LENOX ADVISORS, INC

WEALTH MANAGEMENT ADVISOR

Q3 2025

LENOX ADVISORS, A LEADER IN WEALTH & RETIREMENT AT NFP.

Worst-case scenario

How to stress test your investment portfolio

A well-structured and monitored investment portfolio can help you reach your financial goals. But even diversified portfolios can be vulnerable to significant losses under extreme market and other conditions. Stress testing a portfolio helps identify risks *before* a crisis occurs.

IDENTIFY THREATS

First, consider potential threats that could significantly impact your portfolio. A major market downturn, such as a 30% drop in equities, could cause big losses if you sell at that point and test your portfolio's stability. Rising interest rates can devalue bonds and real estate investments. Inflation spikes can make "cash" or money-market positions a liability because these investments generally produce low yields that don't keep up with rising costs.

Liquidity crises, where assets become difficult to sell at reasonable prices, pose another challenge, particularly with micro-cap stocks, high-yield bonds and derivatives. Sector-specific risks — such as regulatory changes, technological disruptions or geopolitical developments — can also create unexpected volatility. Disasters, including natural disasters and terrorism, can also lead to sector-based and general-market disturbances. By modeling such scenarios, you can understand how your portfolio might perform under adverse conditions.

EVALUATE POTENTIAL PERFORMANCE

Although historical investment returns don't necessarily dictate future performance, you can learn a lot by researching how specific events have historically affected the types of investments you hold. For example, you might consider how your current holdings would have performed during the 2008 financial crisis or the initial COVID-19 pandemic lockdown in 2020. In addition, note how they might have recovered after those periods.

Also examine your portfolio's:

Diversification. This is a key risk-management strategy, but it doesn't always hold up under extreme stress. Assets that appear uncorrelated in normal conditions can move together during market stress. Ensuring a mix of assets that maintain independence under pressure can help reduce downside risk.

Liquidity and flexibility. Assess how quickly you can exit positions without significant losses. Portfolios with highly illiquid assets may struggle in a crisis, so maintaining adequate cash reserves or defensive assets is crucial.

If your stress test reveals excessive risk, consider rebalancing your portfolio.

Reducing leverage, increasing liquidity, adding alternative investments like private equity or commodities, or implementing hedging strategies can all strengthen your financial position.

PREPARE, DON'T PREDICT

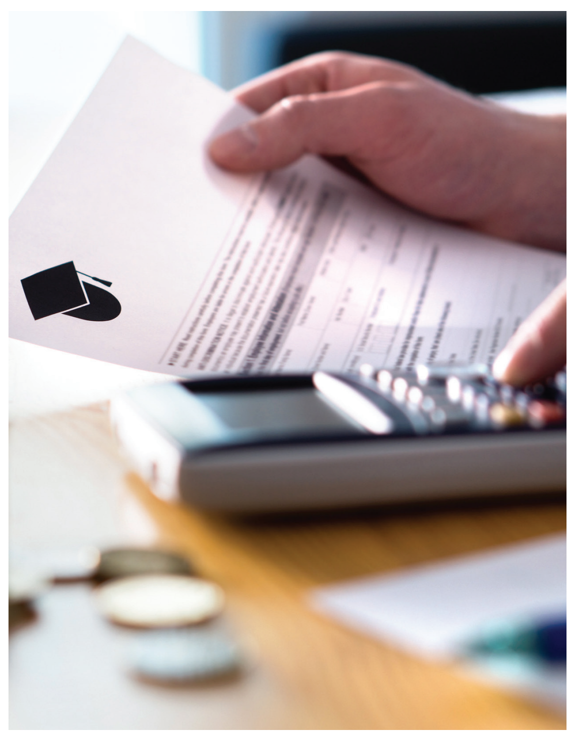
Stress testing isn't about predicting downturns. It's about preparing for them. By ferreting out weaknesses, you can make strategic adjustments that help fortify your portfolio. Contact us for help. We may be able to help gauge the resilience of your current portfolio.

Shopping for colleges? Do your research to avoid sticker shock

People in the market for a new car usually don't spend a lot of time in a Bentley showroom if they're on a Subaru budget. But all too often, parents start touring colleges with their college-bound children without knowing whether they can actually afford them. To avoid disappointment, not to mention wasted trips, it's a good idea to first research the cost of different institutions. Calculating a few key metrics can help you get a good idea of the cost long before you see a financial aid offer.

NEW METRIC FOR DETERMINING AID ELIGIBILITY

Most families don't pay a college's "sticker price" — the total cost of attendance (tuition, fees, room and board) before subtracting any financial aid provided by the college or federal government. To understand what you might actually be responsible for, determine your Student Aid Index (SAI). This is the number generated when you complete and submit the Free Application for Federal Student Aid (FAFSA) form. The FAFSA estimates your family's need for financial aid based on the student's and parents' income, assets, tax returns and other information submitted with the form.



Note: You don't necessarily have to complete the FAFSA form to determine your family's SAI. The Federal Student Aid Estimator (https://studentaid.gov/aid-estimator/) allows you to obtain a preliminary calculation.

The number generated by the FAFSA used to be called the Expected Family Contribution (EFC), but the terminology was changed as part of a recent FAFSA overhaul. One reason for the change was that the term EFC caused confusion. Many applicants mistakenly believed their out-of-pocket costs wouldn't exceed the EFC. In fact, the EFC was only an estimate. Not all colleges can meet every student's demonstrated financial need. Plus, the EFC doesn't reflect the reality that many financial aid packages include student loans that must be repaid with interest.

The switch in terminology from EFC to SAI doesn't necessarily change a student's eligibility for financial aid. Rather, it's designed to better determine a student's relative financial need compared with that of other students. The lower a student's SAI, the higher the financial need and the greater the likelihood the student will need financial aid.

SHOULD HIGH-INCOME FAMILIES COMPLETE THE FAFSA?

Affluent families often wonder whether they should bother submitting the FAFSA form. If their income or assets make them ineligible for need-based financial aid, what's the point? Actually, there are several good reasons for filling out the form regardless of your net worth. For example:

- Many schools require the FAFSA to be considered for academic scholarships, performance-based scholarships (such as music, theater, athletics) or other merit-based aid.
- The FAFSA may be required for certain state or institutional aid not dependent on income level.
- If you're considering student loans, the FAFSA is necessary to determine your eligibility for federal subsidized and unsubsidized loans, which may have better terms than loans available elsewhere.
- In the event your family's financial circumstances change, having a FAFSA on file makes it easier for your student to apply for aid to stay in school.

BENEFITS OF USING NET PRICE

For a better understanding of college affordability, also determine the net prices of the colleges that interest your student. Nearly every college in the United States offers a net price calculator on its website. Like the FAFSA, net price calculators require you to answer questions about your family's income and assets. But these calculators offer a more accurate picture of a college's cost than the SAI because they reflect each college's specific financial aid policies.

Most net price calculators focus on need-based aid, but some will also estimate merit-based grants and scholarships that a student might qualify for. How can you tell which net price calculators provide information about merit-based financial aid? Easy: Just look for questions about the student's GPA, test scores or class rank.

Of course, calculating net prices college-by-college can be difficult and time-consuming. However, there are paid software solutions that can automate the process. These services can be expensive, but they allow you to enter your financial and other information once to obtain your SAI and determine the net prices of all of the colleges you're interested in. Some even allow you to search for colleges based on the maximum amount you're willing to pay.

MAKE INFORMED DECISIONS

Most colleges use FAFSA data to make decisions regarding governmental and institutional financial aid. Institutional aid may include grants and merit-based scholarships. In addition, around 200 private, mostly elite colleges use the College Scholarship Service (CSS) Profile to make decisions regarding institutional aid. The CSS Profile may paint a different picture of financial need than the FAFSA. That's because it looks at additional financial information that the FAFSA doesn't consider.

You won't really know how much college will cost until your student starts hearing about admissions and financial aid offers. If you're still not sure how you'll fund college, contact us for advice. We can help evaluate aid packages and review your financial resources.

Catching up with RMDs

Even if you aren't yet in your 70s, or even retired, you've likely heard of required minimum distributions (RMDs). At a certain point, you'll be required to take RMDs — annual withdrawals of specified amounts from your IRA, 401(k), SEP or SIMPLE plans. The timing for taking RMDs has changed since the SECURE 2.0 Act became law in 2020. That law enables retirement account holders to invest their funds for longer (and potentially earn more) and even reduces penalties for noncompliance. Let's take a look.

THEN AND NOW

Before recent legislation, you had to begin taking RMDs by April 1 of the year following the year in which you turned age 70½. Starting in 2020, the initial Setting Every Community Up for Retirement Enhancement (SECURE Act) changed the threshold to age 72.

SECURE 2.0 went one step further. Beginning in 2023, the threshold increased to age 73, giving account holders the ability to defer their first withdrawal until April 1 of the following year. However, if you decide to defer your first RMD, you'll need to take two RMDs the following year. So if you turned age 73 in 2024 and waited to take your first RMD until March 2025, you'll still need to take another RMD by December 31, 2025. You must take RMDs regardless of whether you've retired from work.

The amount of an RMD depends on the value of the account at the end of the prior tax year. Therefore, your RMDs for the 2025 tax year are based on the amounts in your accounts on December 31, 2024, even though the calculation is based on your age at the end of the current year. Whether an account's value has increased or declined since then doesn't affect the RMD amount. If you own more than one qualified account, you must calculate the appropriate RMD for each one. The total amount for all noninherited IRA, SEP and SIMPLE accounts can be taken from one or more of them so long as you withdraw the full combined amount.

If you're the owner of at least 5% of the business sponsoring your retirement plan, special rules apply. Discuss them with your financial advisor.

PENALTIES AREN'T AS STRINGENT

What happens if you fail to take RMDs in a timely fashion? The IRS may impose a hefty penalty. But SECURE 2.0 provides some relief here, too.

Under earlier laws, the noncompliance penalty was equal to a staggering 50% of the RMD amount — the difference between the required withdrawal and the amount actually withdrawn. For example, if you failed to take a $10,000 RMD on time, the penalty was $5,000 (on top of any regular income tax).

Now, the penalty is equal to 25% of the difference. And the IRS can reduce it to 10% if you correct your error within two years. It's also important to note that Roth IRA and Roth 401(k) accounts aren't subject to RMDs or RMD-related tax penalties.

ELIGIBILITY RULES CHANGE AGAIN

Although the eligibility age for taking RMDs just changed, the threshold shifts again in 2033, when retirees won't need to take initial RMDs until they turn age 75. This will affect people currently in their mid-60s. If that's you, start planning now by discussing retirement income strategies with your tax and financial advisors.

5 tax-smart charitable giving strategies

Whether you have a grand passion for philanthropy or simply want to support a few carefully chosen charities, strategic giving can yield both social impact and tax benefits for higher-net-worth individuals. Thoughtful planning enables donors to maximize their charitable contributions while reducing tax liabilities and preserving wealth. Here are five methods to consider:

1. Donate appreciated securities. Donating stocks, bonds, mutual funds or ETFs that have significantly increased in value is one of the best ways to support a cause and reduce taxes. If you contribute such assets directly to a qualified charity (rather than selling them first and donating the cash proceeds), you can sidestep capital gains tax liability. This means the charity can enjoy the full value of the donation and you can deduct the security's full value on your income tax return without paying capital gains tax, subject to IRS limitations.

2. Make a qualified charitable distribution (QCD). If you're age 70½ or older, you can donate a QCD of up to $100,000 per year from your IRA to a qualified charity. Such distributions aren't taxable and they satisfy required minimum distribution (RMD) rules. This makes QCDs particularly useful for individuals who'll be at least age 73 this year and must take RMDs but don't currently need all the income from their retirement plans. Such QCDs can help you reduce taxable income and the size of your taxable estate, among other tax benefits.

3. Establish a trust. Talk to your estate planning advisors about setting up a charitable remainder trust (CRT). With a CRT, you transfer assets to the trust but retain an income stream to benefit yourself or designated beneficiaries for a set term. At the end of the trust's term, the remaining assets pass to your chosen charities. You can qualify for an immediate charitable deduction for the present value of your CRT's remainder interest, defer capital gains taxes on contributed appreciated assets and benefit from the current income stream.

Another potential option is using a charitable lead trust (CLT). This tool can provide income from trust assets to a charity for a specified time period. After that period expires, the remaining assets are transferred to designated beneficiaries, such as your family members. Because you remove assets from your estate to fund a CLT, this strategy can significantly reduce gift and estate taxes, as well as income tax.

4. Set up a donor-advised fund (DAF). These structured giving vehicles offer a relatively low-cost and flexible way to support charity. In general, you can contribute assets to a DAF, receive an immediate tax deduction and distribute charitable grants over time. DAFs are particularly useful for those who seek to start a family tradition of giving or signal their philanthropic intentions without expending the money and time to set up a private foundation.

5. Bunch charitable contributions. The Tax Cuts and Jobs Act increased the standard deduction, reducing the number of taxpayers who itemize federal income tax deductions — and who can, therefore, deduct charitable contributions. However, if this is your situation, you might think about "bunching" charitable contributions — or deducting multiple years' worth of donations that, when totaled, exceed the standard deduction in a single tax year. Using this strategy, you could itemize deductions one year and take the standard deduction in other years. Just note that Congress currently is considering various tax bills that might change the applicability of this strategy.

Other methods of supporting charities while minimizing tax liability may be available, depending on your goals and circumstances. For example, it might make sense for you to include a charitable bequest in your will or designate a charity as the beneficiary of a life insurance policy or retirement fund account. Or you might be in a position to set up a private foundation that would allow you to realize far-reaching charitable objectives. Be sure to discuss the various possibilities with your financial advisors.