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INSIGHT

PERSPECTIVES FOR THE GOAL-FOCUSED INVESTOR

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"FOMO" Investing: The Price of the Chase

One of the behaviors that is often seen in late stage bull markets is the propensity of individual investors jumping after whatever's been making big gains in the market. We are seeing this play out in the current environment, as AI fueled technology stocks seem to reach new heights new every day. Human behavior is actually hard-wired to encourage this type of behavior, especially in the investment world – we either experience "FOMO" (fear of missing out) or "FOLE" (fear of losing everything.) When you see headlines about stocks blowing up or friends bragging about their quick wins, it's easy to get caught up in the hype and jump in without thinking twice. That "fear of missing out" (FOMO) can take over, especially in a market that's been moving fast or feeling exciting.

- **Recency Bias:** We think what happened yesterday will keep happening tomorrow. If a stock zoomed 50% in the last few months, it feels like it will keep going up forever.
- **Going with the Crowd:** If everyone's buying some hot "it" stock, it feels safer to do the same. But that herd mentality can blow up bubbles.
- **Overconfidence**: When you pick a winner, you start believing you're the next Warren Buffett, so you take bigger risks.
- **Fear of Regret:** Missing out hurts more than losing money. So people buy in late just to avoid feeling like they missed the party—even if the price is sky-high.

Current technology has made it even easier to succumb to this type of behavior. Investment apps and social media offer 24/7 access to trading opportunities and trade "gurus". Apps and platforms make it super easy to buy and sell, sometimes without enough thought. There is a huge amount of information overload which has never been so easy access and act upon. The question at hand really is: Is this a market environment that you should be rushing into?

This part is key—because chasing returns without looking at the prices you're paying is like buying a fancy car without checking the price tag. Here's what's happening right now:

- On a standard Price/Earnings valuation basis, the U.S. stock market is expensive - trading at 29.5x as of end of September. Historically, the S&P trades in a range of 17x-24x. We have only seen this level of valuation twice before – in 2000, and in 2008.
- Nearly 40% of all the market's value is packed into just 10 giant companies focused on artificial intelligence (AI). This level of concentration is also historic, with little wiggle room if AI growth slows down.
- Investors are paying over $3 for every $1 in sales companies make right now, compared to about $1.60 long-term average.
- The Market-Cap-to-GDP ratio (a favorite Buffett measure) is at 217%. Normally, it stays near 155%. So the market is a bit disconnected from the actual economy.

While these valuations are high on a historical basis, it does not mean that a crash is imminent in the short-term. However, history teaches us that over the long-term, markets tend to revert back to the median returns. The following guidelines will help you to offset the FOMO that seems to be prevalent in today's market environment.

- It is important to think of your investments as long-term: Don't get caught up in the market's day-to-day ups and downs. Stick to your plan and goals.
- Have a Game Plan: Decide your mix of investments in advance and rebalance regularly instead of chasing every hot sector.
- Tune Out the Noise: Limit time spent on hype and social media frenzy; focus on trusted facts and research.
- Understand your risk tolerance and don't exceed it.

The bottom line for most investors is that more money is lost through chasing returns than is gained by chasing momentum. The most successful investors in history have been those who had a game plan, stuck to their discipline, and didn't vary when conditions changed – both positively and negatively. Right now, the market is full of excitement around a handful of very expensive AI-driven mega stocks. That makes it tempting to jump in and chase those returns, but history shows that behavior may not always work out and can lead to painful losses. By understanding why we feel that urge and keeping an eye on valuations, individual investors can be smarter about where and when they put their money to work.

How is Social Security Affected by the OBBB?

The recent budget that passed in July has spawned numerous questions regarding how Social Security will be affected. Before diving into the changes from the OBBB, it helps to review how Social Security benefits are taxed under existing law.

Whether your Social Security benefits are subject to federal income tax depends on your "combined income" — broadly, your adjusted gross income (AGI), plus nontaxable interest, plus half of your Social Security benefits. If your combined income is below certain thresholds, you pay no federal tax on your benefits. For single filers, that threshold is about $25,000; for married couples filing jointly, about $32,000. However, As your combined income increases beyond those levels, up to 50% or 85% of your Social Security benefits can become taxable. Which rate applies depends on how high your income is. So, many lower- and moderate-income seniors already pay no federal tax on their Social Security benefits; others pay tax on portions of them.

What the OBBB Introduces: A New Senior Deduction

With the passage of the OBBB it is important to note that Congress **did not directly remove or change the tax treatment of Social Security benefits themselves.** In fact, procedural constraints prevented changes to the Social Security program via a reconciliation bill. Instead, the OBBB provides an additional deduction for taxpayers aged 65 and older — in effect, a bonus deduction that reduces taxable income, which can indirectly affect how much of your Social Security is taxed

Here are the key features:

- The extra deduction is **$6,000** for a qualifying individual age 65+ (in addition to the regular standard deduction and other senior "extra standard deduction. For married couples where both spouses are age 65 or older, the deduction can double — i.e. **$12,000** total.
- The deduction is **temporary** — it applies only from tax years **2025 through 2028**, unless extended by future legislation. It **applies regardless** of whether you take the standard deduction or itemize deductions.
- However, the deduction phases out for higher incomes. For **single filers**, it begins to phase out above **$75,000** of modified adjusted gross income (MAGI) and is fully phased out by **$175,000**. For joint filers, the phase-out starts at **$150,000** and ends at **$250,000**. So, eligible seniors can subtract a substantial extra amount from their taxable income, which can reduce or eliminate tax on other income — including, indirectly, more Social Security benefits.

How This Changes the Taxation of Social Security

The new deduction doesn't rewrite the rules for Social Security benefit taxation itself, but for many seniors, it will reduce their overall taxable income, often pushing them into a zone where zero federal tax is owed on Social Security.

For example, let's suppose a single senior receives average Social Security benefits of $24,000 annually. Under typical rules, 85% of that ($20,400) could become taxable. But with the new deduction, their total deductions (standard + senior extra deductions) may exceed that taxable portion — meaning their taxable income becomes zero, so they pay no tax on the benefits. A married senior couple, each receiving $24,000 in Social Security (for a total of $48,000) could likewise see their deductions exceed the taxable portion under the new rules, eliminating federal tax on those benefits.

Because of that effect, there have been estimates on social media that, under the OBBB, nearly 90% of Social Security beneficiaries will no longer pay federal tax on their benefits. However, that doesn't mean the tax on Social Security is eliminated universally. It is important to realize that the law **did not** fundamentally change how those benefits are taxed — rather, it works via an added deduction that offsets taxable income.

- Seniors younger than 65 are **not eligible** for the deduction, so they are unaffected.
- Higher-income **retirees whose MAGI exceeds the phase-out limits will not qualify** (or will see a reduced deduction), so they still may owe taxes on part of their Social Security benefits.
- **The deduction is temporary and may expire after 2028** if not extended. In short: for many seniors with moderate incomes, this deduction will push them into a tax-free zone for Social Security benefits.

Ultimately, the OBBB offers a significant new tax benefit for older Americans by creating a bonus $6,000 deduction for those aged 65 and up (or $12,000 for married couples), available from 2025 to 2028. That deduction won't directly change the rules about how Social Security benefits are taxed—but by reducing taxable income, it may result in zero federal income tax on Social Security for many recipients. In effect, the OBBB **indirectly** relieves taxation on those benefits for many moderate-income seniors. But it does not eliminate the tax on Social Security across the board, and it does not benefit all retirees. Because of its phase-outs and sunset date, seniors should review their tax strategies in light of the change — especially if they are near income thresholds or might lose eligibility in future years.