TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

October 2024

Quarterly Insights

EXECUTIVE SUMMARY

Stocks Up And Bonds Up In Q3

In the Third Quarter, the domestic S&P 500 Index was up 5.89% and was in line with all major regions. All developed foreign regions were positive. China was up 23.36% in the last 8 trading days of Q3 due to stimulus excitement, although we believe its economic growth remains challenged. Communication Services (-0.23%) and Technology (+1.01%) lagged in Q3, a complete reversal from the first two quarters, where they led considerably. In its September 18 meeting, the Fed announced a 0.50% rate cut and indicated further possible rate cuts. In Q3, the Bloomberg US Aggregate Bond Total Return USD Index (AGG) rose 5.20% - year to date, the index is up 4.45%.

Question From Client: Add Funds Now Or Later?

Much of the financial news in the Third Quarter centered on the potential actions of the Fed. The market uncertainty prompted a client to ask a great question in mid-August:

"We are ready to send in our 401(k) money for this year now, and want to know if it is advisable to keep it in Treasurys for a couple of months or invest right away. I remember your advice of not to time the market. Are there exceptions to this rule? For example, when the interest rate has stayed high for so long, and a recession is expected in a few months, and when there will be a rate cut when inflation is not truly in control, and so on".

Should concerns about current conditions dictate an exception to the rule "don't try to time the market"? No. The best strategy is to invest right away. We will explain why.

Third Quarter 2024

In This Issue

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Deliberate Investing

For Your

Peace Of Mind

"Don't Try To Time The Market": Are Current Conditions An Exception To This Rule?

Much of the financial news in the Third Quarter centered on the potential actions of the Fed. Given its dual mandate, would the inflation rate (currently 2.5%) and unemployment rate (currently 4.2%) allow a rate cut that would facilitate an economic "soft landing" versus a recession? On September 18, we got some clarity when the Fed announced a 0.50% rate cut (its target rate is now 4.75%). While future cuts are undetermined, the Fed signaled two more 0.25% cuts this year followed by four more 0.25% cuts in 2025. Uncertainty concerns investors. Here is a great question we received via email from a client in mid-August:

> ***We are ready to send in our 401(k) money for this year now, and want to know if it is advisable to keep it in Treasurys for a couple of months or invest right away. I remember your advice of not to time the market. Are there exceptions to this rule? For example, when the interest rate has stayed high for so long, and a recession is expected in a few months, and when there will be a rate cut when inflation is not truly in control, and so on.***

We would like to share our response, as we are reasonably sure many of you have the same question.

1. Define Your Investment Time Frame - Short Term or Long Term

Your funds are for your 401(k). These are funds that you won't access for a long time (over 20 years from now). Consequently, these are funds to be invested over the long term. A different scenario would be funds to be invested for the short term (12 months or less) that need liquidity and minimal potential volatility.

2. Short Discussion of Market Variables

A. Interest Rates

You note that interest rates have been high for a long time. Indeed the rates are high as compared to the "zero rate" environment we experienced from 2009-2015 and May 2020-May 2022 - but not much above historical averages. Given the long-term investment objective of your funds, we do not believe short term levels of interest rates should impact the timing (entry) of your long term investments (see upcoming discussion).

B. Recession versus "Soft Landing"

Current economic data (note: annual GDP growth for Q2 was 3.0%) does not indicate that a recession is on the near-term horizon. The Fed, through its policies, is trying to maneuver a "soft landing" for the economy. At this time, the market is assuming that a "soft landing" is a greater likelihood (79%) than a recession. For the sake of argument, let's assume that we encounter a mild recession versus a "soft landing". Should this scenario impact the timing (entry) of your long term investments? The short answer is no. History has shown that the markets do reasonably well in the midst of recessions. One of the reasons is that the market is a forward indicator – it assesses expectations six months out, not concurrent.

C. Rate of Inflation and the Fed

You note that inflation "is not truly in control" and, if this is the case, how can the Fed do a rate cut? During the pandemic (2020-2022), inflation was "truly out of control", approaching 10%. Fortunately, things have settled down and inflation is under 3%. The Fed has a stated target of 2% inflation. This has been the sticking point of potential rate cuts. The question is whether inflation above 2% is acceptable to the Fed regarding a rate cut(s). The market is assuming this is the case, and we may indeed see a 0.25% rate cut in September (note: we saw a 0.50% cut). This may or may not propel the market in the short term (note: it did not). Whether or not the Fed lowers its target rate in the short term should not impact the timing (entry) of your long term investments (see upcoming discussion).

3. What We Know About The Market Over The Long Term

Stock markets rise and stock markets fall. Thankfully, history shows that over the long term, they go up more than they go down. On average, the stock market has gone up 10% a year over the long term. The data is much more consistent the longer the investment time frame.

We also know that it is impossible to time the market. Take the scenario you describe right now, a decision of whether it is the right time for entry. Let's assume you decide to stay out of the market and that you have a 50% chance of this being the right decision. Let's also assume that you need to ultimately decide when to enter the market, and when that time comes, you have a 50% chance of this being the right decision.

While not a precise calculation, the odds of making both (two) good decisions are only 25%: 0.50 * 0.50 = 0.25. It is a bad statistical bet to try and successfully time market entries and exits!

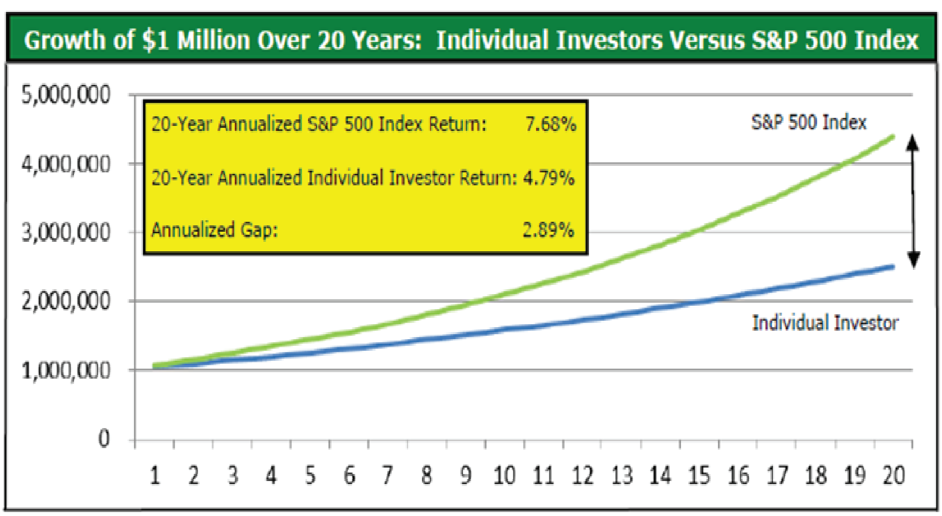
4. The Dalbar Study

Here is a section from our Quarterly Insights October 2017 report:

There Are Dire Consequences When Investors Act On Their Emotions

"The most important aspect of (my work) was the recognition that economic agents are human."
Richard Thaler, Behavioral Science Pioneer, 2017 Nobel Prize In Economic Sciences (announced October 9, 2017)

Dalbar Inc. publishes an annual study called the Quantitative Analysis of Investor Behavior (QAIB). The research shows that the inability of individual investors to stay invested over time is a big detriment to their portfolio performance. Put another way, investors cannot time the market by jumping out every time they feel nervous and lose faith. They would be much better off being disciplined and sticking to their game plan.



SAD BUT TRUE

Starting with an investment of $1 million, an individual investor will lag the S&P 500 Index by close to $2 million over a 20 year time frame due to undisciplined investing.

Source: DALBAR QAIB 2016

Nothing has changed since we originally discussed the Dalbar findings. In its 30th annual QAIB report released on April 24 this year, the average equity investor earned 5.5% less than the S&P 500 Index in 2023 (the 3rd largest investor gap in the last 10 years). The gap was 3.06% in 2022.

5. The Charles Schwab Study

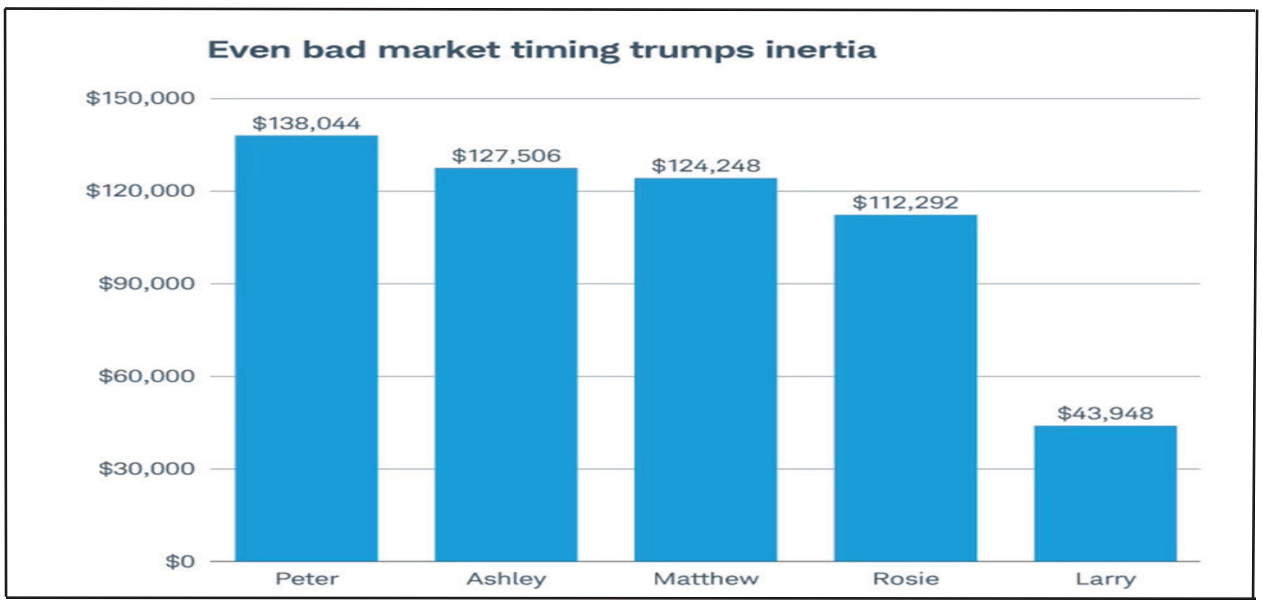
Schwab published an excellent short publication on September 13, 2023 titled "Does Market Timing Work"? We would like to highlight the study and its conclusions because it is so pertinent to your questions. The conclusion was highlighted as follows:

**"We ran the numbers on market timing. Our findings?
There's a high cost to waiting for the best entry point".**

Consider our research on the performance of five hypothetical long-term investors following very different investment strategies. Each received $2,000 at the beginning of every year for the 20 years ending in 2022 and left the money in the stock market as represented by the S&P 500 Index.

1. **Peter Perfect** was a perfect market timer. He had incredible skill (luck), placing funds at the lowest point.
2. **Ashley Action** placed her funds in the market on the first trading day of each year.
3. **Matthew Monthly** divided his annual allotment into 12 equal monthly additions ("dollar cost averaging").
4. **Rosie Rotten** had incredibly poor timing (luck), placing funds each year at the market's peak.
5. **Larry Linger** left his money in cash (Treasury bills) each year and never got around to investing in stocks.

For the winner, look at the graph, which shows how much hypothetical wealth each of the five investors had accumulated at the end of the 20 years (2003-2022). Actually, we looked at 78 separate 20-year periods in all, finding similar results across almost all time periods. Naturally, the best results belonged to Peter, who had perfect market timing. But the study's most stunning findings concern Ashley, who came in second and not much less than Peter. Ashley put her money to work immediately without any pretense of market timing.



CONCLUDING THOUGHTS

Your funds are designated for long term investing. Given the difficulty (impossibility) of timing the market, the best strategy is to invest in the market immediately.

Procrastination can be worse than bad timing. Long term, it's almost always better to invest in stocks – even at the worst time each year-than not to invest at all.

Don't Let The Upcoming Election Drive Your Investment Bias

People's optimism towards financial markets and the economy is dynamically influenced by their political affiliation. Individuals become more optimistic and perceive the markets to be less risky/more undervalued when their party is in power. Nowhere is this more evident than the confidence levels measured in the University of Michigan Index of Consumer Sentiment.

University of Michigan Index of Consumer Sentiment			
Time	**Democrats**	**Republicans**	**President**
October 2016	**95.4**	61.1	**Obama**
December 2017	58.0	**114.4**	**Trump**
December 2018	65.0	**119.2**	**Trump**
December 2019	62.4	**117.5**	**Trump**
December 2020	**83.5**	62.6	**Biden (incoming)**
December 2021	**92.8**	39.3	**Biden**
December 2022	**86.5**	37.1	**Biden**
December 2023	**91.2**	56.0	**Biden**
August 2024	**94.0**	56.3	**Biden**
December 2024			**??? (incoming)**

To the likely surprise of many, whoever is President has not for the most part impeded the market.

President	Presidential Term by Inauguration Dates	S&P 500 Annualized Return (source: Bernstein)
Carter	1977-1981	12.0%
Reagan	1981-1989	15.1%
Bush 1	1989-1993	14.6%
Clinton	1993-2001	17.5%
Bush 2	2001-2009	-4.5%
Obama	2009-2017	16.3%
Trump	2017-2021	16.3%
Biden	2021-August 2024	12.9%

The bull market that began in March 2009 is often called "the most hated bull market in history". It was met with initial skepticism and pessimism that lingered for 8 years. We postulate that many more Republicans than Democrats missed out by staying on the sidelines for all or part of this market run. Why? Republicans were more uncomfortable that the Democrats were in power starting in 2009 (Barack Obama) and hence were less enthusiastic about the economy and overly defensive in their investment approach.

We further postulate that many Republicans who were on the sidelines for many years came back to the market on November 9, 2016 (the day following Donald Trump's victory). As evidenced by data from Gallup and CNBC at that time, this sub-group of investors suddenly felt comfortable, moving cash and bonds to stocks - and the Democrats sub-group did not feel comfortable, moving stocks to bonds and cash. Finally, we postulate that Republicans became more bearish and Democrats more bullish starting in December 2020.

Investors on both sides of the aisle have allowed their political bias to drive them to try to time the market - and they got hurt. Resist the urge to be overly aggressive or defensive regarding investments depending on your political affiliation and the presiding President. We are apolitical as your investment manager. Our investment decisions are solely based on prevailing/anticipated market conditions, not political leanings.

*"As the old saying goes, there are only **two types of investor:** those who can't time the markets, and those who don't know they can't time the markets".* Charlie Munger

Stocks Rise In Q3

In the Third Quarter, the domestic S&P 500 Index was up 5.89% and was in line with all major regions. All developed foreign regions were positive. China was up 23.49% in Q3 as its government announced aggressive stimulus measures in late September, although we believe its economic growth continues to be challenged. Real Estate and Utilities, buoyed by lower interest rates, led sector performance.

Equity Index Performance

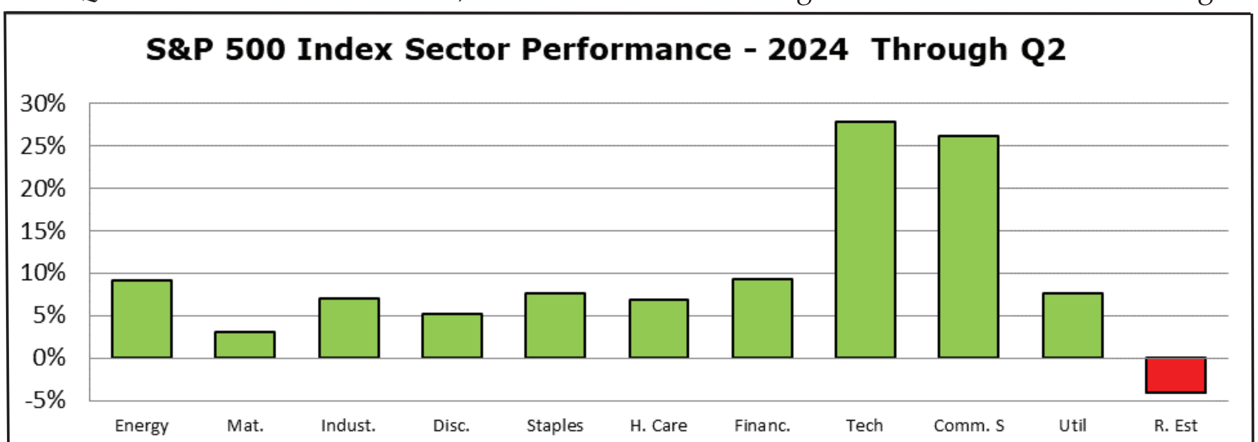
Index	Q3 2024	2024 YTD
S&P 500 (Domestic)	**5.89%**	**22.08%**
MSCI EAFE (Foreign) *	**7.26%**	**12.99%**
MSCI Emerging Markets	**8.72%**	**16.86%**
MSCI EMU (European Monetary Union)	**7.33%**	**12.81%**
MSCI Japan	**5.72%**	**12.35%**

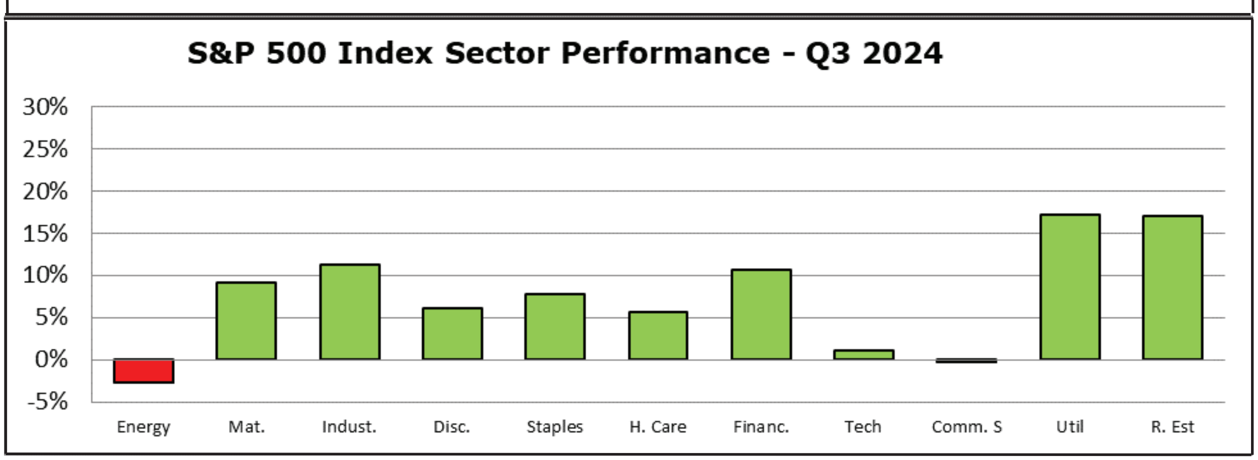
* Europe, Australia and the Far East

The Q3 Market: Why We Believe It Is Important To Maintain Broad Sector Exposure

We made the following comment regarding sector exposure in our Quarterly Insights July 2024 report: *While Technology and Communication Services have been by far the sector leaders, we believe it is important to maintain broad sector exposure. Hence, we are roughly neutral-weight to these areas, not over-weight.*

Q3 was a great case scenario of why we feel it is important to maintain broad sector exposure. While Technology and Communication Services were by far the leading sectors through Q2, they were by far the laggards in Q3. If we were “heat chasers”, we would have over-weighted these sectors at the wrong time.





Bonds Rise A Lot In Q3

The Bloomberg US Aggregate Bond Total Return USD Index (AGG), a broad-based representation of bond performance, rose 5.20% in the Third Quarter. Year-to-date, the index is up 4.45%. The Fed's preferred inflation gauge, the core Personal Consumption Expenditures index, rose 2.5% in August. In its September 18 meeting, the Fed announced a 0.50% rate cut and indicated further possible rate cuts.

Key US Interest Rates	June 30, 2024	Sept. 30, 2024	Change
Federal Reserve Board Funds Target Rate	5.25% - 5.50%	4.75% - 5.00%	- 50 basis points
2-Year Treasury (Constant Maturity)	4.71%	3.66%	- 105 basis points
5-Year Treasury (Constant Maturity)	4.33%	3.58%	- 75 basis points
10-Year Treasury (Constant Maturity)	4.36%	3.81%	- 55 basis points

Why Bonds Rose So Much In Q3

Remember the inverse relationship between bond prices and bond yields. As prices rise, yields fall (and vice versa). In Q3, Treasury yields fell considerably as inflation expectations declined. Bond prices rose.

Published August 12

Bonds Performed Close To Stocks In Q3

Bonds are hot right now, both appreciating in price and paying interest. After failing investors during the time frame starting in 2022, debt is finding favor again as a hedge, especially as expectations for Fed rate cuts increase.

No-risk short term US Government Treasurys (duration one year or less) continue to offer in the range of a 4.0% - 4.6% yield (not bad!).

Costly IRA Mistakes That Can Be Avoided

When it comes to protecting retirement savings accounts, the focus is usually on investment strategies. The focus should also be to take steps to ensure that the right method is used when moving assets to or from retirement accounts. One mistake can wipe out years of market growth. Penalties for errors can include loss of tax-deferred status, double taxation and excise taxes.

1. Being Subject To The 10% Early Distribution Penalty

Distributions taken before age 59.5 are subject to a 10% tax penalty (some exceptions apply).

2. Losing Tax-Deferred Status By Missing The 60-Day Rollover Deadline

When assets are rolled from one retirement account into an IRA, the transfer must be within 60 days.

3. Beneficiary Designation: Spouse versus Non-Spouse

The beneficiary rules are different for spouses than non-spouses.

4. Failing To Take RMDs and Incurring The 25% Excess Accumulation Penalty

If you do not take your required minimum distribution (RMD) in the required year, the penalty is 25%.

5. Failing To Get The Proper Documentation For Splitting A Retirement Account Due To Divorce

When assets are transferred to a spousal IRA, documentation must include a divorce decree or legal separation agreement. If not, problems may include loss of tax-deferred status and additional taxes.

6. Misapplying The RMD Aggregation Rules

When dealing with multiple accounts (Regular IRAs, Inherited IRAs, 403(b)s, 401(k)s), different rules apply when aggregating the accounts to determine RMDs. Mistakes are very costly.

7. Failing To Claim Available Tax Reduction Benefits

There are some instances where IRA distributions receive “non-taxable” or “favored taxable” status.

We are pleased to assist you in consolidating and monitoring your retirement accounts. For example, we are diligent in checking to see that your RMDs are met each year (so far, we have gone 20 years with no one incurring penalties!) Contact us anytime.

The MSCI China Index was up 23.36% from September 19-30 (the last 8 trading days of Q3). What happened? The market responded dramatically to the People's Bank of China (PBoC) announced aggressive stimulus measures to combat slow economic growth, a housing glut, and awful Chinese stock performance.

Issue	Description	PBoC Actions
Monetary Contraction	GDP growth under 5% target High youth unemployment (19%) One-third of companies losing money	Reserve Requirement Ratio (RRR) cut by 50 basis points Tier 1 Capital for increased lending
Meltdown In Housing	China has significantly over-built housing Supply much greater than demand Challenging affordability for many citizens	Reduce mortgage rate by 50 bps Lower downpayment from 25% to 15% 100% financing for local governments to buy unsold homes
Awful Stock Market	Stock performance beyond miserable MSCI China last 10 years: Totally Flat (0) MSCI USA last 10 years: More Than Tripled	Non-banks can now use equity as collateral for expansion New facility to support stock buybacks Stabilization fund to support market

Previous attempts by China to stimulate its economy have fallen flat. For the first time, the market appears to believe the government. Will these new announced actions fade? The short answer is that we do not know. On the positive side, Chinese stocks are now very attractively priced with a low Price/Earnings Ratio of 9. On the negative side, the economy is a mess and President Xi has a track record of flip-flops and fear of debt.

We have avoided China for a long time, and this has been prudent. Please know we are re-evaluating China.

We will continue to closely monitor the market and adjust your portfolio as needed. Please feel free to contact us anytime to discuss questions or comments you may have. We will keep you informed of portfolio progress.

Respectfully submitted,

TRIVANT

CUSTOM PORTFOLIO GROUP, LLC

Disclaimer

The information presented herein is intended for informational purposes only. All views are subject to change based on updated indicators. The recommendations made in this publication are made without regard to individual suitability. Investors should consider their own needs and objectives before making any investment decision.

Commentary in this review reflects our portfolio strategy. Many of our clients have different objectives and circumstances which are reflected in unique portfolio considerations. Please note that accounts may not contain all elements of the strategy discussed here. Additionally, individual client customizations and start dates may preclude certain elements of this strategy from being implemented.

Past performance is no guarantee of future results. A risk of loss is involved with investments in stock markets.