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The MWA Report Winter 2025



Dear Clients and Friends,

Welcome to the Winter Edition of our client newsletter. This season is a time for planning, celebrating progress, and ensuring your financial strategies remain aligned with your goals.

In this edition, we introduce the newest member of our team, Liz Hagensick. As Director of Operations, Liz brings a wealth of experience in the financial services industry, particularly in the areas of client service and investment operations. Additionally, we review the past year's market results and discover trends taking shape that may impact your investment strategy in the new year. Finally, we highlight a recent federal court case that could affect how the IRS values your business if you have a certain type of buy-sell agreement.

As always, we are grateful for your trust and partnership. If you have questions, I encourage you to reach out. Here's to a successful 2025!

Warm regards,

Bill

Market Highlights:

U.S. stocks wrapped up a stellar 2024, with the S&P 500 rising 23%, The Dow industrials gaining 13% and the Nasdaq Composite climbing 29% for the year. The 10-year Treasury yield ended the year at 4.57%. The benchmark began 2024 below 4% and logged its biggest annual rise since 2022.

The New Year:

As we gear up for 2025, many of the major themes that drove the market higher last year remain in place. The economy is expanding, and corporate profits are expected to remain on an upward trajectory. Although the Fed is eyeing fewer rate cuts this year, it isn't currently considering rate hikes. Furthermore, the incoming Trump Administration is expected to promote business-friendly policies such as deregulation, which will likely benefit both the economy and corporate profits. We may see a reduction in the corporate tax rate, while additional corporate stock buybacks are expected to underpin stocks.

Nonetheless, no one can accurately foretell the future. That's a given. What are some potential pitfalls that might stymie investment growth in 2025? For starters, a rebound in inflation could force the Fed to raise interest rates. Such a move would likely generate uncertainty for a market that is richly valued and priced for perfection. On the other hand, if the Fed is too cautious and misjudges the economy, a deteriorating economic outlook could quickly hamper corporate profits.

Meanwhile, pro-business policies that are expected to be ushered in by the new president bolstered optimism following the election. But if soon-to-be President Trump enacts sweeping tariffs, we may see a bump in inflation that is accompanied by slower economic growth. In 2018, Trump was more selective as he enacted tariffs, which generated market volatility and uncertainty. Despite multiple Fed rate cuts last year, longer-term Treasury bond yields turned significantly higher over the last three months amid slower progress on inflation, upbeat economic growth, and a stubbornly high federal deficit. A continued increase in yields could pose a greater challenge for stocks.

Final thoughts:

A diversified portfolio cannot completely shelter you from market pullbacks, but it can help lower volatility and has historically been the most effective path to achieve one's financial goals. I trust you have found this review to be informative. If you have any questions, please don't hesitate to contact our office.

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Sources:

1. Wall Street Journal: U.S. Shares Cap Stellar Year, 01.02.2025
2. Horseshoath, January Client Update, 01.07.25
3. Valmark: TOPS Quarterly Update Q4 2024, 01.21.25



RECENT 8TH CIRCUIT DECISION AMPLIFIES NEED TO REVIEW BUY-SELL PLANNING | WINTER 2025

For many closely held businesses, a common strategy is to implement buy-sell agreements which set forth procedures for various triggering events the owners may find themselves in. Buy-sell agreements also provide the related value and terms assessed given the event the owners are presented with. In this brief, we will discuss how the outcome of a federal court case is driving the need for proper buy-sell planning along with proper life insurance planning.

In a recent case, two brothers, Michael and Thomas, were the sole shareholders of a closely held building-materials company, Crown Corporation. To keep the business in the family in the event of death, the brothers entered into a stock-purchase agreement providing that the surviving brother had the right to buy the shares of the deceased. To fund the redemption, like many businesses, Crown purchased \$3.5mm of life insurance on each brother with the understanding that the company, not the brothers, must redeem the shares. Upon Michael's death in 2013, Crown received the \$3.5mm in insurance proceeds and used \$3 million to redeem Michael's 77.18% share in the company. In filing its tax returns, Michael's estate relied on the \$3mm redemption payment to value Michael's shares at the time of his death and failed to consider the insurance proceeds as an asset that increased the value of the firm and of these shares. The IRS subsequently audited the estate for undervaluing Michael's shares and for paying taxes on the \$3MM valuation from the brothers' agreement rather than the \$5.3 million the shares were worth when accounting for the insurance proceeds. The 8th circuit agreed with the IRS, upheld an additional \$1mm tax burden on the estate, and reaffirmed the traditional view that business-owned life insurance proceeds should be considered when calculating the fair market value of a business for tax purposes to avoid a windfall.

So, is this outcome a surprise? Not really. Although it may contradict a few unique opinions, *Blount and Cartwright*, both in different Circuits than the 8th, *Connelly* does not create new law. Instead, *Connelly* serves as a reminder for clients and advisers who have entered into similar buy-sell agreements that there must be some level of consideration for the life insurance proceeds payable to the business when valuing their interest in the business for estate tax purposes. While this treatment *may* differ among the circuits, ultimately the *Connelly* decision, especially in the 8th Circuit, should prompt advisers to consider alternative solutions, or at the very least, conduct an insurance review, where applicable.

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Source: *Connelly v. United States*, Dep't. of Treasury, IRS, 70 F.4th 412 (8th Cir. 2023).

What's Happening With Our Team?

Meet Our Director of Operations: Liz Hagensick

We are delighted to welcome Liz Hagensick as our Director of Operations. With over 10 years of experience in the financial services industry and more than 15 years in residential real estate, Liz brings a wealth of expertise and a strong commitment to delivering exceptional client service.

Originally from Texas, Liz earned her bachelor's degree in psychology from Texas A&M University–Corpus Christi. She and her husband of 26 years, Jason, along with their children Abbey and Wyatt, have called Boca Raton home since 2016. Together Liz and Jason support many local nonprofits in the Boca Raton community. Liz is an enthusiastic Dallas Cowboys fan and can often be found in the crowd cheering on the FAU football and basketball teams.

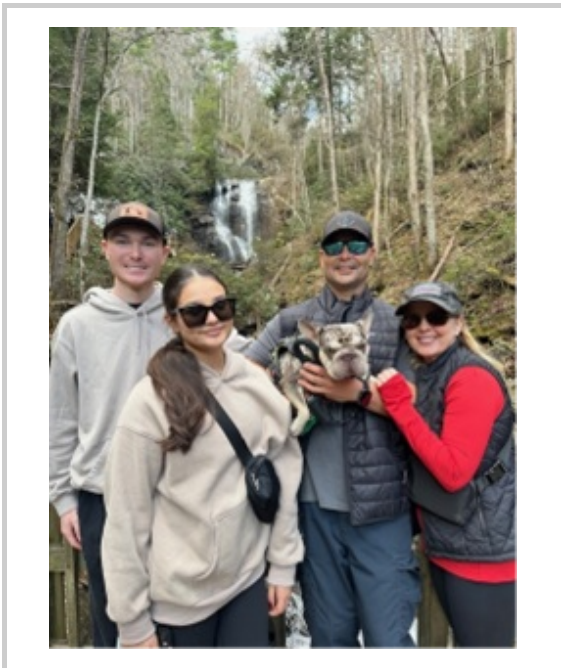
We're confident that Liz's diverse background, dedication to client success, and passion for building strong relationships will help us continue to provide top-tier service to our clients. Please join us in welcoming Liz to our team.



Jennifer's Update

Our family once again traveled to North Georgia for Thanksgiving. This has become an annual tradition that we all look forward to. Spending time outdoors hiking and exploring the small towns while enjoying the cold weather is always a special treat for us. We were happy to share this experience with some dear friends this year, which made it even more special.

Also, my husband Jeff, and I celebrated our 25th wedding anniversary while we were there. We spent the day enjoying beautiful weather at some of our favorite wineries. I feel truly blessed to have this experience with our family and friends.



Bill's Update

I recently attended the 59th Heckerling Institute on Estate Planning in Orlando. The Institute is one of the most prominent and respected conferences on estate planning in the United States. The conference attracts attorneys, financial advisors, accountants, trust officers and other professionals involved in estate planning. As President of my local estate planning council this year, attending Heckerling was both fitting and beneficial.



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