PRAETORIAN GUARD[SM]

QUARTERLY NEWSLETTER
1ST QUARTER 2025

CLICK ON THE ARTICLE YOU WOULD LIKE TO SEE

3775 Via Nona Marie, Suite 220 ▪ Carmel, California 93923 ▪ **P:** (831) 622-9600 ▪ **F:** (831) 622-9002 ▪ www.praetorianguard.biz

2024 MARKET REVIEW

By **Richard A. Hewitt, CFP®**

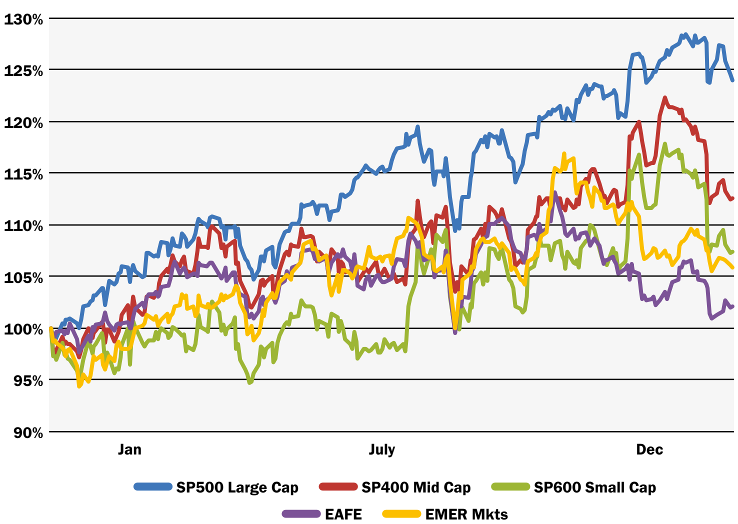
2024 saw a (relatively) rare historical event of two consecutive years with the S&P 500 gaining over 20% for the first time since the mid-1990s. We do not anticipate that this will continue at that rate for 2025 for the following reasons:

a. A significant portion of these gains were driven by the so called "Magnificent 7" consisting of Amazon, Tesla, Nvidia, Microsoft, Apple, Meta, and Alphabet (Google). These are great companies expanding into the Artificial Intelligence realm, but are due for some consolidation and regrouping.

b. We expect the breadth of market performance will widen. After large cap stocks' dominance the last few years, combined with a lighter regulatory hand out of Washington, mid caps and small caps will perform better than they have the last few quarters.

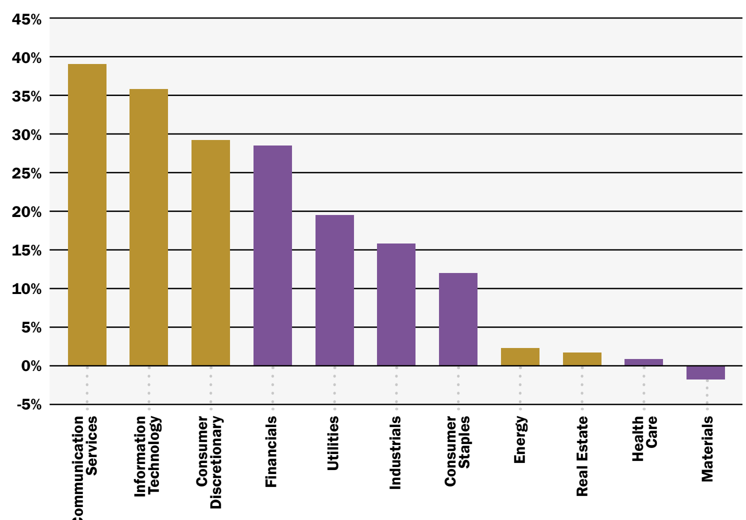
c. There are many economic unknowns in terms of the new Administration's ability to quickly pass into law its priorities of extending the 2017 tax cuts, dealing with the expiration of the debt ceiling sometime in March 2025, and in general, govern the House of Representatives. For these reasons we expect Q1 2025 extending into Q2 2025 to be more volatile than we saw in 2024.

2024 U.S. & International Equity Market Performance



Source: Yahoo! Finance & MSCI

2024 SP 500 Sectors Performance



Source: Yahoo! Finance & MSCI

Closing out 2024, the S&P 500 large caps returned 24%, S&P 400 mid caps returned 13%, and S&P 600 small caps returns 7%. International markets struggled in comparison with developed markets returning 2% and emerging markets 6%.

This chart shows the annual performance of the 11 sectors of the S&P 500. Gold indicates the sectors that Praetorian Guard is currently overweighting in our models. We allocated to Real Estate late in the year and believe 2025 will see commercial real estate (especially data centers, warehouses, and distribution centers) rebound.

So... time for some predictions: we will have a bumpy ride through Memorial Day and at that point we'll know if the Republicans, especially in the House, can govern collectively. They have two budget reconciliations this fiscal year, so if the bulk of the 2017 TCJA rates and changes (SALT cap, etc.) get passed into law for 7-10 more years, the second half of the year will be strong. We will end 2025 with the S&P 500 returning 7-9% and mid and small caps surpassing that at 10-12% each.

UNDERSTANDING THE BASICS OF MEDICARE

By **Joseph P. Clark, CFP®**

On July 30, 1965, President Lyndon B. Johnson signed into law legislation that established Medicare to help protect the health and well-being of millions of American families. Medicare has many moving parts so here are the three major components:

1. Part A (Hospital Insurance) helps cover inpatient care in hospitals, skilled nursing facility care, hospice care, and home health care.

2. Part B (Medical Insurance) helps cover services from doctors and other health care providers, outpatient care, home health care, durable medical equipment (like wheelchairs, walkers, hospital beds, and other equipment), and many preventive services (like screenings, shots or vaccines, and yearly wellness visits).

3. Part D (Drug Coverage) helps cover the cost of prescription drugs (including many recommended shots or vaccines).

Most people get Medicare parts A and B when first eligible at age 65, and each person must choose one of two ways to get their Medicare coverage:

1. Original Medicare: this includes Part A and Part B, and each person can elect to join a separate Medicare drug plan to get coverage under Part D. Original Medicare allows you to use any doctor or hospital that takes Medicare anywhere in the United States.

2. Medicare Advantage (also known as Part C): Medicare Advantage is a Medicare-approved plan from a private company that offers an alternative to Original Medicare for your health and drug coverage. These bundled plans include Part A, Part B, and usually Part D. In many cases, you can only use doctors who are in the plan's network (for non-emergency or non-urgent care) and there might be different out-of-pocket costs than Original Medicare. There might also be additional premiums, but plans may offer some extra benefits that Original Medicare does not.

premiums so work closely with your advisor to manage your adjusted gross income. Typically, your Part B premium is deducted from your monthly benefits from Social Security. If you've had a life-changing event that reduced your household income, you can ask Social Security to lower the premium you pay. There is a 10% increase in premium for each year you could have signed up for Part B and didn't, and that increase in premium never goes away (as long as you have Part B coverage). Therefore, it is critical that you enroll on time. Part B has an annual deductible of $257 before Original Medicare starts to pay, and you are responsible for 20% of each Medicare-covered service or item after you have paid your deductible. You can purchase a Medicare Supplemental Insurance (Medigap) policy from a private company to help pay your out-of-pocket costs associated with Original Medicare.

Monthly premiums for Part D vary based upon the plan you select, and the amount can change each year. Part D has a premium that could be higher based upon your adjusted gross income from two years earlier. For 2025, those thresholds are $106,000 for a single person and $212,000 for married filing jointly on your 2023 tax return. Part D has a penalty of 1% for each month that you could have signed up but didn't. That penalty is added to your monthly premium and remains a part of your premiums as long as you have Part D coverage.

The Medicare Advantage Plan (Part C) has monthly premiums, deductibles, and co-payments that can vary widely depending on what plan you join. Premiums for those plans can change from year to year, but once you reach your annual out-of-pocket limit, the plan pays 100% of covered health services for the rest of the year.

If your yearly income in 2023 (for what you pay in 2025) was			You pay each month (in 2025)
File individual tax return	File joint tax return	File married & separate tax return	
$106,000 or less	$212,000 or less	$106,000 or less	$185.00
above $106,000 up to $133,000	above $212,000 up to $266,000	Not applicable	$259.00
above $133,000 up to $167,000	above $266,000 up to $334,000	Not applicable	$370.00
above $167,000 and less than $200,000	above $334,000 up to $400,000	Not applicable	$480.90
above $200,000 and less than $500,000	above $400,000 and less than $334,000	above $106,000 and less than $394,000	$591.90
$500,000 or above	$750,000 or above	$394,000 or above	$628.90

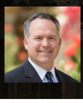
Under Original Medicare, you usually don't pay a monthly premium for Part A if you (or another qualifying person, like your current or former spouse) paid Medicare taxes while working for a certain amount of time (typically 10 years). If you don't qualify for a premium-free Part A, you might be able to purchase it with the premium based upon how long you or your spouse worked and paid Medicare taxes. Monthly premiums for 2025 for those purchased plans vary from $285 to $518. For 2025, there is a $1,676 Part A deductible for each hospital admission. After you pay your deductible, the remainder of days 1 through 60 are covered. For days 61 through 90, Medicare pays up to $419 per day in 2025. For days 91 through 150, Medicare pays up to $838 per day in 2025, but you must pay all costs beyond day 150.

As shown in the chart above, Part B under Original Medicare has a premium ranging from $185.00 to $628.90 in 2025 based upon the adjusted gross income from your 2023 tax return. How you distribute income from tax-deferred accounts can certainly impact your

Retired military members are eligible for TRICARE for Life (TFL), but Medicare is always the primary payer. When you use a Medicare-participating provider, they will file claims with Medicare first, and then Medicare will send the claim to TRICARE for processing any remaining costs. You do not need to pay an additional enrollment fee for TFL, but you must pay your Medicare Part A and Part B premiums to access TFL benefits. Generally, you'll have no out-of-pocket costs for services that both Medicare and TRICARE cover.

Healthcare is a critical part of your financial plan, and therefore Medicare premiums should be integrated into your retirement budget. Medicare is the second largest program in the federal budget with 2023 expenditure totaling $839 billion — representing 14% of total federal spending. Medicare will likely be a target of reform over the next decade because it is a major driver of long-term federal spending. It is projected to rise from 3.1% of gross domestic product (GDP) in fiscal year 2023 to 5.4% in fiscal year 2053 due to the retirement of the baby-boom generation and the rapid growth of per capita healthcare costs.

POLITICAL AND ECONOMIC COMMENTARY



By **Marc A. Wehmeyer, CFP®**

The second Trump administration will mark the first time since Grover Cleveland was inaugurated in 1893 that a U.S. president will serve in non-consecutive terms. The table below shows key economic data points when Trump was first elected in 2016 and on election day eight years later in 2024.

	2016	2024	Difference
Unemployment Rate	4.90%	4.10%	-0.80%
Inflation Rate	1.60%	2.40%	+0.80%
GDP Growth	2.90%	2.80%	-0.10%
Fed Funds Target Rate	0.50%	5.00%	+4.50%

Since election day, the final estimate of Q3 2024 GDP growth has increased from 2.8% to 3.1%, and the Federal Reserve cut the Fed Funds Target Rate by 0.25% two additional times from 5.0% to 4.50%.

The economy is arguably in better shape now than it was at the beginning of the first Trump administration. Unemployment is lower, GDP growth is solid, and the Federal Reserve has more flexibility to cut interest rates as needed in the future. Although inflation is higher, it is down substantially from its 9.1% peak in June 2022. Talking heads will debate how much of the current economic environment is because of Trump's policies in his first presidency or President Biden's policies over the last four years. The economic shock of the COVID-19 pandemic and subsequent recovery overlapped both administrations.

Looking ahead, the Federal Reserve indicated during its December 2024 meeting that it may only cut interest rates twice in 2025. The first Fed meeting of the new year is scheduled for January 28-29 and the most expected outcome is no change to interest rates. Forecasts of GDP growth for 2025 cluster around 2.0%. The first "Advance" estimate of Q4 2024 and Year 2024 GDP growth is scheduled for January 30th. Unemployment is expected to stay in the low fours and inflation is expected to stay in the low twos.

With Republicans controlling the Presidency, the Senate and the House, the 2017 Tax Cuts and Jobs Act enacted during the first Trump administration will likely be extended past 2025 in some form. Republicans will most likely use the budget reconciliation process to advance tax legislation since it would only require 51 votes in the Senate instead of 60 (to avoid a filibuster). The legislative progress for Republicans will be tested by the slim majority it holds in the House — 220 to 215 based on election results. Trade policy could be a central topic during the initial months of the new administration as pre-inauguration rhetoric is translated into policy. Any tariffs implemented could have a negative impact on inflation. More restrictive immigration policy could have a negative impact on labor supply, which would increase the price of labor (primarily unskilled), all other things being equal.

The S&P 500 increased 55.2% from election day 2016 to election day 2020; and 72.6% more from election day 2020 to election day 2024. We don't know where we will be on election day 2028, or the exact nature of the hiccups and obstacles along the way (geopolitical, domestic, or otherwise). We do know that long-term diversified exposure to the U.S. and global financial markets has historically been an effective way to grow your wealth faster than the rate of inflation. As we enter 2025, feel free to reach out to us if there are any aspects of your financial situation you would like to discuss in more detail.

PRESIDENT'S COMMENTARY

By **Richard A. Hewitt, CFP®**

The nation got through the election, our institutions demonstrated their resiliency, and we have one party control (and thus, responsibility for the next two years). We know who to hold accountable and that is a positive. Actually, THAT was the easy part — governing in the face of significant challenges both domestically and internationally will be the hard part. The federal budget has long been out of balance and we now annually spend more on interest to service the national debt than we do to fund the Department of Defense. The day of reckoning, while not here yet, is approaching and the longer we wait, the less room we will have to maneuver. The budget math is going to force America to ask, and answer, the following question: Are we willing to pay for the amount of government we demand OR are we willing to accept the amount of government we are willing to pay for?

The gap between those two answers is about two trillion dollars annually. The Congress and the President will have little choice but to apply the Willie Sutton principle — go where the money is: the Pentagon, Social Security, and Medicare. It would help if both parties were honest about the situation in which we have put ourselves.

WINDOW OF OPPORTUNITY FOR ROTH CONVERSIONS

By **Drew W. Nelson, CFP®**

All of us at Praetorian Guard are big fans of Roth dollars due to their myriad of future tax and inheritance benefits. For those unfamiliar, "Roth dollars" are after-tax dollars put into retirement accounts that grow tax-free and can be withdrawn tax-free in retirement (provided the account owner is age 59 ½ and the account has been funded for at least 5 calendar years). However, contributing to a Roth account is not the only way to save Roth dollars. We can take advantage of "Roth conversions" by taking dollars in a pre-tax retirement account and converting them to an after-tax Roth account, paying ordinary income taxes now on the converted amount.

This strategy works if the total taxes paid on the conversions plus eventual withdrawal taxes are less than just the withdrawal taxes. With the most recent election outcome providing some clarification on the future of tax rates and the startling fact that the United States is over $36 trillion in debt, we are firm believers that current income tax rates will be higher in the future. In our view, the next four years may provide a golden window of opportunity to take advantage of this and complete strategic Roth conversions.

THE FUTURE OF THE TCJA LEGISLATION

The Tax Cuts and Jobs Act (TCJA) of 2017 was signed into law by President Trump and it generally lowered the taxable income brackets for U.S. households. It was an eight-year legislation due to sunset on December 31, 2025 pending further action by Congress. President Trump's re-election makes it now more likely that this legislation gets extended or reworked with even lower rates, as he has promised. This would create a prized opportunity for more people to convert their pre-tax retirement dollars to Roth dollars at lower rates.

Even with these lower rates, a key component of the conversion strategy is to pay the taxes with outside funds, and not from the conversion itself — ensuring the full conversion amount enjoys all the compound growth in the Roth account.

IS A ROTH CONVERSION RIGHT FOR ME?

One way to think about future tax liabilities in pre-tax accounts like 401(k)s, 403(b)s and IRAs is they are essentially just ticking tax bombs that compound over many years. The kicker is Congress doesn't say what tax rate will be applied to the pre-tax funds when they are withdrawn in retirement.

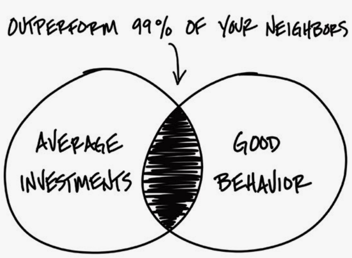
> ALL OF US AT PRAETORIAN GUARD ARE BIG FANS OF ROTH DOLLARS DUE TO THEIR MYRIAD OF FUTURE TAX AND INHERITANCE BENEFITS.

Converting these dollars to a Roth account today eliminates the tax unknowns while also providing a far superior inheritance asset. Because Roth accounts have already been taxed, future heirs will not incur taxes on withdrawals, which could be a major advantage if they are in their peak earning years.

However, the Roth Conversion strategy is not a "one-size fits all" solution. If your situation falls into one of the categories below, please reach out to us to discuss if a Roth Conversion strategy may benefit you:

- Large pre-tax account and approaching retirement (< 2 years)
- Currently in a low-income year
- Currently have cash available to "fill up" your tax bracket to pay the tax
- Anticipate that your retirement tax bracket will be higher than it is currently
- Desire to create a superior inheritance asset

OUTPERFORM 99% OF YOUR NEIGHBORS



© Behavior Gap

CLOSING THOUGHT

"I'd kill for a Nobel Peace Prize."

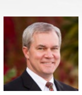
— Steven Wright

PRAETORIAN GUARD

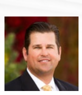
A division of Praetorian Wealth Management, Inc.

3775 Via Nona Marie, Suite 220 ▪ Carmel, California 93923 ▪ **P:** (831) 622-9600 ▪ **F:** (831) 622-9002 ▪ www.praetorianguard.biz

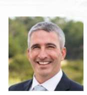
Investment Professionals



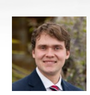
Richard A. Hewitt, CFP®
President
rhewitt@praetorianguard.biz



Jerry M. Ledzinski II
Managing Director
jmledzinski@praetorianguard.biz

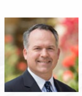


Evan R. Davies, CFP®
Wealth Manager
edavies@praetorianguard.biz

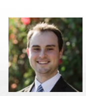


Jack R. Sendell
Analyst
jsendell@praetorianguard.biz

Joseph P. Clark, CFP®
Senior Wealth Manager
jclark@praetorianguard.biz



Marc A. Wehmeyer, CFP®
Senior Wealth Manager
mwehmeyer@praetorianguard.biz



Drew W. Nelson, CFP®
Associate Financial Planner
dnelson@praetorianguard.biz