



VIEWPOINTS

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MARKET COMMENTARY

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The Year Out of Left Field?...

In 1981 New York Times writer William Safire solicited input from his readers on, and then devoted an entire Sunday column to, attempting to explain the meaning of, the term “out of left field”. There were a wide variety of explanations proffered (from the direction of a baseball thrown past a runner heading to home plate from 3rd base, to the legend of the location of a mental hospital at the West Side Grounds which the Chicago Cubs called home from 1893 to 1915), although the majority of opinions coalesced around themes like “removed from the ordinary” and “out of contact with reality”.

Last year in the markets may well fit that bill given that when we entered 2023 all manner of economic calamity was being anticipated: a “hard landing” and recession were expected, banks were failing, inflation remained stubbornly high and interest rates were rising. The pundits and the media’s “talking-heads” were not expecting, at all, the extent of the rebound that followed the capital markets’ drubbing in 2022.

In fact, many of the last few years might all be labeled as having come out of left field – between the COVID crash of early ’20, followed by the stay-at-home frenzy of online shopping and meme day-trading closing out that year and going into ’21, and then the punch bowl being pulled away in early ’22 with the Fed’s orchestrated rise in interest rates to quell the bout of liquidity, and supply-chain, induced inflation...who could have deciphered the tea leaves and written that script in 2019?

But despite what the headline market numbers may have otherwise suggested, 2023 didn’t provide across-the-board universally euphoric returns – which become a bit more apparent when we pull the curtain back and better understand the math behind the popular indices.

- Dow Jones Industrial Average: The DJIA is comprised of 30 companies, but the “average” is weighted by share price – so the more the individual shares are priced at, the bigger the impact they have on the calculation of the “average”

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*****Although the DJIA hit highs in December of '23, 19 companies were higher for the year and 11 were lower – the upward bias being influenced by United Health, Goldman Sachs, Microsoft and Home Depot – which represented more than 25% of the average's performance.***

- Standard & Poor's 500: The S&P 500 is “market-capitalization” weighted, so the companies with the largest value of traded shares (price per share x number of shares outstanding) have the biggest impact on the index's “number”. The largest market caps of late carry the moniker of the “Magnificent 7” (Apple, Microsoft, Alphabet, Nvidia, Amazon, Meta and Tesla) and they represented 30% of the weighted index at the close of 2023, having started the year at an already highly concentrated 19%.

*****Overall, the index rose by about 26% last year, and primarily as a result of these seven companies as the other 493 companies in the index were only up by about 7.5%, suggesting that 70% of the S&P 500 index returns were attributable to less than 2% of the listed companies.***

For the math geeks in the house, an “equally weighted” S&P 500 (as opposed to the “capitalization weighted”) was only up 13.9% last year, resulting in a spread between the two measurements of 12.4% - a gap that's only been bested by the differential in 1998, just prior to the dot.com bust.

That dynamic, combined with the “Dumb Money Confidence” index hitting its third highest reading in 25 years, should give pause to even the most ardently resurrected, meme-induced, day-traders as we enter the new year:

“The bandwagon effect, follow the crowd – whatever you want to call it – is a trading bias that indulges group-think mentality. This would be fine if you follow a crowd getting in on the meat of an asset price rise. But bandwagons don't pick up the players until the tune is well established. And so it is with dumb money that follows the trend too late.

“That according to Jason Goepfert, founder of Sentiment Trader, who invented the Dumb Money index, is why stock indexes are trading within 2% of their record highs, (and) why the VIX index, a measure of market (fear) is trading at a four-year low...

“The time most trend-followers hop on a trend, and most aggressively, is about the time the trend is becoming exhausted,” says Goepfert.

“The Dumb Money index is currently at 87. When it hit 88 in July, the S&P 500 suffered a three-month pullback.”

- Benzinga, 12/15/23

To be clear, we're not doing the “Chicken Little worry dance” about the sky falling, but as fiduciaries who are students of “mean reversion theory” we believe paring back some of these concentrations in overly valued sectors can better serve a prudent investor's longer-term objectives...there's no need to always swing for the fences when a series of singles will still get the job done.

To quote one of the investment world's titans, and Warren Buffett's right-hand man for more than 50 years, who we unfortunately lost last year:

It is remarkable how much long-term advantage people like us have gotten by trying to be consistently not stupid, instead of trying to be very intelligent.”

- Charlie Munger

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CAPITAL MARKETS OVERVIEW

Index Returns			
Equities	<i>Percentage Change for the 4th Quarter</i>	<i>Percentage Change for the Year</i>	<i>Annualized 10-Year Returns</i>
S&P 500	11.69%	26.29%	12.03%
MSCI EAFE*	10.42%	18.24%	4.28%
MSCI Emerging Markets*	7.86%	9.83%	2.66%
Bloomberg Commodity Index TR	-4.63%	-7.91%	-1.11%
FTSE NAREIT Equity REIT Index	16.22%	13.73%	7.65%
Fixed Income			
Bloomberg Barclays U.S. Aggregate Bond	6.82%	5.53%	1.81%
Bloomberg Barclays U.S. Treasury Inflation-Linked Bond	4.71%	3.90%	2.42%

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...

OPA INVESTMENT POLICY COMMITTEE

Global financial markets had a strong fourth quarter to finish a robust 2023. Only one asset class—commodity futures—finished 2023 in negative territory, dropping 7.9%. The big winner was again U.S. large cap stocks gaining 26.3%, while international large cap stocks rose 18.9%. U.S. small and micro-cap stocks gained an impressive 14.0% over the fourth quarter, pushing 2023 returns up to 16.9%.

The S&P 500 Index ended the year just 1% shy of its all-time high from January 2022. The AI boom, ignited by the launch of ChatGPT in November 2022, was a significant factor driving the markets. The 'Magnificent Seven'— Meta, Apple, Amazon, Nvidia, Alphabet, Microsoft, and Tesla, saw an impressive rebound. After declining by an average of 45.3% in 2022, they ended 2023 with an average total return gain of 104.7%. These seven stocks alone accounted for 62.2% of the S&P 500's full-year return. Without this group, the index's return was only 9.9%. The collective market value of these 'Magnificent Seven' companies is now quadruple that of the entire Russell 2000, a widely followed small cap index of 2,000 publicly traded companies. The unusual concentration of gains in just a few stocks is starkly illustrated by the 12% spread between the equal-weighted S&P 500 and the market cap-weighted index, with the former trailing the latter by the second-largest calendar year spread since at least 1971.

Breaking the trend of the prior two years, 2023 was also positive for U.S. intermediate-term bonds. The Bloomberg Aggregate Bond Index rose 6.8% over the fourth quarter to end the year up 5.5%. The index gained 8.5% over the last two months of 2023, marking the best

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two-month performance for U.S. bonds since September to October 1982, when the index increased 9.6%.

It was a rollercoaster year for the 10-year Treasury yield, which peaked at 4.98% on October 18 before ending the year where it started, at 3.9%. Fueled by November's stellar performance, U.S. intermediate-term bonds ended 2023 up 5.5%. Largely due to heightened geopolitical tensions and its role as a safe-haven asset, gold gained a respectable 10.2% throughout the fourth quarter to end the year up 13.8%.

What drove this impressive snap-back in asset prices? The answer includes declining inflation, robust nominal GDP growth, a resilient labor market and consumer, and the absence of a widely feared recession that had many investors cautiously positioned coming into 2023.

Headline inflation, which started 2023 at 6.4% year-over-year, gradually eased to 3.1% by November. In March, the U.S. banking system went through its greatest crisis since the 2007-2008 Global Financial Crisis, triggered by a significant loss of deposits in several domestic U.S. banks. The Federal Reserve intervened and launched new programs, providing long-term, low-cost loans to banks to shore up liquidity and stability.

The U.S. consumer remained unexpectedly resilient throughout 2023, supported by excess pandemic savings and strong jobs markets. Despite increased reliance on credit card spending, the household debt service ratio has thus far remained contained, at 5.8%, on par with the historical average of 5.7%. Consumers are set to benefit from lower gasoline prices heading into 2024, with prices ending 2023 at \$3 per gallon—a significant 38% drop from the June 2022 peak of \$5.1 per gallon.

Amidst a backdrop of declining inflation and an economy losing steam, the Fed finds itself on a tightrope, trying to wring out the remnants of unwanted inflation without causing a recession. By year's end, with inflation appearing subdued, the path forward seemed clearer. The real test for the Fed will be the timing of interest rate reductions. Although inflation appears under control, premature rate cuts carry risks. Recent data show that the U.S. housing market is ramping up again, potentially leading to higher inflation prints. In the U.S. CPI basket, housing is the largest component, accounting for 44.6%, followed by transportation at 17.0%, and food and beverages at 14.3%. Fortunately, the risk of stagflation—characterized by slowing growth, high unemployment, and rising inflation—appears negligible, but concerns could rise down the road if inflation reaccelerates.

Higher interest rates have created significant challenges for commercial real estate, particularly in the office sector. The shift to remote work after the pandemic contributed to total U.S. office vacancies climbing to 20%. Additionally, the growth of e-commerce has adversely affected physical stores. Online sales increased by 8% year-over-year, while in-store sales rose only 1% year-over-year.

Geopolitical tensions persisted in 2023. The conflict in Ukraine continued, and in October, a new conflict erupted in Israel following an attack by Hamas. Additionally, in December, major global shippers such as Maersk and Hapag-Lloyd were forced to reroute cargo around the tip of Africa (instead of passing through the Suez Canal) due to intensified attacks by

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militant group Houthi in the Red Sea. If left unresolved, these disruptions could drive up global shipping costs and reignite inflation for the cost of goods.

China's planned post-pandemic economic recovery stalled in 2023. For the first time since 2013, Chinese President Xi Jinping acknowledged in a New Year's Eve speech that his country's economy is struggling, with unemployment at 5% and weak domestic consumer demand. China's manufacturing sector weakened throughout 2023, and in December factory activity declined to the lowest level in six months.

Corporate earnings growth was sluggish in 2023 and is expected to come in at just 0.6% on a year-over-year basis for the S&P 500. For the fourth quarter, estimated year-over-year growth rate is 2.4%, 5.8% lower than it was at the end of September. Looking forward, analysts project year-over-year earnings growth of 11.5% and revenue growth of 5.5% for the S&P 500 in 2024. Even with this optimistic outlook, stocks do not appear cheap. The forward 12-month price-to-earnings ratio of 19.3 is above the 5-year average of 18.8 and well above the 10-year average of 17.6.

The Fed's tricky task of navigating interest rate levels has rightfully received ample attention, but what has been much less discussed, albeit no less important, is the balancing act facing the U.S. Treasury and Secretary Yellen. Nearly \$9 trillion in government debt must be rolled over at higher interest rates amid waning foreign investment in U.S. Treasury markets. This challenge is amplified by the impending pressures of an election year, where fiscal decisions may be scrutinized for their long-term impact on the economy.

In 2024, policymakers and investors alike find themselves navigating a delicate 'balancing act' across potential economic extremes. On the one hand, there's the possibility of an economic reacceleration, which could be good for stocks, potentially broadening out the narrow market gains of last year. On the other, we might face a 'hard landing' characterized by falling inflation and yields, which could favor bonds.

Further complicating the outlook is the challenge in anticipating policy moves ahead of a presidential election. For instance, policymakers, grappling with a mountain of debt, rising interest costs, and limited options, seem cornered into reducing interest rates, irrespective of whether it's the right thing to do. While this strategy might alleviate immediate fiscal challenges, it risks doing even more long-term harm to the U.S. economy.

Investors are left with questions that only time can answer. Can the Fed's anticipated rate cuts ease economic strains and support markets for another year or longer? Will Treasury be able to capably handle government debt? Historically, soft landings have been quite rare, as seven out of the past nine hiking cycles were followed by a recession. Like a seasoned acrobat, Powell will have his work cut out for him. And the Treasury may indeed be embarking on a new, uncharted course altogether.

For now, markets seem comfortable with short-termism at the expense of worsening longer-term issues, another 'balancing act' that bears watching as 2024 unfolds. Wherever we land, different scenarios call for varying approaches to asset allocation, emphasizing the ever-relevant role of diversification in portfolio management.

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Snowbirding: Financial Considerations of Owning Two Residences in Retirement...

Many prospective retirees hope to own two residences during their retirement. Whether because of weather, family, or adventure, they look forward to breaking up each year by living in two or more locations. They want to be "snowbirds." There are a number of tax and financial considerations that must be addressed to make this retirement arrangement work: rent versus own, equity financing, establishing legal domicile, ready access to health care, managing household expenses, and multijurisdictional estate planning that your financial advisor can help you navigate.

An integral part of this planning for dual residence in retirement necessitates discussing (at the beginning of the process) "what-ifs" - a required need to be with family, diminished capacity or death of a spouse. Envisioning the future may lead to better financial decisions today because they impact decisions as to "where would you ultimately want to end up?"

Through careful planning, the financial issues involved with owning two residences can be successfully managed and allow the retiree to truly enjoy being a snowbird.

Focusing Financial Priorities of Younger Adults...

According to an October 2023 study by Edward Jones, young adults between the ages of 18 and 34 (GenNext) have the same life aspirations (marriage, home ownership, having children) and desire to retire as their parents BUT ...they want to retire earlier.

A disconnect within the study found that Gen-Next **do not** expect to enjoy the same level of financial stability as their parents or grandparents but cite they'd like to retire at 61 – yet only 30% have a retirement account. Their parents, with whom a majority seek advice, are the first to point out "it's never too late to start" planning. This generation, however, wants advice, but doesn't actively seek it out.

GenNext, representing 76 million Americans are the most educated generation in history - 1 in 3 have some college education, 1 in 4 have a bachelor's degree or higher. These digital-era young adults thus consult many sources to learn, plan and act – yet according to this study, not so much for financial guidance. They also value face-to-face connections despite their digital-era heritage.

When you consider the competing financial priorities of GenNext (student debt, home ownership, raising a family, budgeting and saving for large purchases, health and other insurances), seeking advice from a professional financial advisor can be an important first step to focus and guide them with significant decisions to be made about their future.

Feel free to contact OPA about our inter-generational planning services if these issues might be concerns within your family.

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2024 Retirement Plan Guidelines...

The Internal Revenue Service cost-of-living adjustments (COLAs) effecting dollar limitations for health savings accounts, pension plans and other retirement-related items for the 2024 tax year. See the chart below for further details.

The highlights of limitations that changed from 2023 to 2024 include the following:

- The 415(c) contribution limit applicable to defined contribution retirement plans increased from \$66,000 to \$69,000.
- The 401(a)(17) annual compensation limit applicable to retirement plans increased from \$330,000 to \$345,000.

See the chart below for further details for the new 2024 limits, as well as those for recent tax years.

	2024	2023
RETIREMENT PLANS		
Annual Compensation Limits	\$345,000	\$330,000
Elective Deferrals 401(k)/403(b)	\$23,000	\$22,500
Catch-up Contributions (age 55+)	\$7,500	\$7,500
Defined Contribution Limits	\$69,000	\$66,000
OTHER		
Highly Compensated Employee Threshold	\$155,000	\$150,000
Defined Benefit Limits	\$275,000	\$265,000
Key Employee	\$220,000	\$215,000
Social Security Taxable Wage Base	\$168,600	\$160,200
HEALTH SAVINGS ACCOUNTS(HSA)		
HSA Self-only Coverage Contribution Limits	\$4,150	\$3,850
HSA Family Coverage Contribution Limits	\$8,300	\$7,750
HSA Catch Up Contributions (age 55+)	\$1,000	\$1,000
IRAs		
IRA Contribution Limit	\$7,000	\$6,500
IRA Catch-Up Contributions	\$1,000	\$1,000
SEP		
SEP Minimum Compensation	\$750	\$750

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SEP Maximum Compensation	\$345,000	\$330,000
SIMPLE PLANS		
SIMPLE Maximum Contributions	\$16,000	\$15,500
SIMPLE Catch-up Contributions	\$3,500	\$3,500

OPA NEWS & COMMUNITY EVENTS

Any overview of our community during the last quarter of 2023 would be unfortunately incomplete without the sad mention of the tragedies that occurred in the Lewiston community on October 25th. It goes without saying that our State grieved with the victims, their families and friends, as well as the first responders and care providers who selflessly stepped up to support all of those that were impacted. For those who want to provide additional support below you'll find a partial list of the organizations and resources that are continuing to provide much needed, and welcomed, services for all that are involved:

- **The Maine Resiliency Center** is now open in Lewiston. The Center offers a place of healing and support to individuals and families impacted by the mass shooting in Lewiston on October 25th and the aftermath of the tragedy. This includes anyone present at the shootings, family, friends, and loved ones, first responders and medical personnel, and any member of the larger community who feels impacted by these events. The Center is located at 184 Main Street in Lewiston, with direct access via the catwalk on the third floor of the parking garage behind the building at 26 Chapel Street. The Center is open weekdays with walk-in hours from 12-5pm. Additional planned activities, programming, and private appointments will also be offered outside of walk-in hours. To contact the Maine Resiliency Center, please visit its website, maineresiliencycenter.org
- **The Central Maine Medical Center Compassionate Care Fund for Trauma Response and Support** has been established after the Lewiston mass shooting tragedy. Email giving@cmhc.org for more information.
- **The Maine Community Foundation**, a registered 501(c)3, has created the Lewiston-Auburn Area Response Fund to address current and emerging needs associated with this tragedy. With MaineCF as a conduit, 100% of every dollar donated will be allocated to people impacted and the organizations that will help guide Lewiston-Auburn through the process of healing.
- **The City of Lewiston and Androscoggin Bank** have established the City of Lewiston Support Fund. Cash donations are being accepted at Androscoggin Bank locations as well.
- **Lewiston Public Schools** has opened a donation portal to support student needs. The donation link is available on the LPS website.
- **The University of Maine System** has established a tuition waiver to enable eligible victims and family members to pursue a bachelor's degree at Maine's public

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universities at no cost. Additionally, UMS has established a Lewiston Strong Scholarship Fund to assist with the non-tuition college costs (room, board, books, etc.) of those affected by the mass shooting. Donations to the fund can be made at our.umaine.edu/lewiston or usm.maine.edu/lewistonstrong.

- **United Way of Androscoggin County's Community Fund:** The UWAC is the United Way in Maine that covers the Lewiston region. Their Community Fund is used to support community partners providing mental health services and other critical needs.
- **LA Metro Chamber Foundation:** All donations will be collected and shared with organizations responding to the greatest need and supporting EMS workers. Specify Foundation in the drop-down after entering your contact information on the second page.
- **MaineResponds.org:** If you have experience in public and/or behavioral health, you are encouraged to register at MaineResponds.org if you wish to volunteer to support the response to the Lewiston tragedy.

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