Yanni & Associates
Investment Advisors, LLC

FOURTH QUARTER – 2023 CLIENT NEWSLETTER
REVIEW OF THE MARKETS:

Index:	4Q23	2023
S&P 500	11.69%	26.29%
S&P Mid-Cap	11.67%	16.44%
S&P Small Cap	15.12%	16.05%
Morgan Stanley's EAFE (International Stocks)	10.42%	18.24%
Bloomberg US Aggregate (Bonds)	6.82%	5.53%

Happy Holidays from YAIA!

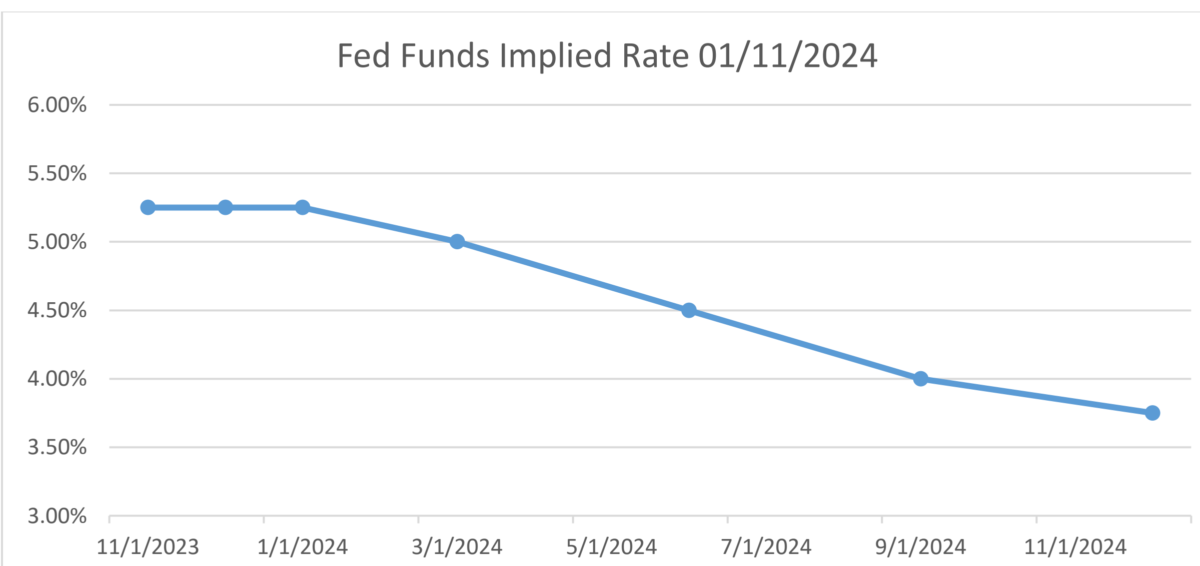
Business updates:

1. ***As mentioned in our last newsletter, we are revamping our website. This will be done soon.***
2. ***We may be expanding the team to add another staff member in 2024.***
3. ***We may be reducing the commitment and/or the frequency of this newsletter in the future.***

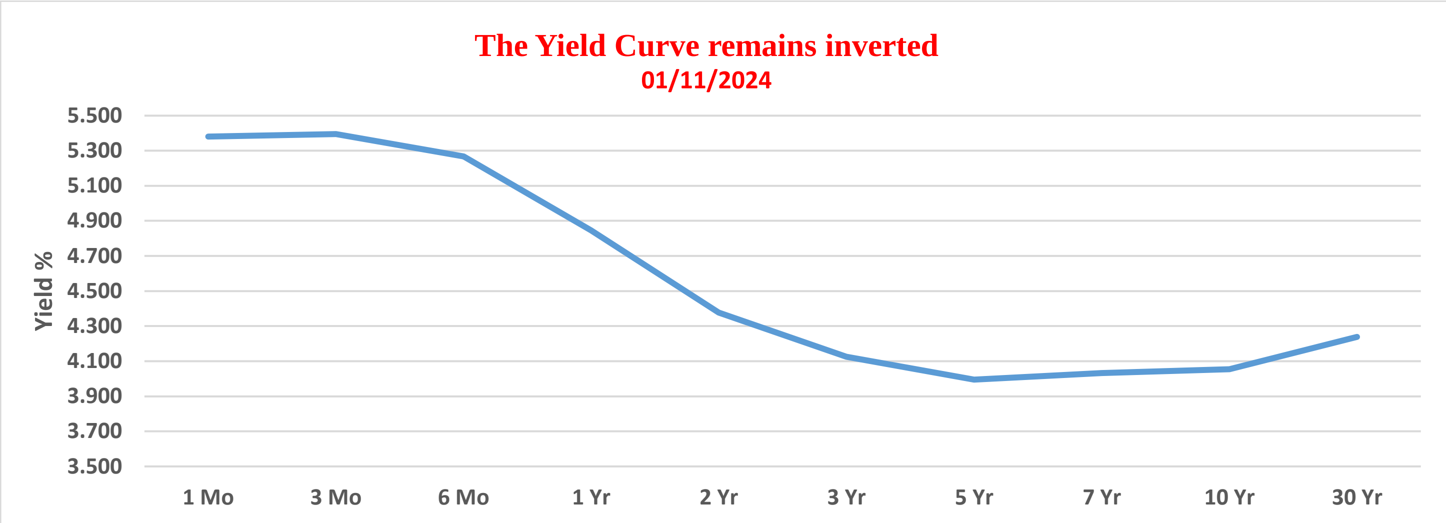
FYI: Retirees' Social Security checks will rise in 2024 by 3.2%. While this is much smaller than the prior year's 8.7% rise, every penny counts. Estimates are now for the Social Security trust fund to potentially become insolvent in 2034.

ECONOMY, MARKETS, & OTHER:

As the markets have been continually heavily influenced by the Federal Reserve, this will remain the theme of this newsletter. For the first half of 2023, the stock market climbed out of its 2022 hole. A mid-summer Fed meeting inferred the notion of "higher-for-longer", meaning The Committee would keep interest rates higher for a longer period than originally anticipated. This kick-started the volatility all over again. A few short months later, inflation figures were coming in lower than expected and simultaneously, the Fed leaders then began inferring they are peaking their interest rate hike cycle. The markets gobbled up this news and quickly turned upwards. In the Fed's most recent December meeting, they perfectly executed a "U-turn" now signaling they are looking to reduce interest rates three times in 2024. The Fed has been fixated on achieving their key inflation figure (Core PCE) meeting their stated 2% objective. As that inflation index is now approaching the Committee's desired level, Chairman Powell stated The Committee wants to be ahead-of-the-curve by reducing rates before Core PCE reaches the 2% level. The latest Core PCE figure was reported at 3.2% with the next monthly report occurring on January 26th, 2024. Illustrated below is an updated chart for the market's expectations for the path of the Fed Funds rate (short-term rates):



Outlined below is another updated chart displaying the yield curve remaining in its inverted status. As we have stated before, an inverted yield curve is often a key leading indicator of a recession. It now appears likely; we will escape this time period without it being officially labeled an economic recession.



It's commonly thought that a recession is defined as two consecutive quarters of negative GDP growth. However, the National Bureau of Economic Research (NBER) defines a recession as a significant decline in economic activity that is spread across the economy and lasts several quarters. The Committee cites Personal Income (less transfers), Nonfarm payroll employment, Employment (household survey), Personal Consumption Expenditures, Wholesale Retail Sales, and Industrial Production.

<u>2023 Market recap and year-end efforts:</u>

In 2023, Large Capitalization (cap) stocks continued their relative dominance over their Small and Mid-size counterparts as well as International. The newly coined "Mag 7" (Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla) had an average increase of over 100% and now make up approximately 33% of the S&P 500 Index. From a style perspective, growth stocks (techy names) outperformed value (high dividend) stocks. Interest rates rose sharply in early 2023 and as a result, we began heavily investing in short-term Treasury Bills. At this point, we are maintaining our growth stock bias, but have also continued to utilize a diversified portfolio encompassing other asset classes. Due to the likely reduction in short-term interest rates, we have also incorporated that forecast into our recommended bond holdings.

In the fourth quarter, the entire Firm assists with analyzing each client's realized gains and losses on non-IRA accounts as well as potential pass-through gains for the YAIA recommended holdings. We then examine what, if any adjustments should be made on a Firm and individual client account level. In general, YAIA's preference to utilize many low-cost, passive ETFs generally translates into low (or none at all) pass-through capital gains. For those prospects reading this newsletter who own American Funds, watch out!

<u>*2024 Investment/Tax law changes:*</u>

1. As outlined in our last newsletter, 529 plan holders will now be able to transfer up to a lifetime limit of $35,000 to a Roth IRA for a beneficiary. There are specific nuances to this rule that still need clarified.
2. IRA contribution limits will increase from $6,500 to **<u>$7,000</u>**.
    a. For individuals 50 and over and including the $1,000 catch-up contribution, those folks' contribution limit will increase from $7,500 to **<u>$8,000</u>**.
3. Annual Gift Exclusion will rise from $17,000 to **<u>$18,000</u>** in 2024.

⇨ The 2017 tax cuts, which included lower individual income tax rates, a higher standard deduction, a higher exemption amount for the estate tax, and numerous other provisions, are set to expire at the end of 2025.

Economic Statistics	*Most Recent*
▪ GDP growth rate (final)	3Q23 up 4.9%
▪ Inflation (CPI) *year-over-year*	December up 3.4%
Core CPI *(excludes food & energy) year-over-year*	December up 3.9%
▪ Unemployment rate	December up 3.7%
▪ S&P 500 Forward P/E ratio	19.2

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A client's experience with a broker:

For this newsletter, we wanted to share a real-life experience with one of our clients (a retired couple) and their now former broker. For several years, we have worked with this couple. Our Firm's relationship was initiated through the husband. For both of them, this was their second marriage. They reside out-of-state and the wife had always maintained a long-standing relationship with her broker for managing her premarital assets. As the years went by, the wife expressed some concerns with regards to the broker. Most notably, the broker was difficult to get a hold of, appointments (even phone discussions) always had to be scheduled several days out, and when they did speak, he would try to guide her to call into a junior staff member instead. When the wife discussed this outside relationship at our annual meetings, I informed her that I am aware of situations with larger investment firms and investment brokers that highly incentivize their professionals for new business sales, rather than client retention.

In general, brokers receive a payout by levying commissions; most commonly their fees earned do not show up on client statements. YAIA is a Registered Investment Advisor, meaning we are Fiduciaries and are thus, obligated by law to place our clients' best interest ahead of our own. By definition, brokers are not Fiduciaries and are only obligated to provide suitable investments to their clients.

In 2022, circumstances for this family changed in a few areas: Unfortunately, the husband was diagnosed with an advanced illness that led to his sudden passing. Shortly thereafter, the wife sold a sizable real-estate rental property (held in solely her name). Confused and unsure of what to do, she ended up depositing the proceeds with her long-time broker. Outlined below are bullet points for what she communicated to me over for what transpired:

- The main broker had her work with a newly hired junior broker to coordinate the deposit and investment strategy.
- There was no dollar-cost average (DCA) method employed and as such, all of the real-estate proceeds were immediately invested.
- Despite informing the junior broker she wanted to be fairly conservative with the money invested, he invested the entire amount into the stock market all at once.
    - ⇨ Investing large sums of money immediately before the 2022 market downturn turned out to be an incredible disservice to our client.
- The junior broker was supposed to earmark a certain amount of money in an ultra-safe vehicle for a planned withdrawal in April 2023 for taxes due on the property sale. This was not done.
- The main investment chosen was a "WRAP Account". WRAP Accounts are separately managed accounts often utilized by brokers for their third-party management. In essence, the broker/junior broker are not the ones choosing the underlying investments. WRAP Accounts tend to have high fees as well as they involve several layers of professionals needing to be compensated.
- Finally and after a short stint, the newly hired junior broker ultimately quit the company. Our client was never informed and despite placing several phone calls to him prior to his departure, they were never returned. *Please see below for how our client found out from a timeline perspective.*

Upon meeting with the recent widow and her son in the spring of 2022, we discussed several topics: the consideration for reducing stocks and rebalancing given that personal circumstances had changed significantly. Due to predesigned estate goals being this was a second marriage for both of them, guidance for which accounts withdrawals should originate was a bit more intricate. During the meeting, she brought up this outside brokerage relationship and her overall concerns. At this point, we stated our apprehension with how these outside assets were being managed and recommended she re-evaluate her relationship with the broker. As our client had a long-time relationship with the broker and wanting to be fair to him, she wanted one last opportunity to meet with the broker in-person to address these numerous concerns. Shortly after our meeting, she initially called the junior broker and left a message to arrange a meeting (but, she was unaware the junior broker had quit). After not hearing back for several weeks, she called the main phone line at the brokerage firm and was told that the junior broker resigned a few months back and they recently hired a replacement. She inquired to the brokerage firm as to why she was never informed of this personnel change. For these questions, she later explained to us that she was not given a clear answer. Our client then ultimately met with the senior broker in person expressing her concerns about how the new junior broker invested all of the money at once, it was nearly all in stocks, the lack of earmarking funds for taxes, the junior broker ultimately quitting, no return phone calls, and her overall concerns. After the meeting, she called us and explained she was never given clear answers, the broker just simply asked for additional time to work these things out. During this phone call, our client said she would be transferring the accounts to YAIA. After the assets were ultimately transferred to our jurisdiction, we selectively chose which individual stocks could be sold at losses to offset the gain incurred from the real estate sale earlier in the year. This helped save a tremendous amount in taxes for her!

- We also earmarked a certain amount of money in a March 30th, 2023 Treasury Bill to be used for taxes incurred from the sale of the real estate sale.
- We rebalanced the assets to a more conservative and appropriate asset allocation over time using the Dollar-cost average method (*make the adjustments over time*). We felt this was a prudent approach based on her overall assets, given how aggressive the broker had been managing that outside account.

We want to definitively state that not all brokers handle their clients in this manner. However, we are keenly aware of general tendencies associated with that type of advisor along with those in larger organizations.