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Financial planner

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Spring 2024 Newsletter Topics

- *10 Things You Should Know About Bull Markets*
- *Bond Outlook: From Headwind to Tailwind*
- *5 Potential Benefits of a Trust*

10 Things You Should Know About Bull Markets

Like sunshine after rain, up markets have always followed down markets. Here's what you need to know about rising, or bull, markets.

ONE What's a bull market? A bull market is a period of upward-trending prices. A new bull begins once prices rise at least 20% off the most recent market bottom. Generally speaking, optimism is high and investors and consumers feel confident, pushing company earnings and stock prices higher.

Bond Outlook: From Headwind to Tailwind

The Fed is going lower, and that's almost all you need to know about bonds.

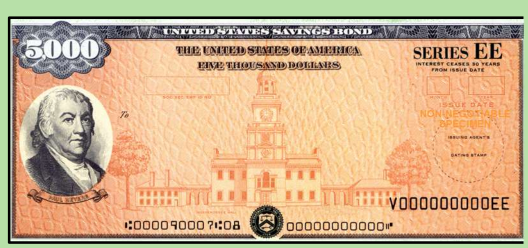
It doesn't pay to second guess the Fed. For many investors, the top-of-mind questions in the current market are: What is the Fed going to do about rates? And when? We already know the answer to the first question; the answer to the second is mostly irrelevant. Here's why.

First, we know the path of rates will be lower because that's what the Fed has told — and keeps telling — us. Despite better-than-expected growth, a healthy labor market, and thus far resilient capital markets, we need to remember that guidance and trust the Fed's intention. Rates are going lower. The direction of travel is most important, not every twist and turn along the way. The level of rates also matters, especially as compared to what the Fed views as neutral — which is 2.5%. With the fed funds rate currently above 5%, there is ample cushion to move lower.

Second, the reason for the Fed likely cutting rates will be different from in the past. Historically, the central bank has loosened in response to a demand shock — the global financial crisis and pandemic being prime examples. This time, it's not about demand. It's about inflation, which has quickly decelerated back toward the Fed's 2% target. The last year has taught us that we can have lower inflation with growth. We don't have to be bearish on the market or economy to expect lower rates. We just have to know that inflation is going lower.

Investors shouldn't lose sleep over a longer Fed pause. We know that the next move from the Fed is most likely to be a cut. But does the timing matter? History suggests not. Because the market is forward-looking, Treasury yields have historically peaked and begun to move lower ahead of the first cut, and this dynamic has fueled bond market returns both before and well after the Fed begins to ease.

Now's the time to get off the cash train. One byproduct of the rapid rise in rates and poor bond market performance over the past few years is a high percentage of cash in investor portfolios. Cash yields appear optically attractive, but the Fed's shift away from further hikes diminishes their long-term utility. Falling rates mean reinvestment risk, which cash investors face instantaneously with each cut. Finally, cash investments don't offer the potential for price upside as yields decline. The 2023 year-end rally perfectly illustrated this opportunity cost. While cash generated a positive total return, it was meaningfully lower than anywhere else in the bond market.



Series EE Paul Revere Bond

TWO Apples and oranges — Though they often move similarly, the stock market and the economy aren't the same. The stock market is a forward-looking indicator, so it reflects investor expectations for the next year or so rather than the current economic environment. This means stocks can rise even if the economy is sluggish.

THREE Bulls go bigger — Both bull and bear markets are normal and common. The S&P 500 Index has experienced 27 of each since 1928, although bulls have tended to be stronger and longer. On average, bull markets have gained 115% over 2.7 years while bear markets have lost 35% and lasted less than a year.

FOUR Are we in a bull market? It could take weeks or months for the market to move 20% off a low. The tricky thing about bull markets is that we often don't know we're in one until after the fact because it's possible for the market to retest previous lows after rallying by 20%.

FIVE Bulls are strongest out of the gates — Historically, the first half of a bull has outperformed the second half (in 20 out of 27 bulls since 1928, so about 74% of the time).

SIX Snoozing may mean losing — Since a new bull is only identifiable once it's under way, you could miss many of the market's strongest days if you wait for the right time to invest. Historically, the first month of a new bull gained an average of 13.60%; in the first three months, new bulls have typically risen 25.30% on average.

SEVEN All shapes and sizes — The longest bull on record ran for more than

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One of the simplest and most effective ways to redeploy that cash is to move it into short-term bonds. Those investors who aren't yet comfortable stepping further out the maturity spectrum can still benefit from generationally high yields with short-term bonds. These yields beat those on cash and provide the opportunity to participate in price upside when yields fall further.

Differentiation matters as much as the direction of rates. Going forward, we think that dispersion within fixed-income sectors will emerge as a key theme. At the aggregate level, risk compensation has become less attractive. However, notable exceptions persist. For instance, investors can earn a higher risk premium in government guaranteed agency mortgage-backed securities than in investment-grade corporate bonds. Within investment grade, capital rich, high-quality banks offer relative value over cyclical industrial companies, which may underperform in the event of an economic correction. Similarly, we think high-yield energy companies will experience very different default outcomes and cashflow generation than a leisure and hospitality company in coming years.

Identifying these examples of dispersion plays into our organization's research capability. We think there is a significant opportunity to uncover yield-enhancing opportunities from the bottom up, with credit ideas that are agnostic to the direction of the Fed and that can work in a number of interest rate and economic scenarios.

Bottom line: There's still room for bonds to run. After a dismal couple of years, the bond market rebounded dramatically in the last quarter of 2023. Investors may be worried that they missed out on the recovery, but we see a different story. Yields across fixed-income sectors are well-above their post-global financial crisis average; Treasury yields remain above 4% across the curve, representing the highest level in nearly two decades. The Fed has consistently communicated an intention to cut rates before the end of 2024. This, along with declining inflation, should provide a tailwind for fixed-income returns. And enough dispersion exists to create an environment for security selection to shine. The road has been painful, but today the conditions appear much more favorable for fixed-income investors. The key is getting back into the market.

5 Potential Benefits of a Trust

When it comes to estate planning, many people create a will to have their assets distributed after they pass away. But there's another aspect of estate planning that may offer unique benefits to you and your family: a trust. Trust is a legal contract, drafted by an attorney, with a named trustee who ensures your assets are managed according to your wishes both during your lifetime and after your death. Here are five benefits of adding a trust to your estate planning portfolio.

Trusts avoid the probate process While assets controlled by your will have to go through probate in order to be verified and distributed according to your wishes, trust assets usually don't. A will becomes a part of public record, while a trust agreement stays private. When you establish a trust during your lifetime, you only need to deal with your attorney and your trustee to execute the agreement. It should be noted that you can also stipulate in your will that you want to create a trust upon your death; in this instance, your estate will go through probate prior to the trust being established.

Privacy is important if you want to keep your family's financial matters outside of public view. Plus, by avoiding the probate process, trusts are often a quicker and simpler way to have your assets distributed when you die. You may even decide to have your will state that any assets held outside of a pre-existing trust at the time of your death transfer into the trust when you pass away. When you're dealing with the death of a loved one — or the transfer of assets from one person to another — you likely want the change to be as seamless and private as possible. Creating a trust can help you achieve both of those goals.

A trust is a plan to take care of the people you love when you're no longer around or lack capacity to assist them.

12 years (1987-2000) and rose by a whopping 582%. Conversely, the shortest one lasted 25 days (June 1931) yet generated a return of 27%.

EIGHT Stronger today than yesterday — Overall, the S&P 500 Index has tended to gain an average of 114% during bull markets. But they've been getting stronger since the 1970s: Of the 27 bulls since 1928, the 18 before 1970 gained about 78% on average. The nine bulls after 1970 gained 186% on average.

NINE Don't let it psych you out — Bull markets can set new records constantly, which may make you wonder when the other shoe is going to drop. But attempting to time the market and sell high could also mean missing out on significant further gains.

TEN How can I make the most of a bull? If you're well-diversified, your investing strategy may not need much tweaking to keep pace with the market. Contact us to ensure your portfolio is prepared for all parts of the market cycle.

S&P 500 Index Bull Markets by the Numbers

- Since 1928, there have been 27 bull markets
- Average gain: 114.9%
- Average length: 992 days or 2.7 years
- Longest bull: 1987–2000 (582% gain); second longest; 2009 – 2020 (400% gain)
- The first half of a bull has outperformed the second half 74% of the time (20 out 27 bulls) by an average of 9%
- The average gain during the first month of a new bull market:

13.6% – During the first 3 months:
25.3% – During the first 6 months: 27.4%

As of 12/23. Past performance does not guarantee future results. Source: Ned Davis Research, 1/24

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Trusts may provide tax benefits Trusts can either be revocable or irrevocable, essentially meaning that they can either be amended after they're created — or not. A revocable trust gives you the option to make changes to it after it's signed, but, depending on its terms, it may or may not lead to tax advantages further down the line.

An irrevocable trust, however, is one that you cannot usually change after the agreement is signed. Because you've transferred assets out of your estate, there may be transfer tax benefits with an irrevocable trust. Contributions to the trust are generally subject to gift tax requirements during your lifetime. However, if certain conditions are met, assets placed in this type of trust (and appreciation on those assets over time) will be sheltered from estate tax after your death.

In addition to initial funding, you can make an annual exclusion gift to an irrevocable trust each year without having to pay additional gift tax on that contribution. The 2024 gift tax exemption rate is $18,000 for individuals or $36,000 for married couples filing a joint return. Speak with your trust administrator and attorney about whether a revocable trust and/or an irrevocable trust might be a good estate planning option for you and your family.

Trusts offer specific parameters for the use of your assets Whether you establish a trust under your will and/or create a separate trust agreement during your lifetime, trusts give you the ability to truly customize your estate plan. You can include conditions such as age attainment provisions or parameters on how the assets will be used. For example, you can state that you'd like the money in a trust to be given to your grandchildren only once they turn 18 and only to be used for college tuition. Or you might decide to limit how much money a beneficiary can receive from the trust each year if they're someone who may need extra help managing money.

Your trust administrator can help you talk through different possibilities and scenarios before your attorney drafts the actual trust document for your trust.

Revocable trusts can help during illness or disability – not just death Wills only go into effect when a person passes away, but a revocable trust established during your lifetime can also help your family if you become ill or unable to manage your assets. If that happens, your trustee can make distributions on your behalf, pay bills and even file tax returns for you. You can choose ahead of time who to appoint (through the trust) to manage the assets.

Though no one likes to think about these scenarios, building in provisions like these can safeguard your family from having to make decisions without knowing your wishes during difficult times.

Trusts allow for flexibility If you choose to create a revocable trust, you can change the terms of the trust agreement at any time by

 See disclaimer on final page

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As always, we encourage investing with your goals in mind, keeping a reserve for emergency needs.

We are available for in person, phone or zoom reviews. Give the office a ring and we can discuss your investing goals and needs.

Estate Planning

Retirement Planning

Long Term Care Planning

Insurance

Corporate Qualified and Non-Qualified Retirement Plans -401(k)-

Educational Funding -529 Plans-

Charitable Planning

executing an amendment to the document. This allows you to be adaptable and flexible to life's changing circumstances. Maybe down the line you become involved in a charitable cause you're passionate about. Or perhaps you have a new grandchild that you'd like written into the trust. If so, you can add them as future beneficiaries into your trust at that time.

Life can be unpredictable, but creating a revocable trust allows you to adapt your estate plans appropriately.

So there you have it. When you create a trust, you set up a plan to take care of the people you love when you're no longer around or lack capacity to assist them. Not only can a trust simplify the process of asset distribution, it can also help you leave a lasting financial legacy.

Content courtesy of

Columbia Threadneedle Bond Outlook: From Headwind to Tailwind
https://www.columbiathreadneedleus.com/blog/bond-outlook-from-headwind-to-tailwind

Hartford Funds – 10 Things Yous Should Know About Bull Markets
https://www.hartfordfunds.com/practice-management/client-conversations/investing-for-growth/10-things-you-should-know-about-bull-markets.html

US Banks – 5 Potential Benefits of a Trust
https://www.usbank.com/wealth-management/financial-perspectives/trust-and-estate-planning/benefits-of-setting-up-a-trust.html