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Pearsall Wealth Management

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January 2024 Pearsall Wealth Management Newsletter

<u>Index¹</u>	<u>4rd Quarter 2023</u>	<u>Year to Date 2023</u>
S&P 500	11.69%	26.29%
Dow Jones Industrial Average	13.09%	16.18%
Russell 2000	14.03%	16.93%
MSCI EAFE	10.47%	18.85%
Barclays Aggregate Bond	6.82%	5.53%
US Treasury Bill – 3 month	1.38%	5.14%

Thomson Reuters performance data as of 12/31/2023

As we turn the calendar to the new year it is always a period of reflection, and this year is no different. A year ago² we were discussing the “worst year for fixed income (bonds) on record”, and the 7th worst year for the S&P 500 going back to 1929. We expected the Federal Reserve to pause rates, perhaps as soon as the 2nd quarter, and continuing “disinflation”. 2023 turned out to be quite positive for stocks and the S&P 500 in particular, fixed income remained in negative territory through the third quarter as the Federal Reserve continued to raise rates, only pausing in the 4th quarter. Fixed income responded with a strong rally, and equities (stocks) also rebounded³. Those that maintained, or even added to their investments in 2022 have been rewarded for their fortitude during the volatility with positive returns in 2023.

So where do we go from here? Given the various headlines we do expect market volatility, but for the full year see a path for reasonable returns in both the US fixed income and equity markets, particularly in quality bonds and stocks⁴:

- Assuming the Federal Reserve holds true to the current predictions and rather than raising rates further, begins lowering interest rates during the first half of the year, fixed income (bond) prices are likely to continue the rally they began this past quarter⁵. While we do not expect it to be as significant a move, any upward movement in price in conjunction with current yields will likely result in a solid positive return for the year for US fixed income.
- We expect the stock market rally to grow beyond the “Magnificent 7” which drove around 2/3rds of the increase in the S&P 500 value this past year⁶, and UBS recommends a focus on quality over quantity for both stocks and bonds. Given the relative outperformance of large cap stocks over small and mid-sized companies in 2023 UBS prefers small caps over large caps at this time⁷.

We’ve enclosed a recent UBS report of “New Year’s Portfolio Resolutions” worth taking a few minutes to read through with both reflections on 2023 and additional thoughts to consider for the year ahead.



We expect both stock and bond markets to be volatile at times given the various challenges we are likely to face this year, whether reacting to how the consumer and federal reserve are dealing with inflation, ongoing geopolitical concerns (such as the conflicts in Ukraine and Israel), dysfunction in US politics leading to concerns over government funding, or the US Presidential election just to name a few. As much as those items, and likely others that will appear in the year ahead may be concerning, it is important to remember what we've been through; as Mark Haefele succinctly noted in the UBS Year Ahead 2024:

As we enter a new world, it would be easy to feel a sense of trepidation. Yet it's worth remembering that since 1900, the world has seen two world wars, nine pandemics, hundreds of civil or regional wars, more than 2,000 nuclear detonations, revolutions in both the worlds largest and most populous countries, at least a dozen hyperinflations, over 15 bear markets, over 20 recessions, and almost 200 sovereign defaults or debt crises.

When it comes to investing, all these years of adversity have taught us three things: the value of global diversification, the virtue of patience, and, most importantly, the resilience and ingenuity of humankind.

From Melissa-

529 College Savings Plan Conversion to Roth IRAs- A few questions we get when parents or grandparents are savings for a loved one's college education are, what happens if there is money left over, they don't go to college, or they get scholarships? Whenever you contribute to a 529 account, there is a risk that you will not need the funds for college education expenses. The children may get a full-ride scholarship, or decide not to attend college. This is an important risk that one should consider.

For years 529 plans have allowed the account owner to update the beneficiary to another family member at any time without tax consequences when the new beneficiary is a family member of the current beneficiary. The IRS provides a broad definition of family member, which includes the beneficiary's blood relatives and relatives by marriage and adoption.

Effective January 1, 2024 a beneficiary of a 529 account opened for more than 15 years can transfer up to \$35,000 over the course of their lifetime from that 529 account to their Roth IRA. The rollover counts towards each year's annual IRA contribution limit, along with any other IRA contributions that the IRA owner has made for those tax years. Unlike other contributions to Roth IRAs, 529-to-Roth IRA rollovers are not subject to an upper income constraint. Just one more thing to think about if you are considering a 529 for a loved one.

Confidence and Control During Volatile Times- as we have seen over the past few years, market volatility is part of investing and building wealth, but there are certain actions you can take to be more comfortable with volatility whether it's to the upside or downside. At the beginning of the Ukraine conflict in the early winter of 2022 the UBS Editorial Team put out an article that resonated with me about how you can gain some sense of control during times that feel out of one's control⁸.

1. Determine your liquidity needs- a great time to review your budget and expenses is in the New Year. Fully understanding your income sources and expected expenses is a good way to develop an emergency fund, and then talk to us about how to manage that emergency fund and make the most out of it.
2. Refocus towards long term goals- update us if anything has changed in your personal circumstances or longer term goals so we can discuss how they might impact the assets you need to last your lifetime.
3. Develop/Review Financial Plan- one thing that can help you feel confident during volatility or during market corrections is to look at your financial plan at depressed values and know whether or not you can still comfortably pursue your goals. Please make sure to update us on any outside accounts held at any other



Melissa Continued:

institutions. We completely respect that assets are held outside of UBS, knowing about them helps us give the best advice and make sure you can pursue your financial goals successfully.

4. Consider potential planning opportunities like Roth conversions and maximizing retirement contributions. We work very closely with accountants to figure out if this might work for you.
5. Planning Fundamentals- reviewing Core planning techniques ever year makes one less thing for you to worry about. Action items such as reviewing beneficiary elections, insurance (life, disability, long term care, property and casualty) and estate documents gives you confidence that your wishes will be followed.

From Tara-

Tax Season: We would like you to be aware of important dates and deadlines when planning for filing your 2023 taxes.

- 1099-R forms documenting your IRA distributions will be mailed on January 31st, 2024
- The first wave of 1099 Consolidated Forms will be mailed on February 15th, 2024 - this wave includes forms with no anticipated corrections or updates.
- The final mailing will be February 28th, 2024 which will include any corrected 1099 forms.
- **IMPORTANT:** If any corrections are to be made after the final mailing, we will contact you.

Please be aware that if you have multiple accounts with us, forms may be mailed on different dates. If you would like to obtain your 1099 as fast as possible and you are comfortable with E-Delivery head over to UBS Online Services and sign up for E-Delivery of your 1099s. You will then get an email as soon as they are available to download. If you do sign up for E-Delivery just make note on your tax document gathering folder so you don't forget. As always if you have any questions or would like us to send anything to your accountant please let us know.

Best wishes for a healthy and prosperous 2024,

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529 plans are sold with program descriptions that contain details of the risks, fees and charges associated with the particular investment, which you should read carefully before investing. Even though individuals are not required to invest in their in-state plan, some states do provide tax or other advantages exclusively to residents who invest in their own state's plan. For example, many states offer a state income tax deduction for contributions and/or state income tax exemption for qualified withdrawals. States may impose state tax liability on withdrawals and/or earnings from out-of-state 529 plans. In addition, some states offer prepaid tuition plans. Investors should be aware that the markets have risks and the value of their investments may change from day to day. Therefore, an investment's return and principal value will fluctuate so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost.

There are two sources of UBS research. Reports from the first source, UBS CIO Wealth Management Research, are designed for individual investors and are produced by UBS Wealth Management Americas (which includes UBS Financial Services Inc. and UBS International Inc.) and UBS Wealth Management. The second research source is UBS Investment Research, and its reports are produced by UBS Investment Bank, whose primary business focus is institutional investors. The two sources operate independently and may therefore have different recommendations. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions, please consult your Financial Advisor.

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¹ Thomson Reuters via UBS Portfolio Management Report performance data as of 12/31/2023

² Pearsall Wealth Management Newsletter, January 2023

³ Thomson Reuters via UBS Portfolio Management Report performance data as of 12/31/2023

⁴ New Year's portfolio resolutions, UBS House View, Chief Investment Office GWM, Investment Research Dec 7, 2023

⁵ Risks persist despite the rally, Weekly Global, Mark Haefele, Global Wealth Management Chief Investment Office Dec 18, 2023

⁶ "Can sizzling Magnificent Seven trade keep powering US stocks in 2024? Reuters US Markets, December 29, 2023 <https://www.reuters.com/markets/us/can-sizzling-magnificent-seven-trade-keep-powering-us-stocks-2024-2023-12-28/>

⁷ UBS House View Monthly Extended January 2024- Intra-month update, Chief Investment Office GWM Investment Research Dec 15, 2023

⁸ "Regain confidence and control in volatile markets", Intellectual Capital Blog by Wealth Planning Sales February 28, 2022

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