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James Sadrianna PA - July 2025 Newsletter

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Tax and Spending Bill Signed into Law

President Trump signed into law the One Big Beautiful Bill Act (OBBBA) on July 4, 2025, after months of deliberation in the House and Senate. The legislation includes multiple tax provisions that will guide individuals, business owners, and investors in planning their finances for many years to come. It makes permanent most of the 2017 Tax Cuts and Jobs Act (TCJA) tax provisions that were set to expire this year, while delivering some new deductions and changes.

Expiring provisions that are now permanent

Tax brackets	The TCJA reduced the applicable tax rates for most brackets for the years 2018 through 2025, while increasing the income range covered by each bracket. The new legislation makes the TCJA rates and structure permanent. Individual marginal income tax brackets will remain at 10%, 12%, 22%, 24%, 32%, 35%, and 37%.
Standard deduction	The new legislation makes permanent the larger standard deduction amounts established by TCJA, with an additional increase. For 2025, standard deduction amounts are: • $31,500 for married filing jointly • $23,625 for head of household • $15,750 for single and married filing separately
Personal exemptions	The deduction for personal exemptions ($4,050 per exemption in 2017, the last year it was available) is now permanently eliminated.
Child tax credit	Prior temporary increases to the child tax credit, the refundable portion of the credit, and income phase-out ranges are made permanent. The child tax credit is increased to $2,200 for each qualifying child starting in 2025.
Mortgage interest deduction	The $750,000 ($375,000 for married filing separately) limit on qualifying mortgage debt for purposes of the mortgage interest deduction is made permanent. Interest on home equity indebtedness is now permanently nondeductible. A previously expired provision allowing for the deduction of mortgage insurance premiums as interest is reinstated and made permanent (subject to income limitations), beginning in 2026.
Estate and gift tax exemption	The larger estate and gift tax exemption amount (essentially doubled) implemented by the TCJA is made permanent, increased to $15 million in 2026 ($30 million for married couples), and will be indexed for inflation in subsequent years.
Alternative minimum tax (AMT)	The significantly increased AMT exemption amounts and exemption income phase-out thresholds implemented by TCJA are made permanent.
Itemized deduction limit	The overall limit on itemized deductions (the "Pease limitation"), previously suspended for 2018–2025, is now permanently replaced with a percentage reduction that applies to individuals in the highest tax bracket (37%) that effectively caps the value of each dollar of itemized deductions at $0.35.
Qualified business income deduction (Section 199A)	The new legislation permanently extends the deduction for qualified business income created by the TCJA and increases the phase-in thresholds for the deduction limit. A new minimum deduction of $400 is now available for certain individuals with at least $1,000 in qualified business income.

Existing provisions with material changes

The One Big Beautiful Bill Act also makes some significant changes to other provisions, some temporary but others permanent. Two of the changes that received significant coverage leading up to passage and enactment include a temporary increase in the limit on allowable state and local tax (SALT) deductions and the rollback of existing energy tax incentives.

State and local sales tax (SALT) deduction

The new legislation temporarily increases the cap on the state and local sales tax deduction from $10,000 to $40,000. This increased cap is retroactively effective for 2025. The $40,000 cap will increase to $40,400 in 2026 and by 1% for each of the following three years.

The cap is reduced for those with modified adjusted gross incomes exceeding $500,000 (tax year 2025, adjusted for inflation in subsequent years), but the limit is never reduced below $10,000.

In 2030, the cap will return to $10,000.

Repeal and phase-out of clean energy credits

The new legislation significantly rolls back energy-related tax incentives. Provisions include:

- The Clean Vehicle Credit (IRC Section 30D), the Previously Owned Clean Vehicle Credit (IRC Section 25E), and the Qualified Commercial Clean Vehicles Credit (IRC Section 45W) are eliminated effective for vehicles acquired after September 30, 2025.
- The Energy Efficient Home Improvement Credit (IRC Section 25C) and the Residential Clean Energy Credit (IRC Section 25D) are repealed for property placed in service after December 31, 2025.
- The New Energy Efficient Home Credit (IRC Section 45L) will expire on June 30, 2026; the credit cannot be claimed for homes acquired after that date.
- The Alternative Fuel Vehicle Refueling Property Credit (IRC Section 30C) will not be available for property placed in service after June 30, 2026.

Gambling losses

The new law changes the treatment of gambling losses, effective as of 2026. Before the legislation, individuals could deduct 100% of their gambling losses against winnings (the deduction could never exceed the amount of gambling winnings); now, a new cap limits deductions to 90%.

Bonus depreciation and Section 179 expensing

Prior to this legislation, the additional first-year "bonus" depreciation was being phased out, with the maximum deduction dropping to 40% by 2025. The new legislation permanently establishes a 100% additional first-year depreciation deduction for qualifying property, allowing businesses to deduct the full cost of such property immediately. The 100% additional first-year depreciation deduction is available for property acquired after January 19, 2025.

Effective for property placed in service in 2025, the legislation also increases the limit for expensing under IRC Section 179 from $1 million (indexed for inflation) to $2.5 million, and it increases the phase-out threshold from $2.5 million (indexed for inflation) to $4 million.

New provisions

The One Big Beautiful Bill Act also contains multiple new tax deductions that are intended to represent a step toward fulfilling campaign promises made to end taxes on Social Security, tips, and overtime. These new deductions are temporary, but other changes, like allowing individuals who do not itemize deductions to deduct some amount of qualifying charitable contributions, are permanent.

Deduction for seniors

Effective for tax years 2025–2028, the legislation creates a new $6,000 deduction for qualifying individuals who reach the age of 65 during the year. The deduction begins to phase out when modified adjusted gross income exceeds $75,000 ($150,000 for married filing jointly).

Tip income deduction ("no tax on tips")

Effective for tax years 2025–2028, for the first time, tip-based workers can deduct a portion of their cash tips for federal income tax purposes. Individuals who receive qualified cash tips in occupations that customarily received tips prior to January 1, 2025, may exclude up to $25,000 in reported tip income from their federal taxable income. A married couple filing a joint return may each deduct up to $25,000. The deduction phases out at a modified adjusted gross income of $150,000 for single filers and $300,000 for joint filers. This provision applies to a broad range of service occupations, including restaurant staff, hairstylists, and hospitality workers.

Overtime deduction ("no tax on overtime")

A new temporary deduction of up to $12,500 ($25,000 if married filing jointly) is established for qualified overtime compensation. The deduction is phased out for individuals with a modified adjusted gross income of over $150,000 ($300,000 if married filing jointly). The deduction is reduced by $100 for each $1,000 of modified adjusted gross income exceeding the threshold. To claim the deduction, a Social Security number must be provided. The deduction is available for tax years 2025–2028.

Investment accounts for children ("Trump accounts")

A new tax-deferred account for children under the age of 18 is created, effective January 1, 2026. With limited exceptions, up to $5,000 in total can be contributed to an account annually (the $5,000 amount is indexed for inflation). Parents, relatives, and employers, as well as certain taxable, nonprofit, and government organizations, may make contributions. Contributions are not tax-deductible. For children born between 2025 and 2028, the federal government will contribute $1,000 per child into eligible accounts. Distributions generally cannot be made from the account prior to the account holder reaching the age of 18, and there are restrictions, limitations, and tax consequences that govern how and when account funds can be used. To have an account, a child must be a U.S. citizen and have a Social Security number.

Charitable deduction for non-itemizers

The legislation reinstates a tax provision that was previously effective for tax year 2021. A deduction for qualifying charitable contributions is now permanently established for individuals who do not itemize deductions. The deduction is capped at $1,000 ($2,000 for married filing jointly). Contributions must be made in cash to a public charity and meet other specific requirements. This deduction is available starting in tax year 2026.

Car loan interest deduction ("no tax on car loan interest")

For tax years 2025–2028, interest paid on car loans is now deductible for certain buyers. Beginning in 2025, taxpayers who purchase qualifying new vehicles assembled in the United States for personal use may deduct up to $10,000 in loan interest annually. The deduction is phased out at higher incomes, starting at a modified adjusted gross income of $100,000 (single filers) or $200,000 (joint filers).

There's more …

The One Big Beautiful Bill Act includes broad and sweeping changes that will have a profound impact. While income and estate tax provisions are highlighted here, the legislation also makes fundamental changes impacting areas such as health care, immigration, and border security. There are also additional tax changes made by the legislation that are not mentioned in this summary. Additional information and details will be available in the coming weeks and months. As always, if you have questions about how these changes affect your specific situation, consider consulting a tax professional.

Many Americans have become accustomed to shopping for low-value goods such as clothing and housewares without considering where their purchases are shipped from or the prospect of duties.

Surprises May Be in Store for Online Shoppers in the Tariff Era

On April 2, 2025, President Trump issued an executive order eliminating the *de minimis* exemption for low-value imports from China, which previously allowed U.S. consumers to buy goods worth up to $800 directly from online marketplaces based outside of the United States without paying duties. Since the order took effect on May 2, some U.S. shoppers have been surprised by notices from shipping carriers requesting duties that in some cases surpassed the value of the items that were ordered.[1]

A tariff is a tax on imported goods that the Trump administration has imposed to help protect domestic industries from foreign competition, raise revenue, and use as a bargaining chip in trade negotiations. The term "duty" refers more broadly to multiple types of fees that must be paid by importers when goods are shipped across borders. Depending on the type of product and where it originated, this amount might include tariffs, customs brokerage fees, excise taxes, and/or other miscellaneous charges.

U.S. lawmakers raised the de minimis exemption from $200 to $800 in 2015. As a result, many Americans have become accustomed to shopping for low-value goods such as clothing and housewares without considering where their purchases are shipped from or the prospect of duties. Many other countries, including members of the European Union and Canada, have lower thresholds, so the consumers who live there may already expect to pay duties when goods are ordered from e-commerce sites outside of their home country.[2]

Critics of the de minimis exemption believe that it disadvantages U.S. manufacturers and retailers and creates a loophole for dangerous and illegal products such as fentanyl and counterfeit luxury goods to enter the United States with less scrutiny.[3]

Tax rates in flux

Effective May 14, goods valued at $800 or less that are shipped through the U.S. Postal Service to the United States from China or Hong Kong are subject to a tariff rate of 54% of their value or an optional flat rate of $100 per package. Chinese goods shipped by commercial carriers are assessed the default 30% tariff rate, even for low-value packages.[4]

Back in early May, the tariff on low-value Chinese goods sent through international mail was a punishing 120%, and the default tariff rate that applied to commercial carriers was even higher (145%), until a round of positive trade negotiations resulted in the de-escalation of tensions between the two nations.

While President Trump's executive order only applies to goods from China, it appears to be just a first step toward ending duty-free de minimis privileges entirely. In fact, a provision in the Big Beautiful Bill passed by Congress and signed by the president on July 4 eliminates de minimis entries *from all countries* beginning July 1, 2027.[5] As a result, shopping internationally could get even trickier, especially if Trump's threatened reciprocal tariffs, which vary by specific trade partner, are still in the picture.

On May 28, the U.S. Court of International Trade ruled that President Trump had exceeded his authority under the International Emergency Economic Powers Act (IEEPA) when he imposed broad tariffs on goods from nearly every country, including China. This decision likely extended to the status of the de minimis exemption, but the case was appealed to a higher court that granted a temporary stay, so for the time being the president's IEEPA tariffs and related trade policies remain in effect.[6] Regardless of the outcome for tariffs, the fate of the de minimis exemption itself probably won't be decided in the courts now that Congress has passed a law that settles the issue.

Shopping online? Take a closer look before you click

When you shop on a U.S.-based e-commerce site, whether it's a small business or a behemoth like Amazon, the duties on imported Chinese goods have already been paid and are likely to be reflected in the item's price. Some portion of the tariffs paid by the retailers is typically passed along to consumers, so the potential for higher prices across the board — especially for big-ticket purchases such as cars, electronics, and appliances — might be one of your top concerns.

It's also worth considering that you could unknowingly trigger exorbitant duties for relatively inexpensive online purchases if you respond to a targeted ad or come across a product offered by an unfamiliar online marketplace. One complicating factor is that the duties apply to goods that originate in China, even if they are sold online and shipped to the United States by a company based in a different country (like Canada or the United Kingdom). Before placing an order, check the website or ask customer service where the product ships from. If the order won't be fulfilled in the United States, go a step further to determine where the product was made (the country of origin).

When U.S. duties apply to an item in your online shopping cart, the best you can hope for is transparency from the seller, so you can make an informed decision before completing the sale. You might see a reference to **delivered duty paid (DDP)** shipping, which typically means the duties will be included in your charges during the checkout process and paid by the shipper. **Delivered duty unpaid (DDU) or tax unpaid** shipping means you should expect to receive a bill from the carrier.

If you are caught off guard by duties for an online order, you could choose to pay the duty or refuse the package. Keep in mind that depending on the company's return policies, you might be charged for return shipping or may not receive any refund at all. Unexpected duties may become less frequent in time as international sellers and carriers refine their policies and procedures in response to shifting trade rules. But unfortunately for consumers, the higher costs that tend to follow the imposition of steep tariffs might be here to stay.

1) *The New York Times,* June 12, 2025

2) *New York Magazine,* April 24, 2025

3) *The New York Times,* May 1, 2025

4) *Time Magazine,* May 14, 2025

5) *The Wall Street Journal,* July 2, 2025

6) *The Wall Street Journal,* June 11, 2025

A market downturn may be an appropriate time to consider a Roth conversion.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

IRA Strategies During Uncertain Markets

Recent tariff-related market gyrations caught the attention of many wary investors, including IRA owners. Although markets (and the tariff situation) have stabilized a bit, the outlook remains uncertain. For this reason, you may want to keep two key points in mind: First, market dips create opportunities for Roth IRA conversions, and second, the timing of a required minimum distribution (RMD) could benefit from additional scrutiny this year.

Why consider a Roth conversion?

Under current legislation, qualified Roth distributions are tax-free. A Roth distribution is generally considered qualified if you have held the account for at least five years, and you are age 59½ or older, become permanently disabled, or die.

Although anyone can contribute to a traditional IRA, the ability to contribute to a Roth IRA is limited by an investor's modified adjusted gross income (MAGI). If you are single and have a MAGI of $165,000 or more, or married, filing jointly, with a MAGI of $246,000 or more, you cannot contribute to a Roth IRA. Since there are no income limits on conversions, if your income exceeds these thresholds, you might consider converting traditional IRA assets to a Roth instead.[1]

The challenge is that converted assets are subject to federal income tax in the year of conversion and may also be subject to state taxes. Depending on the value of your account at the time of conversion, this could result in a substantial tax bill and may even bump you into a higher tax bracket. This is why, if you've been thinking about converting your traditional IRA to a Roth, a market downturn could be a prudent time to do so — a lower converted account value means a lower tax obligation. (You might want to talk to a tax professional about "filling your bracket," a strategy in which you convert as much as possible without breaching the next bracket.)

Other reasons to consider converting:

- Unless Congress enacts further legislation (reportedly a high priority), tax rates will rise in 2026.
- Converting assets during market dips means that you're essentially "buying low," one of the primary tenets of stock investing.
- Unlike traditional IRAs, you won't be subject to RMDs from your Roth accounts.[2]

About those RMDs

RMDs are amounts that the federal government requires you to withdraw annually from traditional IRAs after you reach a certain age (currently 73). The distributions are spread out over your lifetime and are designed to prevent an account from continuing to grow tax deferred indefinitely. You can always withdraw more than the minimum in any year, but withdrawing less would likely trigger a federal tax penalty.

Each year, your RMD is calculated based on your age and the value of your account on the preceding December 31. For instance, a 2025 RMD would be based on the value of the account on December 31, 2024 — even if the value on the date of distribution is lower than it was then.

Although rare, Congress has periodically waived RMD requirements during periods of extreme market volatility. For example, this occurred during the Great Recession in 2009 and again in 2020 due to the COVID pandemic. If market fluctuations reach dramatic levels again in 2025, it may be beneficial to hold off on taking RMDs to see whether Congress acts.

A word of caution

If you are required to take an RMD in 2025 and would also like to convert traditional IRA assets to a Roth, note that the RMD must be taken prior to the conversion.

1) An inherited traditional IRA cannot be converted to a Roth, but a spouse beneficiary who treats an inherited IRA as their own can convert the assets.

2) Designated beneficiaries are required to take withdrawals based on certain rules and time frames, depending on their age and relationship to the original account holder, but such withdrawals would be free of federal tax.

Federal student loan rates for 2025-2026 halt upward trend

Interest rates on federal student loans for the 2025-2026 school year will decrease slightly, after four straight years of increases.

Interest Rates on Federal Student Loans Drop Slightly for 2025-2026

Every May, interest rates on federal student loans are reset for the upcoming school year. The rates are calculated by combining the yield on the 10-year U.S. Treasury note with an additional fixed amount set by Congress.

Based on this calculation, interest rates on federal student loans are set to decrease slightly for the 2025-2026 school year, halting four straight years of increases. (Last year's interest rate for undergraduate Direct Loans hit a decade high, while rates for graduate Direct Loans and PLUS Loans hit their highest levels in more than 20 years.) The 2025-2026 interest rates apply to new federal student loans issued July 1, 2025, through June 30, 2026. The rate is fixed for the life of the loan.

	2025-2026	2024-2025	Available to	Borrowing limits
Undergraduate Direct Loans (Subsidized and Unsubsidized)	6.39%	6.53%	Undergraduate students only Subsidized loans: require financial need as determined by the FAFSA (Free Application for Federal Student Aid) Unsubsidized loans: available to any student, regardless of financial need	For dependent undergraduates: 1st year: $5,500 (max $3,500 subsidized) 2nd year: $6,500 (max $4,500 subsidized) 3rd, 4th, 5th year: $7,500 (max $5,500 subsidized) Max: $31,000 (max $23,000 subsidized)
Graduate Direct Loans (Unsubsidized only)	7.94%	8.08%	Graduate and professional students All students are eligible, regardless of financial need	$20,500 per year (max $138,500)
PLUS Loans Parents and Graduate Students (Unsubsidized only)	8.94%	9.08%	Parents of dependent undergraduate students and graduate and professional students	Total cost of education, minus any other aid received by student or parent

Note: With a *subsidized* loan, the federal government pays the interest that accrues while the student is in school, during the six-month grace period after graduation, and during any authorized deferment periods, so no interest accrues for the borrower during those times.

With an *unsubsidized* loan, the borrower is responsible for paying the interest that accrues during these periods. If a borrower does not make payments on the accrued interest while in school, it will be added to the principal balance of the loan after graduation, a process called capitalization.

Borrowers in default face new collection efforts

In April, the Department of Education announced that it would resume collections on defaulted federal student loans starting in May, after halting collection efforts for more than five years since the start of the pandemic. The new policy applies to the roughly five million borrowers who are currently in default (those who have not made a monthly loan payment in over 360 days) and the four million borrowers who are close to default.

Before official collection efforts start, borrowers should receive email communications from the Office of Federal Student Aid (FSA) encouraging them to start making payments, enroll in an income-driven repayment plan, or sign up for loan rehabilitation. Subsequently, borrowers in default (whether student or parent) who are unable to make payments after "sufficient notice and opportunity" will be referred to a federal debt collection service and subject to involuntary collection efforts, including wage garnishment (automatic deductions from a borrower's paycheck). The FSA office expects to send required notices to borrowers about wage garnishment later this summer. Borrowers in default and borrowers who are delinquent on their student loans (missing a payment for 90 days or more) also risk a negative impact to their credit score, which can make it harder to obtain a credit card, get a car or home loan, or rent an apartment.

Sources: Edvisors, May 8, 2025; U.S. Department of Education, 2025

New collection efforts coming in May

Starting May 5, 2025, borrowers with defaulted federal student loans will be referred to a federal debt collection service and may eventually be subject to wage garnishment.

Borrowers in Default on Federal Student Loans Face Imminent Collection Efforts

On April 21, 2025, the U.S. Department of Education announced that it will resume collections on defaulted federal student loans starting May 5, 2025. The federal government hasn't collected on defaulted loans since March 2020. Here is some background followed by answers to questions about the new policy.

A history of payment pauses and court challenges

The coronavirus pandemic ushered in a series of student loan payment pauses for federal loan borrowers starting in March 2020. In August 2022, then-President Biden signed an executive order canceling up to $10,000 of federal student loan debt ($20,000 for Pell Grant recipients) for certain borrowers, an order that was subsequently struck down by the U.S. Supreme Court. In June 2023, Congress officially ended the student loan payment moratorium, and the Department of Education announced that federal student loan payments would resume in October 2023. Around the same time, the Department created the Saving on a Valuable Education (SAVE) Repayment Plan, which offered borrowers lower monthly payments and a faster path to loan forgiveness. After SAVE was passed, it faced multiple legal challenges and was eventually blocked by a federal appeals court in August 2024, leaving many borrowers in repayment limbo.

Who does this new enforcement policy apply to?

In its April 21 announcement, the Department of Education noted the following statistics:

- 42.7 million federal student loan borrowers owe more than $1.6 trillion in student debt
- More than five million borrowers have not made a monthly payment in over 360 days and are in default
- Four million borrowers are in late-stage delinquency (91–180 days)

The new collections policy technically applies to all 42.7 million borrowers but will most immediately affect the five million borrowers who are currently in default and the four million borrowers who are close to default.

Note: Different federal student loans may have different rules on when default status is reached. You can visit the federal student aid website for more information.

What will happen to borrowers in default?

Starting May 5, 2025, the Education Department will refer all borrowers whose federal student loans are in default to a federal debt collection service (the Treasury Offset Program) administered by the Treasury Department. Before that date, all borrowers in default should receive email communications from the Office of Federal Student Aid (FSA) encouraging them to start making payments, enroll in an income-driven repayment plan, or sign up for loan rehabilitation.

Borrowers (whether student or parent) who are unable to make payments after "sufficient notice and opportunity" will be subject to involuntary collections, which could include wage garnishment. The FSA office expects to send required notices to borrowers about wage garnishment later this summer. Wage garnishment means borrowers in default could see automatic deductions from their paychecks to cover loan payments. Borrowers delinquent on their student loans (missing a payment for 90 days or more) also risk a negative impact to their credit score, which can make it harder to rent an apartment (if a credit check is required) or obtain a credit card, car loan, or mortgage.

Over the next two months, the FSA office plans to send borrowers ongoing email communications with additional information and resources, including an enhanced loan simulator tool; offer extended call times at loan servicers; and provide a streamlined income-driven repayment process that will shorten enrollment times and eliminate the need for annual income recertification. More information will be available on the federal student aid website in the coming weeks.

Source: U.S. Department of Education, April 21, 2025

"What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework. You must supply the emotional discipline." — Warren Buffett

Buffett Takes a Bow: 7 Lessons from an Iconic Investor

At the age of 94, Warren Buffett recently announced his retirement as CEO of Berkshire Hathaway, the massive holding company he has controlled since 1965.[1]

Buffett is a venerated investor due to his financial success and long track record of stock market outperformance. The value of Berkshire Hathaway shares grew by 19.9% per year (annualized) over the six decades from 1965 to 2024, compared with a total return of 10.4% per year for the S&P 500 Index over the same period.[2]

Buffett's investment strategy evolved into a blend of quality and value — which means he identifies well-run companies with solid balance sheets that are priced fairly based on their intrinsic value (the earnings and cash flow that the underlying business produces for shareholders).[3] Having bought his first stock at age 11, he became known for diligent research and diving deep into the financial statements of his businesses and acquisition targets.[4]

Nicknamed the "Oracle of Omaha," Buffett has frequently shared his thoughts on finance and investing in media interviews, at Berkshire's annual meetings (often called the "Woodstock of Capitalism"), and in his widely read letters to shareholders. As a result, his admirers have access to a treasure trove of investment fundamentals and words of wisdom that might help improve their own financial lives.

Here are seven important financial lessons to be gleaned from a selection of Warren Buffett's notable quotes.[5]

1. Keep your lifestyle in check, so you can put money to work

"Do not save what is left after spending; instead spend what is left after saving."

Despite his billionaire status, Buffett lives in the same modest house in Omaha that he has owned since 1958.[6] Automatically diverting a set portion of every paycheck to a savings account, workplace retirement plan, or an IRA is a convenient way to save money you might otherwise be tempted to spend on a more expensive home or car. These savings could then be invested to help reach future goals.

2. Play the long game

"Buy into a company because you want to own it, not because you want the stock to go up."

In Buffett's view, investors should have an ownership mindset rather than thinking like a speculator. Speculators take large risks by trying to anticipate future price movements in hopes of making quick gains. The problem with this approach is that few people have the expertise, time, and resources to do this successfully. It's more likely that by trying to time the market, they will sell at the bottom and buy at the top. They might miss some of the best trading days, and their portfolios will likely underperform.

Long-term investors take risks, too, but generally they buy quality assets and strive to build a balanced portfolio that is appropriate for their goals, time frame, and risk tolerance.

3. Evaluate your exposure to risk

"Only when the tide goes out do you discover who's been swimming naked."

Market risk refers to the possibility that an investment will lose value because of a broad decline in the financial markets caused by unexpected economic or sociopolitical developments. It would be prudent for the risk profile of your portfolio to align with your risk tolerance, or your ability to endure periods of market volatility, both financially and emotionally. This typically depends on your current financial position as well as your age, future earning potential, and time horizon — the length of time before you expect to tap your investment assets for specific financial goals.

4. Be brave when the market is scary

"Be fearful when others are greedy and greedy when others are fearful."

The silver lining of a steep market downturn is the opportunity to buy quality stocks that you may have longed to own at much lower prices, just as Buffett did in the depths of the 2008 financial crisis.[7]

5. Hold on to humility

"In the business world, the rearview mirror is always clearer than the windshield."

Buffett is willing to acknowledge his blind spots and admit his past missteps. In his latest letter to shareholders, he pointed out that he used the words "mistake" or "error" 16 times in his communications during the 2019 to 2023 period.[8]

Some investors (professionals and amateurs alike) overestimate their skills, knowledge, and ability to predict probable outcomes. But there's danger in overconfidence; it may cause you to trade excessively and/or downplay potential risks.

6. Take care of the people who matter to you

"Basically, when you get to my age, you'll really measure your success in life by how many of the people you want to have love you actually do love you."

A thoughtful estate plan is more than a set of documents to pass down wealth and help reduce potential estate taxes after you die. It can be crafted to reflect your values, leave a positive legacy through philanthropy, and help protect your loved ones in your absence. Plus, by clearly stating your intentions in a will or trust, you can help family members prevent disputes during a painful and stressful time.

7. Don't go it alone

"To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What's needed is a sound intellectual framework for making decisions and the ability to keep emotions from corroding that framework. You must supply the emotional discipline."

Even the most experienced investors might benefit from an outside perspective. A trusted financial professional can help you develop an investment strategy that's tailored to your specific situation, while providing ongoing support that may help keep you from making costly, emotion-driven mistakes.

Although there is no assurance that working with a financial professional will improve investment results, a financial professional can provide education, identify strategies, and help you consider options that could have a substantial effect on your long-term financial prospects.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. The S&P 500 is an unmanaged group of securities that is considered representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance does not guarantee future results. Actual results will vary.

1, 4) *The Wall Street Journal,* May 3, 2025

2–3) Bloomberg, May 4, 2025

5) Goodreads.com, 2025; Wikiquote.org, 2025; BrainyQuote.com, 2025; AZQuotes.com, 2025

6–7) Bloomberg, May 3, 2025

8) Letter to Berkshire Hathaway shareholders from Chairman Warren E. Buffett, 2025

Some experts believe that U.S. government debt is so unique that credit ratings are irrelevant.

Moody's Downgraded U.S. Debt: Does It Matter?

On Friday, May 16, 2025, Moody's Ratings downgraded its rating on U.S. government long-term debt from its highest rating of Aaa to the next highest rating of Aa1. The move was particularly significant because Moody's was the last of the Big Three credit rating agencies to maintain the triple-A rating for U.S. debt. S&P Global Ratings made a similar downgrade in 2011, and Fitch Ratings did so in 2023.[1]

The reason for the downgrade was the same for all three agencies — excessive, growing debt in relation to revenues. Moody's indicated that its recent action was driven by the long-term trend of "large annual fiscal deficits and growing interest costs" coupled with the lack of potential relief in sight. "We do not believe that material multi-year reductions in mandatory spending and deficits will result from current fiscal proposals under consideration." The agency pointed specifically to the current effort in Congress to extend provisions of the 2017 Tax Cuts and Jobs Act, which it estimated would add about $4 trillion to the federal primary deficit (excluding interest payments) over the next decade.[2]

For perspective, the Congressional Budget Office projected in January 2025 that federal debt held by the public would grow from 100% of gross domestic product (GDP) in 2025 to 118% in 2035, the largest percentage in U.S. history. This projection assumed that the 2017 tax cuts would *not* be continued and would thus *increase* revenue, which does not appear likely.[3]

Still-stable securities

The Moody's announcement drove Treasury yields higher temporarily, because in theory bond investors demand higher interest rates in return for taking on more risk.[4] However, despite the downgrade, there is no expectation of default, because the federal government guarantees U.S. Treasury securities as to the timely payment of principal and interest. The U.S. dollar will likely remain the world's dominant reserve currency for the foreseeable future, meaning that nations, organizations, and individuals will continue to need and/or want to hold U.S. Treasury securities.[5]

As Moody's pointed out: "The U.S. economy is unique among the sovereigns [nations] we rate. It combines very large scale, high average incomes, strong growth potential and a track record of innovation that supports productivity and GDP growth. While GDP growth is likely to slow in the short term as the economy adjusts to higher tariffs, we do not expect that [U.S.] long-term growth will be significantly affected."[6]

Some experts believe that U.S. government debt is so unique that credit ratings are irrelevant, and an analysis of the rules for holding securities in certain types of funds or other financial situations suggests that this is true. Whereas a downgrade of another country's debt might prevent that country's bonds from being utilized in a fund or as collateral in a particular situation, U.S. government securities are generally considered a class of their own regardless of credit rating.[7]

Higher yields

Even so, some investors might be more cautious about buying U.S. securities, which could keep yields slightly higher than they might have been without the downgrade. Yields were already on the high side in response to other factors, including the elevated federal funds rate and economic uncertainty due to changing tariff policies. These factors, along with budget developments, will likely continue to be the primary drivers of Treasury yields.

Higher Treasury yields, for whatever reason, are good for investors who want stable income. But they can be bad for consumers, because rates on some consumer loans — notably 30-year fixed mortgages — are tied to Treasury yields.[8]

The U.S. government may be hardest hit, because it must use a larger percentage of revenues to pay interest. Due to higher rates as the Fed has battled inflation, federal interest payments have risen from about 9% of revenues in 2021 to 18% in 2024 and are projected to require as much as 30% of revenues by 2035.[9]

Good news and bad news

The good news is that the Federal Reserve can generate funds, essentially "printing money" electronically, to ensure the government can pay its debts. This is why Treasury securities are still considered the world's most stable investment. But the current path of ever-higher deficits is a slippery slope, and lawmakers face hard choices to steady the U.S. fiscal outlook.

There is always talk about cutting spending, and the Trump administration is making some efforts to do so. However, the impact of these cuts on the deficit and debt should be relatively small. About 60% of the U.S. budget in fiscal year 2025 is mandatory spending, including Social Security and Medicare. Only 26% is discretionary spending, including 12% for defense, which few want to cut. That leaves 14% for possible budget cuts, much of which pays for programs that many Americans value. The rest of federal spending pays interest on the national debt.[10]

Any substantive fiscal fix will have to include additional revenues, but raising taxes is always difficult politically, and a major economic boom that would bring in more revenue at current tax rates seems unlikely, based on current projections.[11] The new tariff program is intended in part to help raise revenues, but it is too early to know whether that will happen.

For now, the credit downgrade should have little or no effect on the U.S. economy and is unlikely to require changes to your investment strategy. Other factors will continue to drive the economy. As always, a wise investment strategy would be designed to weather economic changes and focus on personal goals, time frame, and risk tolerance.

The principal value of Treasury securities fluctuates with market conditions. If not held to maturity, they could be worth more or less than the original amount paid. Projections are based on current conditions, subject to change, and may not come to pass.

1) *The Wall Street Journal,* May 16, 2025

2, 5–6, 9) Moody's Ratings, May 16, 2025

3, 10–11) Congressional Budget Office, January 2025

4, 8) CNBC, May 19, 2025

7) Bloomberg, May 19, 2025

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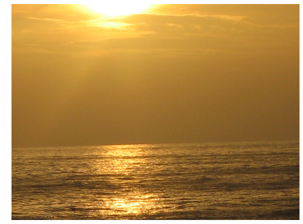

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