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A STOCK-PICKER'S MARKET

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As of early-August, US stocks, as measured by the S&P 500, are up about 12% in 2024. A first-half rally wasn't supposed to happen for a number of reasons. Entering the year, the market traded at over 19x forward earnings – not particularly cheap. The Fed Funds rate had exceeded 5% since Summer 2023, putting the growth of large pieces of the economy at risk. Inflation was still running above the Fed's target level, leaving little reason for rate cuts. Real yields on the 10-year US Treasury were approaching 2%, their highest level since the mid-2000s, so for the first time since the Global Financial Crisis (GFC), bonds offered an attractive rate of return. The TINA ("There Is No Alternative") phenomenon, whereby investors favored stocks due to lack of alternatives offering reasonable return prospects, was no longer in effect. To the surprise of many, stocks rose anyway. Gains occurred in line with an improving forward earnings outlook, which is healthy.

There's one caveat: earnings growth expectations have been driven by the technology sector. Firms investing in AI capabilities or selling the proverbial AI "picks and shovels" are expected to reap massive economic benefits. Per our July 2024 Market Commentary, we believe it's a little early to assign many trillions in market value to a few presumed winners. The short-lived technology sector sell-off on August 5th showed that other investors may be skeptical as well.

The rest of the market appears to be softening. Companies outside the technology sector, on average, are expected to show tepid earnings growth in 2024. We've seen signs that the US consumer, which drives about 70% of the economy, is stretched. Savings rates are down, pandemic cash cushions have been depleted, and credit card debt has jumped to over $1.1 trillion. Bellwether industrials have reported flagging demand in the first half of the year. Further to these signs of macroeconomic slowing, a tame inflation report in July increased the odds of a September rate cut. We view that as a possibility. But it does appear that the "lower for longer" rate environment that persisted from the period between the GFC and the pandemic is behind us, whether or not the economy weakens from here.

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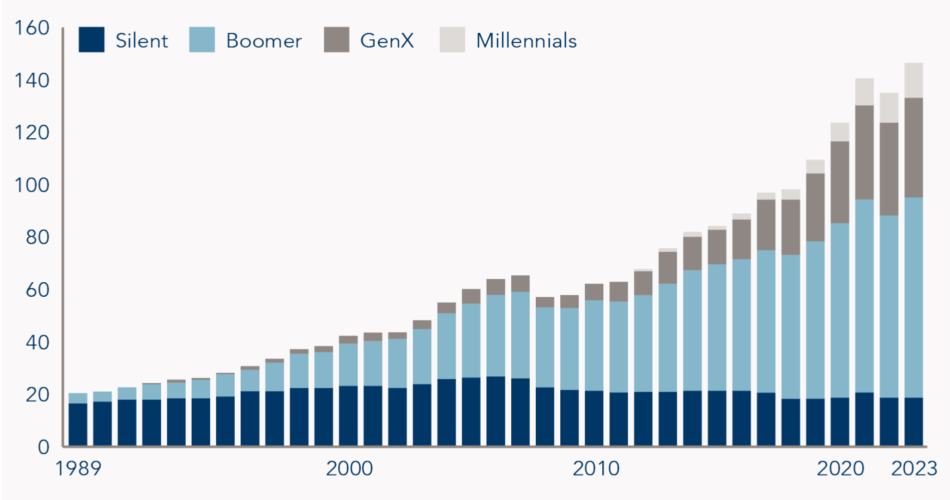
Given the aforementioned backdrop – technology sector leadership, an economy slowing at the margin, and a higher baseline for

U.S. BOOMER WEALTH IS STARTING TO TRICKLE DOWN

HOUSEHOLD WEALTH BY GENERATION, $1TN



Silent = before 1946, Boomer = 1946-64, GenX = 1965-1980, Millennial = after 1980
Source: Federal Reserve

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interest rates than what we've seen over the past 15 years, we will make two long-term predictions. The first is that a "lower for longer" interest rate environment will continue to be unnecessary to drive demand for stocks. The second is that it will pay to pick stocks outside the current crop of "big tech" names leading the S&P 500.

Regarding the first prediction, although TINA might have been a driver of money flows into equities from the GFC until mid-pandemic, "lower for longer" hasn't been required to generate incremental buying in stocks since then. We think demographics might be a factor.

Consider the plight of the Millennial generation, born between 1981 and 1996. Many either began their careers during the dot-com bust of the early 2000s or during the GFC, or watched their parents suffer serious portfolio drawdowns during those periods. Psychological wounds take time to heal. Meanwhile, skyrocketing housing and education costs meant not much money was left over to invest.

Fast-forward to the post-pandemic period. Millennials are enjoying the first truly strong labor market of their careers, all while wealth is starting to trickle down from older generations [Chart 1]. With more earnings power, more assets, and fading memories of market meltdowns, stocks might look attractive. And with mortgage rates at levels not seen since pre-GFC – before Millennials participated in the housing market – some might think twice before putting their whole nest egg into real estate.

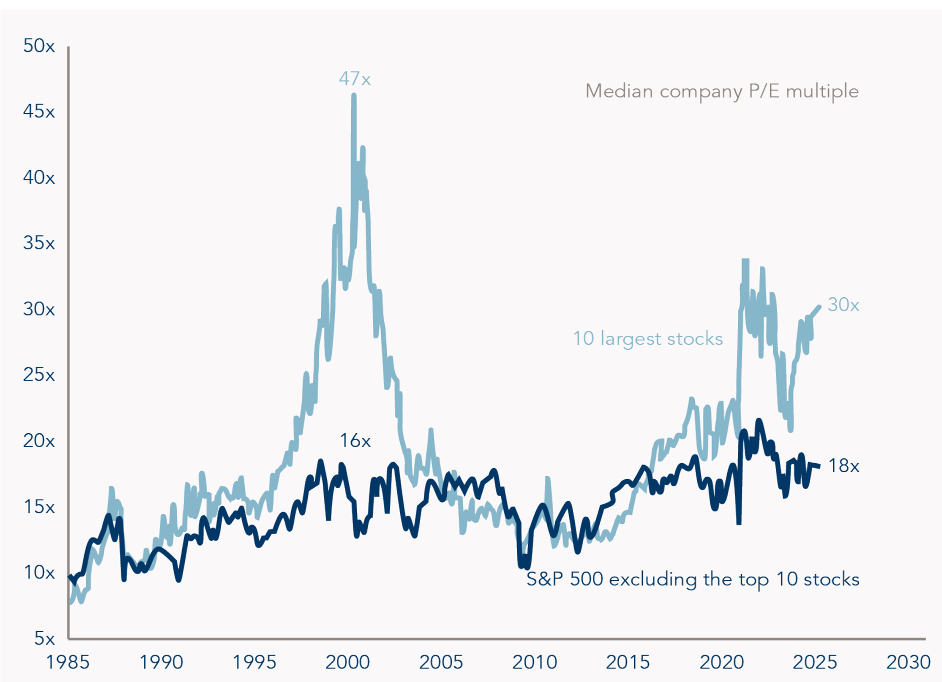
> *"Millennials are enjoying the first truly strong labor market of their careers, all while wealth is starting to trickle down from older generations."*

Behind the Millennials, Generation Z, born between 1997 and 2012, doesn't share the same scars. From crypto currencies to "meme stocks," volatility doesn't scare them. Speculative investments aside, the relative safety of equity ownership in cash-producing businesses will be there when they are ready. We believe that time will arrive in the years to come.

Our second prediction is that canny stock-picking outside "big tech" will pay off. For every dollar invested in an S&P 500 index fund today, about 35% gets invested in the top ten largest companies in the index, most of which are technology-driven. Further, a significant portion of the expected earnings growth from that group of ten is coming from AI-related prospects. That's one reason why the group is valued so richly versus the rest of the index [Chart 2]. As future investment returns are highly correlated with starting valuations, we think putting a third of one's equity allocation into expensive technology companies today is risky. AI looks likely to boost productivity and benefit vendors of such technology over the long run. But let's not forget that a myriad of use cases aren't yet a reality. As we noted in our July Market Commentary, McDonald's hit pause on its AI-driven drive-thru technology due to implementation snags. And let's remember that spending on technology capacity is cyclical. At some point, data centers will slow purchases of GPUs and re-evaluate future investment roadmaps.

THE VALUATION OF LARGEST STOCKS TODAY IS BELOW DOTCOM PEAK

10 LARGEST STOCKS TRADE AT P/E OF 30X VS. 47X AT PEAK OF DOTCOM BUBBLE IN 2000



Source: FactSet, Goldman Sachs Global Investment Research. As of June 13, 2024.

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To be clear, we are invested in some fine tech-forward companies that are AI beneficiaries. However, we are finding strong prospects in other areas of the market as well. Regardless of which generation our clients represent, our sights remain on protecting and growing long-term purchasing power no matter where any one sector, the broader economy, or interest rates may be headed.

FINDING PEACE OF MIND WITH A WELL-ORDERED FINANCIAL HOUSEHOLD

Kathleen Gilmore, CFP®
Chair and President, Principal

As Investment Counselors, my colleagues and I are immersed in the world of financial rules and systems. Whether we are studying the investment markets and accessing trading platforms, dealing with our custodial partners, connecting with our clients' banking providers, or strategizing with related professionals from the legal, accounting and insurance fields, we coordinate this complex financial web as fiduciaries in support of our clients' needs. With ever-changing regulations and jargon that seems to take on a life of its own, it's no wonder that we all know someone who would rather depend on a family member or trusted advisor to manage their financial household for them.

> *"... we all know someone who would rather depend on a family member or trusted advisor to manage their financial household for them."*

This article is for all of you who nodded yes at the end of the previous sentence, especially if the "someone" mentioned is you. If you are not currently the financial head of your household, chances are very high that you someday will be.

That may feel daunting, but you don't need an advanced degree or years of experience in the financial field to be prepared. There are steps each of us can take to give ourselves peace of mind knowing our financial households are in order. What follows is a checklist of sorts – the questions whose answers will help maximize your financial preparedness and well-being.

> *"If you are not currently the financial head of your household, chances are very high that you someday will be."*

KNOWING WHAT YOU OWN

Step 1:

Understanding what you own and how you own it is a critical first step. Perhaps the easiest way to tackle this project is to gather the statements for financial accounts which are sent to you by your banks, your investment custodians, your credit card companies, your pensions, your insurance brokers. These may come in the mail or by email or require you to log into your account to download the latest information. Once these are gathered, create an inventory list – either in physical form or in a password-protected electronic spreadsheet – that lists these institutions and the accompanying account or policy numbers.

Step 2:

Review each of these accounts to make sure you know their purpose and how they function. Specifically:

1. How is the account titled? For example, is your checking account a joint bank account where another signer can be added if/when assistance is needed, or is it a trust account which will require additional legal steps to add a signer beyond the original trustees?
2. For married couples, are both Social Security numbers associated with your accounts, if appropriate? Understand if both spouses are joint owners on the account, or if one is an owner and the other an authorized signer. For example, many credit cards allow for additional card users while the account is

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dependent upon one owner. If the owner is deceased, the account closes.

3. Are the beneficiaries for these accounts up to date? Is a trust named as the beneficiary on any account? Is that still the best solution?
4. For married couples with pensions or annuity payments, do the payments last for a single life or do they cover both of you?
5. Do you know how your real estate, if any, is owned? When was the last time you checked the title on the deed? (Hint: what does your property tax bill say?)
6. Do you own life insurance? Have you reviewed the policies lately? Has the reason to own insurance changed?

This list is not meant to be exhaustive, but it is a great start to getting your arms around your financial household. The answers to these questions may be the trigger for a deeper discussion with your family and members of your professional financial team.

PROTECTING YOUR FINANCIAL WELL BEING

A place to start is with your FICO (Fair Isaac Corporation) score. This credit score is one measure of your financial well-being and is based on information collected by credit reporting agencies. Most banks and many smart phone apps can provide easy access to your credit scores. Knowing these scores and checking them regularly is a great way to keep tabs on current account and loan activity or, for security purposes, to be alerted to new accounts or loans that have been opened using your information. Spouses should track their own credit histories. It is not uncommon for married couples to build credit based largely on one social security number, possibly limiting future financial options for a surviving spouse with a poorer credit score.

To have a sense of "well-being," it is important to understand what puts our well-being at risk. Each of us has a personal definition of risk – the things that keep us up at night. For some, it may be outliving health (mental or physical); others may be concerned with outliving wealth; many worry about the legacy they will leave behind when they are gone. When there is a financial aspect to these concerns, there are often steps that can be taken to help mitigate the worry.

> *"Each of us has a personal definition of risk – the things that keep us up at night."*

To the extent that risk to your Financial Household is associated with not knowing if you have the financial means to live the life you hope to live, here's a checklist of questions to ask yourself:

1. Do I understand the cashflows in and out of the household accounts? What direct deposits and/or automatic payments are in place? Which accounts are affected?
2. Do I understand the overall Household asset mix? How much of the Household Net Worth is in liquid assets (easily converted to cash) and how much is illiquid?
3. Have I considered the tax consequences of future cash-flows based on the overall asset mix?
4. If I am earning an income, do I have an emergency fund in place in case that income is disrupted? Should I consider an emergency fund for other purposes (such as self-insuring against catastrophic events)?
5. What kind of insurance protections do I own?
   a. Health Insurance
   b. Property and Casualty
   c. Liability insurance
   d. Disability insurance
   e. Long Term Care Insurance

Do I have the right amount of insurance based on my definition of risk?

As is evident by the personal nature of these questions, there is rarely a single "right answer" or approach to mitigating risk. It is also important to revisit these questions (and previous answers) from time to time. Life events have a way of changing our attitudes towards risk and your plan for protection will evolve with these changes.

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THE IMPORTANT CONVERSATIONS – SHARING THE PLAN

Putting your financial household in order requires knowing what

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you own, how you own it, why you own it, and what steps you've taken to protect it. But it does not end there. A well-ordered financial household is understood by those who share it - your spouse, your children, your trusted contact, your successor trustee - by the people in your life, other than yourself, who will benefit most from your efforts to create the order in the first place.

"Putting your financial household in order requires knowing what you own, how you own it, why you own it, and what steps you've taken to protect it."

These are the important conversations, and the questions to ask yourself may be used as conversation starters.

For example, we are often asked about reviewing the family trust with family members, especially adult children. This conversation can be limited to the structure of the trust ("what happens if...?") or may include a full disclosure of all the assets of the estate. The timing and manner in which this happens is a reflection of your personal financial household culture, but in our experience, questions left unanswered directly allow for assumptions and inaccurate information to take hold.

Our encouragement is to use the balance of this year to engage members of your financial household by sharing the plan. A well-ordered financial household is built on knowledge and understanding – both at the individual level and at the household level. As always, don't hesitate to speak with your Investment Counselor if we can be of service with this effort.

"Our encouragement is to use the balance of this year to engage members of your financial household by sharing the plan."

FINALIZED INHERITED IRA REGULATIONS

George E. Hasbun, CFP®
Principal, Investment Counselor

Since the SECURE Act was passed in 2019, it has been clear that those who inherited IRAs after 2020 needed to draw them down within 10 years, what hadn't been finalized was whether annual RMDs were required.

On July 18, 2024, the IRS released final regulations confirming the requirement for Non-Designated Beneficiaries of IRAs to take RMDs annually if the previous owner began taking RMDs before they passed away. At the same time, the IRS also confirmed those who should have taken RMDs between 2021 and 2024 but didn't, will not be subject to penalties nor will they be required to make up the missed distributions.

So effectively, the new regulations begin the RMDs requirement starting in 2025 based on the beneficiaries' life expectancy subject to full withdrawal by the 10th year after becoming the beneficiary. Your Investment Counselor can assist with calculating your required annual distribution and provide withdrawal strategies during the 10-year window.

	Eligible Designated Beneficiary	Non-Eligible Designated Beneficiary
Decedent died Prior to RMDs	"Stretch" over beneficiary's life expectancy or 10 year rule	10 year Rule; No RMDs
Decedent died after RMDs starting	"Stretch" over longer of beneficiary's life expectancy or "Old Rules"	10 year Rule + Annual RMDs

Eligible Designated Beneficiary: Surviving Spouse, Disabled Persons, Chronically Ill Persons, Persons <10 Younger than Decedent, Minor Children
Non-Eligible Designated Beneficiary: Most Non-Spouse Beneficiaries

SUMMER INTERNSHIP PROGRAM SUCCESSFULLY COMPLETES 9TH YEAR

Dhruv Saraf and Luke Garlick

Rising junior Dhruv Saraf and rising senior Luke Garlick participated in the firm's ninth summer internship program. Through their six weeks with Clifford Swan, they touched every aspect of the business including fundamental securities research and trading, portfolio management software, inheritance planning, client service, operations, marketing, compliance, and IT.

Dhruv majors in Economics and Data Science at Claremont McKenna College. On campus, he is a Robert Day Scholar, a member of Graphite Group, and a Financial Economics Institute Research Analyst. Luke majors in Economics with a minor in Data Science Engineering at UCLA, where he is a two-time recipient of the D. Lipschutz Scholarship and President of Bruin Capital Management.

Gretchen Lee and Dan Mintz conducted the interviews, selecting Luke and Dhruv from an unprecedented number of applicants. Dan also held weekly check-ins and coordinated internship projects.

Luke's favorite project was a deep analysis of the space sector and described it as "one of the most exciting industries right now." He enjoyed analyzing the fluid possibilities of the largely untapped market: "usually you can draw a box around a company or an industry but with space there are so many avenues of growth and the confines of the industry and technology undefined."

Dhruv's favorite project was looking at Mutual Funds through researching Emerging Markets and analyzing several ratio trends. He "gained a solid foundation in Investment Counseling, especially in Fixed Income tools and Mutual Funds that aren't in the news as much as Equities." On the equity side, Dhruv particularly enjoyed trimming stocks for clients!

Clifford Swan was lucky to have Dhruv and Luke as interns, who strived to learn and become a part of our team, adding immense value to our firm and their professional development.

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