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Celebrating 36 Years in 2024



## Kick Off Newsletter

“New Year, New Hope”

January 12, 2024

Looking back at 2023, we experienced global unrest, bank failures, interest rate hikes, massive amounts of illegal migrants entering the U.S., and investment flows swiftly rotating among sectors of the market<sup>(139)(6)(11)(32)(54)(55)(77)</sup>. Additionally, enthusiasm for artificial intelligence (AI) with the subsequent steep increases in a select few companies perceived to be beneficiaries of this breakthrough technology dominated index advances<sup>(139)(6)(11)(32)(54)(55)(98)</sup>. Over the last 35 years the weight of the top ten companies within the S&P 500 index has been 20%; during the peak of the tech bubble more than 20 years ago these top ten companies comprised 25% of this capitalization weighted index<sup>(139)</sup>. However, now the top ten companies, the ones generally perceived to be the beneficiaries of AI are 32% of the weight of this index of 500 companies<sup>(139)</sup>. This means roughly one-third of the return of the S&P 500 index is coming from only 10 companies and may be considered a cautionary investment indication<sup>(129)</sup>. The U.S. economy ended the year with calmer waters in the banking sector, subdued fears of continued inflation, moderated dreads of higher interest rates, and the fading apprehension of a looming recession<sup>(65)(82)</sup>. Most importantly, we have hope that the wars in Ukraine and Israel will conclude and that overall global tensions may subside.

**Welcome to 2024!** This is a presidential election year, and we expect various campaign promises, policy proposals, and political rhetoric claiming this election is the most important of our lifetimes—and maybe it is, depending on your political inclination and policy initiatives you wish politicians to address. However, from a stock market aspect, presidential election years, the fourth year of a president’s term, are only the second-best return year for the S&P 500 of the four-year presidential cycle with a 9.1% average<sup>(137)</sup>. Fidelity conducted the research using data going back to 1950, finding the best year of the presidential 4-year term is the third year, or post mid-term year, with an average return of 14.7% for the S&P 500; the worst year of the presidential 4-year term on average is the second year, or mid-term election year, with only a 3.4% average return for the S&P 500<sup>(137)</sup>. The first year of a president’s term, or post-election year, has averaged 8.3% for the S&P 500, and is the third best year of the presidential cycle<sup>(137)</sup>. A note of caution is warranted. The average returns presented are over a long period of time with actual data for each individual presidential term year revealing a wide range of returns for each period since 1950. Stock market returns, outside of short-term post-election swings, are more likely driven by fundamentals such as corporate earnings, consumer demand, business spending, interest rate levels, inflation, recession, and the job market<sup>(137)(74)</sup>. To reinforce the notion that market returns are more likely driven by economic fundamentals verses who occupies the White House, Capital Group put forth data for every presidential election year going back to 1936 which reveals investing in the S&P 500 index on January 1<sup>st</sup> of election year and remaining invested over the next 10 years would have similar results, with an average annual return of 11.2% if a Democrat ultimately won the White House, and conversely, 10.5% annually if a Republican was victorious<sup>(74)</sup>.

I am an avid college football fan who enjoys discussing the various games and team rankings during the season, but so many college football fans that I spoke to seemed more concerned over the perceived negative impact of players switching teams so easily and the money involved overall in the sport. This newsletter will provide insight and lead off with just that topic. We will provide our outlook for the markets and economy for 2024, as well as discuss the Fed’s chances for a soft landing, shipping problems in the Red Sea, the high cost of illegal immigration for U.S. taxpayers, space travel, healthcare, and artificial intelligence. Additionally, we will touch on the state of the housing market, Social Security, gifting, and the importance of life insurance. Lastly, we will highlight relevant topics with inherited IRAs by non-spouse beneficiaries, Roth IRAs, IRAs, SIMPLE IRAs, and lastly a tribute to Charlie Munger. Let’s get started...

### College Football

College football is generating more revenue than both Major League Baseball and England’s Premier League combined<sup>(56)</sup>. Television deals,

Retirement Income Planning  
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ticket sales, and stadium naming rights for the universities and multi-million-dollar contracts for head coaches are lucrative, but in the past none of those monies flowed to the student athletes except a scholarship, meals, room and board, possibly a stipend grant, plus the opportunity to compete for the university<sup>(56)(75)</sup>. However, in June 2021 the Supreme Court ruled that collegiate athletes have a right to their name, image, and likeness (NIL)<sup>(56)</sup>. Enter the NIL commercial deals for college all-star football athletes from some of the largest corporations in America<sup>(56)</sup>. How large are these deals, you might ask? It has been reported that a highly sought-after prospect, usually a quarterback, other skilled player, or dominant defensive standout, may garner \$1 to \$7 million for their name, image, and likeness<sup>(56)</sup>. Alabama's Nick Saban worries that schools are buying recruits by funneling them through booster arranged contracts and believes uniformity rules among schools may be necessary<sup>(75)</sup>.

College athletes that are not expected to go professional after college, or maybe even never start for the university, are also benefiting through NIL funds created by fans, alumni, and supporters such as Ohio State's 1870 Society, the University of Texas's One Fund, or the Yea Alabama Fund designed to funnel monies to many of the team's scholarship players<sup>(56)</sup>. Utah's Crimson Collective NIL Fund recently obtained new truck leases and auto insurance for all 85 scholarship football players<sup>(56)</sup>. In 2021, the NCAA relaxed the rules for athletes transferring between schools which under prior rule mandated a player sitting out a year before being eligible to play at the new school<sup>(102)</sup>. The new rule allowing immediate eligibility when athletes transfer to a new school created the modern 'transfer portal', which offers a way for athletes to choose how they conclude their college career without having to sit out a year assuming academic eligibility<sup>(102)</sup>. Once an athlete informs their current school and officially enters the transfer portal, other coaches and recruiters can reach out if interested, and the portal is online for the public to view<sup>(102)</sup>. Case in point, Cam Ward originally enrolled at Incarnate Word, a small Catholic University in Texas, and then transferred to Washington State through the portal in 2021 where he had two tremendous seasons with the Cougars<sup>(102)</sup>. Cam Ward is now considered one of the most sought-after quarterbacks and is evaluating options to transfer to one of six major universities with NIL money endorsements estimated in the seven-figure range<sup>(102)</sup>.

The NCAA, universities, television, radio, conferences, and coaches are all getting their share of a multi-billion-dollar industry, but student athletes were the only ones not getting paid historically, NIL money and endorsements may be a step in the right direction, but time will tell<sup>(75)</sup>. Coaches Jim Harbaugh of Michigan, Chip Kelly at UCLA, LSU's Brian Kelly, and Dabo Swinney at Clemson are either open to, or advocates of student-athletes getting paid a share of the revenues the university takes in annually for football<sup>(75)</sup>. Michigan, for example, pays \$75 million for 350 coaches and staff across all sports, yet only spends \$33 million on 950 student-athletes<sup>(75)</sup>. Not to single out Michigan, the average for all the Power Five Conferences is \$53 million for coaches and staff for all sports, while only \$18 million for all student athletes<sup>(75)</sup>. The NCAA is considering pay for student athletes that would represent a portion of athletic revenues, possibly to stave off pending lawsuits in this area, and get ahead of the inevitable<sup>(115)</sup>. The money in college football has gotten so crazy that recently Texas A&M fired head football coach, Jimbo Fisher, providing him a \$75 million settlement to leave the post<sup>(60)</sup>.

There are many reasons college tuition has increased faster than inflation during the last 20 years, but the football frenzy may have been a contributor to overall tuition increases through heavy spending by universities to build and maintain athletic and related facilities, the increased administrative and maintenance costs for these new facilities, and the lavish student centers and living quarters designed to attract new tuition paying students<sup>(53)</sup>. Case in point, Auburn University had spent hundreds of millions of dollars on athletic facilities such as a \$92 million football performance center and an \$84 million basketball arena, administrative salaries, student centers, and modernized buildings and dormitories during the prior twenty-year period according to the Wall Street Journal, and student costs have increased faster than at any major public university in America<sup>(53)</sup>. This is not to pick on Auburn University, a beautiful campus where I had the opportunity to play collegiately in football against the Tigers, but to make the point that this may be going on in many of the country's state universities and subsequently may be a factor in driving up tuition<sup>(53)</sup>.

## **Economy**

We expect growth to continue to slow in the first half of 2024, but the widely predicted recession by many economists during the last 18 months may remain elusive<sup>(129)(6)(156)</sup>. Some economists argue that the U.S. experienced several 'mini recessions' each contained within a different sector at a different time, called rolling recessions, that enabled the U.S. to avert an overall downturn despite higher interest rates and persistently high inflation<sup>(74)</sup>.

Some argue the economy has been inefficient due to increased regulation, the lack of available workers, and the push toward green energy while tapping the brakes on the domestic production of fossil fuels<sup>(144)(55)(69)(156)</sup>. The Biden Administration passed several initiatives on new green energy production but also approved 17 major fossil fuel projects in 2023<sup>(15)(69)</sup>. However, credit must be given to the American people and businesses for their resiliency as they continue to power through these challenges<sup>(1)(6)(72)</sup>. As corporate earnings are likely the ultimate long-term drivers of stock prices, Wall Street consensus estimates for corporate earnings growth in 2024 for the S&P 500 companies are 11%, international developed markets 6%, and

emerging markets 18%<sup>(74)</sup>. However, economists at Capital Group believe this may be too optimistic due to the geopolitical risks associated with the wars in Israel and Ukraine, cumulative inflation in the U.S., and slowing economic growth in Europe and China<sup>(74)(156)</sup>. First Trust's Chief Economist Brian Wesbury expects the consensus corporate earnings estimates are too high based on his expectation of a significant reduction in consumer spending<sup>(1)(22)(28)(68)(156)</sup>. Auto loan delinquencies are at the highest rate in 13 years<sup>(28)</sup>. Consumer debt service is climbing in the U.S. specifically with credit cards and home equity loans on top of the reinstatement of student loan payments for some Americans<sup>(6)(22)(107)</sup>.

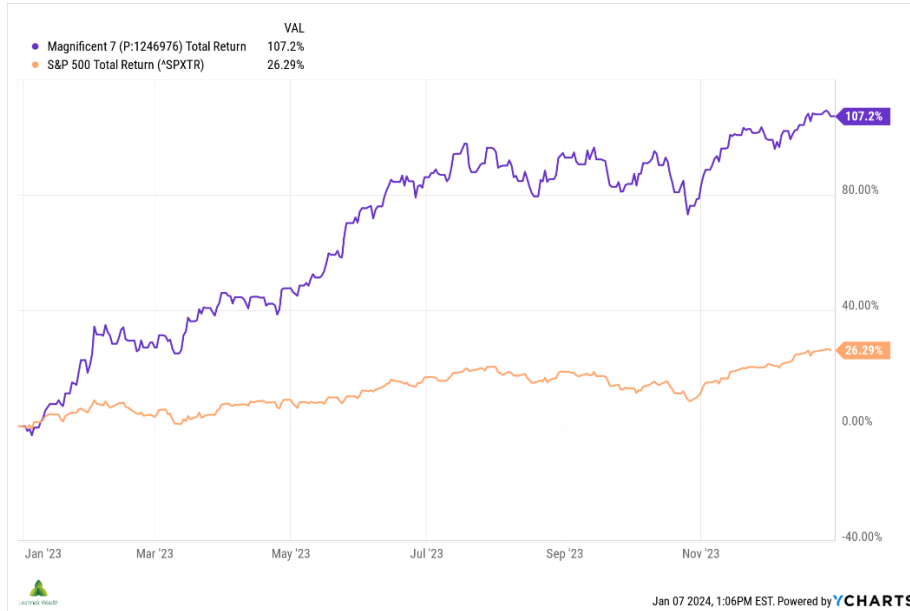
The U.S. government as part of the Infrastructure Investment and Jobs Act, Inflation Reduction Act, and the Chips and Science initiatives have remaining an earmark of \$1.4 trillion to support local supply chains, increase U.S. semi-conductor production, and expand clean energy which is being deployed over the next seven years<sup>(74)(106)</sup>. These initiatives are not only expected to upgrade the U.S. power grid, promote clean energy and efficiency, upgrade U.S. infrastructure, increase U.S. manufacturing, and generate semi-conductor production in the U.S., but more importantly, have the multiplier effect throughout the economy<sup>(74)(106)(93)</sup>. Critics of these government initiatives argue two points; first, that the spending comes at a time when the U.S. government is running baseline trillion-dollar annual deficits with the national debt at more than \$34 trillion; second, the U.S. government has not been good with picking winners and losers with allocation of taxpayer dollars within the private economy in recent past<sup>(129)(144)(22)(55)(69)(66)</sup>.

Payrolls increased 216,000 in December, but October and November reports were revised down by 71,000, netting an increase of 145,000 jobs<sup>(138)</sup>. Downward revisions to the job numbers occurred in 10 of the last 11 reports<sup>(144)(6)</sup>. During the last three months of 2023, private payrolls only increased on average 115,000 per month, tied for the slowest 3-month job growth since the pandemic<sup>(144)</sup>. Economist, Brian Wesbury and his team at First Trust caution that the job growth displayed was primarily coming from government, education, and the health services sectors which are somewhat insulated from recessionary pressures, and either funded or subsidized by government spending<sup>(144)(138)</sup>. Brian Wesbury highlights the small number of manufacturing jobs created in December at only 6,000<sup>(138)</sup>. In the 5-year period before the pandemic, 2015-2019, government, health services, and education accounted for 20% of new jobs; in 2023 roughly 50% of the jobs added were to these sectors<sup>(144)</sup>. Economists at Vanguard believe we could see the unemployment rate begin to rise in the first half of 2024, with a mild recession as their base case scenario, followed by a series of Fed rate cuts in the second half of the year<sup>(29)</sup>. Advocates of a strong job market point out that the unemployment rate in December was 3.7%, the average salary increase for 2023 was 4.1%, and the average number of jobs created per month in 2023 was 225,000<sup>(138)(68)(93)</sup>. Further, manufacturing is returning to the U.S. as revealed in the construction of new U.S. manufacturing plants and has increased 59% during the last year, and up 123% in two years<sup>(144)(93)</sup>. However, skeptics argue that the U.S. government by way of the Infrastructure Investment and Jobs Act, CHIPS Act, and the Inflation Reduction Act are funding a good deal of these projects, which may artificially and unsustainably boost growth rates in the private economy<sup>(144)(128)(69)</sup>. Skeptics also point out that although wages grew by 4.1% in 2023, in real terms after inflation, wage gains were only 0.50% for 2023<sup>(148)</sup>.

The U.S. deficit for fiscal year 2023 was \$1.7 trillion (subsequently added to the national debt) calculated by taking tax revenue of \$4.4 trillion and subtracting the \$6.1 trillion of spending<sup>(144)(1)</sup>. The deficit for 2023 would have been \$2 trillion if President's student loan forgiveness plan had survived Supreme Court challenge<sup>(144)(1)</sup>. The U.S. fiscal policy is "madness" as First Trust Chief Economist, Brian Wesbury and his team have stated, pointing out the deficit is high especially during a period where the economy is not experiencing a recession and has historically low unemployment<sup>(144)</sup>. Government spending in fiscal year 2023 was 24% of gross domestic product (GDP), and in 2022 it was 25% of GDP; by comparison the U.S. government spending has averaged 20% of GDP in fiscal years 1968 to 2021<sup>(135)(19)</sup>. Government tax revenue for fiscal year 2023 was 16.5% of GDP, and in fiscal year 2022, it was 19.3% of GDP<sup>(145)</sup>. Historically, U.S. government tax revenue had averaged 17.4% of GDP for the last 50 years<sup>(145)</sup>. By these metrics, it appears that U.S. government spending has trended well above the long-term average while U.S. tax revenues have remained near the long-term average. In a recent report, Brian Wesbury and his economic team at First Trust wrote referring to U.S. fiscal policy, the National Debt, and recent deficit spending "We will never beat China by trying to be like China. Government can never create wealth in the long run"<sup>(144)</sup>. All government spending in the U.S. including federal, state and local is roughly 42% of GDP and when government gets that big it has the potential to squeeze out private investment, which stifles innovation, and ultimately growth, with the bonus of higher taxes<sup>(20)</sup>. The National Debt stands at \$34 trillion and counting, representing 1.2x U.S. economic output (GDP); this ratio by comparison was 1.1 after World War II<sup>(49)</sup>. This is problematic for many reasons but needs to be urgently addressed as interest rates have risen, which affects the national budget by increasing the debt service annually squeezing out other budgetary items<sup>(49)</sup>. Additionally, inflation is already elevated and continued deficit spending is inflationary for an economy with unemployment at 3.7%<sup>(49)(59)</sup>.

## Markets

The “Magnificent 7” are the top seven companies of the capitalization weighted S&P 500 index; Microsoft, Apple, Nvidia, Amazon, Telsa, Alphabet (Google), and Meta (Facebook)<sup>(140)(98)</sup>. Apple alone is roughly 7% of the index<sup>(142)</sup>. After a tumultuous 2022, these companies had a tremendous 2023 returning 107% collectively verses the overall S&P 500 index return of 26% with both return figures including reinvested dividends (Source: YCharts). Keep in mind that the return of the S&P 500 Index is calculated on a capitalization weighted basis meaning roughly one-third of the return is derived from these seven stocks<sup>(140)</sup>.



Short-term interest rates on CDs and Treasuries topped 5% in 2023 and became seemingly attractive verses investment in risk assets such as stocks<sup>(129)(74)</sup>. However, keep in mind that company earnings and dividends generally tend to go up over time while short-term interest rates may begin to decline in 2024<sup>(129)(28)</sup>. A good gauge to compare available returns with bonds over time with the risk premium of owning stocks is the 10-year Treasury Inflation-Protected Securities (TIPS), and the current interest rate on TIPS is now 2%<sup>(129)</sup>. Opportunity may exist in 2024 with U.S. large dividend paying companies which are generally trading 15-17x earnings verses the “magnificent seven” technology stocks trading at 50x earnings collectively<sup>(141)(74)(142)(27)(33)</sup>. Additionally, U.S. small company stocks may add value to a portfolio if the headwinds of higher interest rates, tighter lending, and fear of recession begin to recede<sup>(129)</sup>. Internationally, value may be realized by investing with companies in Europe and Japan that are consistent dividend growers, exhibit earnings growth, and foster innovation<sup>(74)(27)(46)</sup>. The emerging markets supply chain re-direction through countries such as Indonesia, India, and Mexico have led to potential growth, coupled with anticipated rate cuts in these regions in early 2024, may add value to a portfolio<sup>(74)(29)(32)(45)</sup>. Lastly, the health and biological sciences sector may add value to a portfolio with the advent of AI driven healthcare innovation, breakthroughs in Alzheimer’s treatments, and treatments for obesity, coupled with the aging of America<sup>(32)</sup>.

On the bond side of a portfolio, gradually extending duration and locking in rates for a slightly longer period may prove fruitful after an extended period of overweight with short-term debt securities for many investors<sup>(129)(74)(28)(33)(156)</sup>. The bond yield remains inverted at present and may remain so for some time, therefore maintaining short-term exposure is vital while also extending duration for a portion of the bond allocation to position for the longer term<sup>(129)(28)(33)(156)</sup>.

## Shipping Disruption in the Red Sea

Merchant vessels and U.S. Military ships in the Red Sea have been attacked repeatedly with ballistic missiles and drone strikes since October by Houthi militia based out of Yemen, which are armed and financed by Iran<sup>(116)(92)(98)</sup>. The disruption by the Houthis with Suez Canal bound global trade is aimed at supporting Hamas in their war with Israel<sup>(116)(92)</sup>. This route is vital in the global supply chain with transportation of goods and oil but has forced many cargo carriers such as the major shipping player, Maersk, to divert from the region via alternate routes<sup>(116)(92)</sup>. Roughly 10% of all global oil and liquified natural gas goes through this route as well as 30% of all container shipping<sup>(157)</sup>. The U.S., France, Norway, Canada, the U.K. and Bahrain in December formed Operation Prosperity Guardian to thwart the attacks and strike back against the Houthi rebels<sup>(116)(92)</sup>.

Although the U.S. and allies finally struck back at major targets last week, this may produce major economic consequences as a result if continued menacing continues<sup>(103)</sup>. When the U.S. lacks deterrence, other international bad actors fill the void left by weak U.S. leadership<sup>(118)(98)</sup>.

Under the Reagan Administration, the U.S. had 594 ships in the American Fleet<sup>(98)</sup>. Today the U.S. stands at 291 warships, with the Chinese supporting 340 warships on their way to a planned fleet of 400 by 2025<sup>(98)</sup>.

### **The Fed**

Fed Chairman Powell made it clear at the December Federal Open Market Committee meeting that he and his colleagues are mindful of the risk to overtightening monetary policy with higher rates<sup>(129)</sup>. Moreover, the Fed declared during the December meeting a soft landing as the base case, predicted rate cuts, and that inflation will be getting closer to their target of 2% in 2024<sup>(17)</sup>. The longer the Fed retains rates at the current heightened rates, the greater risk to the growth within the U.S. economy and consequently to equities<sup>(129)(6)(28)</sup>. The Fed stepped in to avoid a major crisis in the banking sector during 2023 by allowing banks not to 'mark-to-market' their unrealized bond losses temporarily; a crisis many believe the Fed caused by moving rates up swiftly after ignoring inflation for more than a year which led to the highest inflation in the U.S. since the 1970s<sup>(19)(23)(128)(156)</sup>. However, economists at First Trust believe taxpayers will ultimately bear the brunt of the action to shore up the banking system<sup>(19)</sup>. We believe the Fed made a big policy mistake by not addressing inflation quickly enough and then having to raise rates so high, so fast; however, we also believe Fed Chairman Powell and his committee are doing a better job coming out of inflation, although not yet complete<sup>(129)(121)</sup>. Fed Chairman Powell now seems attuned to not getting this policy decision wrong, so we believe the Fed is done raising rates but will not cut rates prematurely unless the totality of the data warrants<sup>(129)(6)(17)(79)</sup>.

The Fed has signaled three rate cuts in 2024 for 75 basis points with its 'Dot Plot', but the market is currently forecasting six rate cuts worth 1.50%, so we may be in for some volatility as this plays out<sup>(129)(1)(118)(156)</sup>. Economists at Capital Group believe it likely that interest rates may remain elevated at levels considered normal before the Pandemic but that consumers will continue fueling the economy due to higher wages and increased home values<sup>(74)(1)(76)(156)</sup>. First Trust Chief Economist, Brian Wesbury, believes we will end 2024 with a yield of 3.5% on the 10-year treasury in line with projections from Capital Group and PIMCO, but that the U.S. consumer spending may pull back, citing pandemic level savings running out with consumers saving less of their earnings<sup>(1)(5)(6)(23)(156)</sup>. A survey by Bankrate.com last October reveals 81% of Americans had not added anything to their emergency savings yet during 2023 citing inflation as the overriding hindrance<sup>(5)(6)</sup>.

Inflation as measured by the consumer price index (CPI) had receded by the end of 2023 from the peak of 9.1% in June 2022 to 3.4% at the end of December<sup>(129)(74)(148)</sup>. That does not mean prices have come down as roughly the price of everything we buy has risen on average 20% from three years ago, but rather the rate of increase has slowed<sup>(24)(124)</sup>. Wisdom Tree Senior Economist, Professor Jeremy Siegel, and his team believe that the official CPI figures may not reflect real time data showing inflation has slowed even closer to the Fed's target of 2%<sup>(129)</sup>. Professor Siegel points out that since housing makes up roughly one-third of the CPI index and further that the official calculation uses delayed housing metrics, if you substitute real-time housing data as his team does with their proprietary CPI calculation, you see deflation in new homes data and disinflation with rental data that is not yet reflected in the official CPI calculation<sup>(129)(6)(7)(24)</sup>. However, we believe inflation may stick around for at least the next year in the 3% plus range, concurring with JP Morgan CEO, Jamie Dimond, who posited during an interview with Fox Business's Maria Bartiromo during an interview on January 9<sup>th</sup> that inflation may not get back down to the Fed's target of 2% this year, and may increase from the December CPI rate of 3.1%<sup>(101)</sup>. Inflation above the Fed's target may continue due to U.S. government deficit spending plus the impact of several union labor agreements whereby workers negotiated increase wages which are not yet in the data<sup>(129)(123)</sup>.

### **Illegal Immigration Invasion**

The U.S. enters 2024 with 335.9 million legal U.S. citizens, up 1.7 million from this time last year according to the U.S. Census Bureau<sup>(31)</sup>. However, during the last three years it is estimated that 6-7 million additional migrants have entered the country illegally which is 4 times the pace per year from 2010 to 2019<sup>(14)(152)(153)</sup>. At present, thousands enter each month through the southern border creating havoc in New Mexico, Arizona, Texas and in sanctuary cities throughout the U.S. including Chicago, Denver, and New York<sup>(14)(54)</sup>. Migrants arrive on U.S. soil and claim asylum from their home country's political oppression, fear of violence, or deterioration economic conditions including famine, often at great cost both financially and physically to them and their families<sup>(14)</sup>. Case in point, George Udzilauri, a 35-year-old man and a recent illegal immigrant from Tbilisi, Georgia (the country), which is between Europe and Asia along the original Silk Road, arrived in the U.S. in December 2023, according to the Wall Street Journal<sup>(132)</sup>. To get the U.S. George Udzilauri to Cuba, then to Nicaragua, and then he embarked on a journey by land through Central America and Mexico before crossing into the U.S. illegally and claiming asylum<sup>(132)</sup>. Illegal migrants have been arriving on the southwest border averaging 7,000 per day during the last year, with some weeks averaging more than 10,000 per day<sup>(132)</sup>.

Illegal migrants make this journey with the belief that the U.S. government will be welcoming through lenient immigration policy as well as financial and medical assistance<sup>(14)</sup>. When illegal migrants enter and claim asylum, they are provided for and released into the interior of the country with a mobile phone, medical card, monthly stipend, along with a court date to hear their asylum claim, to validate or reject credibility of their claim, but which is often years in the future<sup>(14)</sup>. The cost to taxpayers of illegal immigration is estimated at \$400 billion per year at present, not including the monetary cost of increased crime and the human cost of illegal drugs and human trafficking<sup>(151)</sup>. This is not to mention the risk

of a terrorist threat coming through the southern border<sup>(114)</sup>. Democratic Governor Katie Hobbs of Arizona has sent her National Guard to the border recently stating, “the federal government is refusing to do its job to secure our border and keep communities safe”<sup>(132)</sup>.

U.S. immigration laws have not been updated in 30 years<sup>(14)</sup>. The solution according to Doris Meissner, the former Clinton Administration commissioner of Immigration and Naturalization Service, is to enforce the boarder, decide asylum cases quicker, and increase legal immigration<sup>(14)</sup>. Easier said than done, as Democrats believe the U.S. has a humanitarian obligation to admit millions of asylum seekers who can presumably enter U.S. society and contribute to our mutual prosperity<sup>(14)</sup>. Republicans believe the surge of illegal immigrants is a clear and present danger to U.S. national security, an unjust financial burden on American taxpayers, and the unintentional aiding and abetting of criminals who traffic drugs and humans across the border<sup>(14)</sup>. Republican proposals to cease the surge at the border involve closing the border, making it easier to deport illegal migrants, and requiring illegal migrants claiming asylum to first claim asylum in the country they first travel through once they leave their home country<sup>(14)(114)</sup>. The two political parties are far apart on any border compromise at present, but the American people, according to the New York Times, consider the illegal immigration issue crucial at this juncture<sup>(14)</sup>. The Biden Administration’s decision to admit millions of illegal immigrants with asylum claims into the U.S. for years until their case can be heard may be front and center in the upcoming budget battle in Congress as Republicans push for a major change with this asylum claim policy of catch and release into the U.S.<sup>(114)</sup>.

## **Space**

Space exploration during the last five years has taken off so to speak, with space launches cumulatively exceeding the number of launches from the dawn of space exploration in 1957 through 2018<sup>(2)</sup>. The U.S. has led the way with 79% of the launches in 2022 while our closest competitor, China, had only 7% of the launches during that year<sup>(2)</sup>. SpaceX, an American private aerospace company majority owned by Elon Musk, has led the way working to drive down the cost of materials and propulsion systems, pushing advancement in space travel technology through competition for contracts within the private market<sup>(2)</sup>. At the heart of innovation and cost savings for SpaceX was the ability to bring the first stage of the rocket back to earth for re-use in a subsequent launch, which first took place successfully in 2015<sup>(2)</sup>. SpaceX’s low orbit Starlink satellites have been effective in providing internet coverage and communication services to remote locations, plus they are utilized to augment scientific research<sup>(2)</sup>.

## **Artificial Intelligence**

Investing in artificial intelligence (AI) was all the rage in 2023 with the expectation that the new technology would innovate across many industries subsequently increasing productivity, efficiency, and accelerating profits<sup>(74)</sup>. Major players in this industry, such as Applied Materials, Nvidia, and Broadcom make the powerful computer chips that enable the running of AI applications, but there are also the companies such as Microsoft, Amazon, and Google who provide the cloud computing and AI software needed to employ the technology<sup>(74)</sup>. Technology, communication, financial, health care, and manufacturing companies, as well as legal and professional organizations are already utilizing the new AI technology<sup>(74)</sup>. As an example, JP Morgan is utilizing AI to aid with identity theft detection, Pfizer in the development of new drugs, and McDonald’s to expedite drive-through orders<sup>(74)</sup>. Advancements in technology, such as the smartphone, have proven to be deflationary over time and many expect the new AI technology applications, doing the work of less specialized workers, to be a cost savings for companies and to ultimately reduce inflationary pressures<sup>(129)</sup>.

## **Housing and the Real Estate Market**

A housing slowdown is a risk to the economy although that sector has been resilient even with the headwinds of higher interest rates, tighter lending standards, and the low inventory of available used homes for sale due to a decade of underbuilding residential housing units<sup>(129)(1)(7)(19)(95)</sup>. In 2023, housing starts, and existing home sales went down, but new home sales and home prices each increased<sup>(48)</sup>. Lower housing inventory had kept prices relatively stable with the Case-Shiller index showing a gain of roughly 6% for 2023 through the end of October in existing home sales<sup>(48)(7)(95)</sup>. However, if interest rates decline, coupled with the expected increase in new construction in 2024, that scenario may begin to change with a leveling of prices<sup>(7)(48)(94)</sup>. At present homeowners who have secured low mortgage rates are less likely to sell and establish a new mortgage at a higher rate<sup>(7)(48)(95)</sup>. However, new home prices have dropped roughly 10% during the prior year due to the size of homes that are selling verses a year ago<sup>(24)</sup>. New home buyers, due to increased mortgage rates are buying down to keep payments in check with their income, and builders are accommodating, but the cost per square inch has not decreased<sup>(24)</sup>. Overall, we expect the housing market to continue to improve as we move through 2024<sup>(48)(95)(94)</sup>.

Generally, the economy is slowing, debt funding has tightened with restricted bank lending, and interest rates for developers remain at elevated levels, so the downside risks in real estate remain elevated<sup>(130)</sup>. However, there remains demand for industrial parks and data center development, especially with advent of AI sparking new demand hot on the back in recent years by cloud computing<sup>(130)</sup>. The demand for apartments has sparked a wave of new rental apartment supply with 900,000 units currently under construction, an all-time high, which should

work to slow growth and lower rents<sup>(130)(48)</sup>. Demand for office space since the pandemic with remote and hybrid working conditions has left the U.S. with roughly 1 billion square feet of empty office space, the equivalent of 48,000 vacant floors in office towers<sup>(139)</sup>. The hotel industry in the U.S. may face headwinds with a slower economy plus the advent of alternative lodging sources such as VRBO and Air BNB, but demand should remain relatively stable with more domestic travel anticipated in lieu of international destinations<sup>(130)</sup>.

### **Social Security**

It may be beneficial to wait as long as possible to collect Social Security benefits depending on your life expectancy and that of your spouse. The maximum monthly benefit for all Americans is at age 70, yet just 10% of Americans claim at that age<sup>(12)</sup>. However, 40% of Americans in a recent survey plan to commence benefit payments between the age of 62 and 65 which is before the full retirement age of 67 for most Americans born after 1960<sup>(12)</sup>. Full retirement benefits are reduced if taken before the normal retirement date, but if taken after the retirement date an additional delayed retirement credit of 8% is added each year, for a maximum delayed retirement credit of 24% if delayed until age 70<sup>(12)</sup>. The two major motivations for taking Social Security income before age 70 according to this recent survey include; first, the need for income before age 70 or simply choosing to utilize Social Security income early in lieu of withdrawing personal retirement savings<sup>(12)</sup>. Second, Americans appear worried that Social Security may go away and cease payments at some point<sup>(12)</sup>. To that point, the Social Security Board of Trustees has stated the Social Security Trust Fund will be depleted by 2033, but assuming Congress does not address this problem beforehand as they have in the past, it does not mean benefits will stop as it is projected that 77% of payments will continue to go out as scheduled funded with current Social Security taxes collected<sup>(12)</sup>.

### **Life Insurance**

Millennials, those born between 1981 and 1996, are not buying life insurance according to a recent survey with 53% of respondents not owning coverage<sup>(4)</sup>. Life insurance is vital to any financial plan but especially for families with young children, presumably Millennials who range in age from 27 through 42. It is true at younger ages less people die, but for every 1,000 in this age group, roughly 2 die per year statistically<sup>(146)</sup>. Reasons cited by respondents include: 'not affordable', 'expect to live past age 90', and 'don't think they need it'<sup>(4)</sup>. However, if you buy life insurance at a young age it is generally less expensive due to age and health status than if you wait until you are older. But there is more to securing life coverage, as Jack Leterman stated in 1929, "Life insurance is what can stop a bad event from being even worse. Until baptized with your loved one's tears, a life insurance policy is just a piece of paper. Then, it becomes a miracle; it is food, clothing, shelter, education, and peace of mind. It is new hope, fresh courage, and strength. It is your hopes and dreams for your family. It is the sincerest love letter ever written." If you are in this age group, or know someone who is, have them assess their life insurance needs with a professional.

### **Healthcare**

Americans spend the most in the world on healthcare at \$12,900 per person, per year, but U.S. healthcare is also considered the most modern and innovative in the world<sup>(30)(149)</sup>. Germany spends \$7,400 per person, per year, Sweden \$6,200, France \$6,100, and the United Kingdom \$5,400, yet surprisingly all these countries have a greater life expectancy per person than the U.S.<sup>(30)(149)</sup>. Health care costs are a significant contributor to our country's national debt and have risen at a greater pace than the overall economy for more than 40 years<sup>(149)</sup>. Drivers of higher expenditures in U.S. healthcare verses other countries has been researched, and although Americans utilize health care more and are generally in poorer health that other developed countries, the major contributor has been found to be a disintegrated, less efficient system of health care providers, physician groups, insurers, hospitals, and surgical centers, all with a profit motive<sup>(30)(147)(149)</sup>. Further, consolidation among insurers, physician groups, and hospital systems during the last decade has worked to streamline administration and strengthen each of their respective shares of the market and thus increase profits, but unfortunately it has not worked to bring down the cost for consumers of healthcare<sup>(30)(147)(149)(150)</sup>.

As a capitalist, I disagree on the surface at this assessment, as all business should have a profit motive, but keep in mind, the U.S. healthcare system does not have the same competitive forces as in most industries, where consumers choose directly, view cost, and compare alternatives to arrive at a decision<sup>(30)</sup>. In the U.S. healthcare system consumers are often dealing with insurance companies and providers in a complex disintegrated system, without the ability to easily compare and pay costs or choose a competitor<sup>(30)(147)</sup>. In other countries, governments regulate health care costs and consumers are often dealing with one government system, or only a few private systems that agree on price which is set by the government<sup>(30)(147)</sup>. However, in these countries, consumers may wait months to receive an appointment, needed surgery, and specialized care.

There appears no easy answer for the U.S. when the goal is to improve outcomes while reducing costs, but ensuring access for all Americans, and at the same time continue to foster innovation, which more than likely requires a profit motive. Many experts believe that the government is the answer; first, by placing a cap on commercial rates which would be calculated as a percentage maximum of what Medicare had negotiated as reimbursement for the same service, investing in public health infrastructure, and enforcing controls for consolidation of hospital systems whereby efficiency can be realized but cannot lead to a hospital system's monopolistic price control over consumers<sup>(149)</sup>. Incidentally, the government would presumably prevent accused monopoly hospitals from controlling market rates by themselves controlling the prices hospitals could charge. Permanent Medicaid expansion, like what occurred during the pandemic has been bantered as a solution, but critics argue that is a step too far that will lead to one national healthcare run system for everyone that will likely stifle innovation and provide less quality care<sup>(150)</sup>.

Other proposals include reimbursement reform, bundled payments, better management and accountability systems for low-value care, and site-neutral payment reform, which is charging the same fee for the same service whether it was performed in a hospital, surgical center or doctor's office<sup>(149)</sup>. Low-value care are services that are medically unnecessary and include examples such as running excessive tests on low-risk patients, overprescribing antibiotics, or recommending surgery when physical therapy may first be attempted. Bundled payments are one bill for one medical episode, no matter how many doctors or specialized providers are involved, or how many tests were run<sup>(149)</sup>. Health savings accounts have expanded in recent years, which may provide more consumer awareness and control of their actual healthcare costs<sup>(149)(30)</sup>. Lastly, proposals for a mandate that hospitals employ more nurses per patient have been proposed to improve patient outcomes, as well as a commitment by the government through public policy or tax incentives to best enable the education and training of more nurses, physicians, and surgeons<sup>(150)</sup>.

### ***Inherited IRAs***

Unique rules apply to non-spouse beneficiaries of IRA assets; first, you can move the assets through a direct transfer to another custodian of your choice; you can also change the investment selections within the inherited IRA either with the current or new custodian selected<sup>(35)</sup>. Second, distributions from the inherited IRA are taxable but there is no penalty if you are under age 59 ½<sup>(35)</sup>. Third, you cannot contribute to the inherited IRA, but you can combine inherited IRAs received from the same decedent<sup>(35)</sup>. Fourth, you may be subject to annual required minimum distributions depending on the age of the decedent when the IRA was inherited, but nonetheless will need to have the funds totally distributed out of the inherited IRA 10 years after the decedent's year of death<sup>(35)</sup>. Beneficiaries who inherited an IRA as a non-spouse prior to 2020 are still able to continue to take RMDs over their lifetime<sup>(35)</sup>. Lastly, an inherited IRA beneficiary is eligible to have their distribution (up to \$100,000 annually) treated as a qualified charitable distribution (QCD) after age 70 ½<sup>(35)</sup>. A QCD allows the beneficiary to transfer the distribution directly to a charity of their choice tax-free<sup>(35)</sup>.

### ***Taxes and the Presidential Election***

The U.S. budget is out of control at present, running historically large deficits that will need to be addressed by a future Administration and Congress. The Trump tax cuts that were enacted in 2017 are set to expire in 2025<sup>(18)</sup>. Economists at First Trust believe that if the Republicans can win control of the presidency and both houses of Congress in the next election we could see substantial cuts to the discretionary budget outside of military spending, as well as substantial cuts to the Medicaid program<sup>(18)</sup>. If Democrats win control of the presidency and both houses of Congress in the next election, we could see tax increases for individuals and businesses<sup>(18)</sup>. If government control remains mixed, we may expect slightly higher tax rates for individuals and businesses with the sunset of the Trump tax cuts, plus minor reductions in the federal budget at the margins<sup>(18)</sup>.

### ***Terminal Illness and SIMPLE IRA Clarification from SECURE Act 2.0***

In IRS Notice 2024-02, issued in December 2023, the IRS provided guidance on several issues surrounding SECURE Act 2.0<sup>(143)</sup>. First, SECURE Act 2.0 allows for penalty-free distributions from both IRAs and qualified plans for terminal illness but must be certified by a physician for qualification<sup>(143)</sup>. Second, SECURE Act 2.0 allows increased contribution limits for employees under a SIMPLE plan for both normal and catch-up contributions<sup>(143)</sup>. This is over and above the stated limits for 2024 of \$16,000 for normal contributions and \$3,500 for catch-up contributions<sup>(143)</sup>. If the employer is eligible with under 100 employees, the limits are increased by 10% to \$17,600 for normal contributions and \$3,850 for catch-up contributions<sup>(143)</sup>. This is available for all employers under 25 employees; however, for employers with 26-100 employees, to take advantage of these higher limits, they must provide a 4% (instead of 3%) employee matching contribution or a 3% (instead of 2%) across-the-board contribution to be eligible<sup>(143)</sup>.



## **Gifting**

In 2024 a taxpayer can gift, through the annual exclusion, up to \$18,000 per person (married couples can jointly gift \$36,000 per couple) without using up any of their lifetime exemption of \$13.61 million, or \$27.22 million per couple in 2024 before incurring estate tax<sup>(3)</sup>. A taxpayer can give an amount greater than the annual exclusion but must file a gift tax return for the amount gifted over the annual exclusion, although no tax would be due by the donor until the lifetime exemption is exceeded<sup>(3)</sup>. Gifting has several advantages such as removing the asset, its future income and appreciation from the estate, and a gift to the recipient that is tax free upon receipt<sup>(3)</sup>. Gifts of appreciated property during the donor's lifetime, such as stock or real estate, would also 'gift' the recipient the cost basis, which if sold, would incur realization of capital gain by the recipient<sup>(3)</sup>. Gifts of appreciated property held until death would qualify for a set-up in basis to the beneficiary and likely avoid capital gain recognition by the beneficiary<sup>(3)</sup>.

Gifts of cash by a donor parent or grandparent to their children or grandchildren can be utilized to fund the recipient's Roth IRA, assuming the recipient has qualifying earned income or is otherwise eligible to contribute but can also be used to offset taxes incurred by the recipient from conversion of his or her IRA to a Roth IRA<sup>(3)</sup>. A parent may utilize this strategy effectively if required to take required minimum distributions (RMD) from their IRA but would not necessarily need the additional income, and subsequently make a gift of the RMD<sup>(3)</sup>. Additionally, an adult child can also gift funds to their parent to offset the taxes due on IRA funds converted to a Roth IRA assuming the parent does not need the IRA income, especially once RMDs have begun<sup>(3)</sup>. Once a parent converts his or her IRA to a Roth IRA, this may prove advantageous in two ways; first, no required minimum distributions would be required annually, thereby reducing taxable income for their parent<sup>(3)</sup>. Second, once the parent's IRA is converted to Roth IRA, when inherited in the future by the adult child or grandchild, the beneficiary would not be required to take the assets out of the inherited Roth IRA for 10 years thereby extending the tax-free compounding within the Roth IRA; at the end of 10 years the distribution would be income tax free to the beneficiary<sup>(3)</sup>.

## **IRAs, Roth IRAs, 401ks, and SEPs**

IRA and Roth IRA contribution limits are increasing in 2024 to \$7,000 (from \$6,500 in 2023) while the catch-up contribution for those ages 50 and older will remain at \$1,000<sup>(31)</sup>. The maximum SEP contribution has increased for 2024 to \$69,000 (from \$66,000 in 2023), while the elective deferrals to a 401k plan have increased to \$23,000 (from \$22,500 in 2023)<sup>(31)</sup>. The 401k catch-up contributions for those ages 50 and over remains at \$7,500 for 2024<sup>(31)</sup>.

## **Charlie Munger**

Warren Buffett's closest friend and business partner for nearly 60 years, Charlie Munger, died on November 28, 2023, at the age of 99, just 34 days before his 100 birthday<sup>(108)(109)(110)</sup>. Those who knew him cite his common sense, bluntness, humor, curiosity, ability to think clearly, deal fairly, and his contempt for conventional wisdom<sup>(108)(109)(110)</sup>. Charlie Munger's hero was Benjamin Franklin, whom he admired for his ingenuity and curiosity<sup>(108)</sup>. Warren Buffett's first wife Susan has been quoted as saying "Warren felt that Charlie was the smartest person he had ever met"<sup>(108)</sup>. Charlie's partial citation of Confucius while responding about his own beliefs in a 2014 interview with a Wall Street Journal reporter is revealing "real knowledge is knowing the extent of one's ignorance... Knowing what you don't know is more useful than being brilliant"<sup>(109)</sup>. Besides being vice chairman of Berkshire Hathaway, Charlie Munger was chairman of the Daily Journal, which is a legal publisher, and a member of the board of directors at Costco Wholesale<sup>(109)</sup>. He was also involved as a partner with one of the largest apartment developers in California, besides managing his own personal multimillion dollar investment portfolio of U.S., Chinese, and other international stocks<sup>(108)(109)(110)</sup>.

Warren Buffet's investment philosophy at Berkshire Hathaway was to buy out of favor companies at bargain prices which he learned from his mentor, Benjamin Graham<sup>(108)(110)</sup>. However, Charlie Munger's most important contribution at Berkshire Hathaway was to emphasize his investment philosophy of buying wonderful companies at fair prices whereby value could be realized by future increased cash flows<sup>(110)(108)</sup>. Buffett's purchase of See's Candy Shops in 1972 was the initial adaptation of Charlie Munger's philosophy and this philosophy has paid off handsomely for Berkshire Hathaway shareholders over the years<sup>(108)(109)(100)</sup>.

Personally, I knew Charlie Munger from both Berkshire Hathaway's annual meeting transcripts over the years, and from "Poor Charlie's Almanack" that I received as a gift many years ago which contains many of his writings and insights. He was brilliant and had a way of making seemingly complex issues simple and easier to analyze and conceptualize. Charlie Munger once said, "the best thing a human being can do is to help another human being know more" and his life's work certainly did that for many investors including me<sup>(139)</sup>.

## **LW GamePlan**

The LW Portfolio Models are constructed globally with core equity positions in small, medium, and large cap equities, each straddled by momentum-based and value-based investment positions. We believe adding momentum-based investment positions using technical analysis offers the opportunity to allow current market trends to play out while also providing the flexibility to potentially alter exposure when market trends retreat. We also believe adding value-based positions us in the place of the "turtle", in the proverbial tortoise verses the hare scenario,



over the long-term with equities. Value-based investment generally involves buying securities whose shares appear underpriced by a form of fundamental analysis. Additionally, we believe that by combining value and momentum strategies across diverse markets and asset classes may result in significantly higher risk-adjusted rates of returns based on the academic research conducted<sup>(154)(155)</sup>. Lastly, we prescribe dividend yield from all our equity investment positions so that no matter what markets are doing day to day, we have dividends continuously coming into the portfolio.

Our fixed income blueprint for the portfolio consists of allocations to core domestic, foreign core, strategic investment grade, inflation protected, and high yield bonds. Overall, we evaluate investment positions in seven asset classes including domestic equities, foreign developed stocks, foreign emerging market equities, domestic bonds, foreign bonds, cash equivalents, and alternative assets such as real estate, infrastructure, natural resources, and commodities for inclusion within our overall asset allocation. How much of each asset class, if any, we hold in these asset classes is based on your unique risk tolerance, financial resources and personal goals and objectives. We strive to be offensively positioned while remaining defensively minded with our portfolio construction and periodic adjustments. Simply put, we adopt an investment strategy, embrace it with confidence, and endure the inevitable ups and downs in the markets.

***“Truth is ever to be found in the Simplicity, and not in the multiplicity and confusion of things”***  
*—Isaac Newton*

Our Leshnak Wealth Portfolio Models are not immune to declines in global markets as we do not have a crystal ball nor do any of the market analysts and forecasters. Our belief is that our LW Portfolio Model construction is diversified for potential resilience in any environment and may put us in a position to take advantage of market mispricing during such market gyrations. We do not modify overall asset class allocation due to market corrections unless a fundamental change in the underlying outlook for the domestic or global economy has significantly diminished or brightened verses our expectations. As the ancient Buddhist proverb states “If we are facing in the right direction, all we have to do is keep on walking”. Pullbacks can be expected to last relatively shorter periods on average compared to the bull markets they take reprieve from, as the greed present turns to fear and shakes out those investors who are not fundamentally based on their convictions.

***“We are confident that your portfolios are positioned to best achieve your long-term goals and that your wealth plan remains on track.”*** *—Bob Leshnak*

As your financial fiduciary, the Leshnak Wealth team cares deeply about your financial well-being and will monitor for rebalancing opportunities that may add value to your portfolio, or to be defensive as conditions might warrant. We know that as your advisor, the trust you bestow upon us is built and maintained on three pillars; doing what we say we will do, assisting with planning for and achieving your financial independence, and providing unbiased advice with your best interest at the forefront. As always, please call with questions or if you wish to discuss your specific portfolio or Wealth Plan in greater detail.

***—Bob Leshnak, January 12, 2024***

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