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Prediction Markets Want Your Bet

Courtesy of Meghann P. McKenna & Leisl C. Mooer

You've likely already been exposed to prediction markets, thanks to their ubiquitous ads during prime-time events. Here's what you need to know about the risks.

"There is this perception that it's just Joe Public versus Joe Public, but in reality, you're betting against very sophisticated institutional organizations that have access to information the typical citizen does not," says Barry Jonas, senior gaming equity analyst for Truist Securities.

There are also concerns that prediction markets can be manipulated, especially by insider trading. Several high-profile instances occurred this past year, including an Army soldier charged with using classified information to place bets regarding the capture of Venezuelan President Nicolás Maduro to win more than $400,000 on Polymarket.

Most people don't come out ahead. Jonas says their research found that since 2022, about seven in 10 accounts have lost money.

Experts suggest you don't fund your wagers with money earmarked for saving goals. The key, they urge, is to treat these bets as a fun expense, akin to going out for dinner or a movie, not as an investment.

Prediction markets can be entertaining, but you should think of them the same way you do visiting a casino. If you're looking to invest, there are more appropriate places to put your money.



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It may be a mistake to assume you'll spend only 80% of your current expenses in retirement. That's a popular rule of thumb because expenses like commuting and adding to your 401(k) drop off in retirement. But a ballpark figure can be wildly inaccurate especially in the first five to 10 years of retirement, which often come with more travel, entertainment, and "bucket list" expenses. Projecting retirement spending is worth a detailed effort because it drives so many aspects of retirement planning. Forecast your expenses based on your real habits and priorities using your current budget as a starting point to determine your basic monthly costs.
Source: Bottom Line Personal

"The money you have gives you freedom; the money you pursue enslaves you."
– Jean Jacques Rousseau



Manage An Inheritance Like A Pro

By Sandra Block, Kiplinger's Personal Finance

1. Know what you'll owe in taxes

Depending on the assets you inherit, you may or may not have to pay taxes. Typically, heirs won't pay the federal estate tax unless the value of the estate exceeds the exemption amount of $15 million ($30 million for married couples). So, unless your parents were fabulously wealthy, you won't have to worry about federal estate taxes. But that doesn't mean Uncle Sam has no interest in your inheritance.

2. Taxable investments

If you inherited stocks, mutual funds, or other investments in a taxable account, you'll be able to take advantage of a generous tax break known as a step-up in basis. The cost basis for taxable assets, such as stocks and mutual funds, is "stepped up" to the investment's value on the day of the original owner's death.

For example, if your father paid $75 for shares of stock that were worth $575 on the day he died, your basis would be $575. You won't owe any taxes if you sell the stocks immediately, but if you hold on to the shares, you'll owe taxes on any gain over the $575.

3. Retirement accounts

If you inherit a tax-deferred retirement plan, such as a 401(k), you'll have to pay taxes on that money. Spouses can roll the money into their IRAs and postpone distributions — and taxes — until they're 73.

The rules and timelines differ depending on your relationship to the deceased. For example, if you inherited a retirement plan from a parent or sibling, you must follow different guidelines.

The rules for inherited retirement plans are complicated and change often, so review the tax requirements carefully with a tax advisor or financial expert.

If you are fortunate enough to inherit a Roth IRA, you'll still be required to deplete the account in 10 years, but the withdrawals will be tax-free.

4. Real estate

When you inherit a relative's home (or other real estate), the value of the property will also be stepped up to its value on the date of the owner's death. This can result in a large lump sum if the home is in a part of the country that has seen real estate prices skyrocket.

For instance, if you inherit a property that was purchased for $150,000 initially, but is now worth $400,000 at the time you inherit it, the basis is stepped up to $400,000. You not only benefit from the immediate break, but this step up can also significantly reduce any capital gains taxes if you sell the property later.

Selling a home, however, is considerably more complex than unloading stocks. You'll need to maintain the home, along with paying the mortgage, taxes, insurance and utilities, until it's sold.

5. Life insurance

Inheritance from a life insurance policy is generally income tax-free. The money may be included in your estate for purposes of determining whether you must pay federal or state estate taxes.

Also, if you transfer your insurance policy over to someone, a gift tax may be applied.

Updating Your Financial Wisdom

By Jill Schlesinger, Jill on Money

Two decades ago, getting reliable financial advice meant finding someone you trusted and asking them directly. Today, information is everywhere: online, through social media, and via AI. Finding someone you can actually trust is harder than ever.

Here are some tropes that need updating:

Stop spending on nonsense

The idea that younger generations are struggling because of discretionary spending is overblown. The



real problem is the high cost of housing, elevated costs since the pandemic, and student loan burdens, all of which have grown faster than wages.

Always buy. Renting is throwing money away

Telling a 30-year-old, especially one who lives in a high-cost-of-living area, to save every dollar to buy a home ignores a brutal reality: **home affordability has plunged**.

Five years ago, the share of median income necessary to cover a mortgage, principal, interest, taxes, homeowners' insurance and Private Mortgage Insurance (PMI) stood at 30 percent, just under the threshold of what is considered affordable. Today that share is 42%, due to rising home prices, mortgage rates that have doubled, and insurance costs that have soared.

Buying a home at any age requires analysis. In many instances, renting and investing the difference can produce better long-term outcomes than buying. The "throwing money away" framing also ignores that mortgage interest, property taxes, insurance, and repairs are money you'll never see again either. Renting buys flexibility, liquidity, and freedom.

For those who can take the plunge, be wary of rules that were designed for a world where home prices were lower relative to income. Today, many can afford to carry a home, but they may not be able to save the 20% down payment that would entitle them to the lowest interest rate. For them, putting down 10% and paying for PMI may be fine, with an eye toward refinancing in the future.

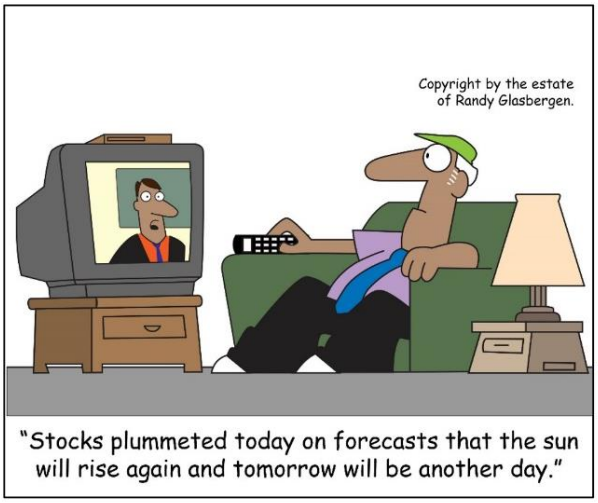
Don't invest until you're out of debt

Not all debt is created equal. A 4-5% federal student or auto loan is fundamentally different from a 22% credit card debt. Staying out of the stock market to aggressively pay down low-interest loans may sacrifice years of growth for a psychological win that doesn't make sense mathematically.

The three main financial goals for anyone starting out should be: build an emergency fund with 6-12 months of living expenses (and keep it in a high yield savings account), invest enough to capture any employer retirement plan match, and tackle high-interest debt.

Avoid credit cards

A thin credit file can hurt young folks when they try to borrow money to buy a car or a house. Responsible use of credit cards (i.e. paying off the full balance monthly) helps build essential credit history and provides more security than a debit card if there is a merchant issue.



"Stocks plummeted today on forecasts that the sun will rise again and tomorrow will be another day."

It may be a mistake to maintain your current portfolio allocation up until you retire. Many people nearing retirement still keep most of their assets in the stock market. They figure once retirement commences, they can switch to a more conservative allocation. But this exposes you to what's known as "sequence of returns risk", the risk that your portfolio will take a hit from a bear market shortly before or after you stop working. That is the worst time to take drawdowns because you lock in losses without giving your assets a chance to recover. Instead, begin "derisking" your portfolio several years before retirement. The asset allocation you choose will depend on your situation and how much risk you can tolerate, but ideally you want to take the least amount of risk possible to achieve your needs. As you get closer to retirement you should be transitioning each year to a lower overall stock market allocation and more exposure to conservative alternatives.

Source: Bottom Line Personal

"Creditors have better memories than debtors."

– Benjamin Franklin



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Tax Breaks For The Self-employed

By Joy Taylor, Kiplinger's Personal Finance

The editor of The Kiplinger Tax Letter responds to readers asking about deductions for retirees who work part-time for themselves.

Q: I am 72 and retired from my full-time job. I am now a part-time consultant and file Schedule C with my federal tax return. Can I deduct the Medicare premiums I pay?

A: Yes. Self-employed individuals who file Schedule C can deduct premiums they pay for medical and dental insurance and for qualified long-term-care insurance without itemizing. They claim the self-employed health insurance deduction on Form 1040, Schedule 1, part II, line 17. Premiums that you pay in your name for Medicare parts A, B and D are part of that deduction.

Q: I recently retired from my full-time job, and I am now an independent freelance writer. Can I claim the 20% deduction for qualified business income?

A: Generally, yes. Self-employed people, independent contractors, and owners of LLCs, S corporations and other pass-through entities can deduct 20% of their qualified business income (QBI), subject to limitations for individuals with taxable income in 2026 of more than $403,500 for joint filers and $201,750 for single filers and head-of-household filers.



Q: I am a lawyer and retired five years ago from my law firm. I still do legal work for some clients on a part-time basis as an independent contractor. I recently turned one of the bedrooms in my house into an office where I can do my work. Can I claim the home office deduction?

A: Yes, if you meet all of the rules for claiming the write-off. Even though employees can't take a deduction for home office expenses, the write-off is available to self-employed people or independent contractors who file Schedule C with their 1040 and use a room or space in their home or apartment exclusively and regularly as their principal place of business.