



Our Report for Mid-Year 2024

OVERVIEW

Investors are debating whether the stock market is overvalued. The surge in Artificial Intelligence (AI) stocks from last year continues to drive this year's market growth, along with new surges from stocks in the weight loss and cryptocurrency space. Pharmaceutical companies Novo Nordisk and Eli Lilly, which produce popular "weight-loss" drugs such as Ozempic and Zepbound, have seen their shares jump more than 40%. Cryptocurrency Bitcoin and the crypto exchange Coinbase, which recently won a Supreme Court ruling, and have been added to recently launched Exchange Traded Funds (ETF's) are up over 200%. While all the attention is going to these handful of stocks, the rest of the market has had a more difficult time. The DJIA is up only 4%, and more than half of the stocks in the S&P500 have fallen behind over the last three months. While the Nasdaq (tech-heavy index) might appear overvalued, there are still plenty of other sectors that offer opportunity.

For the 6 months of 2024: **The S&P500 gained 15.2%, DJ Dividend Index gained 4.0%, the 10-Yr US Bond lost -0.7%. The S&P Conservative Allocation Index gained 3.1%, the S&P Moderate Allocation Index (stocks and bonds) gained 4.2% and the S&P Aggressive Index (primarily stocks) gained 8.6%.**

These are benchmark returns for diversified portfolios which most investors have. A diversified portfolio is designed to reduce risk by spreading risk over different asset classes (bonds, equities, international, cash, real estate, currencies, commodities, etc.). Your risk level should be compatible with your risk tolerance and your goals. **Let us know if your risk tolerance has changed.** A diversified portfolio will not look like the return of a one asset portfolio such as all stocks or all bonds. Your personal return will differ based on the timing of when assets were bought or sold. A portfolio that is designed to meet one index such as the S&P500 means your portfolio would have to be in those stocks that make up the index. *(Benchmarks from iShares by Blackrock).*

Be fearful when
the markets get
greedy, be
greedy when the
markets get
fearful.

Warren Buffett

Overall, the stock market this year has been stronger and broader than last year but not broad enough for everyone to be excited. The strength in the market began in anticipation of lower interest rates. Initially, the market expected six interest-rate cuts for the year as the economy appeared to stall. But as the economy showed resilience, the market reduced its

expectations, with just over one cut priced in for the end of 2024. Despite this change in rate expectations, tech stocks continued to rally. This reinforces our belief that many companies can thrive in a higher-rate environment and the success of stocks, particularly high-growth stocks, is not solely reliant on rate cuts.

Economists are expecting the Federal Reserve to lower interest rates this year, but they predict that it will be just a single cut. If the unemployment rate remains at or exceeds the current rate of 4% and if the year-over-year core inflation falls below the current rate of 2.6%, then the Fed might consider September as the time for their first-rate cut. Inflation is considered a lagging indicator, which means that the policies implemented in recent years will continue to be effective. However, it's important to remember that public perception also plays a role in the Fed's decision-making process. The Fed focuses on numbers that do not include food, energy, and shelter, so it will be hard to convince consumers that inflation is dropping when prices are rising in nearly everything they buy. How consumers perceive the cost of groceries and gasoline will influence the Fed's decision. So even if the numbers remain close to where they are now, the Fed may want to wait a bit longer before adding any stimulus. One rate cut might be just enough to overstimulate inflation causing more harm than good. If one were to gauge which direction the Fed will go, based on the bond market, one would conclude the Fed will do nothing. If the bond market was convinced a rate cut was coming, yields on bonds would be lower than where they are now.

Overall, a rate cut would signal to investors that the Fed supports economic growth, which would benefit the stock market, bond market, and related investments like real estate, utilities, and dividend-paying stocks. With \$6 trillion in cash on the sidelines and margin debt below its October 2021 level, suggests there is more money available to enter the markets. As we get closer to the presidential elections, we can expect market volatility to increase but as a T. Rowe Price report found market turbulence stabilizes post-election. So, depending on the level of volatility, we may see investors adding cash to the market.

What we are doing

Throughout the year, we have been helping clients maximize and strategize their Required Minimum Distribution (RMD) and tax withholding. This is based on several factors including how close they are to getting hit with IRMAA penalties on their Medicare premiums, their projected tax rate for optimal timing to begin withdrawing RMD, the need for cash flow, and reinvesting to meet future goals. Additionally, we assist clients with calculating their Inherited IRA RMDs and withholding. There have been many tax updates and changes for when to begin taking RMDs and the formula for calculating the withdrawals. Staying up to date with these changes is critical for making good decisions and to avoid tax penalties.

On the investing side, there is so much hype surrounding AI that one has to wonder if it's the only worthy investment and if the AI ship has already sailed. Let's make some comparisons to the computer revolution. The first mass-market desktop computer was produced by Hewlett-Packard in 1968, but it wasn't until 1993 that computer usage reached a quarter of American households.

The use of computers in the workplace also grew slowly before becoming common in the 2000s. By 2012, around 79% of U.S. households used a computer at home, mainly due to smartphones and other portable devices, with now over 95% of U.S. households owning a computing device.

Other recent popular technologies, such as cloud computing, smart devices, and 3D printing, have shown different patterns of adoption. This suggests that AI could take many different paths. Despite popular interest in the productive potential of workplace AI and concerns that it may displace workers, early evidence on the diffusion of AI seems to suggest a pattern similar to those of personal computers and cloud computing which is used in businesses and software products. The U.S. Census Bureau regularly surveys firms on their recent business practices, including their use of emerging technologies. The percentage of firms reporting any use of AI in production has increased from around 3% in 2018 to around 4.4% on average in 2023-2024. The lack of widespread usage may continue for a while: When asked whether they expect to use AI six months from now, less than 7% of the same firms said yes. If history is any guide, AI productivity gains might take a long time to realize. So perhaps, the rush in AI stocks may have gotten a little ahead of itself.

Although we are enthusiastic about technology and AI, we are cautious about the potential overvaluation of AI stocks and their related investments due to excessive hype and the fear of missing out. The media hype around new technology does not always lead to real earnings, and if it does, it may take many years to be realized. Since other sectors have been overlooked, we will focus on those overlooked sectors which are undervalued when compared to the rest of the market. Stocks, such as small-cap companies, should get a boost from lower interest rates and from investors looking for valuations that are currently below large caps. We also want to look at sectors like manufacturing, which are projected to benefit the most from AI adoption, according to a recent Accenture report. We will also add to the S&P500 for broad-based exposure to the U.S. economy. While there will be hiccups along the way, the overall trend of the market continues to look strong.

Planning

Long-term care insurance is designed to help cover the costs of nursing homes and home health care. While long-term care insurance can be expensive, long-term care, such as nursing homes and assisted living, can be costly and too prohibitive for many needing care. On average, the annual cost for long-term care is more than \$95,000 for a private room in a nursing home and over \$65,000 for a private room in an assisted living facility with a standard level of care. In many areas, the prices are even higher.

In the past, many insurance companies competed, leading to lower costs. Now, with only six companies remaining in the long-term care industry, prices are less competitive. According to AALTCI, the remaining companies adding new business are Bankers Life, Mutual of Omaha, National Guardian Life, New York Life, Northwestern Mutual, and Thrivent.

The main cost components of annual premiums for insurance are your age, health, and the type of riders you include in your policy. Eliminating additional features is one way to lower your premium.

It's important to remember that "Qualified" policy premiums are fully deductible health premiums as an adjustment to income on your taxes for self-employed individuals and their spouses. Otherwise, premiums are part of unreimbursed medical expenses and must exceed 7.5% of the insured's adjusted gross income to be deductible.

When shopping for a long-term care insurance policy, here are some suggestions for keeping premium costs down according to ElderLawAnswers, a website that provides extensive information on elder law.

Shorter benefit period. It is recommended to avoid purchasing a lifetime policy for long-term care insurance unless there is a family history of chronic illnesses such as Alzheimer's disease. According to a study by the American Association of Long-term Care Insurance, only 8 percent of people required coverage for more than three years. Therefore, purchasing coverage for three, four, or five years instead of a lifetime policy could save thousands of dollars in premiums. If there is a family history of chronic diseases, it may be advisable to consider coverage for 10 years, which would still be more cost-effective than a lifetime policy.

Buy younger. Long-term care insurance premiums rise as you age, so the younger you buy, the cheaper your premiums.

Shared care policy. Consider a shared care policy when both you and your spouse are purchasing long-term care insurance. With a shared care policy, you buy a pool of benefits that can be shared between you. For example, if you buy a five-year policy, you will have a total of 10 years of coverage between you and your spouse. This approach allows you to buy a shorter policy with the assurance of having a pool of benefits to share.

Longer Waiting Period. Insurance policies often have a waiting period, usually 30 to 90 days. Opting for a longer waiting period means lower premiums, but you'll have to cover your care expenses until the coverage begins.

Reduce the daily benefit. Consider paying for a portion of the daily benefit in a nursing home yourself and then insuring for the remaining amount. Choosing a lower daily benefit will result in lower premiums.

Inflation protection. Consider inflation protection to keep up with inflation, which is almost always recommended. Choose between compound-interest increases or simple-interest increases to save on premiums.

Find a good insurance company. A financially strong insurance company will be better able to price premiums and keep premiums from rising due to mispricing (a common reason for price increases). *We use fee-only and low-load brokers to help our clients find strong insurance companies.*

Enclosed Statements

Our managed clients will be mailed a personalized report: The "Position Performance Summary Report" which shows performance for the period 12/31/2023 through 06/30/2024 (six months of 2024). The Actual IRR Column is a percentage change (not a dollar change); it is not annualized. The IRR discounts all cash flows and is net of fees (Money Plans fees and any trading costs). Included will be a quarterly invoice (do not pay this as it is deducted from your account and is reported on your Schwab statement as Advisor fee).

Our ADV and Code of Ethics are available upon request and can be found on our website, www.moneyplans.com.

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