3rd Quarter 2025 Newsletter
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NovaPoint
CAPITAL LLC

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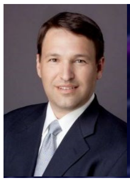


MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

Comeback Quarter

Second quarter saw a strong comeback after the market bottomed out in April. For the second quarter, the S&P 500 Index was +10.9%, the Nasdaq 100 Index was +17.9%, and the Dow Jones Industrial Average was +5.5%.

The three top performing sectors during the quarter were Technology, Communication Services, and Industrials. The three bottom performing sectors were Energy, Health Care, and Real Estate.

Following "Liberation Day" in early April, the market hit a low for the year from the uncertainty of the outlook for the economy due to the announced tariffs. Fear subsided gradually over the next few weeks. By the beginning of May, the market had recovered to its pre-Liberation Day level and, by quarter-end, it had not only recouped the full year-to-date decline, but had also risen to new record high levels.

Investor sentiment has also seen a sharp turnaround since "Liberation Day" in early April. The current level of Bullish sentiment based the American Association of Individual Investors sentiment index survey is 41.4%, above the historical average of 37.5% and well above the 21.8% of Bullish responses in April. As is often the case, the lack of Bullish sentiment in April proved to be a contrarian signal.

While investors appear to have shrugged off the worst case economic scenario from tariffs, the trade landscape is far from settled and the economic impact remains an unknown. For the past few months the commentary from the Federal Reserve has been that tariffs are likely to cause a resurgence in inflationary pressures and maintaining a restrictive level in monetary policy was an appropriate stance. While few trade deals have been completed to date, some Fed officials have recently raised the thought that any inflationary pressure from tariffs could be short lived once trade deals are negotiated and a less restrictive monetary stance is appropriate. The upcoming Federal Open Market Committee (FOMC) meeting is likely to see the committee maintain the Fed funds rate in its current 4.25% to 4.50% range. The market is currently pricing in two 0.25% rate cuts by year-end. This is consistent with economic projections laid out by the FOMC at its June meeting.

August 1st is the deadline for implementation of the tariffs announced last week. This could be another deadline that sees extensions granted or it could be the line in the sand needed to bring finalization to several trade deals.

The second quarter earnings reporting season is just getting underway. Quarterly earnings for the S&P 500 Index are expected to grow 4.8% year-over-year with revenue growth of 4.2%. Full-year 2025 earnings are expected to grow 9.0% with revenue growth of 5.0%. Key elements to look for in company commentary and outlook include the impacts of tariffs and inflation, impact of AI and other technology efficiencies, and the health of the consumer.

We employ a diversified approach 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.

	2Q25 Return	2025 YTD
S&P 500 Index	10.9%	6.2%
Dow Jones Industrial Average	5.5%	4.5%
NASDAQ 100	17.9%	8.3%
Russell 2000 (Small Cap Index)	8.5%	-1.8%
International Stocks (MSCI ex-US	12.3%	18.3%

	2Q25 Return	2025 YTD
Aggregate Bond Index	1.2%	3.9%
U.S. Dollar Index	-7.0%	-10.7%
WTI Crude Oil	-8.9%	-9.2%
Gold	5.7%	25.8%
Real Estate (US REIT Index)	-1.1%	-0.2%

Sources: S&P Global, FactSet

Tax Implications of the One Big Beautiful Bill

The recently passed One, Big, Beautiful Bill has a large number of changes that can impact individuals and businesses.

Here is an overview of the changes we find most relevant.

Key Individual Tax Provisions

<u>Increase in the Standard Deduction</u>: Starting in 2025 at $31,500 for joint filers, $23,625 for head of household, and $15,750 for all other filers, inflation adjusted thereafter.

<u>Senior Deduction</u>: Temporarily add a senior deduction of $6,000 for each qualifying individual for both itemizers and non-itemizers that phases out when modified adjusted gross income exceeds $75,000, available from 2025 through 2028.

<u>Child Tax Credit</u>: The child tax credit is made permanent with an increased maximum of $2,200 in 2026, and adjusted for inflation thereafter.

<u>Mortgage Interest</u>: Make the $750,000 principal limit for the home mortgage interest deduction permanent.

<u>State and Local Tax (SALT)</u>: Temporarily increase the cap on the itemized deduction for state and local taxes (SALT) to $40,000 for 2025 and increase the cap by 1% from that level through 2029, subject to a phaseout for taxpayers with incomes above $500,000, then reduce the cap to a flat $10,000 thereafter.

<u>No Tax On Tips</u>: Temporarily make up to $25,000 of tip income deductible for individuals in traditionally and customarily tipped industries for tax years 2025 through 2028; deduction phases out at a 10 percent rate when adjusted gross income exceeds $150,000 ($300,000 for joint filers).

<u>No Tax on Overtime</u>: Temporarily make up to $12,500 ($25,000 for joint filers) of the premium portion of overtime compensation deductible for itemizers and non-itemizers for tax years 2025 through 2028; the deduction phases out at a 10 percent rate when adjusted gross income exceeds $150,000 ($300,000 for joint filers).

<u>Auto Loan Interest Deduction</u>: Temporarily makes auto loan interest deductible for itemizers and non-itemizers for new autos with final assembly in the United States for tax years 2025 through 2028; deduction limited to $10,000 and phases out at a 20 percent rate when income exceeds $100,000 for single filers and $200,000 for joint filers.

Key Business Tax Provisions

<u>Research & Development</u>: Permanently restore immediate expensing for domestic research and development (R&D) expenses. Small businesses with gross receipts of $31 million or less can retroactively expense R&D back to after December 31, 2021; all other domestic R&D between December 31, 2021 and January 1, 2025 can accelerate remaining deductions over a one or two-year period.

<u>Bonus Depreciation</u>: Permanently restore 100% bonus depreciation for short-lived investments.

<u>Structures</u>: Temporarily provide 100% expensing of qualifying structures, with the beginning of construction occurring after January 19, 2025, and before January 19, 2029, and placed in service before January 1, 2031.

<u>Business Equipment</u>: Expand the Section 179 expensing cap to an inflation-adjusted $2.5 million with a phasedown starting when the cost of qualifying property exceeds an inflation-adjusted $4 million; applies after December 31, 2024.

Estate Tax Provisions

Permanently increase the estate and lifetime gift tax exemption to an inflation-indexed $15 million for single filers and $30 million for joint filers beginning in 2026.

If you need help deciphering the new laws or want to explore changes you can make to best take advantage of them, please let us know: [Contact Us]

What is the Best Retirement Plan for your Business?

If you are a business owner, c-suite executive, or self-employed individual, you are responsible for your company's retirement plan.

Choosing the right retirement plan depends on your business size, whether you have employees, your income level, and how much administrative responsibility you're willing to handle.

Self-Employed Individuals

If you are self-employed with no employees, the best option is often a Solo 401(k). It allows you to contribute both as the employee and employer, offering high contribution limits (up to $70,000 in 2025, or $77,500 if age 50+), tax deductions, and the option for Roth contributions. It's ideal for maximizing retirement savings while keeping the plan tailored to your business.

Small Businesses

If you're a small business owner with a few employees and want a low-maintenance option, a SEP IRA is a good choice. It's easy to set up and allows you to contribute up to 25% of each eligible employee's compensation, including your own. However, whatever percentage you contribute for yourself, you must contribute the same for your employees.

For businesses with up to 100 employees who want to offer retirement benefits with minimal administration and a built-in employee match, a SIMPLE IRA is suitable. Employees can contribute up to $16,500 ($20,00 if age 50+), and employers must either match up to 3% or contribute a flat 2% for all eligible employees. This plan is easy to maintain but offers lower contribution limits than other plans.

If your business is growing or already has many employees, a Traditional 401(k) provides flexibility and scalability. You can offer both pre-tax and Roth contributions, employer matching, profit-sharing, and even custom vesting schedules. However, it comes with higher administrative costs and IRS compliance requirements, such as annual nondiscrimination testing and filing Form 5500.

High Income Business Owners

For high-income business owners who want to contribute significantly more than standard retirement plans allow, a Cash Balance Plan—a type of defined benefit pension—can be layered on top of a 401(k). It allows contributions well over six figures and provides major tax advantages, but it's more complex and costly to administer.

Recommendation Summary

Solo business? → Solo 401(k)

Few or no employees, want easy setup? → SEP IRA

Up to 100 employees, want to offer benefits? → SIMPLE IRA

Larger company or want plan flexibility? → Traditional 401(k)

High income, want max tax sheltering? → 401(k) + Cash Balance Plan

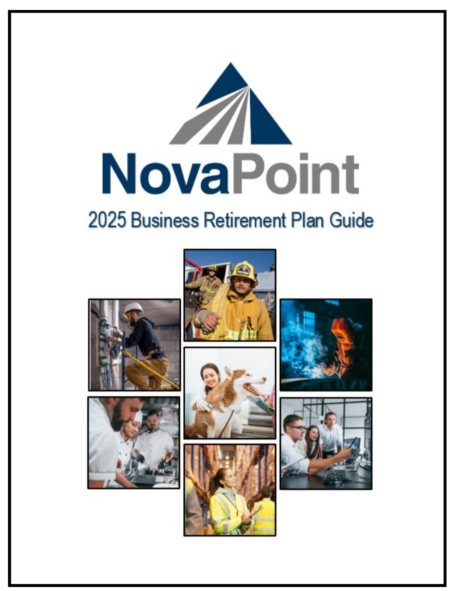
Consult with a tax or retirement advisor to evaluate which option offers the best mix of tax efficiency, savings potential, and administrative ease based on your business goals.

Contact Us

Please reach out if we can help: Contact Us

Download a copy of our

2025 Business Retirement Plan Guide



Benefits of Financial Planning for Pre-Retirees

Financial planning is a comprehensive and custom process of managing your money to achieve financial security and to meet goals. Financial planning aims to optimize wealth accumulation, minimize tax liability, and mitigate risks to protect your assets and achieve your financial goals.

For individuals in their prime earning years preparing for retirement, the accumulation phase of your financial lifecycle, working with a financial planner can be a powerful tool to building a solid financial plan to meet your financial goals.

Align Goals with a Comprehensive Financial Plan: Most individuals will have competing priorities with varying timelines for goals such as, pay off debt, retirement savings, college savings for children, career changes and transitions, caring for elderly family, real estate transactions, home improvements, etc. Without a comprehensive plan, resources can be misallocated, and financial decisions may be driven by emotions.

- Build a clear roadmap to achieve financial goals. Early identification of shortfalls and annual reviews allows time to implement recommended strategies.
- Balance short-term and long-term goals.
- Conduct retirement needs analysis to determine retirement savings goal.
- Project future retirement income from employer and self-employed retirement plans, Social Security, other tax-advantaged accounts, potential real estate transactions and inheritance.

Strategic Retirement Planning: Savings and investment decisions can have amplified long-term impacts on a retirement plan. Financial planning includes running projections for various scenarios to identify plan pitfalls and develop mitigation strategies.

- Create an investment strategy that balances growth with appropriate risk. Investment strategies should be customized to your risk tolerance and capacity.
- Optimize employer benefits such as Health Savings Accounts (HSA), matching contributions to retirement plans, stock options, etc.
- Maximize retirement savings and investments utilizing employer-provided qualified retirement plans, IRAs, self-employed retirement plans, tax-free accounts (Roth IRA), and taxable accounts (brokerage).

Strategic Tax Planning: Smart and informed tax decisions made now can help reduce your lifetime tax burden and identify opportunities for tax-advantaged strategies.

- Coordinate pre-tax and post-tax contributions to retirement plans.
- Manage capital gains and tax-loss harvesting.
- Project and identify lower tax-liability years for future withdrawals and Roth conversion opportunities.

Risk Management: During an individual's prime earning years it is vital to protect income and assets from potential negative life events such as a serious illness or accident, disability, pre-mature death, or even a civil lawsuit.

- Mitigate risks that could derail your retirement plan and other financial goals.
- Review health, life, disability, long-term care, and personal liability umbrella insurance needs.
- Review beneficiary designations for all banking and investment accounts to ensure your assets are passed per your wishes.

Debt Management: Current debt can impact your ability to save for retirement as well as qualify for and obtain competitive interest rates for new loans, such as a home mortgage.

- Develop a strategic debt payoff plan, such as paying off your mortgage before retirement.
- Consolidate and pay off unsecured debt.
- Manage student loan debt and identify opportunities to consolidate, refinance, and/or loan forgiveness programs.
- For rental properties, balance investment costs, to include mortgage debt and insurance coverage, with expected rental income.

To get a better idea of the breadth and detail of NovaPoint's financial planning process, check out this Sample Financial Plan for Pre-Retirees. At NovaPoint, our investment, wealth management, and tax experts can help advise you on your employer benefits, developing a retirement plan, managing debt, optimizing tax strategies, and planning for various financial goals.

Contact Us

Please reach out if we can help: Contact Us

Bacon, Corn & Avocado Salad with Lime Vinaigrette

Ingredients

6 slices of thick-cut bacon, chopped

3 ears of fresh corn (or 2 cups frozen, thawed)

1 large avocado, diced

1 cup cherry tomatoes, halved

1/4 cup red onion, thinly sliced

2 tablespoons chopped fresh cilantro (optional)

For the Lime Vinaigrette dressing

3 tablespoons olive oil

Juice of 1 lime

1 teaspoon honey or agave

Salt & black pepper to taste

Optional: pinch of chili flakes for heat

Instructions:

Cook the bacon in a skillet over medium heat until crispy. Transfer to a paper towel-lined plate.

Char the corn (optional but adds flavor): Add the corn kernels to the same pan (with a little bacon fat) and sauté for 2–3 minutes until lightly golden.

Make the dressing: In a small bowl or jar, whisk together olive oil, lime juice, honey, salt, pepper, and chili flakes if using.

Assemble the salad: In a large bowl, combine corn, avocado, tomatoes, red onion, cilantro, and cooked bacon. Drizzle with dressing and toss gently.

Serve chilled or at room temp. Goes great with grilled meats or as a standalone dish.

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.

Follow our Weekly Market Commentary

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