nvest nsights

June 30, 2024

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nvest
WEALTH STRATEGIES

Delivering financial peace of mind.

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Game Point! | Steve Henderly, CFA

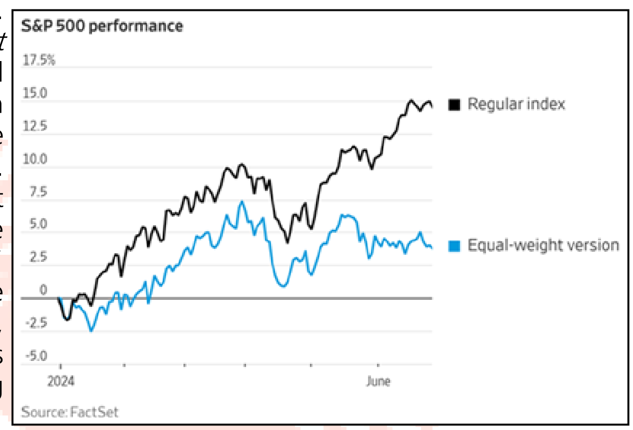
Tennis great Roger Federer won nearly 80% of the 1,526 singles matches he played over his career. Yet you might be surprised to learn that he won just 54% of the points in those matches! Even top-ranked tennis players win barely half of the points they play… which also means they lose almost half of the points they play. Interesting. In Charles Ellis' book, the "Loser's Game", stock market investing is likened to the game of tennis. In that book, he explains that success is determined by avoiding big mistakes and keeping the ball in play rather than by attempting aggressive hits. We can't help but feel the analogy aptly applies to the deceptive allure of the S&P 500's performance YTD – where performance is being driven by the spectacular gains of a few mega-sized tech companies.

Perhaps the biggest portfolio management story through June 30 is the S&P500's blistering return of over +14.5%; yet the average stock within the index is up just 4.1% this year. Nvidia alone (now more than 6% of the S&P500) rose +37% in the quarter and is up +149% for the year. Nvidia, Microsoft, and Apple together make up nearly 20% of the entire S&P500, and their performance is driving the largest divergence between the average stock and the size-weighted performance being reported for the index since at least 1990! This can also be observed in client portfolios via the dramatic outperformance of Schwab Large Cap Growth (SCHG +22%) , which owns significant exposure in "Mag-7" names.

Down, Up, <u>Flat</u> vs. Down, Up, <u>Up</u>

For client portfolios which are more diversified via exposure to small, mid, and international companies, the 2Q can be likened to a rollercoaster ride: <u>*down*</u> in April, an equal sized rebound <u>*up*</u> in May, followed by virtually <u>*flat*</u> performance in June. By contrast, the S&P500 or Nasdaq provided similar <u>*down-up*</u> experiences in April and May, but the performance of these few mega-size tech companies provided further ascent <u>*up*</u> in June.

The chart to the right again shows the wide divergence between the cap-weighted S&P500 index vs. those same companies equally weighted. The S&P composition is currently the *most concentrated in history*. Divergence like this will not persist forever. Using the 90's as an example, the divergence opened wide like "alligator jaws", only to snap back abruptly. Frothy priced dot-com names suffered a violent and lengthy correction in March 2000 and the bubble burst. The same "opening of jaws" appears to be developing today. Despite the allure and promise of AI to transform the future, we cannot help but wonder if lofty expectations already built into prices might fall short, causing pain for the headline indexes.



In a similar way, diversification beyond domestic stocks provides additional exasperation. A recent Bloomberg article titled "Great Bear Market In Diversification Haunts Wall Street Pros", highlights how anyone pursuing a diversified portfolio trailed the S&P500 in 13 of the last 15 years. Similar to the chart above for the size-weighted vs. equally weighted S&P, history reveals streaks ultimately resolved supporting diversification benefits. Unfortunately, waiting for the change is challenging; it can wear on investor patience.

Pivoting back to our strategic tennis analogy, while one might envy the speed of a Federer serve or the accuracy of a shot just inside the sideline, so too with investing with the latest current-story stocks. With investing and pursuing your financial goals, the best approach is similar to tennis - keep the ball in play. For us, that means avoiding the temptation to load up areas of the market which appear priced for perfection following strong advances. Great, innovative companies can be bad investments when they are purchased at expensive and speculative prices dependent on growth that never slows. We do not believe longstanding laws of financial physics have been repealed. Keep the ball in play by continuing to own a diversified portfolio comprised of reasonably valued assets and managing exposure to recent winners; avoid the costly mistakes which may ultimately jeopardize winning the match.

Interesting Stat: S&P500 companies <u>with</u> earnings have <u>underperformed</u> those <u>without</u> earnings by 2.2% since March 2020, the start of the pandemic… you read that correctly. We believe that occurred because of the Fed's zero interest rate policy, wherein there was no risk/cost for money.

ANNOUNCEMENTS:

- July 4 Independence Day - Markets, banks, and Schwab closed.
- Aug 8 Nvest Engagement at Getaway in Dublin
- Sept 2 Labor Day - Markets, banks, and Schwab closed.
- Sept 30 End of 3Q. Quarterly Reports sent early October.
- Our ADV Part 2A & B as required by the SEC & Ohio (and other states) is available to you anytime upon request.

"Don't forget to celebrate milestones along the way! Whether it's paying off a significant debt, achieving a savings goal, or reaching a milestone in your investment portfolio, acknowledging progress reinforces your commitment to financial independence."

Diane is ready to serve your notary needs. In addition, Diane's 2-year "Nvest Anniversary" is July 6th.

Congrats Diane!

Declaration of Financial Independence | Jordan Ranly, MBA

Happy Independence Day - a day synonymous with our nation's freedom from foreign rule. Might this be an opportune moment to declare your financial independence? Similar to how our nation's founders envisioned a future of opportunity to better control our own destiny, *LIVING LIFE* financial planning empowers one to shape long-term dreams.

Begin by envisioning your future. Where do you see yourself in 5, 10, or even 20 years? Perhaps it's traveling the world, owning a second home, funding children's (or grandchildren's) education, retiring comfortably, or leaving a significant legacy for your loved ones or charitable causes. Our *LIVING LIFE* goals worksheet can help guide you and loved ones through this process. Visualizing these goals provides direction and motivation for your financial planning journey.

To effectively map your financial future, it's crucial to set SMART goals:

- Specific: Define each goal clearly. Instead of "saving for retirement," partner with Nvest to specify how much to save and by when.
- Measurable: Set criteria to track progress; an annual savings target and budget.
- Achievable: Ensure goals are realistic based on your current financial situation and resources. Divide larger goals into smaller, manageable steps to maintain momentum.
- Relevant: Align your goals with your values and priorities. Consider how achieving these goals might lead to overall well-being.
- Time-bound: Establish deadlines for achieving each goal. This adds urgency and helps one stay focused on taking consistent and disciplined actions.

For example, if your goal is to retire comfortably at age 65, *LIVING LIFE* financial planning is here to help. We can calculate how much to save each month to reach your retirement savings target based on current assets, income, living expenses, and desired lifestyle.

A comprehensive financial plan that integrates savings, investments, and risk management strategies is imperative. Is it appropriate to maximize pre-tax contributions to retirement accounts like IRAs, 401(k)s, or 403(b)s to benefit from potential tax savings and employer contributions? Are you building flexibility into your plan via regular contributions to a Roth and/or personal brokerage account? Are any other investment ideas (ie: rental property, private equity, etc.) worth considering and how does that impact diversification across asset classes to manage risk and optimize long-term growth potential? Nvest is happy to study these questions.

We encourage clients to meet periodically with Nvest to review financial plans and consider adjustments as circumstances change. Life events such as marriage, children, career change, or economic shifts may necessitate modifications to your goals or strategies. Periodic reassessment ensures your plan remains relevant and adaptable to evolving needs.

Don't forget to celebrate milestones along the way! Whether it's paying off a significant debt, achieving a savings goal, or reaching a milestone in your investment portfolio, acknowledging progress reinforces your commitment to financial independence. Enjoy that special restaurant you've been wanting to try or make plans to visit one of your "bucket list" locations. This can serve as a great reminder that wealth is simply a tool toward realizing dreams.

By taking deliberate steps to set and pursue financial goals, you're not only securing your financial future but also embodying the essence of independence by achieving personal freedom and financial peace of mind. This July 4th, commit to declaring your financial independence; where your dreams are within reach, your retirement is secure, and your legacy is preserved for generations to come.

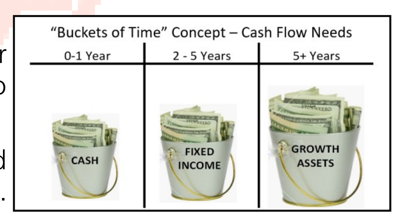
Nvest Engagement:

Delivering financial peace of mind is our ultimate goal. A quick summary of timely and helpful content our team shared over the past month via our LinkedIn and Facebook pages.

Like us on Facebook | Follow us on LinkedIn

◊ Cash management continues to be an area of interest for many clients. We advocate the "buckets of time" concept to avoid falling into the cash trap. LINK

◊ Everything you need to know about 529 education plans and the recent tax changes to make these plans more versatile. LINK



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Mid-Year Market Outlook | Steve Henderly, CFA

As we reach the midpoint of 2024, global financial markets are influenced by a crosscurrent of economic indicators, geopolitical events, and policy decisions. Here's a comprehensive outlook focusing on key factors shaping the landscape:

Economic Landscape and Growth Trajectory: The global economy continues to exhibit resilience, bolstered by robust consumer spending, supportive fiscal policies, and strong corporate earnings. Some cracks are appearing however, with strain in the areas of housing affordability, softening employment data, and regional disparities. The string of higher than expected inflation readings appears over, but the Fed still desires a bit more data as some supply chain bottlenecks, labor shortages, and commodity prices keep the picture uncertain. Rents and home prices are also not softening in the way the Fed anticipated when it commenced its rate-hiking campaign. Central banks worldwide are navigating between stimulating growth and controlling inflation, influencing market sentiment and investment strategies.

Interest Rates and Monetary Policy: The U.S. Federal Reserve's policy for interest rates and balance sheet management remains pivotal and is affecting market mood. Investors now believe there will be just one cut in 2024 with that occurring as early as September. But with the November election so close it seems equally likely the Fed may wait to avoid appearing political. Central banks in other major economies are starting to cut rates which supports the idea that the Fed can cut rates to prevent the US dollar from strengthening relative to other currencies. A strong dollar slows demand for US exports and can further soften economic growth/employment beyond what may already be occurring due to higher real (after-inflation) interest rates. Meanwhile, interest rate policy will receive acute focus by investors. During the last 12 months, stocks struggled when 10-year US Treasury yields drifted above 4.5%. The Government is walking a delicate path as it continues deficit spending that requires financing in the markets. Heavy issuance of debt will push rates higher and drains liquidity from the financial system in the short-run.

Geopolitical Developments and Market Sentiment: Anticipation and uncertainty surrounding the upcoming U.S. presidential election could introduce volatility. Market reactions will hinge on perceived policy implications for sectors such as healthcare, technology, and energy. Abroad, more than 80% of the world's population is electing new leaders in 2024; thus political uncertainty is a global theme. Persistent geopolitical tensions, including trade disputes and regional conflicts, pose risks to global stability and market confidence. Investors monitor developments in U.S.-China relations, European integration, and Middle East dynamics. Note, we discourage clients from allowing political outcomes to influence decisions about long-term investing.

Investor Strategies and Opportunities: While the recent 12+ months were driven by AI-related enthusiasm and earnings growth accruing to those sectors, there is reason to believe that other sectors are poised to begin enjoying more robust improvement in their earnings… particularly as interest rates may begin to come down. Earnings growth outside of the largest S&P500 constituents would bode well for the "average" stock to enjoy catch-up type performance. Further, one wonders if/when investors will begin to become more uncomfortable with risk related to outsized influence from a few high-priced stocks; beginning to take profits which can be deployed into other more attractively valued areas of the market. International remains an especially "cheap" area of the investment landscape, but a catalyst (i.e. weakening US dollar) is required to ignite the performance opportunity that exists. Record high balances in money market funds provide opportunity for the market to "melt" higher if/as interest rates soften.

Risk Management: Diversification across asset classes and geographic regions remains crucial to mitigate risks associated with sector-specific volatilities and geopolitical uncertainties. Bonds are a historically proven diversification tool. Despite the recent change in Fed policy which returned rates back to more normal levels, they are a key ingredient to portfolio construction and buckets of time investing. In fact, while appearing "sick" in shorter periods due to still uncertain direction around interest rates, the last 12 months reveal returns consistent with long-term history. Client portfolios with heavier bond exposure outperformed equity heavy portfolios as interest rates softened in 2Q. And, if/as any rate cuts occur, bond price change will provide an additional boost to total return. *Reference Chart*

Current 10 Yr. Treasury Yield ~4.5%

10 Yr. Treasury Yield Scenarios	6.00	5.50	5.00	4.50	4.00	3.50	3.00
U.S. Agg. Potential 12 Month Total Return (duration return + yield)	-4.05	-1.02	2.01	5.04	8.07	11.10	14.13

Seasonality: Often, 2nd half of year market performance follows an attractive 1st half. In the shorter term, the 3Q can be soft due to weaker historical tendency of August and September when market trading (volume) is often light. This gives way to 4Q which tends to be the strongest quarter of the year, and often even more so in election years as that result becomes more certain (markets dislike uncertainty).

Conclusion: As we move into the second half of 2024, financial markets face a landscape shaped by economic resilience, inflationary pressures, pivotal policy decisions, and geopolitical uncertainties. Investors should remain vigilant, stay informed about evolving market dynamics, and adapt strategies to capitalize on opportunities while managing risks effectively. Maintaining a balanced portfolio, emphasizing quality investments, and navigating potential volatility with caution, investors can position themselves to achieve their long-term financial goals amidst a dynamic global environment.

"Central banks in other major economies are already cutting rates in recent months which supports the idea that the Fed can cut rates to prevent the US dollar from strengthening relative to other currencies."

"Abroad, more than 80% of the world's population is electing new leaders in 2024, ; thus political uncertainty is a global theme. Persistent geopolitical tensions, including trade disputes and regional conflicts, pose risks to global stability and market confidence."

QTD

	Value	Core	Growth
Large	-2.17	3.57	8.33
Mid	-3.40	-3.35	-3.21
Small	-3.64	-3.28	-2.92

YTD

	Value	Core	Growth
Large	6.62	14.24	20.70
Mid	4.54	4.96	5.98
Small	-0.85	1.73	4.44

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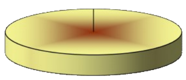
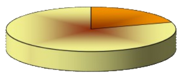
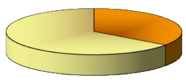
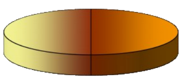
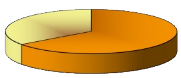
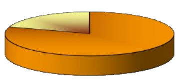
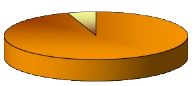
BENCHMARKING AS OF June 30, 2024

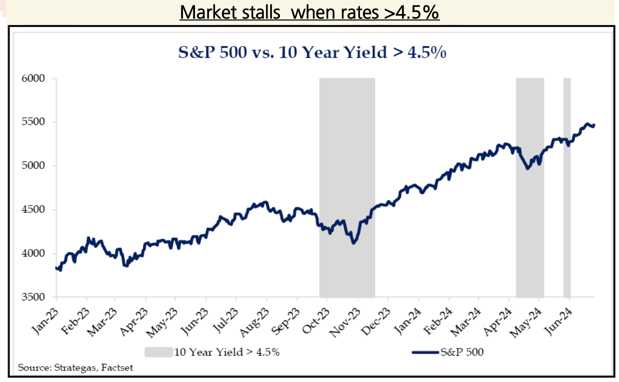
Summary of index portfolio returns compiled by Nvest Wealth Strategies®

	INDEX PORTFOLIO	STOCK/BOND ALLOCATION		TOTAL RETURN THROUGH 6/30/2024				
				2ND QTR	YTD	12 MTHS	3 YEARS	5 YEARS
	Capital Preservation	0% / 100%	*Cumulative*	1.1%	2.0%	5.9%	2.9%	8.6%
			Annualized			5.9%	1.0%	1.7%
	Income	20% / 80%	*Cumulative*	0.8%	3.2%	7.8%	3.7%	16.9%
			Annualized			7.8%	1.2%	3.2%
	Balanced Conservative	35% / 65%	*Cumulative*	0.7%	3.8%	8.8%	4.6%	21.8%
			Annualized			8.8%	1.5%	4.0%
	Balanced	50% / 50%	*Cumulative*	0.6%	5.0%	10.6%	6.2%	29.7%
			Annualized			10.6%	2.0%	5.3%
	Balanced Growth	65% / 35%	*Cumulative*	0.4%	5.8%	12.0%	7.3%	37.0%
			Annualized			12.0%	2.4%	6.5%
	Growth	80% / 20%	*Cumulative*	0.2%	6.8%	13.6%	8.8%	45.6%
			Annualized			13.6%	2.8%	7.8%
	Aggressive Growth	95% / 5%	*Cumulative*	-0.0%	7.2%	14.3%	9.1%	50.4%
			Annualized			14.3%	3.0%	8.5%

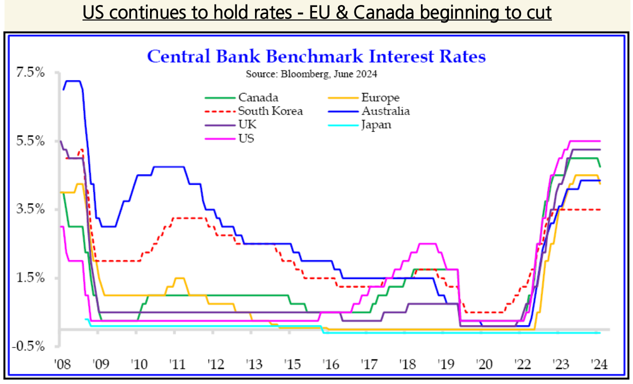
The index returns reflect returns of various mutual fund averages compiled by Morningstar and allocated as follows: Capital Preservation: 90% Bond Average, 10% Treasury Bill Index; Income: 80% Bond, 10% Large Cap, 3% Mid Cap, 2% Small Cap, 5% International; Balanced Conservative: 65% Bond, 15% Large Cap, 5% Mid Cap, 3% Small Cap, 7% International; Balanced: 50% Bond, 24% Large Cap, 7% Mid Cap, 4% Small Cap, 10% International; Balanced Growth: 35% Bond, 30% Large Cap, 9% Mid Cap, 6% Small Cap, 15% International; Growth: 20% Bond, 38% Large Cap, 12% Mid Cap, 8% Small Cap, 17% International; Aggressive Growth: 10% Bond, 40% Large Cap, 15% Mid Cap, 10% Small Cap, 20% International. You cannot invest in these indexes or averages and all above indexes/ averages include a 5% allocation to the Treasury Bill Index, reflecting a nominal level of cash. The level of diversification represented by these benchmark averages may be materially different than actual client accounts; therefore, clients may experienced different levels of performance volatility. Past performance is no guarantee of future results.

Concentration in the S&P500 at all-time high.

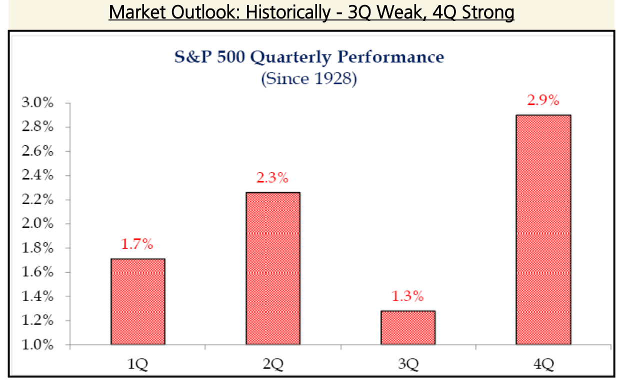
Market stalls when rates >4.5%



US continues to hold rates - EU & Canada beginning to cut



Market Outlook: Historically - 3Q Weak, 4Q Strong



Selected Funds - Total Return Performance Summary

As of June 30, 2024

Bond Funds - Taxable	Style	2nd Qtr	YTD	12 Mths	3 Years	5 Years
Taxable Short-Term Bond Average		*1.1%*	*1.9%*	*6.0%*	*0.7%*	*1.6%*
Taxable Intermediate Bond Average		*0.2%*	*-0.3%*	*3.1%*	*-3.0%*	*-0.1%*
Allspring (fka Wells Fargo) Ultra Short	AS	1.4%	3.0%	6.7%	2.8%	2.5%
Vanguard Short Federal	HS	0.8%	1.3%	4.4%	-0.4%	0.9%
American Century Short Duration	HS	1.0%	1.5%	5.2%	0.6%	1.6%
Pioneer Short-Term Income	HS	1.3%	2.5%	7.0%	1.7%	1.8%
DoubleLine Low Duration	HS	1.2%	2.5%	6.6%	1.9%	1.9%
Vanguard Short-Term Investment Grade	HS	0.9%	1.6%	5.9%	0.3%	1.5%
American Funds Bond Fund of America	HI	0.2%	-0.6%	2.9%	-2.8%	0.5%
American Century GNMA Income	HI	0.0%	-1.3%	1.6%	-3.2%	-1.0%
Diamond-Hill Core Bond	HI	0.7%	0.8%	4.5%	-1.8%	0.6%
BrandywineGlobal Corporate Credit	LI	1.1%	3.5%	11.7%	2.8%	4.8%
Miller Convertible	LI	-1.3%	3.6%	6.8%	-0.2%	4.4%
Bond Funds - Tax Exempt						
Tax-Free Intermediate Bond Average		*0.3%*	*0.4%*	*3.7%*	*-0.8%*	*1.0%*
Vanguard Muni Limited Term	HS	0.4%	0.6%	3.4%	0.6%	1.3%
T. Rowe Price Tax Free S/I	HS	0.1%	0.2%	2.8%	0.0%	1.0%
American Funds Tax-Exempt Bond	HI	0.7%	0.7%	4.6%	-0.6%	1.4%
Vanguard Muni Intermediate Term	HI	0.0%	0.0%	3.5%	-0.4%	1.3%
Vanguard Ohio Long-Term	HL	0.8%	0.4%	4.4%	-1.3%	1.4%
Stock Funds - Domestic						
S&P 500 Index		*4.3%*	*15.3%*	*24.6%*	*10.0%*	*15.1%*
Equity Fund Average (Morningstar Mgr Agg US Core EW)		*-0.3%*	*8.5%*	*16.7%*	*3.9%*	*10.4%*
Schwab Large Cap Growth	LG	8.8%	21.8%	35.2%	11.9%	20.0%
Parnassus Value Equity (f.k.a. Endeavor Fd)	LG	-3.8%	6.0%	15.1%	2.6%	14.3%
T.Rowe Price Dividend Growth	LV	1.6%	9.8%	16.8%	7.9%	11.9%
WisdomTree US Quality Dividend Growth	LV	2.8%	11.9%	19.1%	11.5%	14.6%
American Century Equity Income	LV	-1.3%	4.1%	5.2%	3.6%	5.9%
Hennessy Focus	MG	-2.4%	1.9%	7.6%	0.0%	7.0%
John Hancock Multifactor Mid-Cap	MB	-3.8%	5.0%	12.0%	3.1%	9.7%
John Hancock Disciplined Value Mid-Cap	MV	-4.5%	4.2%	12.8%	5.9%	10.3%
SPDR S&P600 Small Cap Growth	SG	-1.4%	3.2%	12.9%	0.1%	8.2%
Neuberger & Berman Genesis	SB	-2.6%	2.9%	6.1%	1.5%	8.4%
American Centry Small Cap Value	SV	-4.6%	0.0%	9.0%	0.7%	9.7%
Avantis US Small Cap Value	SV	-3.8%	0.8%	17.6%	7.6%	N/A
SPDR S&P600 Small Cap Value	SV	-4.9%	-4.8%	4.1%	-0.9%	7.3%
Stock Funds - International						
Morgan Stanley EAFE Index (Foreign)		*-0.4%*	*5.3%*	*11.5%*	*2.9%*	*6.5%*
Oakmark International	LV	-4.3%	-4.2%	-3.0%	-2.7%	3.9%
Hartford International Value	LV	-1.0%	3.1%	11.2%	6.6%	7.7%
Schwab Fundamental International Index	LV	-0.8%	4.3%	12.3%	5.2%	8.0%
John Hancock International Growth	LG	1.2%	8.7%	12.1%	-3.8%	5.2%
WisdomTree Int'l Quality Dividend Growth (Hdg)	LG	-1.7%	3.5%	10.3%	0.7%	7.7%
Harding Loevner International Small Company	SG	-3.6%	-4.2%	-0.3%	-5.3%	3.3%
WisdomTree Japan Hedged	LB	4.1%	27.6%	38.9%	26.3%	21.5%
Stock Funds - Specialty						
Invesco S&P500 Eq Wt Energy	MV	-2.3%	10.7%	21.0%	25.1%	14.2%
Direxion Auspice Broad Commodity ETF	N/A	3.5%	6.3%	2.3%	6.5%	9.5%
Neuberger Berman Real Estate Securities	MV	-0.4%	-3.6%	4.5%	-3.1%	3.4%

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Diane Carpenter: Statements, Nvest Reports, or copy of our ADV/privacy policy.
Steve Henderly, CFA: Portfolio Management & Strategy
Jordan Ranly, MBA: LIVING LIFE financial planning and other personalized projections