

## Bringing Order to Your Investment Universe

### Part 1: The Beauty of Being Organized



**W**hen it comes to investing, our message has long been loud and clear: Build a well-structured portfolio to capture available market returns while managing the risks involved. Shape it to meet your individual goals and risk tolerances. Keep a lid on the costs. Stay on target over time.

That's all well and good, but . . .

*What if you've been investing a while, but you don't yet have that "well-structured portfolio"?*

It stands to reason: The more wealth you accumulate, the more chaotic your assets and accounts can become. What begins as a manageable assortment (hopefully) grows. That's a good "problem" to have, but the sheer volume can eventually overwhelm your organizational efforts.

Then what?

Fortunately, it's never too late to bring order to your investment universe. In this first installment in our three-part series, we'll explore some sensible solutions to this perennial challenge, starting with initial steps you can take to move from random results to a more organized approach.

#### Step One: Take Stock of What You've Got

A great way to get started is to figure out where you stand today. What do you currently own? Where are you holding it, and why?

Bonus points if you can determine how much your current holdings are costing you in apparent and hidden fees.

#### Step Two: Decide Where You'd Like To Go

Next, it's time to plan—and document—what your orderly investment universe looks like, and how you expect to get there. Having a plan in place can feel incredibly empowering if your investments have gotten out of hand.

You can stop taking pot shots at your wealth, and begin aiming at your tailored targets.

**Strategy:** How much risk and expected return are you shooting for? Do you have the time and courage to take on more investment risk, hoping for higher returns? Or are you better served with a more modest approach—less "exciting" but less likely to fall apart in a pinch?

**Target:** If you could start with a clean slate for creating your "perfect" investment portfolio, what would that look like? How many stocks vs. bonds, international vs. domestic, and so on? What would be the best funds or securities for achieving your aim?

**Tactics:** Which of your current investments no longer make sense for your plans? Which might be replaced with better-managed, lower-cost equivalents? What pieces are missing?

#### Step Three: Proceed as Planned

If you've accumulated a vast clutter of capital, you're likely to want to do some remodeling: selling unnecessary or overpriced positions, buying others that are a better fit, streamlining duplicate assets and accounts, and otherwise rearranging your financial furniture.

In a tax-free world, you could proceed at full speed. In real life, when you sell positions for more than you paid for them, there can be burdensome capital gain taxes realized in the year of the sale. Plus, if you generate enough taxable gains in a year, it could bump you into a higher tax bracket, which could increase your tax rates across a wider swath of your total annual income.

How should you pursue a tidy transition, given the challenges involved?

We'll offer some insights on that in our next piece, *Transitions and Taxes*.

Until next time, no regrets!

**Eric Hutchens**  
President & Chief Investment Officer

Investing is the intersection of economics and psychology.

— Seth Klarman

## FINANCIAL PLANNING TIP

### Qualified Charitable Distributions (QCDs)

Do you have an IRA? Are you taking required minimum distributions (RMDs)? If so, do you know that you can donate your RMD to charity and receive tax benefits that may be greater than a typical charitable donation? If you donate your RMD to charity (subject to certain rules), the amount donated will be excluded from your taxable income. Your RMD is usually taxed as ordinary income. A deduction for charitable gifts is only available if you itemize, and you might only be able to deduct a portion of the gift in that year based on your adjusted gross income. Note that a QCD is not eligible for the charitable deduction.

#### How It Works

You must have an eligible IRA. Many types of IRAs are eligible for the QCD except for active employer-sponsored retirement plans such as 401(k), 403(b), SEP or SIMPLE plans. **Eligible IRAs include<sup>1</sup>:** Traditional IRA, Rollover IRA, Inherited IRA, Inactive SEP IRA\*, Inactive SIMPLE IRA\*

\* Inactive SEP and SIMPLE IRAs are accounts that no longer receive employer contributions.

You must be at least 70½ and can include donations up to \$105,000 per person (index adjusted annually). The qualified charitable distribution applies to taxable withdrawals from your IRA made after you reach age 70½. If you take RMDs, the QCD can exceed your RMD amount (but is still capped at \$105,000). Each spouse is subject to the \$105,000 annual maximum per person.

You must donate directly from the IRA to an eligible charity. Your IRA custodian must write a check payable to a public charity or send a direct electronic payment to the charity. If the RMD check is made payable to you and you later donate that amount to charity, or even endorse the check to the charity, it does not count as a QCD.

Eligible charities are public charities under IRS rules (called 501(c)(3) organizations). Private foundations and donor-advised funds are not eligible to receive QCDs.<sup>2</sup>

#### Tax Benefits

For people that are required to take required minimum distributions (RMDs), QCDs can count toward the annual RMD requirement. By making a QCD, you avoid the income from an IRA distribution that you would otherwise have. The reduction in taxable income from a QCD lowers your adjusted gross income (AGI), which is used to determine many taxes, including your basic tax bracket. For example, AGI affects the amount of Social Security benefits that are taxable, the Medicare premium surcharge, the alternative minimum tax, and the 3.8% surtax on net investment income. AGI also impacts the medical expense deduction. Speak with your tax professional or wealth advisor to determine which tax benefits may apply to you.

#### When Should You Use the QCD?

If you use the standard deduction and wish to give to a public charity, using the QCD will still allow you to obtain a tax benefit.

If you can itemize, using the QCD as the charitable giving vehicle may provide you with more tax savings overall than the charitable deduction because it reduces AGI. You may want to reduce adjustable gross income to:

- Stay within a tax bracket or move to a lower tax bracket
- Stay within one of the Medicare premium surcharge thresholds or move lower
- Stay under the net investment income tax threshold

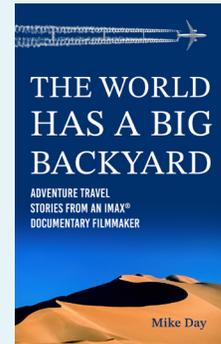
QCDs offer charitable giving with many tax-saving benefits. Always consult with your tax professional and your wealth advisor to determine the best strategy for you.

1. *Qualified charitable distributions (QCDs)*. Fidelity. <https://www.fidelity.com/building-savings/learn-about-iras/required-minimum-distributions/qcds>
2. Cussen, M. (November 29, 2023). *How to reduce your taxes and AGI by giving to charity*. Investopedia. <https://www.investopedia.com/articles/financial-advisors/032116/how-use-qcd-rule-reduce-your-taxes.asp>

## Upcoming Event

October 24, 2024 • 4:00 - 7:00 p.m. at Allodium Event Room

Allodium is excited to welcome travel author and IMAX® documentary filmmaker, Mike Day. As a filmmaker, Mike visited wild chimpanzees in Africa and active volcanoes along the Ring of Fire in the Pacific. Mike believes the best gift you can give yourself and others is travel. Not comfortable travel—but a true adventure.



Join us for this in-person event as Mike provides tips to address the uncertainty and unpredictability that can come with traveling to new and distant places. He will share a portion of his book: *The World Has a Big Backyard: Adventure Travel Stories from an IMAX® Documentary Filmmaker*.

To sign up, contact: [iavraamides@allodium.com](mailto:iavraamides@allodium.com)

## Headlines

- The Centre for Fiduciary Excellence (CEFEX) recertified Allodium in August 2024. The annual CEFEX assessment process independently verifies our firm's adherence to fiduciary standards.
- Allodium was named in the July issue of Financial Advisor Magazine RIA Survey and Ranking.
- Allodium welcomed four new clients in the second quarter of 2024.
- Our office will be closed November 28 and 29 for company holidays.

To find out more about Allodium's breaking news, please visit our website: [www.allodium.com](http://www.allodium.com).

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Steward is published quarterly by Allodium Investment Consultants. Please contact [iavraamides@allodium.com](mailto:iavraamides@allodium.com) if you have any comments about this publication or wish to be added to or removed from our mailing list.



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