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Pearsall Wealth Management

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October 2024 Pearsall Wealth Management Newsletter

<u>Index</u> ¹	<u>Q3 2024</u>	<u>Year to Date 2024</u>
S&P 500	5.89%	22.08%
Dow Jones Industrial Average	8.72%	13.93%
Russell 2000	9.27%	11.17%
MSCI EAFE	7.33%	13.50%
Barclays Aggregate Bond	5.20%	4.45%
US Treasury Bill – 3 month	1.36%	4.08%

Thomson Reuters performance data as of 09/30/24

The past three months have gone quickly both in our lives (despite the weather last week we are officially in autumn!) and the markets. The equity markets were stronger in the third quarter than we'd expected, with a strong rebound after the 2nd quarter. As UBS projected, the Federal Reserve did reduce interest rates in September, which contributed to the US equity markets rallying to new highs². We do expect continued volatility given both the upcoming election here in the US and the conflicts in the Middle East and Ukraine in the short term. That said we continue to advise looking longer term and focusing on the overall direction and opportunities in each asset class and how they align with your personal financial plan.

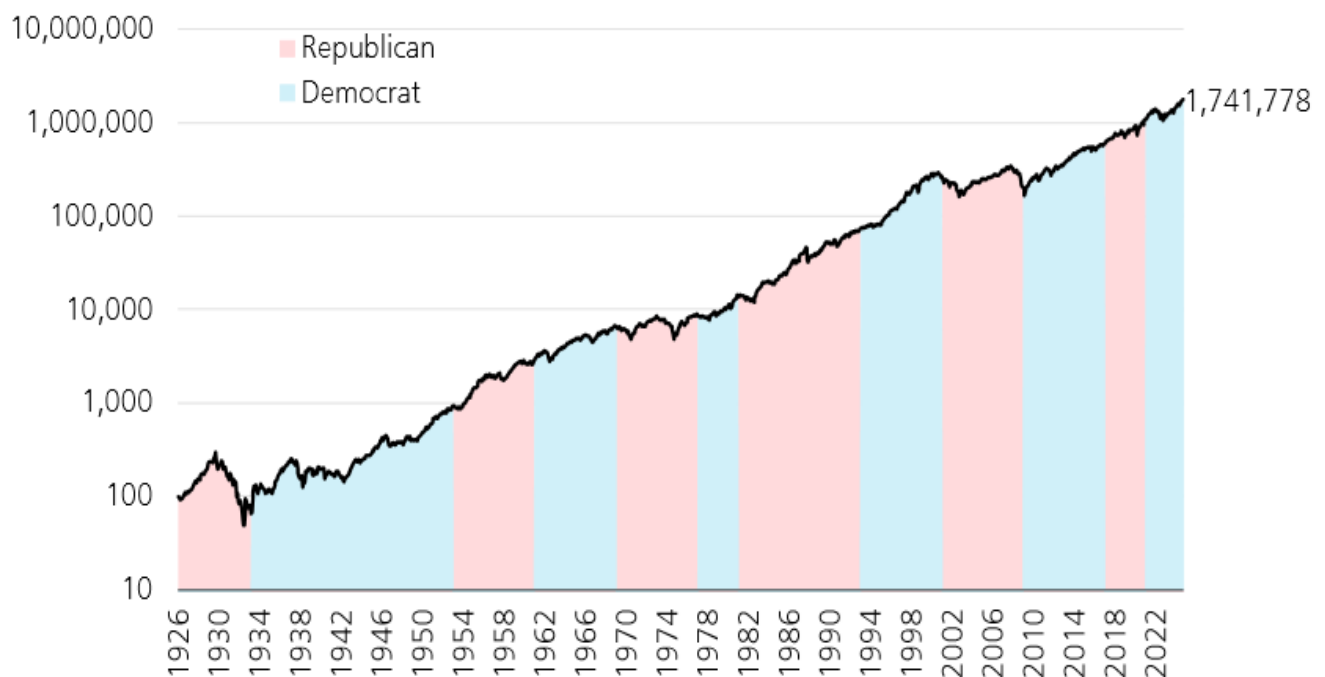
Now that the Federal Reserve has commenced reducing rates it is an opportune time to review your cash holdings and review your cash needs. We have already seen the rates on cash and cash alternatives decline in conjunction with the federal reserve lowering rates and we expect that to continue – if you haven't locked in your rates of return for longer via certificates of deposit or fixed income (bonds) for excess cash you may wish consider moving into these securities with more durable income.³ UBS' current Fed rate forecast is for rates to be in the 3.25-3.5% by end of 2025 (the current Fed rate range is 4.75-5% after the September rate cut). We continue to see a "soft landing" as the base scenario with a recession unlikely in the near term. We've enclosed a brief UBS report on preparing portfolios for the fourth quarter that provides additional insights.



Speaking of the election, one of the most frequent topics of discussion with clients here in the office is how the outcome of the election may impact portfolios. History does not favor one party or the other in the White House as the markets have generally risen over time regardless of what party had control of the executive branch⁴.

Market returns have been similar regardless of party

Growth of USD 100 invested in US large-cap stocks from 31 January 1926. Logarithmic scale.



Source: Morningstar Direct, Bloomberg, UBS, as of 6 October 2024. Please see important disclaimer at the end of the document.

Our investment research department summarized this well in their 4Q Outlook:

While a range of outcomes is possible, we believe it is important for investors to avoid making outsized portfolio moves based on political expectations. And (if one excludes the 2008 presidential election, which occurred amid the global financial crisis) the performance of the S&P 500 in election years has been roughly similar, regardless of which party was elected to the presidency.

We do believe investors should review portfolios for election sensitive stocks and sectors and consider portfolio hedging strategies, which can help investors manage potential downside risks that materialize if market fears increase around trade, tax, or foreign policy.⁵



Regardless of the outcome of the election and the direction of interest rates and markets, we're here to help you navigate the challenges that may arise. Please give us a call if you'd like to review your portfolio, update your financial plan, or catch up in general.

From Melissa-

Year End Reminders- It is hard to believe the holidays and year end are almost here. As with most years there are a few action ideas we and UBS' Chief Investment Office⁶ think investors should consider as we approach year end:

1. Enhance your tax diversification- Tax diversification is one key approach for managing the impact of changing tax rates. It's a great idea to build a mix of tax-free assets, tax deferred assets, and taxable assets. Tax diversification allows you to have more flexibility in determining a distribution strategy that responds to changes in your tax rate. As you approach year end, take a snapshot of where you stand tax liability wise and see if it makes sense (in conjunction with your tax advisor) to make tax deferred contributions. On the opposite end, does it make sense to complete a partial retirement distributions or a Roth Conversion if you have a lower income year?
2. Accelerate Lifetime Gifting- Under current law, an individual can give away \$13.61 million (\$27.22 million for married couples) to others during their lifetime or at death without being subject to gift or estate taxes. Without congressional action, these amounts are set to continue to increase with inflation through 2025, after which they'll decrease back to approximately \$6.5-7.0 million per individual. Most will not have to worry about this, but it is important to keep values of your portfolios and/or properties in the back of your mind in case these limits change. We see many clients try to manage this by gifting to loved ones or causes they care about during their lifetime. If you need help trying to figure out if this is something you can afford, please let us know.
3. Give to others not the IRS- If you have a significant Required Minimum Distribution (RMD) or even significant qualified assets before RMD age, Qualified Charitable Distributions (QCDs) can be a great way to help your charitable donations go further and pursue your philanthropic objectives in a tax-efficient manner. It's important to note that the gift must be made directly from a Traditional IRA to the charitable organization, it must be completed by year-end, and you must be age 70 ½ years or older.



4. Tax Loss Harvesting- If any losses in your portfolio present themselves consider working with Adam and your tax advisor to see if it makes sense to take those losses to offset any gains you may have realized in 2024. In addition, think of any other types of gains you may have realized, like a sale of property or other business assets and let us know if you would like to do a gain/loss review.

**From Tara-
Year End Planning**

Required Minimum Distribution: RMD's are the minimum amount that you must withdraw annually from your IRA when you turn 73, with the first distribution by April 1st the year after you turn 73, and subsequent RMD's must be taken no later than December 31st of each year. For those born in 1960 or later this age is 75. Those who inherited IRA accounts have their own separate rules based on the year that a loved one passed away. If you would like to know if you are subject to an RMD and/or how much you have left of your RMD please give me a call and I would be happy to help you.

Gifting: If you are considering gifting this year please let us know by December 1st if you will be giving gifts of stock or setting up 529 plans for your kids, grandkids or great grandkids. In addition, for those over 70 ½ by year end if you have any charitable giving you would like to do as a Qualified Charitable Distribution from your IRA just let us know so we have plenty of time to process paperwork.

Fees: Annual RMA, IRA and Qualified Plan account fees are coming up. If you would like to pay ahead you are welcome to do that, otherwise it will come out automatically on December 6th.

Best wishes for a great fall,

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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.

Important additional information applicable to retirement plan assets (including assets eligible for potential rollover, distribution or conversion).

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Financial Advisor after a review of detailed information that you provide about your plan and that includes the reasons the rollover is in your best interest. UBS and your UBS Financial Advisor do not provide rollover recommendations verbally.

With respect to plan assets eligible to be rolled over or distributed, you should review the IRA Rollover Guide UBS provides at ubs.com/irainformation which outlines the many factors you should consider (including the management of fees and costs of your retirement plan investments) before making a decision to roll out of a retirement plan. Your UBS Financial Advisor will provide a copy upon request.

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¹ Thomson Reuters via UBS Portfolio Management Report performance data as of 09/30/2024

² Weekly Global, Preparing portfolios for the fourth quarter, Mark Haefele, Global Wealth Management CIO, UBS AG

³ Get Ready 4Q outlook: Rates, votes, and volatility, UBS Chief Investment Office GWM, Investment research September 19, 2024

⁴ <https://www.jhinvestments.com/elections-and-the-markets#what-s-at-stake-election-2024>

⁵ Get Ready 4Q outlook: Rates, votes, and volatility, UBS Chief Investment Office GWM, Investment research September 19, 2024, page 15

⁶ Modern Retirement Monthly: Year-end priorities and a preview of 2025 UBS Chief Investment Office GWM, Investment research September 25, 2024