

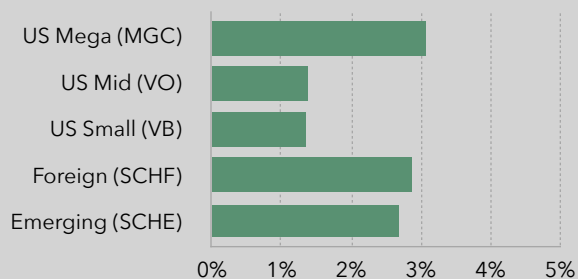
August 2026

Economic Data

- Payrolls jumped by 162,000 in August and the unemployment rate remained at 4.1%
- Retail sales were down 0.6% in July, with nonstore retailers falling 2.2%
- Y/y inflation (CPI) edged lower in July to a 3.4% pace reflecting lower energy costs; the core rate (less food and energy) declined to 2.5%
- Existing homes were down 1.7% in July and only up 0.7% y/y; the median home was \$434,100

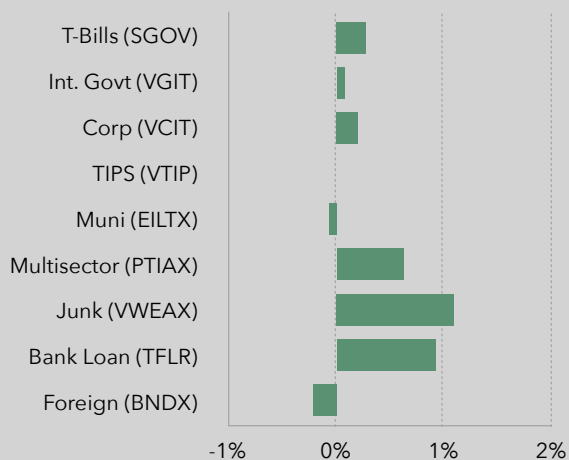
Stocks

August Returns



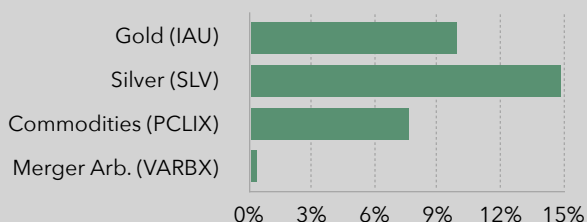
Bonds

August Returns



Alternatives

August Returns



Performance data provided by Morningstar

The brain uses two systems to process information. The first type is intuitive but lazy, rapidly forming judgements with no conscious input. The second system is slow, reflective, and not guided by emotions. It is that second system—type 2—that we want in control of our investment portfolios.

Tax Valley Girl

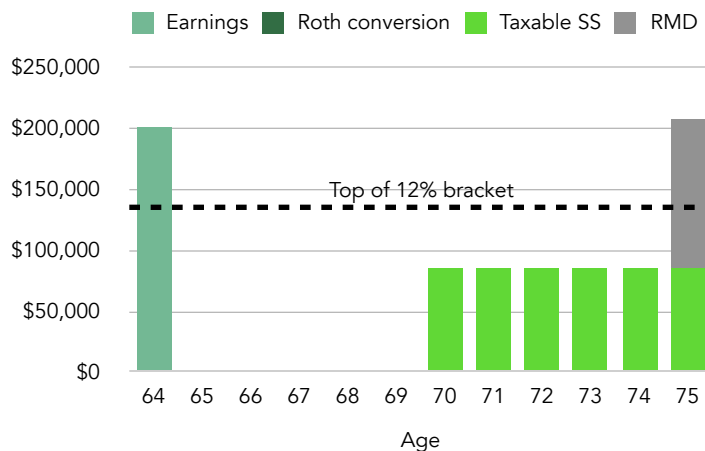
The first content I ever wrote for EmeraldSpark's website was a blog post titled *A Career Break as a Tax Planning Strategy*. I just want to point out that I used em dashes liberally in my writing back then and was quite happy doing so until AI came along and ruined them. Now everybody assumes if your writing has them you must have used AI to produce it. Well I am tired of being stifled—I'm taking the em dash back! I'm a modern-day Emily Dickinson.

Anyway, in the post I explained how you could take advantage of a zero-income year by filling your lower tax brackets with Roth conversions. It works well for gap years, career breaks and work displacements. But there is another time in life where we often find ourselves in the zero-income years—the time between when we retire and when we start drawing Social Security. This is often called the tax valley. And when I think of valleys, I naturally think of the 1983 film *Valley Girl*, with its exaggerated depiction of "valley-speak". So I totally used AI to remake that movie poster for this article. But don't worry, I won't write the rest of this in "valley-speak". As if! Gag me with a spoon!



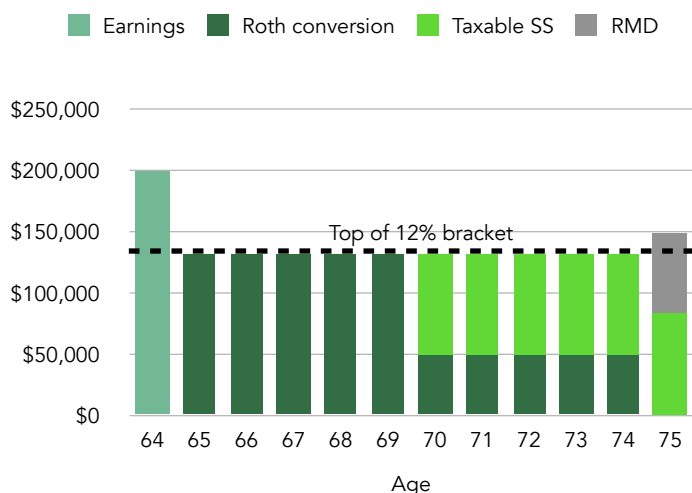
Okay, enough trying to make this fun. Retirement often creates a tax valley of years in which you may have unusually low taxable income. It's the window between full-time employment and the later years when Social Security benefits, pension income, and required minimum distributions (RMDs) begin adding income to the tax return.

The chart on the next page depicts the tax valley for a fictional couple—we'll call them Randy and Julie—earning \$100,000 each in their final working year, at age 64, and retiring at age 65. They are both healthy and expect to live long lives, so they delay Social Security until 70 to maximize their benefits. They have \$1 million combined in taxable savings and Roth IRA assets to fund their \$100,000 annual living expenses, plus \$1.5 million in pre-tax retirement assets. We assume a growth rate of 6.5% per year. Under these assumptions, their first RMDs at age 75 push a sizable portion of their taxable income into the 22% bracket.



I am not qualified to give tax advice, and there are some nuances to this, but it provides an illustration. All that low income-tax-bracket space below the dotted line is unused. You'll notice that at age 75, RMDs kick Randy and Julie up into the 22% bracket.

Now let's instead have Randy and Julie use the tax valley for Roth conversions. This moves money from a pre-tax retirement account—such as a traditional IRA or former employer plan—into a Roth IRA. This is generally treated as ordinary income, but they are choosing to take the hit when they are in a lower tax bracket. Future qualified Roth IRA withdrawals can be tax-free, and Roth IRA assets generally will not be subject to lifetime RMDs for the original owner.



Binge Box

Tires (Netflix)

I was going back through my Binge Box recommendations and was surprised to see that I never mentioned the Shane Gillis comedy *Tires*. The show stars Gillis as a joke-cracking mechanic at his uncle's tire shop in Pennsylvania, with little aspiration for responsibility or career advancement. Steve Gerben plays Shane's anxious cousin and manager Will, who wants Shane to be more serious but is trapped in the juvenile dynamic they have had since childhood. The first season feels more like stand-up in an auto shop, but later seasons develop more of a story and plot. The humor might be a bit polarizing, but it is unabashedly funny. All three seasons are available to binge on Netflix.

Tactical Asset Allocation					
Asset Class	Heavy Under-weight	Under-weight	Neutral	Over-weight	Heavy Over-weight
Fixed Income					
Duration		●			
Inflation			●		
Credit	●				
Foreign	●				
Equities					
Large Cap		●			
Mid Cap			●		
Small Cap				●	
Developed Intl.			●		
Emerging				●	
Alternatives					
Commodities				●	
Merger Arbitrage					●

You'll now notice that the taxable income for age 75 is lower than before, with only a small amount in the 22% bracket. By converting a significant amount of their pre-tax savings to Roth, there is a lower balance subject to RMDs. RMDs are calculated from the prior year-end account balance and an IRS life-expectancy factor. As the account grows, required withdrawals can become significant. Those withdrawals are taxable income whether you need the cash or not.

RMDs can stack on top of Social Security, pension income, interest, dividends, capital gains, and part-time earnings. The result may be higher marginal federal and state tax rates, more of Social Security becoming taxable, and higher Medicare Part B and Part D premiums through IRMAA—the income-related monthly adjustment amount.

Having more money in Roth accounts also provides Randy and Julie with better *tax diversification*. Having money divided between traditional and Roth accounts affords them much more flexibility in managing their tax liability in retirement. If they need extra money in a given year for a big purchase, they can fund it with their Roth accounts tax-free.

This also increases the likelihood of leaving heirs a potentially more tax-efficient asset, particularly when non-spouse beneficiaries may have limited time to distribute inherited retirement accounts.

Each individual's circumstances are different, but for many retirees, thoughtfully navigating the tax valley can be a valuable strategy." The goal is to build a retirement-income plan that gives you more choices: more flexibility in high-income years, potentially smaller forced distributions later, and greater control over your lifetime tax bill. Fer Sure!

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About EmeraldSpark

EmeraldSpark Investments, LLC is a Registered Investment Adviser. We were founded by Ryan P. Layton, CFA in 2015 to provide personalized financial planning and fiduciary investment management services to select clients. Our investment process blends the foundations of Modern Portfolio Theory with the latest research in the field of behavioral finance. We specialize in asset allocation and investment due diligence to help provide our clients with investment strategies personalized to match their specific goals and risk comfort zone.

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