



## VIEWPOINTS

3<sup>RD</sup> QUARTER 2023

ADVISORY NEWSLETTER

### MARKET COMMENTARY

FREDRIC W. WILLIAMS

#### *Is It Live, Or Is It Memorex...*

Those of us of a certain “age” can recall the 1970 ad campaign that the Leo Burnett Advertising Agency of Chicago launched for a new line of blank cassette tapes. Starting initially with opera singers breaking wine glasses, Memorex wanted to further its exposure to a broader segment of the newly expanding market for recordable compact cassettes (I know - for some readers this sounds like something from the stone age...), so they turned to jazz legend Ella Fitzgerald.

After a successful goblet shattering at New York’s Algonquin Hotel, Ms. Fitzgerald became the spokesperson for Memorex in 1972, providing something of a career renaissance for her talents at age 55.

*“In 1974, Memorex introduced a new TV spot and angle for the Fitzgerald campaign. Count Basie, Fitzgerald’s old bandmate, sits with his back to a recording booth, listening for the difference between Fitzgerald’s live voice amplified through speakers and a Memorex tape recording of it. “You gotta be kidding, I can’t tell!” he says, as if in on an elaborate joke. Ella or a cassette recording? If jazz royalty like Count Basie can’t tell and doesn’t care, why should we? Consumers can only deduce that playing a Memorex tape is interchangeable with having Fitzgerald sing in their homes. **Harkening back to the man vs machine fables, to John Henry against the steam-powered drill, the message in this spot is that human expression and cassette technology can come together for the win.**”*

- M Mercer, NPR – All Things Considered 9/3/2019

Fast forward to today and this conundrum sounds strikingly similar to our current challenges surrounding the uses of artificial intelligence – is this real, or is this A/I?

As we’ve seen over the last several months, this quandary is playing out “live” from basic manufacturing workers to creative and performing artists, as the impact from this transformative technology impacts jobs...and paychecks.

---

Investment Advisors ♦ Fiduciary Consulting ♦ Wealth Management

**PARTNERS FOR A SECURE FUTURE**

Post Office Box 4802 ♦ 130 Middle Street ♦ Portland, Maine 04112

207.774.6552 ♦ 800.605.6552 ♦ FAX 207.775.2969

[www.oldportadvisors.com](http://www.oldportadvisors.com) ♦ [info@oldportadvisors.com](mailto:info@oldportadvisors.com)

*“But disruptive technologies are, well, disruptive; and creative destruction earned its name by breaking up the status quo.*

*“In short, disruptive technologies are a double-edged sword. And American workers are now encountering, and figuring out how to deflect, the other edge. U.S. autoworkers and Hollywood actors and writers are striking not solely over money, as they usually do. **Instead, they are responding to existential fears that new technologies will massively alter their workplaces, and perhaps make their jobs obsolete.**”*

*- J Kelleher, Argus – Director of Research 9/28/2023*

Similarly, this disparity exists in the markets, and suggests some caution when viewed with the context of previous investment-valuation bubbles like we experienced at the turn of this century.

*“While we are excited about the potential for A/I to revolutionize personal efficiency, business operations, product innovation, and even spawn new industries, it is crucial to recognize the double-edged sword of opportunities and risks of investing in a hype cycle.*

*“Lessons from prior technology-driven hype cycles offer critical strategic lessons for investing in A/I, whilst evading the potentially catastrophic risk of excessive valuations.*

*“All else equal, A/I represents a reason to be optimistic about stocks and the economy; **however, at present it represents more of an excuse for the rally in stocks, rather than a reason for it.**”*

*- P Courtney, SpringTide – Director of Research 8/3/23*

A possible example of how this lemming-like retail investment focus plays out in the “real” world can come from looking “under the hood” of a popular investment theme, which is the Nasdaq 100.

*“If you want proof that most investors are irrational performance chasers, you’d be hard-pressed to find better evidence than the popularity of funds tracking the Nasdaq 100 index...tracking the 100 largest non-financial stocks listed on the Nasdaq stock exchange.*

*“Jackson’s (Ryan Jackson, a Morningstar research analyst commenting on the flaws in the index’s construction) biggest problem with the Nasdaq index is that it is limited to only 100 stocks that trade on a specific exchange. “When you think about sensible (index) investment criteria. You want to make sure you’re trying on as large of an opportunity set as possible, and you’re not constraining your self for any non-obvious reasons.”*

*“The non-obvious reason for the Nasdaq 100’s unique construction: Companies must pay listing and ongoing annual fees to Nasdaq to be on its exchange. Without such payments, companies are excluded from the benchmark, and their stocks don’t receive investor dollars from Nasdaq index ETFs.*

*“This is just NASDAQ, the exchange business, helping out Nasdaq, the index provider,” Jackson says. “The whole purpose [of the index’s design] was to drive up awareness of the Nasdaq exchange.”*

*- L Braham, Barron’s 9/28/23*

Once again, another lesson in caveat emptor (let the buyer beware) when it comes to the vagaries of retail financial service industries “products” – perhaps somewhat akin to the aversion to understanding the details of sausage making.

At OPA our fiduciary mission is to assist our clients in properly navigating which options are best for their personal goals and objectives – not those of any other entity.

---

*Investment Advisors ♦ Fiduciary Consulting ♦ Wealth Management*

***PARTNERS FOR A SECURE FUTURE***

Post Office Box 4802 ♦ 130 Middle Street ♦ Portland, Maine 04112

207.774.6552 ♦ 800.605.6552 ♦ FAX 207.775.2969

[www.oldportadvisors.com](http://www.oldportadvisors.com) ♦ [info@oldportadvisors.com](mailto:info@oldportadvisors.com)

## CAPITAL MARKETS OVERVIEW

Index Returns			
Equities	Percentage Change for the 3 <sup>rd</sup> Quarter	Percentage Change for the Year	Annualized 10-Year Returns
S&P 500	-3.27%	13.07%	11.91%
MSCI EAFE*	-4.11%	7.08%	3.82%
MSCI Emerging Markets*	-2.93%	1.82%	2.07%
Bloomberg Commodity Index TR	4.71%	-3.44%	-0.75%
FTSE NAREIT Equity REIT Index	-7.13%	-2.14%	5.96%
Fixed Income			
Bloomberg Barclays U.S. Aggregate Bond	-3.23%	-1.21%	1.13%
Bloomberg Barclays U.S. Treasury Inflation-Linked Bond	-2.60%	-0.78%	1.74%
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

The third quarter started with a bang and ended with a whimper. July is historically the best month of the year for stocks, and it followed tradition this year with the S&P 500 Index up 3.2%. September is historically the worst month of the year for stocks, and true to form the S&P declined 3.3%. The S&P 500 is up an impressive 13.1% year to date, but the bulk of the gains are concentrated in the “Magnificent Seven,” a collective term used to describe mega-cap tech companies Apple, Amazon, Microsoft, Nvidia, Meta, Tesla, and Alphabet. Without the Seven, the so-called “S&P 493” is up only about 5%.

Interest rates rose sharply during the third quarter to some of the highest levels of the past two decades. After starting the quarter at 3.8%, the 10-year Treasury yield ended the quarter at 4.6%, a level last reached in August 2007. Short-term Treasury yields also climbed to their highest levels since 2001 as the 2-year Treasury yield finished the quarter marginally higher at 5.0%. The main cause seems to be the jump in the supply of bonds – the Treasury issued approximately \$1.0 trillion of debt in the third quarter. Total U.S. debt now surpasses \$33 trillion.

The Bloomberg U.S. Aggregate Bond Index ended the quarter down 3.2% and is now down 1.2% for the year to date. The index is down 15.0% over the past three years—by far the largest three-year decline in history. The Federal Open Market Committee met on September 20 and left rates unchanged at 5.25% to 5.50%. With inflation still nearly double the Fed’s target rate, hopes of a rate cut before year end have faded away. Markets now anticipate the first rate cut only in mid-2024.

---

Investment Advisors ♦ Fiduciary Consulting ♦ Wealth Management

***PARTNERS FOR A SECURE FUTURE***

Post Office Box 4802 ♦ 130 Middle Street ♦ Portland, Maine 04112

207.774.6552 ♦ 800.605.6552 ♦ FAX 207.775.2969

[www.oldportadvisors.com](http://www.oldportadvisors.com) ♦ [info@oldportadvisors.com](mailto:info@oldportadvisors.com)

A very positive development for the US financial markets and economy was the continuing decline in inflation. Its peak was seen in June 2022 at 9.1% and had dropped to 3.7% in August 2023. The Federal Reserve remains stuck in a challenging predicament. To calm markets, the Fed hopes to drain excesses from the economy and ultimately bring inflation down to its 2% target, but this is not proving to be an easy task.

In September, the average national gas prices reached the highest monthly level since 2019, hitting \$3.85 per gallon on September 14. Elevated gas prices were one of the key factors of the strong August retail sales print, as spending on gas increased by more than 5.0% from July to August. Since June 2022, declining oil prices (down 3.6% year-over-year in August) have played a major role in the decline in overall inflation. This decline was helped by the Biden Administration's decision to release oil from the U.S. Strategic Petroleum Reserve (SPR). Since January 2022, 180 million barrels of crude oil have been taken out of the SPR, draining SPR inventories to a four-decade low. The SPR plays an important role in U.S. energy security and the government's ability to mitigate supply disruptions and price volatility. The current low levels of strategic reserves can increase the risks of inflationary energy price shocks in the future.

U.S. consumers remained resilient with consumer spending increasing 5.5% and retail sales up by 1.6% in August, but U.S. consumer optimism appears to be draining. The Conference Board's Consumer Confidence Index dipped to 103 in September, down from 109 in August.

Most asset classes ended the quarter down. Midstream energy was the top-performing asset class over the quarter, up 9.7%, followed by the Bloomberg Commodity Index, which ended the quarter up 4.7%. The worst performers were asset classes most tethered to rising yields. U.S. REITs plunged 7.0%, and international developed market bonds lost 5.5%. Rate-sensitive utility stocks declined 9.2% over the quarter, while the top-performing U.S. equity sector was energy, up 5.0%. In foreign markets, a stronger dollar, surging U.S. yields, and China's continued sluggish economic recovery all weighed on investor sentiment. Emerging and frontier market stocks ended the third quarter down 2.8%, wiping out most of their gains for the year. International developed market stocks fared worse than their U.S. counterparts, and the MSCI EAFE ended the quarter down 4.0%.

Another aspect of the negative feedback loop from higher interest rates has to do with the relationship between interest rates and price-to-earnings multiples (the value assigned by investors to each dollar of earnings) for the stock market. Proxied by the S&P 500 Index, a dollar of earnings in the stock market at the end of 2021, when interest rates were near 0% and inflation was believed to be contained, was valued at around \$24.7 (down from a peak of \$30.8 in February 2021). But for a decade-long period in the 1970s, when inflation and bond yields were much higher, the same dollar of earnings was valued at an average of just \$12.7.

Even though lower prices have made certain parts of the market more compelling, and we have been actively repositioning portfolios in response to shifting opportunities, we still believe patience is crucial before significantly raising allocations to risky assets. Fortunately,

---

*Investment Advisors ♦ Fiduciary Consulting ♦ Wealth Management*

***PARTNERS FOR A SECURE FUTURE***

Post Office Box 4802 ♦ 130 Middle Street ♦ Portland, Maine 04112

207.774.6552 ♦ 800.605.6552 ♦ FAX 207.775.2969

[www.oldportadvisors.com](http://www.oldportadvisors.com) ♦ [info@oldportadvisors.com](mailto:info@oldportadvisors.com)

we continue to get paid, relatively handsomely, to keep elevated levels of short-term bonds and cash while we wait to see how this all plays out.

To clarify, we don't view higher interest rates as inherently bad. For patient investors, higher rates may catalyze the unwinding of excesses across the economy and markets, laying the foundation for a more organic and sustainable economic expansion. With this in mind, we are more optimistic than we have been in many years. We look forward to judiciously allocating capital in the coming years to genuine opportunities, rather than being pressured to take risks due to historically low interest rates.

---

**PLANNING CONCEPTS****CLIFFORD P. RYAN, CLU®, ChFC®**

---

***IRA Qualified Charitable Distributions (QCD)***

Although Qualified Charitable Distributions have been around a while, there have been some changes due to regulations coming out of the SECURE 2.0 Act. A QCD is basically a transfer of assets from one's IRA, Roth IRA, Inactive SEP or SIMPLE plan directly to an IRS-recognized charity without having to file for a charitable deduction. The distribution goes from the IRA to the charity without it ever being reflected on one's tax return. This is far superior to making a distribution and a subsequent donation. It's a very powerful tool for those who are charitably inclined.

Following are a few highlights:

- An IRA owner but be at least 70.5 years old to be eligible for this treatment.
- IRA owners can contribute up to \$100,000 per year and joint filers (each owning their own IRA) can contribute twice that.
- QCD gifts can satisfy Required Minimum Distributions and, thereby, lower taxable income.
- QCDs cannot be made to donor-advised funds (DAF) or grant making foundations.

New SECURE 2.0 Act rules allow gifting to split interest entities such as a Charitable Remainder Annuity Trust (CRAT), Charitable Remainder Unitrust (CRUT) or a Charitable Gift Annuity (CGA) with certain rules. The lifetime limit for these contributions is \$50,000 per IRA owner.

If you're making regular contributions to a charitable organization, have an alumni pledge that needs funding or have other charitable interests, this strategy is worth exploring.

***Younger Generations Unprepared for Wealth Transfer***

More than \$80 trillion in assets is expected to pass to up-and-coming generations over the next two decades. In a survey of 4,437 adults that was conducted by New York Life in June 2023, more than half of those who expect to inherit a share of the "great wealth transfer" over the next two decades say they aren't prepared or confident in their ability to manage the money.

---

*Investment Advisors ♦ Fiduciary Consulting ♦ Wealth Management*

***PARTNERS FOR A SECURE FUTURE***

Post Office Box 4802 ♦ 130 Middle Street ♦ Portland, Maine 04112

207.774.6552 ♦ 800.605.6552 ♦ FAX 207.775.2969

[www.oldportadvisors.com](http://www.oldportadvisors.com) ♦ [info@oldportadvisors.com](mailto:info@oldportadvisors.com)

While inherited wealth may provide a financial lift for some, overall, Americans' (across generations) are struggling to prioritize paying off debt versus bolstering emergency and retirement savings. Lack of emergency savings (29%), health care costs (27%), and credit card debt (26%) were cited as the biggest risks adults perceive to their financial security and wellbeing.

*"Although it's possible to learn the basics on your own, the more complex your financial life becomes as you age, the more beneficial it will become to seek the guidance of a trusted financial professional who can take into account your unique situation and needs including life stage, goals, and challenges, like debt, unexpected expenses, and health conditions that may impact your financial situation in retirement, and the legacy you want to leave behind to loved ones."* ([The 'Great Wealth Transfer' Is Underway but Nearly Half Expecting an Inheritance Are Not Ready to Manage It, Finds New York Life Wealth Watch Survey](#))

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

## **FIDUCIARY CORNER**

**BEN DAIGLE, JAKE KENYON CFP®**

### ***Roth IRA Catch-Up Rule Postponed***

A collective sigh of relief was let out by retirement plan sponsors and their employees in the past quarter as the IRS announced the postponement of the Roth IRA Catch-Up Rule until January 1, 2026.

The SECURE 2.0 Act, a landmark piece of legislation passed in late 2022, encompassing over 90 provisions affecting retirement accounts, has introduced significant changes within the retirement industry. One such provision, originally scheduled to take effect on January 1, 2024, mandated that any individual earning over \$145,000 during the preceding tax year would be required to make any catch-up contributions to their retirement plan on a Roth basis.

Prior to this rule, individuals aged 50 and older had the flexibility to elect either a pre-tax or Roth basis for their catch-up contributions, contingent on their employer plan's provisions. However, the SECURE 2.0 Act's introduction of an income threshold to determine the requirement for Roth-based catch-up contributions led to a scramble among plan custodians to establish oversight mechanisms.

Enter IRS Notice 2023-6. Issued in August, this guidance outlines a two-year administrative transition period for the rule. During this transition period, all catch-up contributions will be considered as compliant with the new SECURE 2.0 rules, regardless of whether they are designated as Roth contributions or traditional pre-tax contributions.

Plan custodians and sponsors universally welcomed this notice, especially considering the impending deadline. The postponement provides them with the much-needed breathing room to adapt to the new requirements and implement the necessary administrative changes to ensure proper compliance.

---

Investment Advisors ♦ Fiduciary Consulting ♦ Wealth Management

### ***PARTNERS FOR A SECURE FUTURE***

Post Office Box 4802 ♦ 130 Middle Street ♦ Portland, Maine 04112

207.774.6552 ♦ 800.605.6552 ♦ FAX 207.775.2969

[www.oldportadvisors.com](http://www.oldportadvisors.com) ♦ [info@oldportadvisors.com](mailto:info@oldportadvisors.com)





*OPA MARATHON RELAY TEAM "KICKIN' ASSETS"*

The 32<sup>nd</sup> edition of the Gorham Savings Bank Maine Marathon was run October 1<sup>st</sup> and OPA had a relay team entered for the full marathon (Ben Daigle, Cliff & Laurene Ryan, Jason Foster, Patricia Rosi-Santucci, Sharon Bunker and Jake Kenyon) - finishing in 4:26:05. This year's event featured over 4,000 participants, and a beautiful Fall day, raising \$60,000.00 for The Ecology School, Maine Children's Cancer Program, Veggies to Table, and the YMCA Camp of Maine. Additional information about race, and the beneficiaries, can be found at <https://mainemarathon.com/>

### THE OPA TEAM:

**KAREN MANGINO** – OPA is pleased to welcome Karen in the role of Operations Specialist in our Middle Street office. Karen's career spans twenty-seven years in the Portland investment advisory / banking industry. Most recently she worked for the firm Clearstead Trust (formally Atlantic Trust), helping clients with their needs on the Operations side as well as serving on the Compliance and Cybersecurity Committees.

At the Firm, Karen will be working to optimize our daily business operations in those back-office areas that clients typically don't see but are critical to our success. Karen's background, expertise and personality will be a valuable asset and we're excited she's joined our team!

---

*Investment Advisors ♦ Fiduciary Consulting ♦ Wealth Management*

***PARTNERS FOR A SECURE FUTURE***

Post Office Box 4802 ♦ 130 Middle Street ♦ Portland, Maine 04112

207.774.6552 ♦ 800.605.6552 ♦ FAX 207.775.2969

[www.oldportadvisors.com](http://www.oldportadvisors.com) ♦ [info@oldportadvisors.com](mailto:info@oldportadvisors.com)