April 2024

Has Spring sprung? Here's to hoping!

This month we will focus on notable recent events, as well as those upcoming. And, we'll discuss our economic outlook and our portfolio positioning. Much has changed in just the last couple weeks. Be sure to have a favorite drink in hand…this letter is a little longer than usual.

Society has benefitted in so many ways, thanks to technology. However, it's also given criminals new outlets to hatch their nefarious plots. On 3/15/24 we hosted a Cybersecurity Seminar, presented by Sheridan Culhane from MFS Investments. One important piece of advice is to "PAUSE and VERIFY." Whether the type of threat is presented on the phone, in an email, or through a text message, remember to ask yourself, "*Is this a normal form of contact for this organization?*" If it's questionable, hang up the phone, close down the computer and **DO NOT** click on any links. Take time verify the interaction and the circumstances. If it's legitimate you can initiate the interaction again on your own terms. Sheridan shared two valuable resources which we encourage everyone to read, and importantly, to SHARE with loved ones and friends, (and especially parents!) The links are listed below (they're safe!!) We highly recommend spending a few minutes looking over these resources with your loved ones.

- Nine Ways to Protect Yourself From Scams*
- Protecting Your Data: Aware & Prepared Brochure*

Next, get your calendar and please pencil in our team's **"Shred Day" event. (Held in our office parking lot, 7 Brown & Howard Wharf, Newport) on Saturday May 4th, 2024 from 11am- 3pm**. An official email invitation will follow. Up to 50 pounds of material will be professionally, and securely, destroyed, per person. This event is open to all clients, their family and friends. Load up your car and stop by to shred. A market-update educational piece, and food and beverages, will be served sponsored by our friends at PIMCO.

Additionally, this summer, The Yalanis Private Wealth Management Group will host our annual Newport Gulls baseball game on Friday July 19th, where we celebrate our American Heroes. Keep an eye out for the invitation. Tickets are free for all of our clients and their families.

And, as we have for the past two years, we intend to have another mid-summer gathering at Ragged Island Brewery. Again, more info to come!

Earlier this year we stated that "**SOUND investment planning isn't based upon predicting the markets**. Rather, planning is about the **process** of managing risks and opportunities."
Discussing *tough topics* are also part of successful investment planning processes. The following topics will be included in our 2024 annual meetings and upcoming reviews.

1. <u>Being realistic about "risk":</u>   Investors haven't seen a serious economic recession since 2007-2009. We're due for one in the US and recessions may have already started in other parts of the world, both in Developed and Emerging markets. Think back to the year 2022 when the US stock market indexes, such as the S&P 500, were down notably. Investors need to be realistic about quantifying the approximate dollar loss in our portfolios IF the markets experience another decline of 20-30% (a meaningful correction). The planning process focuses upon whether financial plans can withstand multi-year losses of this magnitude. If you haven't updated your **<u>full investment plan</u>** in the past year, now is the time. Our team does more than simply manage investments – and this analysis will be critical if/when we go through another down-market cycle. Let's address potential problems before they materialize or stress financial plans.

2. Related, let's talk about 'return expectations' and reasonable index returns. Reports suggest that the average client expects *18% annual returns* while professional advisors only expect *8%, in a good year.* That's a large gap in <u>expectations</u>. Why is there a difference? Have investors forgotten about the tough years?

3. Let's talk about charitable giving. Highly appreciated assets are typically very tax-effective donations. Are you passionate about philanthropy? It's important to ensure that our charitable intent is also giving us an income tax benefit.

4. Is it time to get your children involved with the investment planning process? Those teenagers have grown and are now young adults who are starting their own families. It's time to begin their financial education. Ask us about ways to continue this planning with them. Roth IRAs should be at the top of the discussion list.

<u>The early 2024 'To Do' list:</u>

- As we get closer to the 4/15 tax deadline, speak with your CPA/tax planner about your 2023 marginal and effective tax brackets? Ask your CPA to explain the differences. Are there particular strategies to consider in 2024 – such as Roth IRA Conversions? We want to discuss these topics with you and your CPA. Our goal is to minimize the bite from income taxes.
- Be sure to increase your employer retirement plan contributions to max out the new 2024 contribution limits.

Ok, let's dive into some recent market research. Over the past weeks Chris conducted two different Due Diligence meetings with investment managers, and personally spoke with the economists at the Wells Fargo Investment Institute. These are meetings designed to perform deep dives into market analytics. Hours are spent analyzing data, running simulations, and assessing the Risk/Return profile. Simply put, 'the world's a changin.''

First, he spent some quality time with a portfolio manager of an International Bond Fund. The world is acting as though a decrease in interest rates is a question of 'When' and not 'IF'. Inflation IS moderating which ought to lead to reductions in rates by Central Banks. The economy is slowing.

But, there are notable differences in economic data from around the world. In the US, inflation has surprised to the upside. In other countries, inflation has surprised to the downside, and various Central Banks are already reacting by announcing *rate cuts*. Last year, the FED thought it would decrease rates 6 times in 2024. Most recently, on 20 March, it predicted only 3 rate cuts. In other words*, they've changed their minds as the continuous stream of data changed*. The FED sees the economy slowing, but unemployment is staying low and the **US Government keeps spending**.

Most of the world is receding economically. Growth in the US is an 'outlier' versus the rest of the world - which is NOT growing. What's the cause? At least one culprit of US growth is attributable to the **FISCAL impulse of Government Spending**. Entitlement Spending is a primary cause of deficit spending, which adds to the total debt levels, over 33 Trillion now. Plus, there was massive government spending in 2023 which further propped up the markets. Will this outsized spending continue?

During the monthly teleconference we review several economic indicators. Importantly, for the first time in a long time, one of our partners' Recession Risk Dashboard has moved from RED to YELLOW. This indicates the lower likelihood of a recession, and opens the possibility of a soft-landing. That said, it's important to note that the *continued government spending may be artificially affecting these measures*. *Unless government spending continues, this analytical tool could change quickly back to RED.*

Chris was also in NYC with one of our partners, the Capital Group, which manages the American Funds. First, a little trivia…DID YOU KNOW that Park Avenue is wider than other roads in NYC. It was NOT a desirable location to be decades ago because all the steam trains went into Grand Central, which is just down the street. Park Avenue was basically all railroad tracks, which is the reason for its additional width. Eventually the tracks were replaced with a street. Today it's a great street address!

He spoke with the CEO of the American Funds. In his opinion, dividend stocks are 'on sale' when compared to the rest of the market. The last time they were so lowly priced compared to rest of index was prior to dot com bubble bursting in the year 2000. Hmmmm, will history repeat itself? Like us, he's also not a fan of cryptocurrencies. That said their investment managers are identifying trends and services that the crypto industry has created opportunities for REAL industries, like chipmakers that make chips for Artificial Intelligence Industry.

Lastly, Chris met with Paul Christopher from our Wells Fargo Investment Institute (WFII). The WFII is still expecting a 'pivot' from the FED, meaning a decrease in the overnight Fed Funds rate. Currently the economy is gradually slowing, *it's below 'trend growth'*, which makes the economy susceptible to shocks. There are several problems on the horizon…from continued War to real estate problems in China.

Importantly, the **WFII is No longer calling for a recession**. Last year, the Fed's ability to keep liquidity in place (to spend) was underestimated by much of the market. The Consumer is still under pressure and the housing market is weak. The trajectory of the US economy is slowing. 'Goods' inflation is sticky for the moment. But goods pricing in China is falling. 'Services' inflation is still high as there are still fewer workers than jobs. That's keeping service-inflation high, in the 3-6% range.

It's WFIIs opinion that the FED believes inflation will slow as the economy slows. The FED still expects to make 3 rate cuts in 2024. IF cuts start in June, then they may be cutting during the election cycle. The FED is considered politically-neutral and doesn't want to be seen as cutting rates during an election season. So, it's not clear if they'll start cutting rates too soon, as in May/June, or wait till after the election (too late?). They don't want to cut too early, as that could cause 1970's-type inflation.

Should investors 'chase' after high-flying stocks? According to Paul, the Top 10 stocks in S&P 500 index are priced ***<u>2 standard deviations above historical pricing</u>***. The rest of market is only a 1/2 standard deviation over. That could spell trouble. Further, China is having serious Commercial Real Estate problems right now. In Paul's opinion:

- <u>Expect a softer economic landing, lower inflation, but limited rebound capabilities after that.</u>
    - A 'saucer' shaped recovery, not a 'V' shaped recovery.
- He still favors US investments versus International (as have we for the past few years).
- He doesn't see much volatility as a result of the elections. But 2025 could be volatile. Not much is expected to happen in the world of income taxes until after the election. Congress might flip. Major 2025 tax cuts will likely be agreed upon and extended.
- The presidential race is too close to call at this point. Voter turnout and participation rates will throw off the results. Polls don't pick up these voter nuances. It's likely that we'll continue with a divided government.
- Regulatory issues in Tech and Pharma, and Tariffs, may be negative issues for markets in 2025.
- Total US debt, currently over 33 Trillion, ***can't continue to increase at 2T per year***. We expect Congress to get more austere, perhaps 2025 or later. The heart of the problem, is non-discretionary spending (think Social Security, Medicare and Medicaid). Expect increased tax rates and means testing for benefits, at the least. Congress is already discussing this issue.
- ***The total amount of the US's debt is one issue, but the <u>annual budget deficit needs to be watched</u>***. Fixing the annual deficit could buy us a decade or more of time before a real problem ensues (such as defaults). History shows us that Congress (although dysfunctional) will NOT allow interest payments to control their budgetary spending.

Did you make it through to the end? If so, please send the team an email with your March Madness pick. "I made it to the end. Here's who's going to win the men's and women's brackets ______!"

As always, please share this letter with your friends and family. We're also posting these letters on our website (The website link is available in the signature section of our email). If your friends and loved ones find that they need financial expertise, guidance, or a second opinion, our "20-Minute Ask Anything Sessions" are available to them. We're happy to share our professional expertise.

We want to sincerely thank you for your business as we continue into 2024. We are committed to helping preserve, manage, and grow your net worth by addressing a comprehensive range of complex financial issues including those related to income-during-retirement, cash flow, investment goals, and insurance-related risks, all while remaining sensitive to your Business, Estate and Income Tax planning needs.

Sincerely,

Chris, Greg & Darcy

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*Sources: Oil https://www.bloomberg.com/energy, Gold https://www.bullionvault.com/gold-price-chart.do

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