

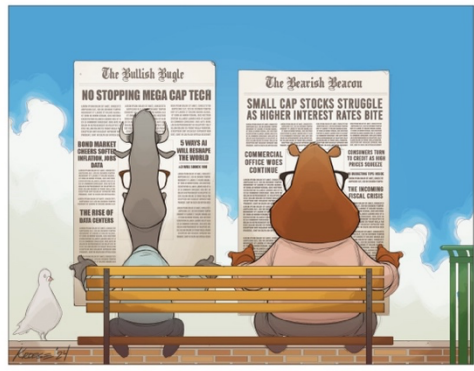
VIEWPOINTS

Advisory Newsletter

MARKET COMMENTARY

By Frederic W. Williams

You Are What You Read...



Although Jodie Jackson’s 2019 book of the same title may have been preceded by the presence of the quote (“You are what you read”) in Ken Hagin’s 1976 book, the concept that we are a function of what we read, or watch, is never truer than it is now in our globally intertwined internet and social media driven

world. And vigorous debate, particularly with what “news” might be, surrounds the relative veracity of what are now multitudes of delivery channels.

But in this era dominated by digital connectivity, social media has emerged not just as a platform for social interaction, but also as a pervasive influence on various aspects of our lives, including personal finance. While it offers unprecedented access to financial information, relying solely on social media for wealth management and financial planning comes with significant pitfalls and risks that every individual should be aware of.

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One of the foremost concerns when using social media for financial advice is the lack of credibility and expertise for many of the sources. Unlike certified financial advisors or professional fiduciaries, social media influencers and self-proclaimed experts may not have the necessary qualifications or experience to provide sound financial guidance. Their advice, often driven by personal opinions or sponsored content, can be misleading and potentially detrimental to your financial health.

Financial decisions are highly individualized and complex, influenced by factors such as income level, risk tolerance, and long-term goals. However, social media tends to oversimplify financial concepts and generalize advice, presenting one-size-fits-all solutions that may not be applicable to your unique circumstances. This oversimplification can lead to uninformed decisions or unrealistic expectations about investments, savings strategies, or debt management.

This is particularly important when trying to distinguish between the media headlines about the status of the markets, as contrasted to the inner workings of what actually may be transpiring. As we've mentioned in this space previously, the capitalization weighted influences on the calculations of the market indices (S&P and NASDAQ, for example) and being disproportionately impacted by the mega-cap technology companies.

"The Magnificent Seven – Apple, Microsoft, Meta, Alphabet, Amazon, Tesla and Nvidia – have gained more than 35% year to date, compared to the 8% gain that the other 493 stocks in the S&P 500 have made. The narrowness is extreme. Only 17% of S&P 500 stocks outperformed the index in June, compared to the historical average of 49%, marking the lowest participation rate in at least a decade. Further, the correlation between the S&P 500 market cap and equal-weighted indices is among the lowest in 25 years".

- SpringTide Partners, 2nd Quarter '24 Commentary

Social media platforms are heavily influenced by marketing and sponsored content, often disguised as genuine advice or success stories. Users may be swayed by posts promoting "get rich quick" schemes, investment opportunities, or products promising unrealistic returns. The allure of quick financial gains can cloud judgment and lead individuals into risky or fraudulent ventures that are not aligned with their financial goals.

The nature of social media encourages comparison and competition, fostering a mindset of instant gratification and fear of missing out (FOMO). Financial decisions driven by emotions rather than rational analysis can result in impulsive investments or expenditures that jeopardize long-term financial stability. Moreover, the constant exposure to curated lifestyles and success stories on social media may distort perceptions of financial success and fuel unsustainable spending habits.

Unlike traditional financial institutions or advisors who are subject to regulatory oversight and accountability standards, social media influencers and online financial communities operate with minimal regulatory scrutiny. The absence of clear standards or codes of conduct leaves

users vulnerable to misinformation, unreliable advice, or predatory practices that could have severe financial consequences.

“What makes me anxious for my fellow millennials, however, is how many are relying on social media, YouTube, podcast and cable news for free advice about how to build their retirement plans. All these platforms are loaded with unreliable information that could create unrealistic expectations.

“Millennials and Gen Z would be better off speaking with a professional to assess their strategy instead of turning to the internet, which is fine for recommendations on which water bottle to buy, but not great for free investment advice”

- E. Lowery, Bloomberg. 4/29/24

OPA’s integrated multigenerational advisory services can be helpful for families trying to prudently navigate personal wealth management and financial planning, while avoiding the pit falls of social media and its opaque priorities and agendas.

CAPITAL MARKETS OVERVIEW

OPA Investment Policy Committee

Index Returns			
Equities	Percentage Change for the 2 nd Quarter	Percentage Change for the Year	Annualized 10-Year Returns
S&P 500	4.28%	15.29%	12.86%
MSCI EAFE*	-0.42%	5.34%	4.33%
MSCI Emerging Markets*	5.00%	7.49%	2.79%
Bloomberg Commodity Index TR	2.89%	5.14%	-1.29%
FTSE NAREIT Equity REIT Index	0.06%	-0.13%	5.90%
Fixed Income			
Bloomberg Barclays U.S. Aggregate Bond	0.07%	-0.71%	1.35%
Bloomberg Barclays U.S. Treasury Inflation-Linked Bond	0.79%	0.70%	1.91%

Source: BlackRock, Bloomberg, FTSE™, NAREIT®, YCharts
*Returns are calculated with net dividends in USD

Index returns are for illustrative purposes only and do not represent actual performance of any investment. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Past performance does not guarantee future results.

Domestic and Global Market Recap...

Equity markets delivered mixed results in the second quarter. Bolstered by a handful of mega-cap tech companies, U.S. large cap stocks ended the quarter up 4.3%, bringing the S&P 500's year-to-date return to 15.3%. In contrast, U.S. small cap stocks were the worst-performing equities, ending the quarter down 3.3%, with the Russell 2000 up only a modest 1.7% year to date. This is only the tenth time since 1990 that the quarterly spread between U.S. large caps and U.S. small caps has exceeded 7.0%. Most of those previous occurrences happened in the lead-up to the tech bubble.

The technology sector fared best, gaining 14% over the quarter, followed by communication services, which gained 9%, and utilities companies, which ended the quarter up 5%. The Magnificent Seven—Apple, Microsoft, Meta, Alphabet, Amazon, Tesla, and Nvidia—have gained more than 35% year to date, compared to the 8% gain that the other 493 stocks in the S&P 500 have made. The narrowness is extreme. Only 17% of S&P 500 stocks outperformed the index in June, compared to the historical average of 49%, marking the lowest participation rate in at least a decade.

This mega-cap tech rally has been accompanied by historically low levels of volatility. The S&P 500 has now experienced its longest period since the Global Financial Crisis without a daily decline of 2% or more, and the ongoing rise in tech stocks has pushed valuations higher.

The market narrowness is at least partially justified by earnings growth. In 2023, the Magnificent Seven enjoyed year-over-year earnings growth of 19.3% while the rest of the S&P 500 (or the S&P 493) saw earnings decline by 1.4%. The status quo divergence in earnings growth is expected to continue in 2024, as full-year earnings for the Magnificent Seven are expected to rise by 53.5% while earnings for the rest of the 493 S&P 500 companies are expected to rise by only 4.2%.

Overall, first-quarter earnings results showed that S&P 500 companies fared better than analysts expected. Year-over-year earnings growth for the quarter rose from an expected 3.4% at the end of March to 5.9% at the end of June. Eight of the eleven S&P 500 sectors reported year-over-year earnings growth, led by communication services at 34%, utilities at 32%, and information technology at 25%. In the second quarter, the S&P 500 is expected to report year-over-year earnings growth of 8.8%, and full-year 2024 earnings growth estimates have now hit 11%.

Throughout the quarter, bond markets remained stable despite worries about higher inflation. The yield curve shifted higher in April on hotter-than-expected inflation data, but it flattened again following a series of softer economic data prints over the last two months of the quarter. The 10-year Treasury yield ended the quarter at 4.4%, and the 2-year Treasury yield ended the quarter at 4.7%. The Bloomberg U.S. Aggregate Bond Index ended the quarter up 0.1% and finished the first six months of the year down 0.7%. U.S. intermediate-term bonds ended the quarter up 0.1% and are down 0.7% year-to-date.

In overseas markets, emerging and frontier market stocks were the top performers, gaining 5.1% over the quarter. Performance in several emerging markets was largely determined by election outcomes, including notable elections in South Africa, Mexico, and India. The MSCI South Africa Index ended the quarter up 12.3%, the MSCI Mexico Index ended the quarter down 16.1%, and the MSCI India Index ended the quarter up 10.2%.

Gold ended the second quarter up 5.5%, reaching a new record high of \$2,446 per ounce on May 20. After dropping to \$73.2 per barrel on June 4, West Texas Intermediate crude ended the quarter at \$81.5 per barrel. Gas prices, which had been slowly declining after peaking at \$3.8 per gallon on April 22, ticked higher as oil surpassed \$80 per barrel, and the national average price per gallon of regular unleaded gas ended June at \$3.6 per gallon.

Overall, the U.S. consumer remained resilient throughout the first half of 2024. Personal income data remained stable, increasing at an average month-over-month rate of 0.5% for the first five months of 2024 (the most recent data available), compared to the 0.4% average monthly increase for the first five months of 2023. Consumers' willingness to spend appears intact given the solid labor market. The U.S. unemployment rate remains low, at 4.1%. Job openings climbed higher in May, to 8.1 million, from a downwardly revised 7.9 million in April. The May report highlighted a notable development in the U.S. labor market: For every job seeker, there were still 1.22 job openings, which suggests persistent tightness in the labor market.

Some signs of softening economic data emerged over the second quarter. Final first-quarter GDP estimates showed that quarter-over-quarter annualized growth dropped from 3.4% to 1.4%, and the consumer spending portion of GDP was revised down from 2% to 1.5%.

Although the Fed's economic projections have been revised downwards from two cuts to one rate cut for this year (and the year-end inflation rate has been revised upwards from 2.6% to 2.8%), history shows that the Fed tends to prefer keeping rates unchanged as a presidential election day draws nearer. Between 1994 and 2023, the Fed kept interest rates unchanged 81% of the time in the six months leading up to election day and cut rates only 3% of the time—all

during 2008. So, for now, it seems that the Fed is content with the status quo of elevated interest rates and inflation above 2%.

With limited political will from both the Democratic and Republican parties to cut spending, looser fiscal policy could continue to impede the Fed's efforts to bring inflation back to 2% while also increasing the U.S. debt burden. Ultimately, the bond market may serve as the final arbiter in determining when this slow-motion crisis reaches a critical point. While a rotation to broader equity market breadth would be welcome, as there are attractive opportunities around the world, predicting the exact timing of such a rotation is impossible. For now, the status quo may continue—that is, until it doesn't.

PLANNING CONCEPTS

By Clifford P. Ryan, CLU®, ChFC®

Beneficiary Designations...

Beneficiary designations can have a powerful impact on your estate plan. It's important to remember that anything transferred by "contract" (beneficiary designations) is outside of the probate process and not subject to your wishes as expressed in your will (unless your estate is named at the beneficiary). Typical beneficiary designations include those on your IRA, retirement plan or life insurance but there are many others available today as well. One can add a beneficiary to a bank account (paid on death), taxable brokerage account (transfer on death) and even on real estate, depending on where you live.

When designating a beneficiary, it is important that one doesn't short-circuit their estate plan. Beneficiary Designations should work in concert with your will, trust or other estate document to distribute estate assets as is intended. And it is important to review beneficiary designations along with other legal documents over time. Many an ex-spouse has received a benefit intended for someone else.

It is also important to know that there are special tax considerations when designating beneficiaries on retirement accounts, IRAs and annuity contracts. In general, it is most beneficial to name an individual rather than an entity (estate or trust) as the beneficiary on these accounts. It is beyond the scope of this article to innumerate all of the common mistakes made in this area. But working with your advisor or estate attorney will help in getting the most advantageous result for beneficiaries.

OPA NEWS & COMMUNITY EVENTS

OLD PORT ADVISORS WELCOMES A NEW ASSOCIATE - Mindy Schwartz joined OPA in May 2024 as a Client Relationship Associate. In this role she works with advisors in the implementation and maintenance of accounts, as well as planning and related areas. Mindy earned a Bachelor of Science in Natural Resource Development from Michigan State University. She brings over 30 years of experience in a wide array of fields, most recently, as a Financial Service Representative with TD Bank. Outside the office, Mindy enjoys gardening, reading, hiking, building things, volunteering, and participating in local government by serving on town commissions. Mindy and her wife, Karen, reside in Windham.



OLD PORT ADVISORS TURNS 30! – It feels like just yesterday, but 2024 marks the 30th anniversary of OPA (formerly Investment Management & Consulting Group, established in 1994). As we celebrate this milestone, our firm remains committed to continuing our legacy and looking forward to the future. Stay tuned for more updates as we commemorate this significant achievement together!