



## MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

### Let's Go!

For the fourth quarter, the S&P 500 Index was +2.7%, the Nasdaq 100 Index was +2.5%, and the Dow Jones Industrial Average was +4.0%.

The three top performing sectors during the quarter were Health Care, Communication Services, and Financials. The three bottom performing sectors were Real Estate, Utilities, and Consumer Staples.

The U.S. government shutdown caused a void in reporting of economic data for much of the quarter. The schedule of data releases has started to normalize. This past week we had the December Employment Situation Report released on time. There are some gaps in prior data, but government surveys and data are back on track.

Economic data, especially labor market and inflation data, are essential to the Federal Reserve setting monetary policy. As of the December 2025 Federal Open Market Committee (FOMC) meeting, Federal Reserve officials are anticipating 2026 economic growth (as measured by GDP) of 2.3%, an unemployment rate around 4.4%, inflation (as measured by the Personal Consumption Expenditures Index) of 2.4%, and core inflation (which excludes the impact of food and energy prices) of 2.5%. With this as a baseline, the FOMC sees a small 0.25% reduction in the Federal funds rate, probably around mid-year, to be an appropriate path for monetary policy. If economic growth or employment were to weaken substantially, they would likely consider additional easing of interest rates. If inflation accelerates, they would likely consider no change in policy or possibly even consider raising interest rates to combat the reemergence of inflation. This balance of maintaining

near full employment but also price stability is the core of the Fed's monetary policy and we are at a point where it could ease, remain consistent, or possibly even tighten. Time will tell as we move through the year.

Tariffs have all but disappeared from the headlines, but that could change in coming weeks. The Supreme Court is scheduled to rule on the legality of the Trump Administration implementation of tariffs as early as this week.

We are early in the year, but 2026 is a midterm election year, so political rhetoric is likely to rise steadily as we move through the year. In addition to employment and inflation, housing affordability is likely to be a major topic among voters. We saw the Trump Administration start to address this issue with the announcements of wanting to ban large corporations from buying single-family homes and wanting the government to buy \$200 billion dollars in mortgage bonds to lower mortgage rates. Additional commentary has been made about capping credit card interest rates.

The fourth quarter earnings reporting season is just getting underway. Quarterly earnings for the S&P 500 Index are expected to grow 8.3% year-over-year with revenue growth of 7.7%. Full-year 2025 earnings are expected to grow 12.4% with revenue growth of 7.0%.

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.

	<u>4Q25 Return</u>	<u>2025 Return</u>		<u>4Q25 Return</u>	<u>2025 Return</u>
S&P 500 Index	2.7%	17.9%	Aggregate Bond Index	1.0%	7.1%
Dow Jones Industrial Average	4.0%	14.9%	U.S. Dollar Index	0.6%	-9.4%
NASDAQ 100	2.5%	21.0%	WTI Crude Oil	-7.9%	-19.9%
Russell 2000 (Small Cap Index)	2.2%	12.8%	Gold	11.8%	64.4%
International Stocks (MSCI ex-US)	5.1%	33.1%	Real Estate (US REIT Index)	-1.5%	3.0%

Sources: S&P Global, FactSet





# ACCOUNTING & TAX

By Larry Dixon, EA

## How to Pay Yourself Correctly as a Small Business Owner

One of the biggest early questions for small business owners and independent contractors is how to pay themselves. Unlike traditional W-2 employees, owners don't automatically receive payroll, tax withholding, or benefits. Instead, compensation depends on your business structure and tax planning.

Here's a practical breakdown of how owner compensation works and how to choose the method that fits your situation.

### Start With Your Business Structure

Your legal and tax classification determines how you take money out of the business:

#### Sole Proprietors & Single-Member LLCs

How you pay yourself: Owner draws

Payroll: Not required

Tax treatment: Profits flow to your personal return

Self-employment tax: Applies to net profit

This is simple and flexible, but requires budgeting for taxes since no withholding occurs automatically.

#### S-Corporations (or LLCs Taxed as S-Corps)

How you pay yourself: W-2 salary + optional distributions

Payroll: Required for the owner

Self-employment tax: Applies to salary, not distributions

The IRS requires a reasonable salary based on your work. Paying only distributions to avoid payroll tax is a common audit trigger.

#### Partnerships

How you pay yourself: Guaranteed payments or profit distributions

Payroll: Not required for partners

Self-employment tax: Often applies to guaranteed payments

Partnerships offer flexibility, but agreements should clearly define how and when owners are compensated.

### Taxes Don't Go Away – They Just Shift

If you're not running payroll, you must manage quarterly estimated taxes, self-employment taxes, and state and possibly local taxes. Owners should pay close attention to estimated payments to avoid penalties and surprises.

### Reasonable Salary: What It Means

For S-Corp owners, salary must reflect the value of the services you provide. Factors include market pay for similar roles, hours and duties, experience or licensing, and the profitability of the business. This area remains one of the most scrutinized for small S-Corps.

### Use a Consistent Money System

Owners often run into problems because they have no structured approach to moving money. A clean system includes separate business and personal accounts, a regular draw or payroll schedule, a percent-based allocations for taxes, pay, and operations, and quarterly reviews to adjust as income changes. Consistency helps with budgeting, taxes, and financial clarity.

### Don't Forget Retirement

Employees get 401(k)s and matches, but owners must build their own retirement plan. Popular options include SEP IRA, Solo 401(k) (Traditional or Roth), SIMPLE IRA, and Defined Benefit Plans (for high earners). SECURE 2.0 expanded Roth options and catch-up contributions, creating more flexibility for self-employed savers.

### Bottom Line

There's no single correct way to pay yourself, but there is a correct method for your business structure. Small business owners and independent contractors benefit most from choosing the right business entity, paying themselves consistently, budgeting for taxes, and considering retirement planning early.

The right approach improves cash flow, reduces IRS risk, and sets the foundation for long-term financial health.

If you need help selecting a business structure, setting up payroll, business accounts, or a retirement plan, please let us know: [Contact Us](#)





# BUSINESS RETIREMENT PLANS

By ALAN J. CONNER



## Retirement Strategies for Independent Business Owners and Freelancers

More Americans are earning income outside of traditional employment. Freelancing, consulting, selling online, rideshare, and professional contracting are no longer fringe activities – they are becoming a meaningful part of household income. As we enter 2026, this shift creates both challenges and opportunities, especially when it comes to retirement planning.

One of the most powerful tools available to solo business owners with no full-time employees is the Solo 401(k). For freelancers, independent contractors, and single-member LLCs, it delivers a unique combination of high contribution limits, tax flexibility, and control.

### Solo 401(k)

A Solo 401(k), also known as an Individual 401(k), allows you to contribute to the plan in two separate roles: as the “employee” and as the “employer.” This structure is what makes it so compelling. For 2026, total potential contributions can reach into the mid-\$60,000+ range for eligible earners, depending on income and age. For someone with a growing independent business, these numbers can exceed what’s possible with traditional IRAs or even SEP IRAs in certain income scenarios.

Another advantage is flexibility with taxation. Contributions can be made pre-tax to reduce current taxable income or, if the plan allows, on a Roth basis to pursue tax-free growth in retirement. This choice can be especially useful as tax brackets potentially shift in 2026 with scheduled sunset provisions from prior tax law changes. Business owners who expect higher future tax rates may find the Roth option particularly attractive.

The Solo 401(k) also integrates well with the way many small businesses are structured. Whether the business is organized as a sole proprietorship, LLC, or S-Corp, the plan can be tailored to fit how profits are paid out. For S-Corp owners, for example, the balance between W-2 wages and distributions affects the maximum contribution and is worth thoughtful planning. For sole proprietors and single-member LLCs, net earnings from self-employment drive the numbers. A brief conversation can often deter-

mine the most efficient path.

One of the overlooked benefits is that Solo 401(k)s can support loans to the participant, which can be helpful in managing short-term financial needs without permanently liquidating retirement assets. Plans can also often be set up to accept rollovers from former employer retirement plans, helping consolidate multiple accounts under one roof.

### Already Employed Full-time?

For those already saving in a workplace retirement plan through a primary job, it’s important to note that a Solo 401(k) may still be possible. The key is coordinating total annual employee contributions across all plans. In many cases, the employer contribution portion of the Solo 401(k) remains available even if someone maxes out 401(k) deferrals at their W-2 job, making it a powerful layering strategy.

For business owners thinking strategically about taxes, retirement, and long-term wealth, the Solo 401(k) represents a sophisticated yet accessible tool. Early in the year is an ideal time to evaluate whether the plan makes sense for 2026, especially for individuals whose freelance business income has been steadily increasing.

The transition from freelance to building into a larger business can happen gradually, but the benefits of thinking like a business owner show up immediately – particularly in areas like retirement planning. The Solo 401(k) offers a way to take control, capture tax advantages, and build long-term financial strength on your own terms.

### Contact Us

If you have questions about your freelance or independent contractor business and if you can have a Solo 401(k) or other business retirement plan, please reach out if we can help: [Contact Us](#)





# FINANCIAL PLANNING

By MEGHAN HOOVER

## Start of the Year Planning

As many make new year's resolutions, making and updating your financial goals are just as important. Even more so, many financial goals are long-term and require many years of planning which requires updates and adjustments to your plan as life events occur and changes to income, employment, family, and property can occur annually.

**Life Events**—Have any of the following life events occurred in the last year or could likely occur this year? Examples: marriage, divorce, birth, illness or disability, death, moved, bought or sold a home, job change, or new educational pursuits. All these events can impact your financial situation and eligibility for tax credits and deductions.

Will you, your spouse, or any dependents reach a milestone age this year? Examples: child to adult age of majority (18-21), catch-up contributions to retirement accounts (50), penalty-free withdrawals from retirement accounts (59 ½), claim social security (62-70), Medicare enrollment (65), Qualified Charitable Distribution (QCD) age (70 ½), and required minimum distribution (RMD) age (73-75). Some of these milestones can provide significant opportunities to save more for retirement or can involve multi-month-long applications and enrollment periods; planning well in advance for these milestones ensures benefits are not delayed or lost.

**Cash Flows**—If there have been any material changes to your total income, now is a good time to review your budget and identify opportunities to save money on discretionary spending and/or increase your savings rate for retirement, education, large purchases, or other financial goals. It's also a good time to review any employer-provided benefits that are available to you and if you are taking full advantage of these benefits. Such benefits could include employer-matching contributions to retirement accounts, health savings account (HSA), flexible spending account (FSA) and if you have any unused funds from the prior year, and dependent care flexible spending accounts to name a few. Also, if you make annual gifts, it's important to track if your non-charitable gifts are within the annual gift exclusion amount to avoid gift taxes.

**Assets & Debt**—Conducting an annual credit report check is vital to identify any errors early and to rectify those as it can have long-term effects on your ability to obtain needed loans and possible employment opportunities.

It's advisable to take an annual review of your emergency fund and if funds need to be replenished and if your target goal has changed based on any changes to your fixed expenses and financial responsibilities.

If you plan to buy or sell personal, real estate, or business prop-

erty it takes time to gather necessary documentation and gather financial and/or other professional advice to ensure you are protected financially, legally, and have considered any other liabilities.

Reviewing your investment performance and strategy can ensure you stay on track for your retirement and other financial goals and are able to make necessary changes in time to make meaningful impact. Often people's risk capacity and tolerance can change over time and thus their investment strategy should properly reflect this.

**Taxation**—As year-end tax documents begin to be sent early in the year, now is a good time to ensure you know what documents you should be receiving and begin to organize them for a more efficient tax preparation process. If you have not already made an IRA or Roth IRA contribution for the prior year, you can still make those contributions up to April 15, 2026, and apply them to 2025 contributions.

**Insurance**—If you have made any improvements to property or acquired new valuables then you should review your property insurance to ensure you still have adequate coverage. Also, depending on changes to life events or income a life insurance review can be beneficial to ensure you are adequately covered for a premature death given your current financial situation. Lastly, it may be time to start considering long-term care (LTC) insurance and to review, adjust, or add disability insurance to ensure a portion of your wages could be reimbursed should an unexpected disability occur.

**Estate Planning & Legal Issues**—Starting or updating your estate plan allows you to rest assured that the division of your assets and your medical care wishes are in place should an unexpected health event or death occur. Reviewing the titling and ownership of assets as well as beneficiary forms can be an easy first step. It's important to remember that a current beneficiary form is its own legal contract and supersedes a will.

If any new laws have gone into effect that might impact your financial plan, then checking in with your financial adviser, tax preparer, or other related professional adviser is important to ensure you are aware of these impacts and your professional adviser is applying these changes to your plan. It's important to remember changes to laws can be at the federal, state, and municipal levels especially if you own a business.

To see a complete guide, please check out the [Start of Year Financial Checklist 2026](#).

### Contact Us

Please reach out if we can help: [Contact Us](#).



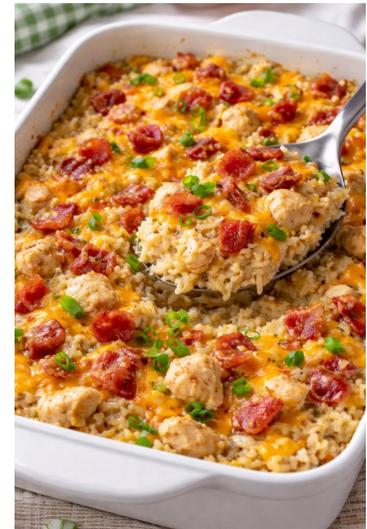
## Chicken Bacon Ranch Rice Bake

### Ingredients

1 1/2 lbs boneless chicken breast, cut into 1-inch squares  
6 slices bacon, cooked & chopped  
1 1/2 cups long-grain white rice, uncooked  
3 cups chicken broth  
1 packet (1 oz) ranch seasoning  
4 oz cream cheese, cut into cubes  
1 1/2 cups shredded cheddar cheese  
1/2 tsp black pepper

### Instructions:

1. Preheat oven to 375 degrees
2. Fill a 9x13 baking dish with uncooked rice, chicken broth, ranch seasoning, and pepper. Stir to combine.
3. Spread chicken pieces evenly over rice mixture. Dot the top with cream cheese cubes.
4. Cover with foil and bake 45 to 50 minutes, until rice is tender.
5. Remove foil and add bacon and cheddar cheese on top. Bake uncovered for 10 minutes until melted.
6. Rest 5 to 10 minutes before serving.



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## 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](#).

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## 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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