Rising Bankruptcies: A Cause for Concern

If you're in search of something to be concerned about, consider the surge in bankruptcy filings. Traditionally, we witness an increase in companies resorting to bankruptcy during economic recessions, a development driven by obvious factors. Economic slowdowns typically translate to fewer buyers spending less money. Companies that overextended themselves, accumulated excessive debt, or exhibited fiscal mismanagement are often ill-equipped to withstand the unforeseen shock to their revenues and earnings.

However, what sets the current scenario apart is that we are not currently in a recession, yet bankruptcies are skyrocketing worldwide. S&P Global Market Intelligence, which closely monitors corporate health, reports that in the first half of this year, U.S. companies sought bankruptcy protection at a rate reminiscent of 2010. In England and Wales, corporate insolvencies are approaching a 14-year peak, while Germany has witnessed a nearly 50% spike in its bankruptcy rate compared to the previous year, reaching levels last seen in 2016. In Japan, the bankruptcy rate has reached a five-year high.

What's driving this phenomenon? While labor markets and corporate profits still appear relatively robust, there are other factors challenging the resilience of companies that overextended themselves. Some firms found themselves overly leveraged and were caught off guard by the rise in interest rates. High inflation's aftershocks affected companies lacking substantial pricing power, forcing them to sell products at gradually unprofitable prices to protect their market share.

So far, this wave of bankruptcies hasn't engulfed many large corporations, with the notable exception of the U.S. housewares giant, Bed Bath & Beyond. However, if this trend persists—and it might if an economic recession finally materializes—it could trigger a negative cycle. Suppliers may not receive payments, workers could lose their jobs, banks may tighten lending criteria even further, and more companies could face insolvency. Numerous corporate executives are quietly hoping for a decline in interest rates to more manageable levels, as an extended period of corporate distress could be on the horizon if this doesn't materialize.

Impending Tax Revisions: What You Need to Know

It's a subject that's flying under the radar - the impending reversal of tax provisions outlined in the Tax Cuts & Jobs Act of 2017. By the time December 31, 2025 rolls around, just 26 months from now, these tax provisions are set to revert back to their 2017 counterparts. This seemingly distant date could, however, spell an unpleasant surprise for many taxpayers.

Take, for instance, the significant shift in estate tax rates. In 2017, the federal estate tax exemption stood at $5.49 million. In other words, the first $5.49 million a taxpayer passed on to heirs would be exempt from estate tax. Fast forward to today, and this exemption has ballooned to an impressive $12.92 million, or $25.84 million for married couples. The impending "revert" would bring this exemption back down to approximately $6.5 million, merely a third of its current value.

The Tax Cuts & Jobs Act also brought about a doubling of the standard deduction, reducing the need for many to itemize deductions. In the 2017 tax year, single filers had a standard deduction of $6,350, while married couples filing jointly could claim $12,700. Presently, these figures have surged to $13,850 for single filers and $27,700 for joint filers.

Additionally, the upcoming reversion to previous tax tables is poised to place individuals in higher tax brackets. As a result, most Americans will find themselves paying 1-4 percent more in personal taxes compared to their current rates under these older tax tables.

While there's still a two-year and two-month window to prepare for these changes, it's prudent for anyone with a net worth exceeding the old estate tax threshold to start devising strategies to reduce their estate's exposure. Furthermore, everyone should brace themselves for the potential return to the task of itemizing deductions - unless Congress introduces a new tax bill. At that juncture, anything is possible.

Beyond Stocks and Real Estate: Your Most Valuable Asset

Is your home your most prized possession? Perhaps it's your retirement portfolio? Well, if you're under the age of 55, there's another asset on your personal balance sheet that often overshadows them both.

Most of our conversations about investments, whether professional or casual, revolve around portfolio returns and asset allocation. Yet, every working individual possesses not one but two portfolios that yield returns. This second portfolio is often referred to as your "career asset."

Broadly speaking, when people enter the workforce, they bring with them a substantial career asset—an elusive but likely significant future value comprised of all the earnings they'll accumulate over a 30-50 year work-life span. Typically, college graduates possess larger career assets, as their potential earnings exceed those without a college degree, and any specialized training further augments this asset's value.

As time passes and individuals progress in their careers, they incrementally monetize their career assets by earning income. Some of this income is transformed into capital assets—savings, which are then invested in a retirement portfolio, theoretically growing over one's career.

A fundamental task of financial planners is to ensure that each person retains enough of their career asset-generated income annually to eventually support retirement and fulfill other goals. Ideally, the annual returns from monetary assets will eventually surpass yearly salary income, making work optional and retirement financially feasible.

We often term this process as "savings and investing," but in reality, it's a disciplined gradual transformation of your career asset into capital assets. This ensures that when you decide to retire, and your career asset has been consumed, it's replaced by continuously growing capital assets in your investment portfolio. Unfortunately, countless individuals fail to save enough from their career asset-generated income, making work a necessity even in later life.

Unlike the stock market, this career asset is typically more stable; you still go to work when markets plummet, and you continue earning the same income when markets rise. However, as many discovered during the last economic downturn, your career can be influenced by economic upheavals. Job layoffs interrupt the cash flow from the career asset, raising "career asset management issues" that should have been considered from the start:

1. Is your industry or profession stable and growing?
2. Should you regularly reassess your skills and market value?
3. When is it sensible to change jobs, careers, or seek retraining?
4. What's the return on investment for taking time off work for courses or training?
5. Are there free training opportunities worth pursuing?

Understanding the concept of the career asset sheds light on seemingly complex financial matters. Life insurance, for instance, can be viewed as a means to protect the future value of your career asset, as can disability insurance. Ideally, as you monetize your career asset over time, the need for life and disability insurance coverage decreases.

Financial planners are now examining clients eager for early retirement due to job dissatisfaction. The solution may not always be early retirement but potentially renegotiating the current job for reduced stress, responsibility, or income, or even transitioning to a more fulfilling career. As more of your career asset is monetized, and work becomes more optional, some individuals seek enjoyable ways to generate income and extend their working years. Advisors are assisting people in shifting from high-paying, unsatisfying jobs to lower-paying, fulfilling ones, allowing them to enjoy their work for many more years.

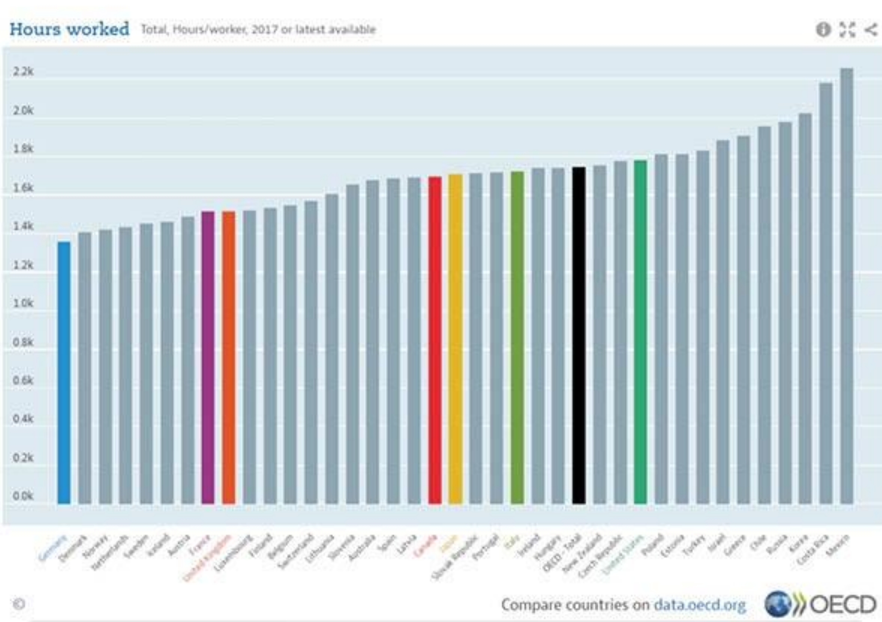
This approach extends their work-life by a decade or more, alleviating stress on the retirement portfolio, infusing more fun into their lives, and adding new value to their career asset. It's the holy grail of financial planning—a win-win-win situation.

Work-Life Balance Across the Globe

In the realm of paid vacation days, American workers often find themselves with fewer days off compared to their international counterparts. Surprisingly, there's no federally-mandated number of paid vacation days in the American business landscape. Another telling metric to assess a country's work culture is the number of hours worked per week or year.

The figures paint an intriguing picture. German workers, for instance, typically clock in fewer than 1,400 hours annually, a number that falls just below that of Denmark, Norway, the Netherlands, Sweden, Iceland, and Austria, all hovering just over 1,400 hours. In contrast, French workers, often cited as examples of a less work-centric culture, average around 1,500 hours yearly—almost identical to their counterparts in the UK.

Canadian and Japanese workers are somewhat more likely to be found at the office, putting in an average of 1,700 hours annually, akin to their counterparts in Portugal and Italy. On the opposite end of the spectrum, Mexican workers top the chart with over 2,250 hours of annual work, while in Korea, workers dedicate roughly 2,000 hours to their jobs. It's worth noting that Korea's workaholic reputation may soon change; the National Assembly recently voted to trim the workweek from a staggering 68 hours down to a still-demanding 52.



So, where does the United States fit into this global spectrum? On average, American workers spend approximately 1,800 hours at work each year, a figure that closely aligns with the working hours in the Czech Republic and Poland. This workload is lighter than that of Turkey, Israel, Greece, Chile, and Russia.