King Wealth Management Group | Refine Your Wealth

Second Quarter 2021

THE ROUND TABLE

Four Things Investors Should Know About Stock Splits

In 2020, three companies in the S&P 500 index announced plans for stock share splits, down from 102 companies in 1997 and seven in 2016.[1]

As an investor, you may wonder what a stock split is and how it might affect your portfolio. Although splitting stock shares has been much less common in recent years, it's usually newsworthy when a high-profile company announces a planned split.

1. **What is a stock split?**
   A company may decide to lower the price of its stock by splitting each outstanding share into more than one share. With a traditional stock split, more shares are available, but the total value of all the shares (the company's stock market capitalization) remains the same. For example, if a company announces a 2-for-1 split and you owned one share worth $100, you would own two shares worth $50 each.

2. **Why do companies split their stock?**
   Typically, stock splits occur when the price of individual shares has risen to a level that might discourage potential investors. More affordable share prices are thought to improve the liquidity, or the ease with which shares are bought and sold. Companies may also split stock to show management's confidence in the future performance of the stock, as well as to stir up interest in the stock if it has been languishing.

3. **What is a reverse stock split?**
   In order to increase the per-share price of a stock, companies might opt for a reverse stock split, which creates one share from multiple shares. One reason why a company might issue a reverse stock split is to satisfy a stock exchange's minimum share price. By decreasing the number of shares outstanding, the company boosts its stock price. Reverse stock splits could also make a company's stock more appealing to investors who might perceive it as more valuable at a higher stock price.

4. **How do stock splits affect investors?**
   A common misconception is that splits automatically increase the value of an investor's holdings. In reality, the number of shares owned is increased in proportion to the reduced price per share, so the total value of an investor's holdings remains the same. Stock splits generally have no impact on the broader stock market or the fundamental value of the stock. Some argue that they may potentially pose at least one advantage to shareholders: A stock split draws wider attention to a company's rising share price and the fact that it has been doing well.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Past performance is not a guarantee of future results.

1) *The Wall Street Journal,* August 28, 2020

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Key Retirement and Tax Numbers for 2021

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2021.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2021 is $15,000, the same as in 2020.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2021 is $11,700,000, up from $11,580,000 in 2020.

Standard Deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2021, the standard deduction is:

- $12,550 (up from $12,400 in 2020) for single filers or married individuals filing separate returns
- $25,100 (up from $24,800 in 2020) for married individuals filing joint returns
- $18,800 (up from $18,650 in 2020) for heads of households

The additional standard deduction amount for the blind or aged (age 65 or older) in 2021 is:

- $1,700 (up from $1,650 in 2020) for single filers and heads of households
- $1,350 (up from $1,300 in 2020) for all other filing statuses

Special rules apply if you can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $6,000 in 2021 (the same as in 2020), with individuals age 50 and older able to contribute an additional $1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges. (The limit on nondeductible contributions to a traditional IRA is not subject to phase-out based on MAGI.)

Employer Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $19,500 in compensation in 2021 (the same as in 2020); employees age 50 and older can defer up to an additional $6,500 in 2021 (the same as in 2020).
- Employees participating in a SIMPLE retirement plan can defer up to $13,500 in 2021 (the same as in 2020), and employees age 50 and older can defer up to an additional $3,000 in 2021 (the same as in 2020).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above $2,200 in 2021 (the same as in 2020) is taxed using the parents' tax rates.

MAGI Ranges: Contributions to a Roth IRA

	2020	2021
Single/Head of Household	$124,000 - $139,000	$125,000 - $140,000
Married filing jointly	$196,000 - $206,000	$198,000 - $208,000
Married filing separately	$0 - $10,000	$0 - $10,000

MAGI Ranges: Contributions to a Traditional IRA

	2020	2021
Single/Head of Household	$65,000 - $75,000	$66,000 - $76,000
Married filing jointly	$104,000 - $124,000	$105,000 - $125,000

The 2021 phaseout range is $198,000-$208,000 (up from $196,000-$206,000 in 2020) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is $0-$10,000 when the individual is married filing separately and either spouse is covered by a plan.

Real Estate for Income and Diversification

An estimated 145 million Americans own real estate investment trusts (REITs) in their retirement accounts and other investment funds.[1] The primary appeal of REITs is the potential for a consistent income stream and greater portfolio diversification. Of course, like all investments, REITs also have risks and downsides.

Pooled Property Investments

An equity REIT — the most common type of REIT — is a company that uses the combined capital of a large number of investors to buy and manage residential, commercial, and industrial income properties. A REIT may focus on a specific type of property, but REIT properties in general might range from shopping malls, apartment buildings, and medical facilities to self-storage facilities, hotels, cell towers, and timberlands. Equity REITs derive most of their income from rents.

Under the federal tax code, a qualified REIT must pay at least 90% of its taxable income each year in the form of shareholder dividends. Unlike many companies, REITs generally do not retain earnings, so they may provide higher yields than some other investments, which might be especially appealing in the current low-interest environment. In January 2021, equity REITs paid an average dividend of 3.55%, more than double the 1.55% average dividend paid by stocks in the S&P 500 index.[2–3]

You can buy shares in individual REITs, just as you might buy shares in any publicly traded company, or you can invest through mutual funds and exchange-traded funds (ETFs).

Income vs. Volatility

Equity REITs are effective income-generating assets, but share prices can be sensitive to interest rates, partly because companies often depend on debt to acquire rent-producing properties, and interest rates can affect real estate values. Also, as rates rise, REIT dividends may appear less appealing to investors relative to the stability of bonds offering similar yields.

For buy-and-hold investors, the income from REIT dividends may be more important than short-term share-price volatility. Moreover, REIT share prices do not always follow the stock or bond markets, making them a helpful diversification tool (see chart).

While REITs are traded on the stock market, they are in some respects a unique asset class with characteristics of both stocks and bonds. So holding REITs not only may diversify your stock holdings but might also broaden your approach to asset allocation. Diversification and asset allocation are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

A Class of Their Own

Over the last decade, equity REITs have performed very differently than stocks and bonds. REITs were slower than stocks to recover from the early 2020 bear market, which could make their lower valuations and higher yields appealing for long-term investors.

Sources: Nareit, 2021; S&P Dow Jones Indices, 2021; Morningstar, 2021. Equity REITs are represented by the FTSE Nareit All Equity REIT index, U.S. stocks by the S&P 500 total return index, and bonds by the Bloomberg Barclays U.S. Aggregate Bond TR index. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

Real Estate Risks

There are inherent risks associated with real estate investments and the real estate industry that could adversely affect the financial performance and value of a real estate investment. Some of these risks include a deterioration in national, regional, and local economies; tenant defaults; local real estate conditions, such as an oversupply of, or a reduction in demand for, rental space; property mismanagement; changes in operating costs and expenses, including increasing insurance costs, energy prices, real estate taxes, and the costs of compliance with laws, regulations, and government policies.

The return and principal value of all investments, including REIT shares, fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

(1–2) Nareit, 2021 (2019 data for REIT ownership)
(3) S&P Dow Jones Indices, 2021

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Five Tips to Follow When Applying for a Mortgage

The housing market during the coronavirus pandemic has certainly been notable. Historically low interest rates resulted in record homebuying, even as housing prices escalated.[1]

Fortunately, the mortgage industry has been able to keep up with the pace of the real estate market by utilizing already existing technology. Homebuyers can search for lenders, compare interest rates, and apply for mortgages online. In addition, mortgage lenders are able to do alternative appraisals, perform safe home inspections, and conduct closings electronically.

Even though applying for a mortgage is much easier these days, navigating the world of mortgages — especially for first-time homebuyers — can be complicated. As a result, you'll want to keep the following tips in mind.

Check and maintain your credit. A high credit score not only may make it easier to obtain a mortgage loan but could potentially result in a lower interest rate. Be sure to review your credit report for inaccuracies. You may have to take steps to improve your credit history, such as paying your monthly bills on time and limiting credit inquiries on your credit report (which are made every time you apply for new credit).

Shop around. Be sure to shop around among various lenders and compare the types of loans offered, along with the costs and rates associated with those loans. Consider each lender's customer service reputation as well.

Get pre-approved for a loan. In today's hot housing market, it's essential to have a mortgage pre-approval letter in hand before making an offer. Obtaining a mortgage pre-approval letter lets you know how large a loan you can get. However, this isn't necessarily how much you can afford. Be sure to examine your budget and lifestyle to make sure that your mortgage payment — principal and interest as well as property taxes and homeowners insurance — is within your means.

Review your down-payment options. Though lenders prefer a down payment of 20% or more, some types of home loans allow down payments as low as 3%. A larger down payment can help you obtain a lower interest rate, potentially avoid paying for private mortgage insurance, and have smaller monthly payments.

Read the fine print. Before you sign any paperwork, make sure that you fully understand the terms of your mortgage loan and the costs associated with it. For example, if you are applying for an adjustable-rate mortgage, it's important to be aware of how and when the interest rate for the loan will adjust.

1) MarketWatch, September 5, 2020