ST. JOHN & ASSOCIATES
INTEGRATED FINANCIAL SERVICES

2023 4th Quarter Financial & Investment Management General Commentary

This commentary serves as both a 4th quarter report as well as a recap of 2023. We do apologize for the length, but there is a lot of material to cover. If you would like to discuss anything in this **report,** please feel free to call us.

Financial Planning

For our valued financial planning clients, we have a new checklist titled:

"What Issues Should I Consider at the Start of the Year?"

It covers fundamental planning considerations, including:

- Personal issues
- Cash flow issues
- Asset and debt issues
- Tax issues
- Insurance issues
- Legal issues

We will send this as an interactive checklist to you by email. You simply click on the link you'll receive by email where you can print, review the checklist at your leisure, make comments, or ask questions on any of the listed items. When you are done, you'll click on the **Submit Response** button and you're done. We'll receive your completed checklist, review your entries and consider how best to follow up.

If you are a financial planning client, just drop a quick email to btotri@stjohnfinancial.com with the words **"Planning Checklist"** in the subject line. Bryan will see to it the interactive checklist link is forwarded to you.

Taxes

Changes in tax laws are coming. Here are 3 important considerations to be aware of.

1. The clock is running down on the TCJA

Now is a good time to look ahead, as the clock is starting to run out on the provisions of the Tax Cuts and Jobs Act. A number of significant provisions are set to expire after 2025. Although Congress may act to extend some or all of them, it is important to know which provisions are expiring so you can be prepared to maximize your tax savings in case the provisions sunsets as currently scheduled.

Individual tax rates: The TCJA lowered tax rates to 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The top rate decreased to 37% from 39.6%. These tax rates are set to sunset Dec. 31, 2025. The top tax rate beginning Jan. 1, 2026, reverts to 39.6%.

Standard deduction: The standard deduction was nearly doubled for all filing statutes ($12,000 for single filers and $24,000 for married filing jointly) by the TCJA. As a result, many taxpayers have not itemized deductions. Starting in 2026, the standard deduction will be about half of what it is currently, adjusted for inflation.

State and Local Tax deductions: The state and local tax (SALT) deduction was capped at $10,000. After 2025, this limitation will expire, allowing greater benefit from deducting taxes paid during the calendar year, including real estate taxes, state or local income taxes, and personal property taxes.

Mortgage interest deduction: The TCJA generally suspended the home equity loan interest deduction. It limited the home mortgage interest deduction to the first $750,000 of debt (if married filing jointly) for any loan originating on or after Dec. 16, 2017. Beginning in 2026, the mortgage interest deduction will revert to pre-TCJA levels, allowing interest to be deducted on the first $1 million in home mortgage debt and $100,000 in a home equity loan.

Miscellaneous itemized deductions: The TCJA temporarily eliminated most miscellaneous itemized deductions, such as investment/ advisory fees, legal fees, and unreimbursed employee expenses. These deductions will once again be allowed, starting Jan. 1, 2026, under the previous rules, to the extent they exceed 2% of the taxpayer's adjusted gross income.

Other individual tax items:

The TCJA's sunset also implicates several credits and other pertinent amounts and thresholds, including the following:

- *Child tax credit:* The child tax credit was increased from $1,000 to $2,000 per qualifying child. This higher tax credit will revert to pre-TCJA levels in 2026 of $1,000 per qualifying child.
- *Personal exemptions:* The TCJA temporarily suspended personal exemptions. The personal-exemption rules will return in 2026 once the provision sunsets. The personal exemption will be $2,000 per taxpayer and qualified dependents, adjusted for inflation (for 2023, the deemed amount, used in calculating other tax amounts that reference it, is $4,700). The personal exemption phases out at higher income levels.
- *Alternative minimum tax (AMT) exemption and phaseout:* The TCJA increased exemption amounts as well as the exemption phaseout threshold, lessening the AMT burden on taxpayers. At sunset, the AMT exemption will revert to pre-TCJA levels.

2. Tax rates are low, at least for now

You are more likely to face higher taxes in the future than you are facing now. This is another reason why 2024 and 2025 provide good opportunities for tax planning.

Right now, 70% of government revenue comes from individuals (not corporations).

All eyes will be on the 2024 congressional and presidential elections as all 435 seats in the House of Representatives are up for election along with 34 of the 100 seats in the Senate.

Politics and tax direction often mix so an early sign of what may be coming will be the outcome of the two chamber and presidential elections.

Roth conversions may be a good strategy for you as well as pulling income forward into this year including distributions from traditional IRA accounts if needed.

3. This could be the calm before the storm, so we may want to take advantage of this period

The last six years have been a challenge, often presenting new tax laws attached to "must pass" legislation in the last two weeks of the year.

This has created many challenges in the tax and financial planning arena because it is hard to project tax liabilities and make planning recommendations when the laws are constantly in flux.

However, 2023 and 2024 bring a different dynamic where an almost evenly divided Congress—with Republicans and Democrats holding slim majorities in the House and Senate, respectively—has ensured that lawmakers haven't advanced major tax legislation this year, easing somewhat the uncertainty of tax policy…for now.

Social Security

What if I Keep Working?

Clients often ask how their benefit will be affected if they keep working. In particular they wonder if claiming their benefit locks in the amount (except for annual COLAs), or will their earnings record continue to be updated resulting in a possible benefit increase?

The short answer is that as long as they work and pay FICA taxes their earnings will be recorded and their Primary Insurance Amount (PIA) will be refigured.

If the latest earnings cause an earlier year of lower earnings to drop off the 35-year earnings record used to figure the PIA, the benefit will go up. If not, there will be no change in the benefit amount. This process happens even after benefits have started and usually takes place in October, retroactive to January.

Some have complained that it is not fair to collect FICA taxes on people over age 70 since it is common to slow down at this stage of life. If people over 70 continue to work, it may be part-time, which means they are not replacing any of the earnings on their 35-year record. Their return on "investment" of those FICA taxes is zero. While there have been proposals to stop collecting FICA taxes on people over 70, they have not gained any traction when the priority now is to raise more money for the Social Security trust fund, not less. But let's not lose sight of the bigger picture: earnings of any amount contribute to a client's financial well-being and make a significant positive impact on most financial plans we prepare.

3.2% COLA

The CPI-W, which is the index used by Social Security Administration, was up 3.6% on an annualized basis, ending at 302.257 (1982–84 = 100), resulting in a **2024 COLA of 3.2%.** The exact calculation can be found here.

Medicare

Part B Premium to Rise by 5.9%

The Centers for Medicare and Medicaid Services (CMS) has announced that the 2024 Medicare Part B premium will be $174.70, up 5.9% from the 2023 premium of $164.90. All the IRMAA premiums went up as well. The IRMAA will start at a MAGI of $103,000 for single individuals and $206,000 for married couples. The Part B deductible will be $240 in 2024, an increase of $14 from the annual deductible of $226 in 2023.

CMS says the increase in the 2024 Part B standard premium and deductible is mainly due to projected increases in health care spending.

2024 Medicare Premiums

MAGI Single	MAGI Joint	Part B Base Premium	Part B IRMAA	Part D IRMAA	Total Monthly Premium
≤ $103,000	≤ $206,000	$174.70	$0.00	$0.00	$174.70
$103,001–$129,000	$206,001–$258,000	$174.70	$69.90	$12.90	$257.50
$129,001–$161,000	$258,001–$322,000	$174.70	$174.70	$33.30	$382.70
$161,000–$193,000	$322,001–$386,000	$174.70	$279.50	$53.80	$508.00
$193,001–$500,000	$386,001–$750,000	$174.70	$384.30	$74.20	$633.40
>$500,000	>$750,000	$174.70	$419.30	$81.00	$675.00

The Social Security Administration does look at tax returns every year, so if a client's income has changed from the previous year, the 2024 premiums should reflect it. There have been misconceptions that once you are charged the IRMAA it never goes away, but that's not true.

As always, these IRMAA brackets look to income two years prior and will be based on clients' 2022 tax returns. If a client has had a life-changing event that will cause income to be lower next year, you may want to consider appealing the IRMAA. Or, if a client has filed an amended tax return for 2022 that would affect the 2024 IRMAA, this would be grounds for appeal too.

College Planning

The New FAFSA Rollout Debacle and What to Do

If you have a college age student and have been experiencing difficulty completing the Free Application for Federal Student Aid since the last weekend of 2023, you aren't alone.

While the 2024–2025 FAFSA was supposed to be available no later than December 31, many filers have not been able to submit it. The U.S. Department of Education acknowledged the difficulties by characterizing the FAFSA rollout as a "soft launch."

Troubled FAFSA launch

This infuriating delay is on top of the previously announced delay of the FAFSA from its normal annual release date of October 1.

Consequences of FAFSA delay

The delay has already hurt students who have applied early decision (ED) which typically results in an admission decision before the Christmas holidays. Schools won't be able to produce need-based financial aid packages for these students since they don't know what their financial aid situation is.

Students who are accepted ED are supposed to attend regardless of the aid package offered or not offered, but students have never been obligated to accept an offer that comes with no aid or an inadequate package. That is even more true today since students had to commit to a college for the 2024–2025 school year without knowing how much the school would cost them.

Because of the delays, families will have less time to evaluate aid packages when they do arrive. The National Association of Student Financial Aid Administrators complained this week that schools cannot provide realistic timelines about when students and families will receive financial aid offers.

Colleges have had to move back their financial aid deadlines. And some states have had to change their deadline for their own state aid programs.

The federal government has tried to reduce panic among families by saying that the FAFSA information for individual households won't even be sent to the colleges until late January or early February. Until this year, the government has typically processed a household's FAFSA and sent it to the applicable institutions within three days.

Contact us for a list of the 5 things parents can do.

If You Own a Small Business

Business owners need to be aware that a section of the Corporate Transparency Act (CTA) goes into effect on January 1, 2024 that will impact 99% of small business entities.

Beneficial ownership information must be filed by small business entities with the Financial Crimes Enforcement Network (FinCEN). Below are key items to be aware of (also, see link below to download a guide):

1. The goal of the law is to prevent the hiding of illicit money or other property in the United States.
2. The part of the CTA that goes into effect is the Beneficial Ownership Information (BOI) Reporting Rule (The Reporting Rule).
3. Certain small business entities must file beneficial ownership information (BOI) reports (basically almost everyone).
4. BOI reports must include beneficial owners and company applicants.
5. First you need to determine if your company is considered a “reporting company”.
6. Then you need to see if your company is exempt from the reporting requirements.
7. Failure to file the BOI report or filing fraudulent information in a BOI report can lead to a fine up to $10,000 and/or imprisonment for up to two years.
8. Entities that existed prior to January 1, 2024 have until January 1, 2025 to comply. Entities created on or after January 1, 2024 have 30 days after entity creation to comply.
9. Foreign companies that register to do business in any U.S. State or tribal jurisdiction by filing documentation with the state or tribe may be subject to the reporting requirements.
10. Information that must be reported for each beneficial owner of a business or company applicant include legal name, date of birth, current address, and unique identifying number (U.S. passport, state driver’s license, state or local government ID, foreign passport, etc.).
11. The information must be kept up to date by filing an updated BOI report when information for a beneficial owner or applicant changes (within 30 days of the change).

Business owners need to determine who in their company is going to file the BOI report, or will it be their tax practitioner, attorney, CPA, or other?

Use [this link] to download the Small Entity Compliance Guide published by FinCEN that provides more information about the reporting requirements.

We expect there will be a lot more on this as we get to the end of 2024 and people really focus on it, *but* if someone sets up an LLC now (for a solo-401(k) or whatever) they have 30 days and we need to be paying attention. Also, see this for more information.

Investment Market Overview

It is important to understand that although the news networks like to quote movements of the Dow Jones Industrial average, the S&P 500 and the NASDAQ, these indexes are not representative of the broader markets or a diversified portfolio and the winners within the indexes do not necessarily represent the indexes themselves.

When 1998 came to a close, we had the suspicion that very few stocks had accounted for the total return of the S&P 500 which achieved a 28.57% gain. What we found surprised us, the top 11 stocks accounted for more than the total gain for the year. What this meant was that the S&P 489, the bottom 489 stocks, was down for the year. The following year was even more dramatic and odd, the top 6 stocks accounted for more than the total return of the index which was up 21%. The S&P 500 index was up 55% for these two years but the concentration came from a very small number of stocks. This year is a repeat of those concentrated returns of 24 and 25 years ago. For the first 9 months, 7 stocks account for a total contribution of 85% of the return of the index and are weighted in the index at 11%. The index return without these stocks is up just 2%. Just like in 1998 and 1999, the stocks leading the index today are great companies, the problem is finding great companies is not enough to have a great investment thesis. In order to have a great investment thesis, you need to have a method to buy these great companies at reasonable prices.

Rob Arnott runs an investment firm called Research Affiliates. He published every day on his website their expected returns for various asset classes over the next 10 years. At the end of Q3, he showed an expected return for Large Cap Domestic Equities 10 years from now of 4.1% per year and for the Aggregate Bond Index of 4.5%. While we do not have the data from 1998 and 1999, it was assuredly projecting very low returns. The methodology Research Affiliates uses is very thoughtful and very simple, if stocks are trading at low P/Es their projected future returns are high. While if stocks are trading at historically high P/Es, their projected future returns are very low. We have discussed this in several of our last newsletters.

Stock prices are very highly priced today by historical standards. We prefer price to sales ratios over price to earnings ratios because businesses cannot manipulate their price to sales ratio as easily as they can their price to earnings ratio. Today the price-to-sales of large cap domestic equities is in the top 5% of price to sales ratios going back 120 years. You may recall in our last general commentary; we took out the lower half of price to sales ratios over these 120 years and still found the current price to sales ratio is in the top 5%.

So, concentration of return and high price to sales ratios are a warning signal. They are telling us the expected future return of the S&P 500 will be subpar. Will they be 4.1% per year over the next 10 years? Likely the answer is no, precision on future returns is an inexact science at best. This is what we can say with certainty, investing in the S&P 500 over the next decade will not solve the investment return needs of many, if any, of our clients.

The biggest winner in this crazy rise this year is Nvidia, up 435% over the first 9 months. To say the stock is overpriced would be a gross understatement. Cathy Woods' Ark portfolio, known for holding very high-priced stocks, sold Nvidia this year at $185. They sold it because they could not see how Nvidia would achieve a 15% compounded annualized return over the next 5 years with the stock selling at $185. They have been ridiculed for this sale, a stock they first bought at $5 a share over 7 years ago. Anywhere you look for data on the current price of Nvidia, you will find reports of the valuation being ridiculously overpriced. Great company? Yes. Great investment at these prices? Very unlikely.

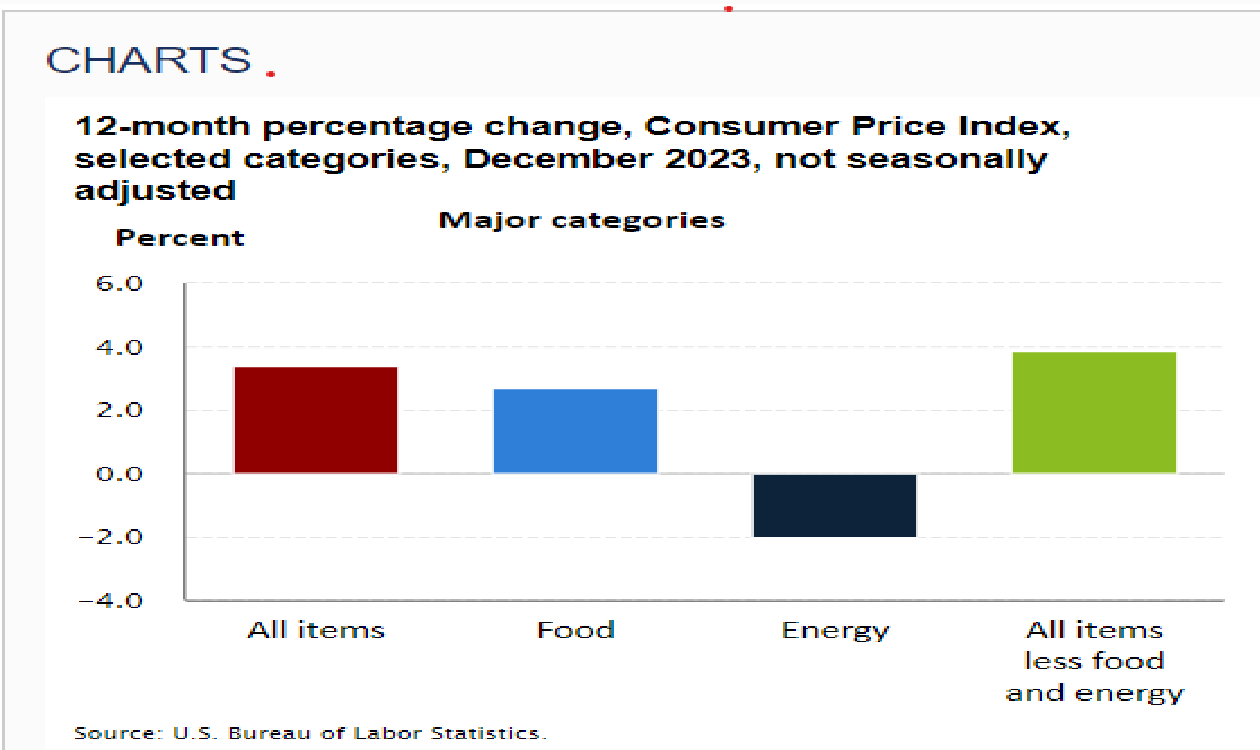
By contrast with these examples of crazy price levels, one of our managers that runs a domestic dividend portfolio has a current yield of 3.74% with expected dividend growth of 7% or more. Do we wish it had a yield of 5%, sure, but it is still reasonably priced? If we start with a 3.74% yield and grow dividends at 7%, the yield 10 years from now will be over 7.35%. If that is even close to what we experience, we do not believe the dividend yield will be over 7.35%. What we think will happen is the price will rise significantly raising the price of the underlying portfolio and providing a double-digit total return for investors. So, the return becomes a combination of price increase plus the dividend yield and not price alone.

Similarly, looking at one of our international managers that also runs a dividend-based stock portfolio, the current yield of that portfolio is 3.72%. Our expectation is that dividend growth will also be 7% or thereabouts. Total return will be similar to our expectation of the total return on the domestic dividend portfolio.

So, today we see a bright future with our dividend-based portfolios and a bleak future for the indexation folks. They may be shining brightly today but history tells us their future is not expected to be as bright.

Inflation

In December, the Consumer Price Index for All Urban Consumers increased 0.3%, seasonally adjusted, and rose 3.4% over the last 12 months, not seasonally adjusted. The index for all items less food and energy increased 0.3% in December (SA); up 3.9% over the year (NSA). This is still higher than the FED's mandate and it is hard to understand how rate reductions will be justified until inflation drops below 2%.



The US Consumer

Consumer spending increased by 0.2% in November, matching the 0.2% increase in October. Personal income increased by 0.4% in November and the savings rate rose to 4.1%, in November from 4.0% in October.

The Conference Board's Consumer Confidence Index reached its highest level since July. The University of Michigan consumer survey indicated consumer sentiment jumped nearly 14% during December. This does lead us to believe consumers are still spending and we are not seeing a drop in the economy as we typically see in a recession.

Employment Report News

As reported by the US Labor Department in November, employers added 199,000 nonfarm workers. The unemployment rate fell marginally from 3.9% to 3.7%. Jobs added as reported for September were revised down by 35,000 from 297,000 to 262,000. The October number remained steady as previously reported.

The average work week moved up by 0.1 hours to 33.8 hours per week. The report also indicated the labor force participation rate stayed flat to the prior month at 62.8%. The total of long-term unemployed, having been out of work for 27 weeks and longer, edged down to 1.2 million. This long-term employment number currently represents 18.3% of all unemployed. From the report the average wage rose 12 cents per hour to $34.18 per hour, representing an annual average increase of 4%.

The US Economy

The Commerce Department reported on October 15th the economy grew by a healthy 4.9% in the 3rd Quarter, though we expected the 4th Quarter would be slowing, which it did. The number for the year was a growth of 2.4%.

Oil

As reported by AAA on November 15th the price of oil was down 20% from its September highs, landing at $3.37 a barrel compared to $3.78 a year ago. US oil production hit a record 132 million barrels a day in October with Chinese exports to the US falling by 6.4%.

The US Housing Market

On November 9th Mortgage rates dropped by the largest amount in a year to 7.5% for conforming 30-year mortgages from 7.76% and then down at November month-end to 6.95%. The current monthly cost to buy a home in 2023 saw a 7.4% rise from 2022.

Though mortgage interest rates have declined, the inventory of homes for sale have remained low and prices have risen dramatically in many geographic areas. The median existing home price rose in October by a 3.4% amount to $391,000. This was the highest average price for an October back to 1999. It also was the fifth consecutive month of increases.

Sales of existing homes rose 0.8% in November, beating expectations. Sales were 3.82 million annualized, being the first rise to end a five-month slump. However, sales a year ago at this same time period were 4.12 million units. With mortgage interest rates having dropped, industry professionals are expecting the pace for sales to increase.

But, during November homes on average remained on the market for 25 days, up from an average of 23 days in October. The supply of homes for sale reached 1.13 million units at the end of November, down by 1.7% from the end of October. However, of interest, 19% of homes sold during November were settled on average at 19% above their list prices.

Sales of newly constructed homes dropped 12.2% in November to a seasonally adjusted level of 590,000, from a revised rate of 672,000 in October. This rate for November it 1.4% higher than a year ago November.

During November, 31% of sales were for first time buyers, up from 28% for both October and November 2022. All-cash sales were 27% of transactions in November, down from 29% in October, but higher than the 26% ratio in November 2022.

As to affordability, the average price of newly constructed homes rose from $409,300 in October to $434,700 in November for comparably sized homes. During November, 31.4% of new homes sold for $500,000 and above. The scary measure is the average annual income a family needs to buy an average priced new home is nearly $130,000, with the median family income in the US being $75,000.

Consumer Debt

During the 3rd Quarter of 2023, 5.78% of credit card balances became seriously delinquent. Since the 1st quarter of 2022, the rate of seriously delinquent credit card debt has risen by roughly a 90% factor.

Due to the pandemic and consumers not spending at usual historic rates, homeowners banked large amounts of cash through home refinancing. From the second quarter of 2020 though the end of 2021, 14 million mortgages were refinanced according to the New York Federal Reserve. The NY Fed reported these excess savings reached a peak of $2.1 trillion. With the pandemic effects waning, consumers have spent $1.9 trillion of this accumulated excess amount.

The Commerce Department’s report showed consumer spending rose 0.2% in November compared to the October rise in spending at 0.1% but far off the September increase of 0.7%. Spending in the 3rd Quarter 2023 was $15,461.38 billion compared to $15,343.55 billion in the 2nd quarter.

According to the Federal Reserve of Richmond, the inflation adjusted spending on durable goods is currently higher than the trend for the five-year period before the pandemic. We consider that a very positive result for the US economy since consumer spending drives 70% of more of economic growth.

Cryptocurrency

You may have been hearing more about cryptocurrency in the news lately, in part due to the U.S. Securities and Exchange Commission approval of a spot bitcoin exchange -traded fund.

In fact, the SEC approved 11 spot bitcoin ETFs which began trading on January 11th 2024. Feel free to give us a call if you have questions related to the cryptocurrency space.

Interest Rates

Though most major economists expect the Fed will cut rates several times beginning in 2024, it is possible the economy will not need so enormous a push by the Fed to continue performing. As projected last month, as interest rates peak and stabilize, we expect bonds to begin to perform well and perhaps a time will come for the historic 60/40 portfolio to return. The chief investment officer of Goldman Sachs Asset Management states in his recent briefing paper, “I think the risk/return looks a lot better in bonds at these levels than it does for stocks.”

A note of caution relating to interest rates. The US dollar declined in value more than 2% during 2023. The seeming explanation is the dollar was weakened by the prospects of rate cuts in 2024. We agree some amount of rate cuts are logical. Just not too many and not too soon.

The yield curve has been inverted and an inverted yield curve has foreshadowed ten recessions since 1955, except one false positive in the mid 1960’s. The average delay from the start of the inverted curves to the start of recessions has been 15 months since 1978.

2023, The Year of the Magnificent Seven

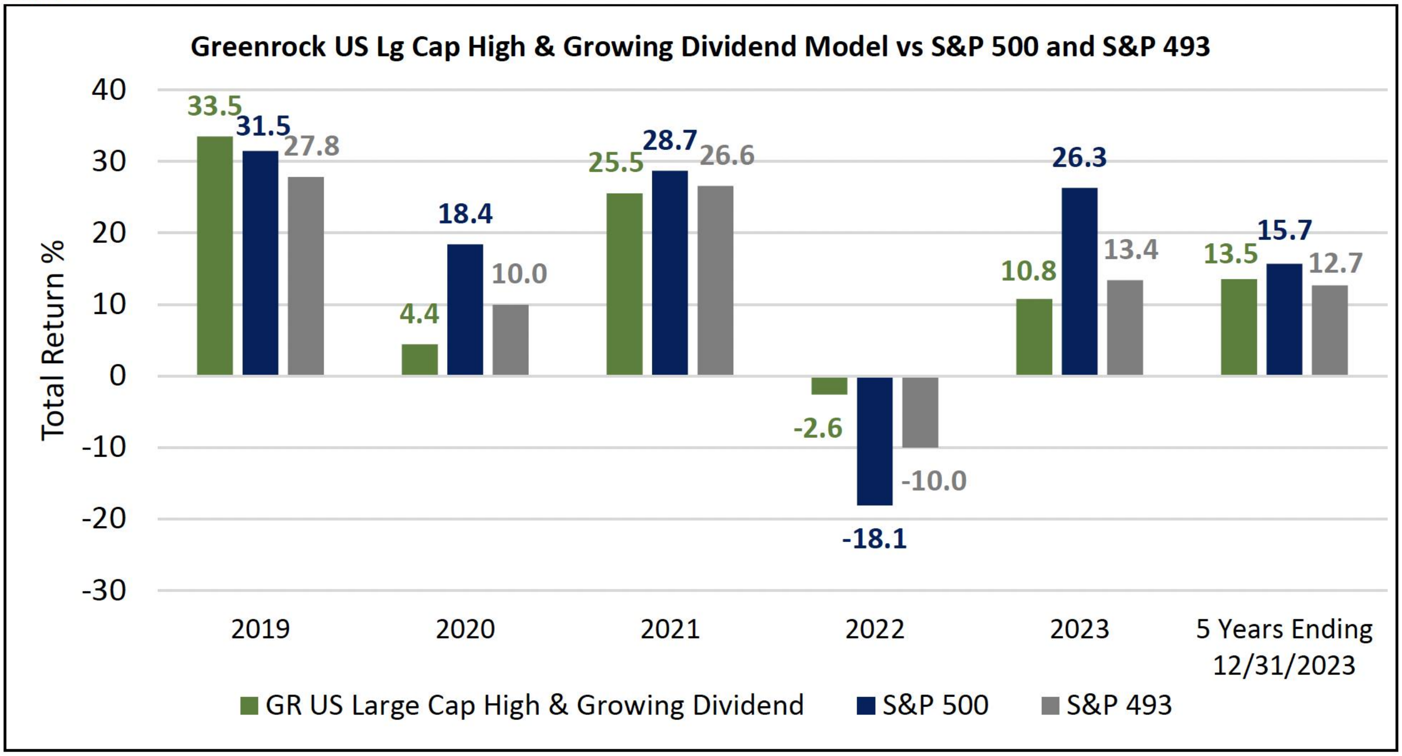
The best investment strategy for 2023 in retrospect was buying and holding 7 stocks, Apple, Microsoft, Google, Amazon, Nvidia, Meta (Facebook), and Tesla. The best performing of those was Nvidia which started the year at $148, went as high as $505 and closed at $495. That is, by any historical standard, a remarkable price movement. The company as well has a very bright future, as there is no doubt AI will improve our lives for the better and Nvidia will be one of the beneficiaries. The question though is how and when will Nvidia monetize this opportunity. History tells us that the investment community vacillates between being too optimistic or too pessimistic about the future of any given stock, especially one like Nvidia. We think the market today is too optimistic on Nvidia.

Some Perspective

2023: A Very Frustrating Year

So, 2023 will go down in our history as a very frustrating year. Chart 1 shows the returns of our domestic equity dividend strategy in many of our portfolios against the S&P 500 index as well as the S&P 500 index without the “Magnificent 7” stocks that drove the market in 2023. We refer to this as the S&P 493. So, we have a number of observations.

CHART 1



Source: Morningstar Direct

First, we did not keep pace with the S&P 500 index over the last 5 years. Honestly, anytime the index rises 15.7% annually over 5 years, our expectation is that we likely will not keep pace. We did, however, get a very attractive return over this period and slightly better than the S&P 493.

Second, we protected when the market declined in 2022. The index went down 18% while our domestic dividend strategy went down 2%. As frustrating as 2023 was, 2022 was a year that saw our strategy protect the way we expect it to.

Third, we enter 2024 with a reasonably priced portfolio and a good dividend yield, 3.6%. This is in contrast with the index which is close to an all-time high if you use the price to sales ratio as your measure. Do we wish our dividend yield was higher? Absolutely. But at some point, when we go through a correction, the dividend yield will protect us.

Our expectation of the next move in the domestic stock market is prices will go down. One analyst we follow closely, Felix Zulauf, is suggesting the market will decline by 25% to 30% in this next year. We do not make those types of predictions, but it is hard to believe that the stock market will rise, and even down 25% stocks would not be cheap. The best determination of future stock market returns is a measure of the current price relative to its history. When stocks are cheap, one can expect future returns to be attractive. Conversely, when stocks are expensive as they are now, future returns are low.

The stock market, however, does not move on logic in the short-term, it moves on emotion. Last year is an example of that. The decline in stock prices that started in 2022 when the S&P 500 declined 18%, changed its movement last year because of the hysteria of 7 stocks. We think the down movement of the market that started in 2022 will continue in 2024.

The best source we found in evaluating future prospects for asset class returns is Research Affiliates. They publish daily their expected return for various asset classes over the next 10 years. Today their expected annual return from domestic large cap stocks is 4.2%. This is in contrast to the long-term return from domestic stocks of 10% and the return in 2023 of 26%. So why so low? The simple answer is that domestic stocks are trading at very high prices relative to their history, and this is true if you use price to sales or price to earnings. The idea is actually quite simple, if stocks are trading at low prices, then future returns should be high; but if they are trading at high prices, then caution is suggested. Today, caution is suggested.

The rest of the equity market

The unfortunate truth is that there are thousands upon thousands of stocks out there that are not in the S&P 500 Dow Jones or NASDAQ that are not being covered by the daily news. These stocks have not had the same rates of returns of the 3 big name indexes. While the S&P 500 large cap index was up 26.29% in 2023, the S&P mid cap index and small cap index underperformed that by 10%.

The international market has also delivered lower returns than the US market as the MSCI EAFE international equity index was similar to the US S&P small cap and mid cap indexes underperforming the S&P 500 by 8%.

It is important to understand a diversified portfolio is the cornerstone of investing as not all markets move the same.

So, How Do We Take Advantage of This Analysis?

As the large cap equity market continue to rise fighting the pressures that come with overvaluing stocks, it becomes very difficult to predict when the market will go up or down. Today, the pressure is coming from both directions and our fear it as that pressure grows, changes happen unexpectedly and quickly. One earnings report, inflation report, FED meeting, missile launch or piece of election news could move the market dramatically. So, the answer is to remain in the market as we expect over time the market will rise. Stay diversified as some areas of the market are not as overvalued as others. Find a way to meet cash needs with the use of dividends over growth as the dividends will be more predictable and stable over time. Finally look for alternatives to invest in.

Should the market fall, we hope to limit the losses and if the market goes up, we expect to participate. Getting out of the market misses any opportunity to catch the upturns and timing the market is never a good strategy.

Bonds

The broad bond market for the last year was up 5.53%, but has only recently bounded off the bottom as it dropped -3.31% over the past 3 years according to the Bloomberg US Aggregate Bond index. We have limited the use of bonds in our portfolios. Over the past few years, we have reduced or eliminated longer term bonds in favor of shorter-term bonds and TIPS (Treasury Inflation-Protected Securities). We have also moved many of our portfolios to an alternatives manager to invest in specialized areas of the markets.

If rates have in fact stabilized and may even drop, it may be time to reconsider getting back into bonds at some level which may not be an all-in move, but gradual and slow.

2024?

So, this is our analysis and thoughts for now. First, the concentrated returns of 2023 in domestic stocks are remarkably dangerous. We saw a similar phenomenon after 1999 when the stock market fell by 49% and had a negative return for a decade. Second, when stocks are generally overpriced, like they are now, surprises become part of normal. Many investors are followers, they buy what just worked. While it is a suicidal investment strategy, it can move the market even higher. 2024 is an election year as you know, and our country could not be more divided on our preference for who should be the President next year. Overpriced stocks in an election year means volatility will be high. This does not mean that all of 2024 will be all negative, we expect it to rise on good news and fall on bad creating the volatility. Expect it and know you will continue to hear from us as we weather the next storm.

Below are the returns for index categories making up the broader markets. Morningstar sourced these index returns. Returns beyond one year are annualized.

	3rd Qtr. 2023	1 Year Average	5 Year Average Return	10 Year Average
S&P 500 Growth	10.09	30.03	16.23	13.35
S&P 500 Value	13.63	22.23	14.11	10.01
S&P Midcap 400 Growth	9.94	17.49	11.91	9.04
S&P Midcap 400 Value	13.62	15.39	12.91	9.17
S&P SmallCap 600 Growth	14.28	17.10	10.42	8.96
S&P SmallCap 600 Value	15.84	14.89	11.31	8.17
DJIA	13.09	16.18	12.47	11.08
S&P 500	11.69	26.29	15.69	12.03
S&P 500 Equal Weighted	11.87	13.87	13.77	10.40
S&P Mid-Cap 400	11.67	16.44	12.62	9.27
S&P Small Cap 600	15.12	16.05	11.03	8.66
Russell 1000	11.96	26.53	15.52	11.80
Russell 2000	14.03	16.93	9.97	7.16
Russell 3000	12.07	25.96	15.16	11.48
MSCI EAFE	10.42	18.24	8.16	4.28
MSCI EAFE Large Growth	12.70	17.70	9.58	5.51
MSCI EAFE Large Value	8.02	19.67	7.58	3.08
MSCI Emerging Mkt	7.86	9.83	3.69	2.66
MSCI World	11.42	23.79	12.80	8.60
MSCI US IMI Gold	13.71	-6.04	7.12	8.28
DJ Real Estate	17.98	12.25	7.35	7.70
Bloomberg Commodities	-4.63	-7.91	7.23	-1.11
Bloomberg Agg US Bond	6.82	5.53	1.10	1.81
Bloomberg Agg US Interim	5.50	5.18	1.14	1.62
Fidelity Money Market	1.30	4.89	1.74	1.17