Quarterly Newsletter

Q2

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What Correlation?

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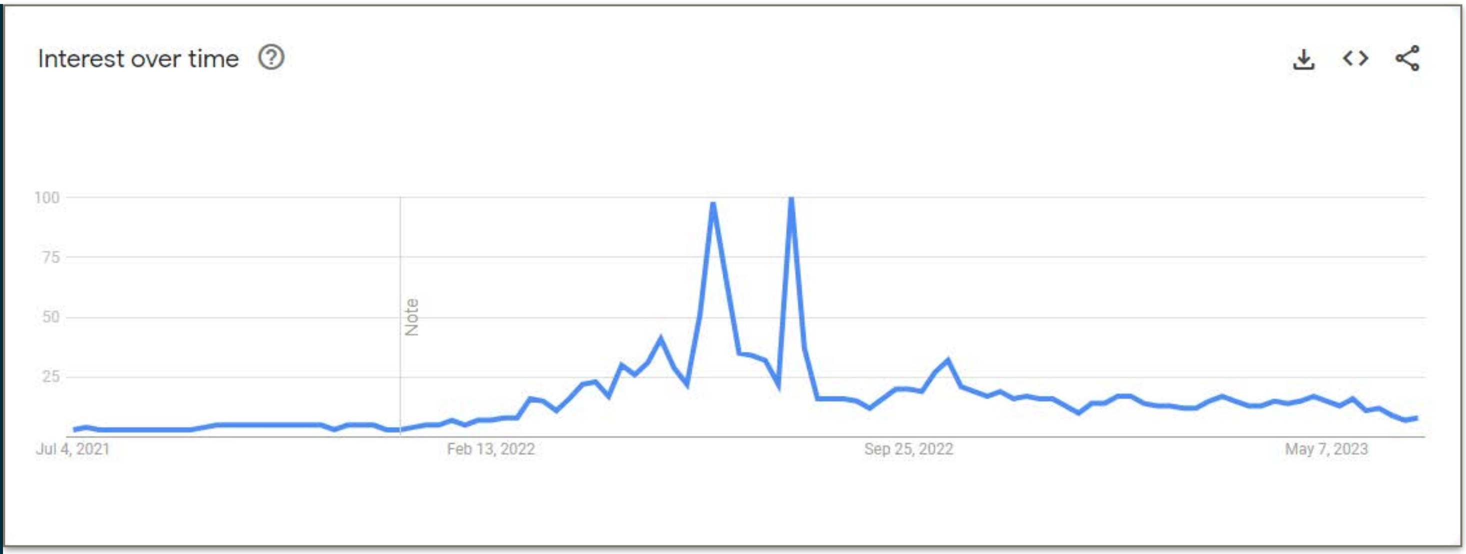
As we cross through the mid-point of 2023, we can look in the rearview mirror at the first half of the year and recognize the simple fact that there will always be a “crisis” for which we are told attention must be paid. Whether it is the regional bank “crisis” from March or the debt ceiling “crisis” from May, we are presented with big headlines and red type, telling us that *this* is the time to move out of equities. But look at us: we have made it to July 2023 with double-digit percentage gains year-to-date in global developed market equities (as represented by the S&P 500 and MSCI EAFE indices for U.S. and international large-cap equities, respectively) and healthy gains in other equity sub-asset classes in which we seek to invest (U.S. small cap and emerging market equities.) There’s no guarantee about the rest of the year, of course, but these past six months have been a stark reminder that headlines and market performance are not correlated.

The economy-wide recession that has been forecasted again and again still has not reared its head. On the next page is a Google Trends chart for the term “recession” for the past two years – those big spikes are from last summer, after the Federal Reserve had already hiked short-term rates 1.5% and promised to hike a good amount more in its fight against inflation, which hit its near-term max of roughly 9% last summer.



Though they kept their promise to keep hiking rates (we are currently sitting at a Fed Funds rate of roughly 5.0% and more may be on the way; the lagging effects of which may still need to filter through the economy), we made it through the first half of 2023 with an unemployment rate near all-time lows, a prime-age (25-54) employment ratio back to pre-COVID highs, and a U.S. Index of Consumer Sentiment reading that has steadily increased over the past twelve months. No doubt about it, there will be a recession someday – it could start at the end of 2023, sometime in 2024, or in a decade. The above chart shows, though, that just because people and headlines are focused on the possibility (or as headline writers seemed to say, the certainty of a recession) does not mean large adjustments to your portfolio should be made – otherwise, you may have missed the gains in equity markets over the past twelve months.

We are tasked with the responsibility of helping our clients manage their investment assets over a long-time horizon. It is such a horizon that allows us to look at the events discussed above with a seeming lack of emotion due to its familiarity. To quote somebody (some say Mark Twain, but its source is not definitive): “history doesn’t repeat itself, but it often rhymes.” There will be always be something and we look forward to partnering with you to traverse through it.

We've Moved!

Our New Building

We are very excited about our new office space for many reasons. For one, the distance between our cars and the front door to our office is drastically smaller, which, in this wonderful humid weather, has really helped keep our shirts dry and our glasses from fogging up. Additionally, Pete gets to be his own landlord! Woohoo! In many respects, entering our new office space is akin to getting into a new car. It looks nice, it smells fresh, it feels bright, and it's just fun. We are happy and energized. (We've included a few more pics at the end of the letter).

The move itself, while smooth, was still quite the process. In the days and weeks leading up to it all, we were able to get rid of some old office furniture and equipment that was no longer being used, and do a small bit of "Spring Cleaning" before transitioning to our new place. As we sifted through some of the old stuff we had, we laughed at how long we had kept things like old keyboards and extra power cords had been packed in the back of the storage drawers (I think we found a typewriter somewhere in there). We have obviously upgraded technology over the years, but it's still easy for us to forget to clean out the old stuff while welcoming in the new. It served as a reminder that it's good to periodically take stock of where we are and do some regular cleaning.

Though "spring cleaning" is a more well-known phrase, we thought that we would provide a couple of "summer cleaning" suggestions as it relates to financial and/or information-related items that may be helpful, especially if you're looking to escape the heat and check some boxes of your to-do list this summer.

Savings Bonds

Series EE bonds are considered a low-risk way of saving money (due to their U.S. government-guarantee) that earn interest for 30 years and, for recently issued bonds, are guaranteed to double in value in 20 years (a roughly 3.5% return). Additional ancillary benefits include being a fairly simple way to gift an interest-bearing instrument to a loved one or the deferral of tax on the interest of the bond until the earlier of (i) maturity or (ii) sale of the bond (a good rule of thumb is to defer the payment of tax for as long as possible.) In the first few decades following their introduction in 1980, paper EE bonds were the only option, but starting in 2011, only electronic "bonds" are available.

If you have paper EE bonds, we would love to review and (i) give you an updated estimate on the current value of the bonds and (ii) discuss whether cashing them in makes sense for your situation. We are cognizant of the difficulty of redeeming paper bonds currently due to the efficiency of the Treasury Direct system, but *especially* how difficult it can be for your heirs, as we've handled multiple situations in which attempting to redeem paper bonds of a decedent has caused multiple headaches (literally and figuratively.)

Trusted Contact

You may have heard us discuss the term "trusted contact" in the past. We've previously had a hard time defining the term because the authorization embedded in the selection by a client is limited. However, we've nailed down a great way of determining who should be listed as a trusted contact: *"Who should we contact if we need to reach you but are unable to do so?"* This person would *not* be your spouse (as he or she would be the first person to whom we would reach out) and needs to be aged 18 or older. As a reminder, this person would have no authority to act on your behalf (that is for Powers of Attorney) and finances would not be discussed, but having a trusted contact on file helps protect you to ensure there are no communication barriers between us and our clients in the (rare) situation in which time is of the essence and we need to reach you.

Online Account Access

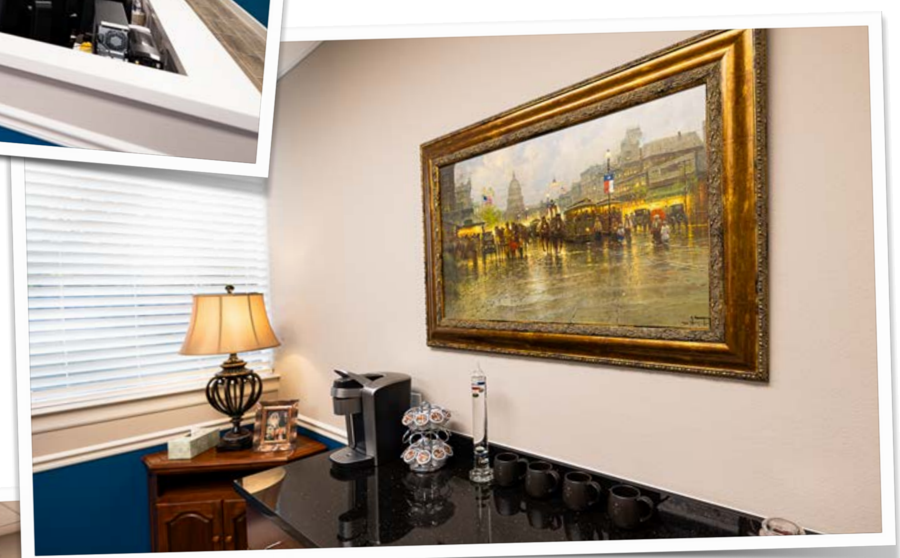
Have you logged onto Raymond James Client Access recently at https://clientaccess.rjf.com? We recommend signing on at least twice a year so that your document preferences are not changed on your behalf automatically, especially if you elect electronic document delivery (which we also recommend). There is no hard and fast rule, but we have had clients who have had their documents reverted to all paper documents due to inactivity from a log-in perspective – this is for the clients' protection as Raymond James wants to ensure that clients are abreast of their account activity.

Outside Statements/ Tax Returns

As we continue to seek to ensure that your asset allocation is (i) in your best interest and (ii) invested in the way you expect, we want to ensure that we have updated statements from any outside accounts that we do not manage (such as 401(k) statements). This allows us to keep a view on your holistic financial picture, which we think is incredibly important. Similarly, having copies of your recent tax returns helps us estimate your future tax picture and plays a role in how we allocate investment assets and/ or update your distribution strategy. Client Access (discussed above) has a Dropbox-esque service called "The Vault" that allows you to send files to us in an encrypted fashion, which we recommend since both account statements and tax returns contain "personal identifiable information" (PII). If you have any questions or need any help with the Vault, we would love to help.

Around The Office Updates

This is the main area of our new office space.



We've got a few more paintings to hang, but it is all coming together.

And of course, our favorite room, the conference room!

Around The Office Updates

And what would our quarterly letter be without a few pictures of our families and kids?!

Jimmy and Sandi's 3 kids: Kaylee (5), Maggie (3), and Casey (5mo) are all doing great. Their summer has been filled with swimming, coloring, and launching their beanie babies over the balcony on to the couch while mom and dad attempt to find 5 minutes of rest. Kaylee starts Kindergarten in a couple of weeks (she's very excited), Maggie will start pre-school, and Casey will get to have some good old one-on-one time with mom without his sisters around!

Eric and Ellie's boys, Abe (3) and Jonah (1), have also had an eventful summer! They got to spend 4th of July at Lake Travis where they swam, rode around in the golf cart, and enjoyed time with family. While summertime is always fun, they're looking forward to some cooler weather this fall so they can resume their evening walks around the neighborhood (a family favorite activity).

It has been a very busy summer as we have made the transition to our new building space, but our summer excursions are now complete, the move is done, and we're excited to talk to you and see you! We look forward to our next conversation and visit soon.

Blessings,

Roth Financial Partners