

# the BENCHMARK

BCS Wealth Management's Quarterly Newsletter



## 04 Quarter Review

While it has not been a smooth flight, Philip analyzes the action that went on behind the scenes bringing us the strongest quarter of the year so far.

## Markets and Elections

John breaks down the trends for election years and explains the importance of staying focused on your long-term investment goals.



## SECURE Act 2.0: What it Means for You and Your Retirement Accounts

Andrew interprets some recent rule changes to the SECURE Act 2.0 and how that impacts you.

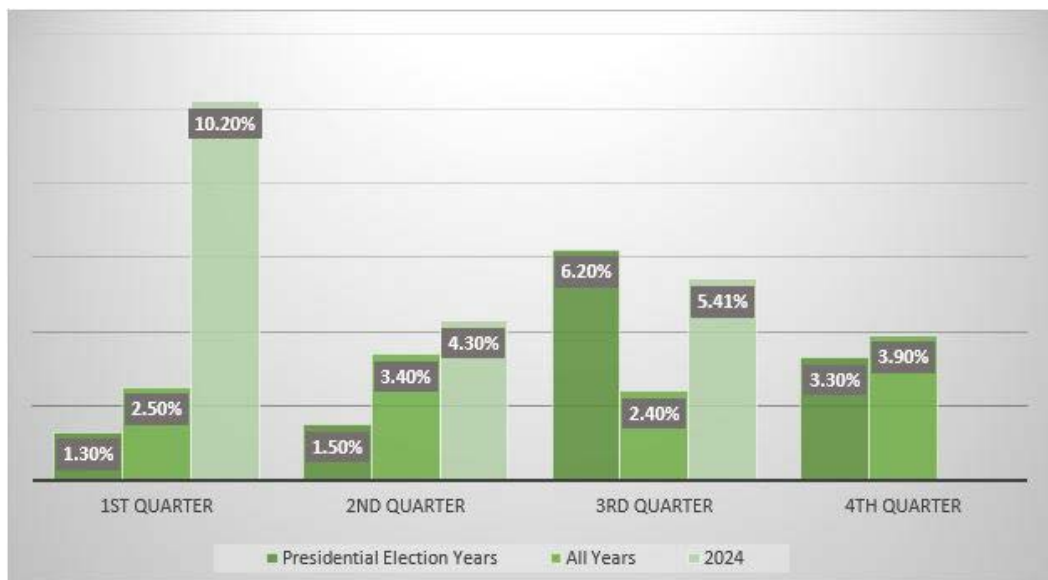


By John Brandon

## Markets & Elections

This is the biggest election year in world history. Seventy-six countries – home to roughly 4.4 billion people – will hold political contests in 2024. The most watched race will be for U.S. President. The composition and control of Congress is another aspect of this year’s election cycle that deserves attention. What does history imply about the stock market in the context of U.S. elections and political party leadership?

Historically, stocks have risen 11.6% during presidential election years since 1926, slightly better than the market’s average 10.3% return in all years. Drilling down further, stocks tend to follow a pattern during presidential election years: sluggish in the first half, followed by a big second half. The third quarter has delivered the strongest returns, with an average return of 6.2%.

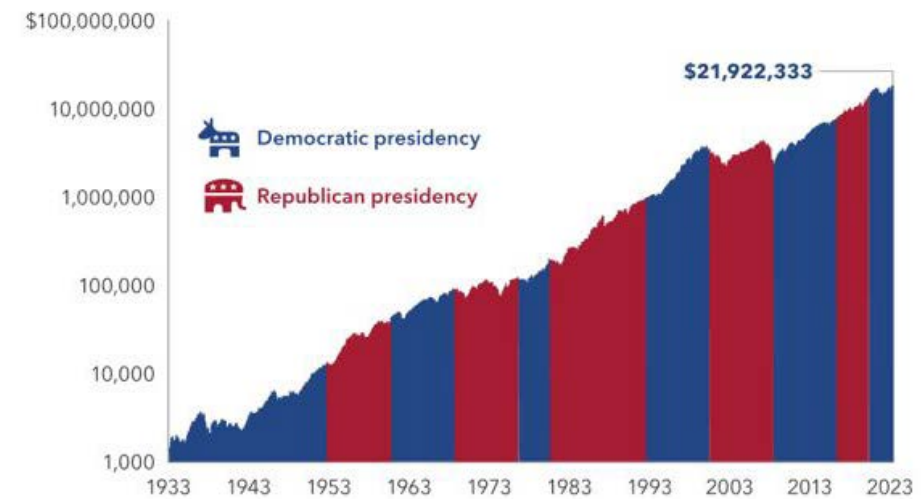


can help us to stay focused on our long-term investment goals. Over the past 92 years, the S&P 500 Index has delivered positive performance 73% of the time and has averaged an annual total return of 11.54%. Despite the constant headlines around

elections, investors should remain focused on factors such as economic growth, interest rates, inflation, and corporate earnings when making portfolio decisions.

Along with the headline Presidential race, one-third of the seats in the U.S. Senate (currently under narrow Democratic control) and all 435 seats in the U.S. House of Representatives (currently under narrow Republican control)

Growth of a hypothetical \$1,000 investment in S&P 500 Index

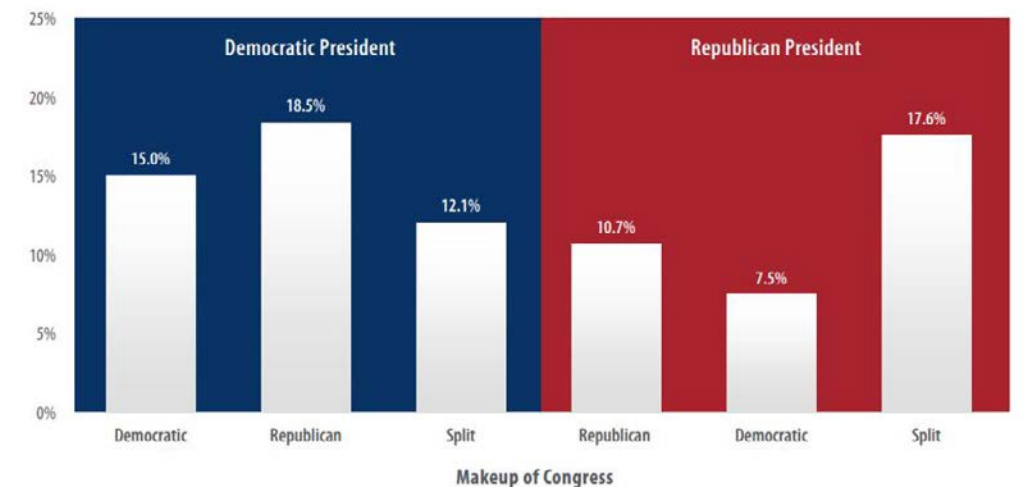


are also on the ballot this fall. Here, too, a small margin may determine control beginning in 2025, with winners in many closely contested seats difficult to predict. It is conceivable that the election outcome could result in one-party control of both houses of Congress and the Presidency, or a split between the two parties, as exists today.

When one party controls the White House and has majorities in the Senate and House of Representatives, the potential to pass meaningful legislative changes is greater. Divided government, on the other hand, usually makes it harder to push through sweeping changes. A study by U.S. Bank reveals there are insignificant return variances in the 3 months following an election compared to any other 3-month period from 1948 – 2023, regardless of political control.

However, reviewing S&P 500 annual average returns from 1950 – 2023 the index outperformed with a divided government. In addition to economic issues, many others will come up for debate as the campaign

Average S&P 500 Index Total Return Annual Performance 1950-2023



Source: Morningstar, Bloomberg. Past performance is no guarantee of future results. This chart is for illustrative purposes only and not indicative of any actual investment. These returns were the result of certain market factors and events which may not be repeated in the future. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. Indices do not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Investors cannot invest directly in an index. The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.

between the U.S. and other parts of the world.

All of this may result in market volatility, particularly as we get closer to November 5. Markets do not like uncertainty, and this election is likely to produce a lot of it. But there is one important point to keep in mind: Over the long term, going as far back as the 1930s, U.S. stocks have nearly always been higher at the end of a president’s term in office than they were at the beginning, regardless of party affiliation.

The bottom line is not to let politics derail your investment plans! We believe that investment decisions should be based on longer-term fundamentals and your personal financial planning objectives, not near-term political outcomes.

season unfolds. Immigration, abortion, climate change, and global trade will certainly be among them. In the realm of international relations, we will hear arguments about the wars in Ukraine and the Middle East, along with rising tensions





By Philip Bachman

## Quarter Review

There was a lot of green on the scoreboard last quarter. It was an action-filled quarter in the financial markets underneath the seemingly tranquil green numbers on this page. Although there's plenty of action in any quarter, it was particularly interesting for a few reasons. We consider three developments most noteworthy.

The Federal Reserve dropped interest rates for the first time since 2020. Meanwhile, the U.S. economy enjoyed another recession-free quarter despite some indicators suggesting a recession should have happened by now. Additionally, broad U.S. stock indexes stumbled during the dog days of summer, but they recovered quickly and set new all-time highs in September.

### A Turning Point in Short-term Interest Rates

The interest rate landscape affects all financial markets directly or indirectly. The Federal Reserve's (Fed's) September 18 reduction

in short-term interest rates marked a turning point in the interest rate cycle. It was also a milestone event because analysts and investors study the Fed's interest rate posture to glean insight into the broader economy's standing.

Major Stock Indexes	3rd Quarter 2024	YTD
DJIA	8.2%	12.3%
Nasdaq Composite	2.6%	21.2%
S&P 500	5.5%	20.8%
Russell 2000	8.9%	10.0%
Global: MSCI ACWI	6.2%	17.2%
Japan: Nikkei 225	-4.2%	13.3%
Stoxx Europe 600	2.2%	9.2%
UK: FTSE 100	0.9%	6.5%
Major Bond Index	3rd Quarter 2024	YTD
Bloomberg US Aggregate (Total Return)	5.0%	4.7%

The lowering of interest rates was highly anticipated. Uncertain until the day of the announcement, however, was the amount of the Fed's trim. With both the jobs picture and inflation softening, the central bank lowered its key overnight

borrowing rate by the bigger of the two choices: 50 basis points (0.50%) as opposed to 25 basis points (0.25%). The move takes the federal funds rate range from 5.25%-5.50% to 4.75%-5.00%.

The decision to trim rates by the larger of those two increments

implied that Fed officials seem to be gazing more into the economy's employment situation and away from the inflation battleground, which arguably is a battle already being won. Annual inflation is easing, from an over four-decade high of 9.1% in June 2022 to 2.5% in August of this year.

The Fed is now trying to prevent past interest rate increases, which last year took borrowing costs to a two-decade high, from further weakening the U.S. labor

market. When questioned about whether the Fed is behind the curve, Powell said, "We don't think we're behind – we think this is timely. But I think you can take this as a sign of our commitment not to get behind."

Historically, rate cuts are meant to stimulate economic activity by lowering the cost of borrowing for consumers and businesses. The market's concern is that the larger 0.50% cut might mean the Fed sees a potential slowdown in economic growth, which may have been the result of tightening financial conditions over the past few years.

If interest rates keep falling as expected then conservative investors could see their portfolios' income lessen, all else being equal. Many of us were enjoying 5% rates on money markets, CDs, and other conservative investments without much thought required. Folks spoiled by relatively high interest rates on conservative investments recently might rethink an appropriate risk-reward balance for total return potential.

### An Un-inverted Yield Curve

A bond market indicator that's often cited as a recession predictor is no longer indicating a high potential for an economic downturn. Since mid-2022, the yield of the 2-year U.S. Treasury note had been higher than that of the 10-year Treasury. This is a rare occurrence known as a yield curve inversion. Longer-dated bonds normally provide higher

yields than shorter-dated bonds, but it's the opposite during inverted periods. These inverted periods historically have predicted recessions.

On September 4, the 2-year yield crossed back below the 10-year yield, and it has since stayed there. September 30's closing 2-year yield was 3.65%, and the 10-year yield was 3.80%. Short-dated bonds' yields fell fast as the bond market anticipated the Fed's action, thus normalizing the yield curve. The yield curve was inverted for a record 793 days, but a recession didn't occur like expected according to historical precedent.

Did the inverted yield curve "cry wolf"? For now, the answer is yes. However, as James Mackintosh wrote for the *Wall Street Journal* on September 11, "If [the Fed's] rate cuts are purely because inflation has dropped back close to target, that is the ideal of a soft landing for the economy, and absolutely not a sign of imminent recession. But for most of modern history, deep rate cuts by the Fed have been a sign that the country is about to plunge into recession, or is already in one that economists missed."

What does this mean for us? We believe investors should be careful about reading too much into the yield curve. Currently it tells us what we already know: that the Fed has and will likely continue to cut rates. But it doesn't tell us what we really want to know: whether a recession is imminent. Therefore, as always, it's prudent to stick

to a long-term investment strategy based on your unique goals and objectives.

### A Resilient Stock Market

Major U.S. stock indexes enjoyed another great quarter, but it wasn't a smooth ride higher. Early August saw an 8% decline in the S&P 500 in just four days, volatility not felt in months. Yet by August 19, the market had recovered and stabilized above the August 1 high. The S&P 500 and Dow Jones Industrial Average made new record closing highs on September 30 to bid the quarter a poetic farewell.

Granted, there probably will be more volatility between now and the end of the year. "What matters is how you respond," Liz Ann Sonders of Charles Schwab reminds us in a September 16 article. "If you've built a portfolio that is directly tied to your time horizon and risk tolerance when markets are calm, then a surge in turbulence may not leave you shaken. Good planning, and discipline along the way, is like a pre-emptive dose of Dramamine – it can help neutralize some of the nausea before the turbulence hits."

Our team echoes Liz Ann's sentiment. Our aim is to help you feel comfortable with your investment portfolio, designing it to meet your objectives over time. Please let us know how we can be helpful in this way.





## SECURE Act 2.0: What it Means for You and Your Retirement Accounts

One thing that we can be certain of is the uncertainty of future legislation affecting retirement planning. One recent legislation change is the SECURE Act 2.0 of 2022. A follow-up to the SECURE Act of 2019, both acts contained key changes to retirement plans. Though broad, the changes are nothing to be afraid of, and we are here to navigate them on your behalf so that you may have confidence in your financial planning.

Let's break down the important facets of the now-relevant SECURE Act 2.0 into easy-to-understand pieces.

### A Primer on IRAs and Required Minimum Distributions

By way of background, an IRA, or individual retirement account, functions like a special savings account that helps you save and invest for retirement. There are different types of IRAs, but the most common ones are Traditional and Roth IRAs.

- **Traditional IRA:** In its simplest form you contribute pre-tax money allowing for a possible tax deduction. The account grows tax-free, and taxes are paid upon withdrawal in retirement.
- **Roth IRA:** You contribute money after paying taxes. The account grows tax-free, and withdrawals are tax-free in retirement.

While this may seem overly simplified to some, do not zone out now as these distinctions are important going forward.

Now, let's talk about required minimum distributions (RMDs). Simply put, an RMD can be thought of as the government's way of making sure you eventually pay taxes on your tax-deferred Traditional IRA. RMDs start when you reach a certain age called the required beginning date (RBD).

For those who are wondering about the implications of RMDs and a Roth IRA, there is good news. Since tax has already been paid on contributions, there are no required withdrawals. That is until the Roth IRA is inherited, which ties perfectly into discussing the SECURE Act legislation changes.

### The 10-Year Rule: A Big Shift for Inherited IRAs

You may remember the massive changes the 1.0 version this act brought back in 2019. In an attempt to clarify these revisions, version 2.0 includes final rules for RMDs on inherited IRAs and inherited employer-sponsored retirement accounts. These final rules will become effective in 2025.

One of the key changes in the original SECURE Act was the introduction of the 10-Year Rule for inherited retirement accounts. Before this, many beneficiaries could "stretch" the inherited account's RMDs over their lifetime, reducing the tax burden and keeping more money growing tax-deferred in the account. However, now most non-spouse beneficiaries must fully withdraw all funds within 10 years of the original owner's death.

Unfortunately, it's not as simple as taking distributions whenever you want during that 10-year period. There are nuanced rules to follow that depend on whether the person you inherited the account from already started taking RMDs. Another consideration is what type of designated beneficiary you are: eligible or non-eligible. An entire article could be written on distinguishing between

these two terms. While it's easy to look at these changes as a messy maze, we view it as a plethora of possibilities. For instance, a non-spouse beneficiary may still be able to strategize different years' distributions according to their expected income tax rates across the 10 years.

### Encouraging Aspects of the Legislation

Enabling a well-funded retirement was a goal of the SECURE Acts, and a few of the following changes may help you succeed. First, the SECURE Act 2.0 raised the required beginning age from 72 to 73 and will raise it again to 75 in 2033. (The original SECURE Act increased the age from 70½ to 72.) Secondly, beginning in 2025 those ages 60 through 63 will be able to make a catch-up contribution up to \$10,000 instead of \$7,500 annually to a workplace plan; that amount will be indexed to inflation after 2025. Lastly, legislation will require businesses adopting 401(k) and 403(b) plans to automatically enroll eligible employees starting in 2025.

If SECURE Act 2.0 changes like these have piqued your interest, keep an eye out for a multiple-part blog series diving deeper in the future.

### Support to Not Feel Overwhelmed

The changes brought by the SECURE Act 2.0 can be overwhelming if you're trying to navigate them alone. Our job is to navigate these complexities with you, ensuring you make the most of your inherited retirement accounts or your own retirement savings. Every situation is different, and a strategy that works best for one person may not for another.

If you inherited a retirement account, are likely to pass one down, or have questions about maximizing your retirement savings, we stand by to help you apply these legislation changes. Thank you for the opportunity to help you and your family in these important areas.

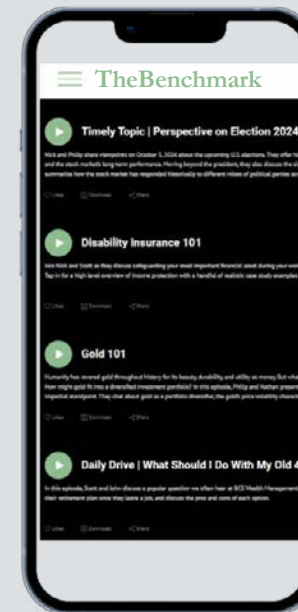
Andrew Farmer, MBA  
Financial Advisor  
Associate



## Listen to the latest!



Be sure to check out our latest podcasts including an episode on the 2024 election. Nick and Philip provide historical perspective about presidential leadership and the stock market's long-term performance as well as the significance that Congress has in policymaking.



## Congrats, Eliza!

Congratulations to Eliza for earning the Accredited Asset Management Specialist (AAMST™) designation! As an AAMST™ holder, Eliza completed the rigorous course and testing requirements through the College for Financial Planning. The course encompasses investments, insurance, tax, retirement, and estate planning.



Eliza Parton, MBA, AAMST™  
Financial Advisor  
Associate

*BCS Wealth Management is an independent financial planning firm in Johnson City, TN. We help individuals, families, and businesses reach goals important to their financial wellbeing. We provide investments and financial planning, insurance, and group benefits.*

[bcsworld.com](https://bcsworld.com)



# Welcome, Andrew!

BCS Wealth Management is happy to have Andrew Farmer join us as a Financial Advisor Associate. Andrew is a familiar face as he has worked with us as an intern the past three summers. We're excited to now have him join us full-time.

Residing in the Jonesborough area, Andrew is a 2023 graduate from Belmont University, obtaining his B.B.A. in finance. He then pursued his Master of Business Administration, earning this advanced degree from Belmont University in 2024. Andrew enjoys outdoor sports, particularly basketball, pickleball, and golf. He is excited to be a part of the BCSWM team full-time now. He looks forward to a career in the beautiful Tri-Cities area. Welcome, Andrew!

*Andrew Farmer, MBA  
Financial Advisor  
Associate*



Securities offered through Purshe Kaplan Sterling Investments, member FINRA/SIPC, headquartered at 80 State Street, Albany, NY 12207. Purshe Kaplan Sterling Investments and BCS Wealth Management, LLC are not affiliated companies.

Investments through PKS or RIA are: NOT FDIC INSURED - NOT BANK GUARANTEED - MAY LOSE VALUE, INCLUDING LOSS OF PRINCIPAL - NOT INSURED BY ANY STATE OR FEDERAL AGENCY.