropic intent to consider making ***qualified charitable distributions,”*** Lloyd said.

SPEAKING OF CHARITY

For clients who enjoyed a great year in terms of income or asset gains and are philanthropically inclined, Catherine Valega, financial advisor with Green Bee Advisory, loves introducing the idea of starting a DAF, or ***donor-advised fund,*** at year-end meetings.

“These vehicles allow for an immediate tax break of the gifted cash or securities, while also allowing the grantor to invest for further gains and gifting potential. They also provide more time to decide which nonprofit to support, as you do not have to make the bequests in the same year you fund the DAF,” Valega said.

Brett Walters, financial Planner at TBH Advisors, also helps clients make last-minute gifts to charity as the clock winds down on the year.

“This is especially critical or helpful if the clients think they're relatively close to exceeding a phaseout threshold, like the child tax credit, qualified business income, or education credits like the AOTC or lifetime learning credit,” Walters said.

Meanwhile, Laurie Humphrey, a financial advisor at Granite Financial, part of Osaic, blocks out time to call clients either the week of Thanksgiving or toward the end of December to wish them happy holidays and inform them about the firm's annual giving drive.

"We send out a survey with three local organizations to support and let our clients choose," Humphrey said. "They drop off their gifts and enjoy our hot cocoa bar that is out for the holiday season."

DECEMBER: THE MONTH TO MOVE MONEY

With basic savings accounts currently offering around 5% in annual interest rates, all that fallow cash is finally able to earn "a nice little bit while it sits," says Brandon Opre, financial advisor with TrustTree Financial. Better late than never to move it.

"If your client's spending money is still sitting in low or no-interest accounts, consider taking advantage of the attractive rates available in basic money market accounts, or similar savings vehicles such as short-term CDs or I-bonds. This could be rainy day funds or emergency money," Opre said.

He added that advisors also might want to shift some client investments from taxable to tax-sheltered accounts, such as traditional or ***Roth individual retirement accounts***, health savings accounts and 529 college savings plans.

"For many of these, you have until next April 15, 2024, to make your 2023 contributions. But you don't have to wait if the assets are available today, and it otherwise makes tax-wise sense," Opre said.

Peak Financial's Amzalag also reviews Roth conversion opportunities as part of his year-end to-do list.

"Because we have clearer line of sight on clients' income by this point in the year, we can make more specific decisions and recommendations whether Roth conversions are appropriate," he said.

"Our biggest push is following up on the ***Roth conversions*** we've been doing and making sure we get them done before the end of the year so that we don't miss an opportunity to get some of their qualified money taxed and into a Roth IRA. The conversation of, 'Now is the time to pay more in taxes' is never an easy one, so we don't want to drop the ball on the followthrough if we've already done the hard work," said Nicholas Gertsema, financial planner at Gertsema Wealth Advisors.

LOOKING BACK/LOOKING AHEAD

The end of the calendar year is also time to review investment portfolio performance with a client. Amzalag, for example, uses two benchmarks for every client.

"We compare their portfolio managed by our firm to their portfolio prior to being managed by our firm, as well as their financial plan required rate of return," he said. "These guardrails give us far better methods of tabulating performance without tying client performance to some arbitrary benchmark or portfolio that is not relevant to the client."

Jason Gerber, managing partner for Prime Capital Investment Advisors' Little Rock, Arkansas, location, said the first thing he does is review how the client's overall investment portfolio performed in the last year and whether it achieved the expected returns according to the agreed-upon benchmarks.

"My goal is to make sure that their current investment lineup will help them meet their long-term strategic goals and needs. If we are off on those marks, then recommendations for changes would be given," Gerber said. "And if I am working with a retired client, then we are looking at their withdrawal rate and how sustainable that is. That is especially important given recent higher inflation."

As for 2024, Gerber said he is discussing the potential for a recession with clients, along with the impacts of political conflicts in Europe and the Middle East, not to forget the upcoming presidential election.

"It certainly gives people pause for concern," he said. "Not always should that determine any real changes to how we are investing for the long term, but the realities can't be ignored."

PRACTICE MANAGEMENT MAKES PERFECT

Finally, advisors should look at their organic growth for a true sense of how compelling and sticky their value proposition is. According to Tom Rieman, CEO of Practice Intel, advisors may get lulled into complacency at the end of the year because they have high retention rates.

"The fact that advisors are maintaining their clientele can be a sign of good advice or it might be masking significant attrition risk," Rieman said. "This year it's more important than ever to advance the advice profession as more informed consumers and AI-driven robo-advice increasingly threatens the average advisor's offering."
