Comprehensive Investment Management, LLC

Fee Only Personal Financial Planning

Quarter Ending September 30, 2024

A Breakout Quarter for Small and Mid Cap stocks

Overall US stocks continued to perform very well in 2024. However this past quarter small and mid-cap stocks drove the markets higher. It wasn't the large tech companies that have been dominating because of anticipated growth due to advances in artificial intelligence. The prospect of lower interest rates favors companies with higher debt, which tends to be the smaller companies. Still the S&P 500 index, which is calculated based on market value and therefore overweights large companies, hit an all time high on September 30th. At 5,762 it was 20.8% higher that it was at the start of 2024. However, despite the good run 5,762 is just 20.9% (1/10th of a percent) higher than it was in January 2021. If you suspect the 19.4% drop in the S&P in 2022 has something to do with that, you may be onto something.

The Federal Reserve's long-awaited reduction in interest rates played a key role in the solid returns on stocks and bonds. But there was more going on with stocks than even the headline performance numbers might suggest. Underpinning the equity market's rebound was the resolution of months of investor uncertainty over interest rates. With inflationary pressures easing, the Fed reduced its target rate by half a percentage point at its September meeting, and investors now expect the central bank to continue pushing rates lower at a fast clip. The clarity (if that's what it can be considered) helped push bonds into positive territory.

The low 3 year return of the markets is reflected in the returns of our mutual fund investments. The overall average of the funds for the past year is 19.5% and 7.9% for 5 years. But for 3 years the average is just 2.5% including a negative -.9% for investment grade bonds. Finally, bonds are showing the signs of life that have been predicted for over two years. Over the past twelve months investment grade bonds averaged a return of 12% and high yield bonds 14%. We are still waiting for our Treasury Inflation Protected bonds investment to provide inflation protection. The inflation component of a TIP is paid when each TIP bond matures, so there is a time delay since the average duration of the bonds is 6.7 years. Overall bonds have rallied as the outlook for interest rates and the chances of a recession-free economic soft landing have solidified despite recent extreme moves in interest rates.

Average Annual Returns of Select Mutual Funds

As of September 30 2024	QTR	YTD	1 Year	3 Years	5 Years	10 Years	15 years
US Stocks	5.1	14.0	26.5	6.1	12.7	11.8	13.6
Foreign Stocks	8.4	14.8	25.8	-2.2	8.3	6.9	8.7
Investment grade Bonds	5.1	5.2	12.1	-.9	1.5	2.4	3.3
High-Yield Bonds	4.4	6.6	14.4	2.8	3.9	4.6	6.2
Mutual Funds 65/35 stocks//bonds*	4.7	15.4	26.7	6.8	10.7	9.2	10.1
Mutual Fund 35/65 stocks/bonds*	6.6	8.7	17.3	2.9	5.0	5.7	7.0

* Over the past 15 years $10,000 in a 65% stock fund would have grown to $45,000 vs $28,000 in a 35% stock fund.

For the first time in a long time international stocks are fairing better than their US counterparts. Vanguard's International growth (29%), TRP's International Discovery (26%) and Vanguard's Emerging markets select (23%) averaged 25.9% over the past year. Over the last few weeks China's government announced a stimulus package that significantly boosted its markets. Most pundits these days, however, are not high on China as its leadership has become more restrictive, inbred and opaque. Its economy has struggled because of a delayed over reaction to the Covid pandemic. Very much unlike the US, it has a housing surplus. Excessive over building and borrowing led to the collapse of Evergrande, once the most valuable real estate company in the world.

There's an Election?

You may have heard that the elections on November 5th, same as so many previous elections, is the most important in US history. Whether it is or not two questions that investor may ask are: Should I sell my stocks and watch any craziness from the sideline? Or wait and if (insert name) wins should I then get out of the market? Good questions, and the answer to both is NO! Kamala Harris and Donald Trump have big plans for tax/tariff policy, and, yes, they are headed in different directions. Trump wants to make the 2017 tax cuts permanent, while Harris wants to extend them with some exceptions that impact those earning more than $400,000 (add $50,000 if filing joint). Trump decreases corporate tax rates Harris increases them. Trump says tips, bonuses and social security should not be taxes, Harris so far has only talked about tips. Trump will increase tariffs on all imported goods with tariffs of 60% on those from China. Harris would maintain current tariffs while adding some on steel and aluminum from China and Mexico. There's many more ideas about tax changes being tossed about with minimal detail including capital gain and estate taxes. All laws ultimately are the domain of Congress, so guessing how all this will work out is a waste of time.

Just in time, Jeff De Maso of Independent Vanguard Adviser has run the numbers to determine if the Republicans or Democrats have been better for investors. He looked back 48 years, a period during which just so happens Republicans and Democrats evenly split time in the Oval Office.

Consider three hypothetical investors starting with $10,000 at the end of 1976. Dave Demo decides he will only hold stocks in the S&P when a Democrat is in the White House. When a Republican is president, Dave gets out of the market and keeps his money in a money market fund. Rachel Rep follows the opposite strategy. Steve Steady's policy is to ignore politics and to stay invested in the stock market throughout the period.

The balances at the end of the period were Dave $849,000, Rachel $163,000, Steve $1.6 million. It's surprising that the administrations with the reputation of being business friendly were widely outperformed by democratic administrations. Actually, no matter who was in the oval office, the economic underpinnings of the nation remain largely intact. Companies are going to continue to sell things and provide services and people will continue to need and buy them. No political party ever claims the president has any real control over the economy other than when it suits it. And then there's the time factor. It can take years for the impact of today's policies to show up in the numbers. In fact the more important and impactful polices have the longest lead time. George H. W. Bush missed out on reelection because of a rough economy during the last year and a half of his term. In fact at the time of the election the economy had already started a turnaround that only hit its stride in the early years of Bill Clinton's administration.

There are many reasons to vote in November and we all should. The performance of equities are not among them. The real lesson of the test over twelve administrations is to stay in the market the way Steve did. Building a financial nest egg takes time and patience, which can be richly rewarded. The choice is yours, but if you are going to sit out of the market half the time based on who the president is, well, that's not anybody's idea of a sound investment strategy.

ANNUITY SALES ARE BOOMING. BUT WHY?

Last year, according to data tracker Limra, U.S. annuity sales reached $385 billion, marking the second straight year of record highs. We can expect further increases because the 2019 federal SECURE Act for the first time allows annuities to be included in 401k plans.

In fact, the annuity industry has been heralding booming sales for some time. It's a way to get potential customers to think they are missing out on something. Sales increases in recent years can be traced to an expansion of the population that is the targeted cohort. About four million Americans will turn 65 in 2027 the largest number in U.S. history to reach that milestone in a single year. Not only are more people reaching 65 but the average life expectancy has increased as well. With the expectation for more post-earnings years, it's natural for folks to have concerns about the possibility of outliving savings. An annuity that guarantees lifelong income can be an attractive option and fear is certainly an effective sales pitch. And though annuities are available in many varieties, an annuity is basically an insurance policy. A company that pays sale commissions, has other expenses and is in business to make a profit, takes your money. After paying expenses and dividends to its owners it invests what is left to spread the risk that any of its customers will live longer than its actuaries have predicted. It can be attractive to people to offload risk. Peace of mind (in this case subject to the company still being around when it's time to cash out) seldom comes cheap.

Why is it most financial advisers, other than those who work with or for insurance companies, don't recommend annuities? Generally the biggest arguments against them are the lack of liquidity and high fees. It's easy to get a feel for the lack of liquidity. Read up about annuities at sites like Investopedia. (Allow time for breaks as headaches start to develop.) Typically your question will be "Do I really want to commit to all this?' You can imagine it gets worse if you talk to a sales person. The typical sale involves a commission of between 6% and 8%. While you are trying to listen, in the back of your mind you'd may be asking why, if this is so good for me, does this person get paid so much money to convince me to buy it.

If you want the best life time annuity available, postpone collecting on social security until you max out the benefits at age 70. If you still feel you need an additional stream of lifetime income limit your search to one with a fixed rate of return. Don't buy any of many offered annuity add-ons. At a high cost they give assurances for things that no body can predict if they will ever happen or not. In fact if something is more than likely to happen the higher the cost of the coverage. Be satisfied you bought coverage, but don't pay even more to cover every possibility.

There are immediate annuities and deferred annuities. With an immediate you write a check and you start getting payments soon after. With a deferred annuity you write your check, your money is invested, and there is a agreement that you can get some back later and start taking payments. In the meantime you annuity has all the same features of investing in a mutual fund except there is a surrender charge and an added expense to pay a death benefit (a misnomer). In other words you bought life insurance as part of the deal. Estimates that the number of people who come back later to opt for annuitization (that is, lifetime income) is low. The industry admits to 60%, but some estimates are considerably lower than that. Cold feet in making such a decision can be due to the realization that the individual's other investments have proven to be more than adequate and that a decision based on a life time guarantee just doesn't seem as important as it once did. And mindful of the illiquidity of annuities, if you don't have a decent amount of other savings you shouldn't be in a annuity in the first place.

Income from annuities are taxed at rates higher than capital gain rates available to individual investments and payments to heirs don't receive a step up in basis to current market value. Both those considerations are no different than traditional IRA's, and 401k's.

Comprehensive Investment Management, LLC

Investment Management &
Personal Financial Planning Services
Fee Only—Fiduciary

It's morning in the personal financial services industry

200 Locust Street, Ste. 3A
Philadelphia, PA 19106

The CIM investment strategy:
Control risk yet outperform the market by using well managed, no commission, low cost mutual funds. Maintain appropriate asset allocation and diversification. Minimize taxes.

CIMONTHEWEB.COM
Newsletters, information, and other features available

Referrals are welcome.
Friends don't let friends invest any other way.

Harry McCullough, CPA, CFP®
Phone 610.580.5554
H@cimontheweb.com

Mercedes M. Petrellis, EA, WMS, PMP
Phone 610.960.1068
Mercedes@cimontheweb.com

Associates

Michael C. Collins, CPA, CFP®
Brian A. Collins, CPA, CFP®
Phone 610.566.4760

ADV and Privacy Notice always available on request.

Q & A

Q. I see both Altruist and Vanguard recently started offering high yielding cash accounts with FDIC protection. Would it not be safer to deposit the money directly with my bank branch.

A. Money in an FDIC insured bank is safe and insured whether the money was deposited directly into the bank or passed though an intermediary. Vanguard and Altruist are intermediaries. The FDIC insurance applies after the money leaves an intermediary and is actually at the bank. On the internet the websites of some intermediaries makes them appear to be banks. Some provide additional services that at times result in a portion of the money they are processing to not be in a bank. One such company recently went bankrupt and thousands who thought their money was insured are finding out it may not be.

Both Altruist and Vanguard offer a much different and more straight forward intermediary service. Deposits before 1:00 pm to Altruist Cash are forwarded into one of its partner banks the same day. Later than 1:00 pm, the next business day. Withdrawals have a 2:30 pm deadline. Importantly, internal transfers from Altruist Cash to a brokerage account can be invested the same day. Vanguard has similar timing provisions but it hasn't listed many details on its website. Altruist currently has ten partner banks including Wells Fargo and Citibank. The money earns a variable rate of interest that can change at any time, but it will usually be higher than you will earn at your local bank. One of the big reasons online banking can offer higher interest rates is they don't have the cost of maintaining branches, but there are other overhead expenses they can avoid as well.

Vanguard's Cash account now offers bill paying, a service a few years ago that it eliminated because it said only a few people used it. Linking bill paying to your investment accounts seems like a risk not worth taking. It's safer to leave that with the bank where you have your checking account and presumably exposure to smaller balances.

Comprehensive Investment Management, LLC

Privacy Policy - Client Information

The Pennsylvania Department of Banking & Securities requires the financial service companies it regulates to provide clients with an annual notice about company privacy policies and procedures concerning client information.

There has been no substantial change in our policies and procedures since the last time we provided you with this information.

Especially in today's identity theft and electronic communication era, we are more aware than ever that you have entrusted to us personal and financial data, and we hold ourselves to the highest standards in its safekeeping and use.

In order to provide investment management and related financial planning services, it is necessary, obviously, for us to collect pertinent financial and related information about you, and perhaps members of your family. We get this information only from you and other parties you may designate.

We restrict access to the information for appropriate use by our staff and have policies in place to physically protect it. We shred all discarded records and paperwork inhouse. We suggest you shred as well, because low tech methods such as trash rummaging are some of the most successful methods employed by identity stealers and other forgers.

In compliance with rules established by the Certified Public Accounting and Certified Financial Planning professions, we do not disclose any information to any other party, unless specifically authorized by you. However, CIM reserves the right to disclose or report personal information where we believe in good faith that disclosure is required under law, to cooperate with regulators or law enforcement authorities in particular the PA Department of Banking and Securities which conducts periodic audits of registered investment advisers.

Please know that whatever the reason for sharing your personal information, we take what steps we can to try to assure that those parties respect your privacy by limiting the use of the information to the purpose for which it was disclosed.

Finally, we share our client list with no one. If a new client asked us for references, we will, of course, ask you first before giving them your name, and may suggest you call them, rather than the other way around. Such requests have been rare, because the great majority of our new clients come to us by referral.

We continue to be committed to working for your benefit, while protecting your privacy and earning your trust as a valued and objective adviser. If you have any questions about this or any other matter, please contact us.

Comprehensive Investment Management, LLC
200 Locust Street Suite 3A
PHL PA 19106
cimontheweb.com

(October 2024)