1st Quarter 2025 Newsletter
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NovaPoint
CAPITAL LLC

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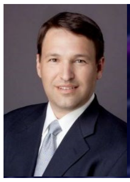


MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

Navigating Policy Shifts and Investor Sentiment

Equity markets put in another strong year in 2024. For the year, the S&P 500 Index advanced 25.0%, the Nasdaq 100 Index advanced 25.9%, and the Dow Jones Industrial Average advanced 15.0%.

The three top performing sectors during 2024 were Communication Services, Technology, and Financials. The three bottom performing sectors were Materials, Health Care, and Real Estate.

An air of caution emerged late in the fourth quarter as the Federal Reserve revised down its projection for interest rate reductions in 2025. At the December Federal Open Market Committee meeting, the updated Summary of Economic Projections indicated the Federal Reserve planned to reduce the Fed funds rate in 2025 by 0.50% versus its earlier projection of 1.00%. While the Fed has been data dependent, it raised the concern that new policies in the incoming Trump administration could alter or delay the path to 2.0% inflation that the Fed has sought to achieve since embarking on the initial rate increase cycle in 2022. The current Fed fund target rate is 4.25% to 4.50% and the Federal Reserves current projection for the end of 2025 is 3.75% to 4.00%. The economic projections underpinning this policy view include Gross Domestic Product (GDP) growth of 2.1% in 2025, an unemployment rate of 4.3%, and inflation of 2.5%.

With the new administration ready to take office, there are several initiatives planned over the first 100 days to include immigration, tariffs and trade, energy independence, government spending, and an extension of the current tax regime.

While the Republican Party has control of the White House, the Senate, and the House of Representatives, it does not hold a supermajority in the Senate and only a slim margin in the House of Representatives. This makes passing legislation far from a sure thing and some compromises will likely need to be made.

With two years of solid gains for stocks following the steep losses of 2022, there is a balance of optimism and skepticism among investors, with a slight tilt toward skepticism. The recent American Association of Individual Investors sentiment index survey for the week ending January 8th indicated that 34.7% of respondents were Bullish, 28.0% were Neutral, and 37.4% were Bearish. This slightly more Bearish than the historical averages of 37.5% Bullish, 31.5% Neutral, and 31.0% Bearish. For certain, investors do not like uncertainty. The early progress of the new administration on the economy may be a key driver of investor sentiment in 2025.

The fourth quarter earnings reporting season is underway. Earnings for the S&P 500 Index for the quarter are expected to grow 11.7% year-over-year with revenue growth of 4.7%. Full-year 2024 earnings are expected to grow 9.4% with revenue growth of 5.0%. Full-year 2025 earnings are expected to grow 14.8% with revenue growth of 5.8%.

Our investment strategies are well-diversified across sectors and themes to include strategies focused on Dividend Growth stocks, Real Estate Investment Trusts (REIT), Power-Utility-Grid stocks, and Growth stocks. We favor high-quality stocks across all our strategies.

	4Q24 Return	2024 Return
S&P 500 Index	2.4%	25.0%
Dow Jones Industrial Average	0.9%	15.0%
NASDAQ 100	4.9%	25.9%
Russell 2000 (Small Cap Index)	0.3%	11.5%
International Stocks (MSCI ex-US	-7.5%	6.1%

	4Q24 Return	2024 Return
Aggregate Bond Index	-2.6%	1.8%
U.S. Dollar Index	7.6%	7.1%
WTI Crude Oil	5.2%	0.1%
Gold	-0.4%	27.1%
Real Estate (US REIT Index)	-6.3%	8.4%

Sources: S&P Global, FactSet

Tax Relief for Disaster Victims: What You Need to Know

Multiple storms, fires, and other natural disasters have made news headlines over the past year. If you felt the affects of a natural disaster, you might be able to save money on your taxes. Many people don't know about these tax benefits because the law was passed in late 2024. Here are the basics to help you understand your options.

Deducting Disaster Losses

If you had losses from a natural disaster, you can deduct those losses without itemizing on your tax return. Normally, you can only deduct losses that are more than 10% of your adjusted gross income, but this rule doesn't apply to disaster losses. Instead, you can deduct any uninsured losses over $500.

Extra Standard Deduction

These deductions for disaster losses are added to your standard deduction. This means you can claim these losses without needing to list all your expenses. This extra deduction can make a big difference, especially if you've had major losses.

When to Claim Your Losses

If your disaster happened in 2024, you can choose to apply the rules on your 2023 tax return or your 2024 tax return. This gives you some flexibility to see which option works best for you.

For disasters in 2021, 2022, or 2023, you can go back and amend those tax returns to include your losses. Amending your return might lower the amount of taxes you owe or even get you a refund.

Don't Miss Out

These tax breaks are only available for a limited time, mostly before 2025. If you've had disaster losses, check your past tax returns and see if you qualify. Talk to a tax professional if you need help.

This relief can make recovering from a disaster a little easier, so don't wait to take advantage of it.

If you need help, please let us know: Contact Us

Do You Know Your Risk Number?

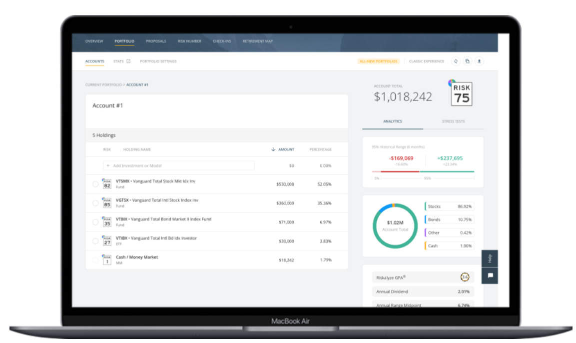
Individuals often classify their investment risk tolerance with adjectives such as "Conservative", "Moderate", or "Aggressive". These can be highly subjective and may not correctly identify the amount of risk someone is actually comfortable taking.

One self-described Moderate investor may feel uncomfortable if their portfolio fell 5%, while another may not feel uncomfortable until their portfolio falls more than 20%.

While investors understand that the purpose of taking risk is to achieve investment returns, they may not have a realistic sense of how much risk is required to achieve a targeted level of return. In this case, they may not be taking enough risk and are left wondering why they are unable to achieve the returns they are targeting.

We work with clients to identify the level of risk they are comfortable taking and balance it with the investment objectives they are seeking to achieve.

Follow this link to take our complimentary risk analysis questionnaire.



BUSINESS RETIREMENT PLANS

By ALAN J. CONNER

The Individual 401 (k)

An individual 401(k), also known as a solo 401(k), is a retirement savings plan designed specifically for self-employed individuals and small business owners with no employees (other than a spouse).

Here are the pros and cons of choosing an individual 401(k):

Pros

1. High Contribution Limits: You can contribute both as an employee and as an employer, allowing for significant savings.

- Employee Contribution: Up to $23,500 in 2024 (or $30,000 if you're 50 or older).
- Employer Contribution: Up to 25% of your net earnings from self-employment.
- Total Contribution Limit: $70,000 in 2024 (or $77,500 if you're 50+).

2. Tax Benefits: Contributions reduce taxable income for the year (if made pre-tax). Roth contributions (if available in your plan) allow for tax-free withdrawals in retirement.

3. Flexibility: You can choose between pre-tax (traditional) and after-tax (Roth) contributions, depending on your tax strategy. You can adjust your contributions year-to-year depending on your income.

4. Loan Option: Many individual 401(k) plans allow you to borrow from your balance, often up to 50% of the account value or $50,000 (whichever is less).

5. Investment Control: You have broad investment choices, including stocks, bonds, mutual funds, and sometimes even alternative investments like real estate or cryptocurrencies.

6. No Employee Costs: Since it's only for you (and possibly your spouse), you avoid the administrative and financial burdens of providing benefits to employees.

Cons

1. Administrative Responsibilities: You need to set up the plan, monitor it, and ensure compliance with IRS rules. Once the plan reaches $250,000 in assets, you must file an annual Form 5500 with the IRS.

2. Contribution Calculation: Calculating allowable contributions as an employer can be complex, particularly for sole proprietors, as it depends on your net earnings.

3. No Catch-Up for Partnerships with Employees: If you plan to expand and hire employees in the future, you'll need to transition to a traditional 401(k) or other options, which may have higher costs.

4. Early Withdrawal Penalties: Withdrawals before age 59½ typically incur a 10% penalty and taxes, unless for specific exceptions like a hardship withdrawal or a qualified loan.

5. Required Minimum Distributions (RMDs): Traditional individual 401(k) accounts require RMDs starting at age 73 (if you turn 72 after January 1, 2023). Roth 401(k)s also require RMDs unless rolled into a Roth IRA.

6. Limited to Sole Proprietors and Spouses: If you hire non-spouse employees, the plan loses its "solo" status and may require more administrative complexity or transition to a traditional 401(k).

Should you have an Individual 401 (k)?

An individual 401(k) is an excellent choice if:

- You have high self-employment income and want to maximize retirement savings.
- You value tax-advantaged growth and contributions.
- You don’t plan to hire employees beyond a spouse.

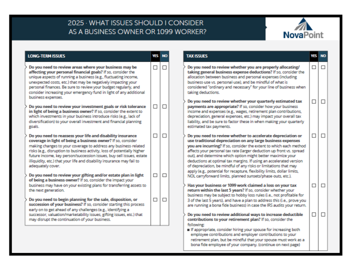
However, if you anticipate hiring employees or prefer a simpler, less administratively intensive option, a SEP IRA or SIMPLE IRA might be better. It’s worth consulting with investment adviser or tax professional to determine the best fit for your situation.

Contact Us

Please reach out if we can help: Contact Us

2025 for Business Owners

If you are a business owner or 1099 worker, please download our “What Issues Should I Consider as a Business Owner or 1099 Worker” checklist. This short guide can help raise some ideas you may not always be thinking of and provide a framework to make decisions to simplify some of the administrative hassles that can bog you down from making your business thrive. DOWNLOAD


2025 · WHAT ISSUES SHOULD I CONSIDER AS A BUSINESS OWNER OR 1099 WORKER?

Bacon Corn Chowder

Ingredients

6 slices of bacon, chopped

1 medium onion, diced

2 cloves of garlic, minced

2 medium potatoes, peeled and diced

4 cups of fresh or frozen corn kernels

4 cups of chicken broth

1 cup of heavy cream

2 tablespoons of all-purpose flour

2 tablespoons of unsalted butter

1/2 teaspoon of smoked paprika

1/2 teaspoon of thyme (fresh or dried)

Salt and black pepper, to taste

2 green onions, thinly sliced

Instructions:

In a large pot, cook the chopped bacon over medium heat until crispy. Remove the bacon and place on a paper towel-lined plate. Reserve 2 tablespoons of bacon grease in the pot.

Add the diced onion to the pot with the bacon grease and cook until softened (about 3-4 minutes). Stir in the minced garlic and cook for 1 minute until fragrant.

Add the diced potatoes, corn kernels, smoked paprika, thyme, salt, and pepper. Pour in the chicken or vegetable broth, bring to a boil, then reduce the heat to a simmer. Cover and cook for 15-20 minutes, or until the potatoes are tender.

In a small pan, melt the butter over medium heat. Stir in the flour and cook for 1-2 minutes, whisking constantly, until the mixture is golden and bubbly. Whisk in the heavy cream to create a smooth, thickened mixture.

Slowly stir the roux mixture into the chowder. Simmer for 5-10 minutes, stirring occasionally, until the soup thickens. Adjust seasoning with salt and pepper if needed.

Stir in half of the crispy bacon into the chowder. Use the rest as a topping when serving. Garnish with sliced green onions for a fresh touch.

Welcome to our new Team Members

Two new team members have joined us at NovaPoint early in the new year.

Meghan Hoover in an investment associate and will focus on financial planning for clients. She holds two B.S. degrees from the University of Maryland and an M.S. from the National Intelligence University, with additional education specializing in financial planning. She has prior experience in government service as an Operations Officer in military intelligence.

Chelsea Castanza is an accounting clerk and will provide bookkeeping services for NovaPoint CFO clients. She hold a BBA degree from Midstate College in Peoria, Illinois.

Follow our Weekly Market Commentary

Each Monday, we publish our Weekly Market Commentary on the NovaPoint website highlighting important financial and investment issues for the week. You can find it on the News dropdown menu or at https://novapointcapital.com/blog/

If you'd like to receive the blog each week via email, please subscribe here: SUBSCRIBE

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