



## TRUST...

trust is a fickle thing  
that takes a long time  
to create, but can be  
destroyed in a minute.

The banking sector is clearly still in the midst of a loss of confidence. Restoring trust in banking will take time and could increase the odds of recession.

Here's why:

- The banking system is built on taking short term “sticky” deposits and investing them long-term in loans and investment securities. The banking system is built on **trust** and doesn't work if there are a large runoff of deposits. This deposit flight will cause banks to shore up capital, raise deposit rates (and correspondingly loan rates) and they will face new regulations and FDIC assessments. Banks facing these unprofitable dynamics are forced, at best, to cut back on new lending, and at worst, may have to start liquidating assets. This could create a new drag on the economy that didn't exist 30 days ago.

- The level of economic uncertainty has risen as a result and could make the US consumer more defensive. Also of note, the average tax refund is down 11% this year as pandemic-era tax credits (part of what caused inflation) come to an end. These lower refunds could contribute to a drag on consumer spending.
- The silver lining is that the two concerns above will likely cause the Fed to slow the path of monetary tightening. We believe the Fed is near being finished raising rates, however, we do not expect major rate cuts this year due to inflation remaining sticky. A change in the direction of rates (flat) should provide some relief to stock and bond asset prices

Inevitably, when events turn bleak and headlines warn of more to come, some investors' thoughts turn to market timing. The idea of using short-term strategies to avoid near-term pain without missing out on long-term gains is seductive, but research repeatedly demonstrates that timing strategies are not effective. The impact of miscalculating your timing strategy can far outweigh the benefits. Our current positioning remains neutral to risk and close to our strategic benchmark.

The outlook for appropriately allocated stock and bond portfolios going forward are the highest that we have seen in over a decade, so we remain very optimistic on the five-year going forward returns. Although no one can predict what will happen in the next 30-90 days, we feel that investors will be rewarded for these short term risks over the longer term.



The following is an example of how this may be to your benefit:

Tax season is wrapping up for another year. Tax planning is a critical part of our services and will vary depending on whether you are in the Wealth Accumulation, Preservation, Decumulation or Transfer phase of life. Please make sure you get a copy of your 2022 tax return for us to review.

On March 24, 2023, Governor Andy Beshear signed Kentucky House Bill (HB) 360 into law. The bill allows a pass-through entity (PTE) to elect to pay its tax liability at the entity level on behalf of its individual partners, members, or shareholders for taxable years beginning on or after January 1, 2022. This bill is intended to enable Kentucky taxpayers to work around the SALT cap that limited your itemized deductions.

Partnership and S-Corporations (PTEs) generally pass their income on to individual owners, with the individual owners paying the tax on that activity by including it on their personal income tax returns. Since the individual owners pay the tax on the pass-through income, it is then subject to the \$10K SALT cap. The PTE itself is not subject to the SALT cap and can deduct them without limitation. The entity pays the state tax on its income, which it is also allowed to deduct in full.

	PTE ELECTION	NO PTE ELECTION
PTE Income Subject to State Income Tax	\$500,000	\$500,000
State Income Tax Rate	5%	5%
State Income Tax	\$25,000	\$25,000
Deductible State Income Tax	\$25,000	\$10,000
PTE Income Subject to Federal Income Tax	\$475,000	\$490,000
Marginal Federal Income Tax Rate	37%	37%
Federal Income Tax	\$175,750	\$181,300
Total Tax Expense	\$200,750	\$206,300
<b>TAX SAVINGS FROM PTE ELECTION</b>	<b>\$5,550</b>	

Please make sure to talk with your tax professional if you are invested in any Partnerships or S-Corporations to see if this applies to you.

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*IN THIS WORLD, NOTHING IS CERTAIN EXCEPT DEATH AND TAXES.*  
 —Benjamin Franklin  
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*THE REAL KEY TO MAKING MONEY IN STOCKS IS TO NOT GET SCARED OUT OF THEM.*  
 —Peter Lynch  
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