A Year in Review for Green Wealth Management Group!

2023 was the second full year of independence for Green Wealth Management Group (GWMG). It was a year marked by the economic recovery from the Covid-19 pandemic, continuing sticker shock at the local grocery store, and geopolitical tensions throughout the world. That didn't stop consumers from spending money and surprising the many economists who had been calling for a recession. In fact, the economic buzzword of 2023 might just have been "fun-flation", with Taylor Swift's Eras Tour grossing a record $1.04 billion and Beyonce's Renaissance World Tour breaking worldwide ticket records. "Revenge travel", where travelers made up for lost time during Covid, was still in the spotlight. Consumers simply shifted their focus from material items to spending on memorable experiences.

At Green Wealth it was no different, the team also spent personal savings on travel. Drew explored Aruba and the Adirondacks with his wife and two daughters, while Alan visited multiple national parks on a cross country road trip, including the Grand Canyon. Lori took Drew's advice and went to Aruba with her fiancé and son, where they rented ATVs and enjoyed the beautiful water. Lori's big news in 2023 was that her daughter moved from Arizona back to Branford, CT with her husband. Fran took his wife and family to Dubai in early July, while Eva spent late summer in Greece with her husband. Dave Kania took a cruise with his family of six to Bermuda. Finally, David Richardson travelled throughout Europe after graduating from Bryant University and prior to starting at GWMG.

GWMG maintained its annual tradition of taking the team on a corporate retreat. We used this time to foster team bonding, improve communication, and provide a space for reflection and strategic planning while away from our usual work environment. In 2023 we visited New York City, concluding the trip with an ascent of the Summit One Experience. Like an unpredictable market outlook, our view on that day was affected by the clouds outside. Luckily, artificial intelligence was used to generate this photograph, like the rainy day never happened.

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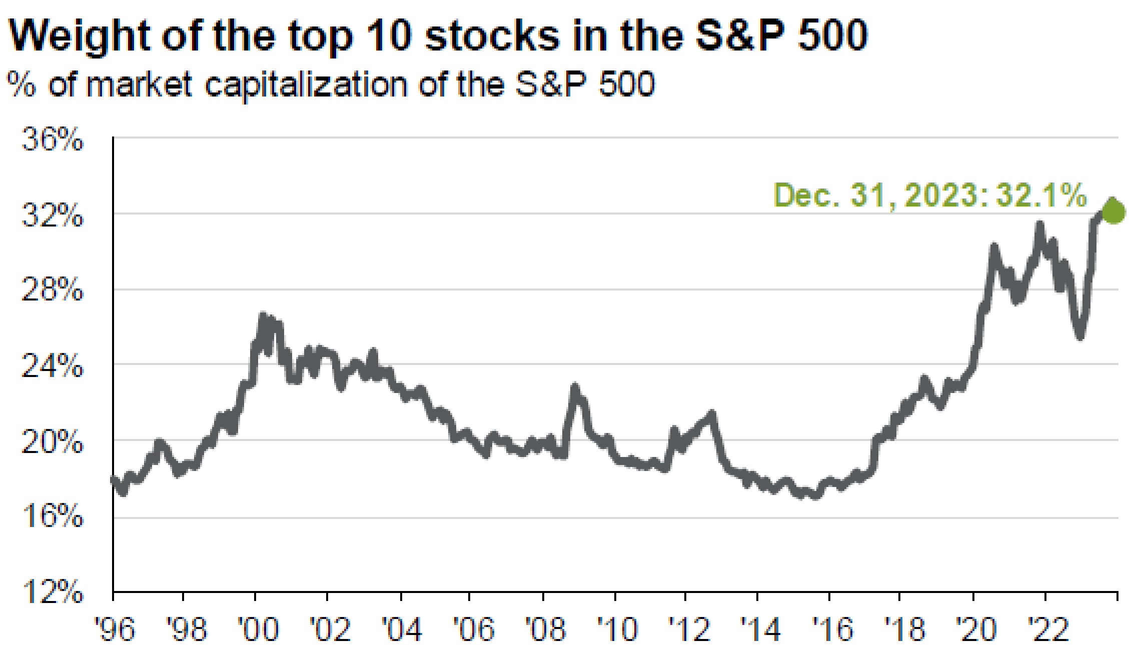
Goodbye 2023!

As we know, 2022 was an incredibly challenging year for the securities markets, with public stocks and bonds down significantly, leading to the worst year on record for the “60/40” portfolio, which is often a measure of the most popular U.S. portfolio allocation. 2023 opened with a surprising rebound in the stock averages, although the lion’s share of the returns were derived from only a handful of stocks dubbed “The Magnificent Seven” (AAPL, AMZN, MSFT, GOOGL, FB, NVDA, TSLA), all of which are mega-cap technology stocks. The performance of these stocks pushed the market-cap weighting of the top 10 largest S&P 500 stocks to unseen levels, with almost a 1/3 of the S&P 500’s market capitalization coming from just those 10 stocks.



Source: JPM Guide to the Markets 1Q24

It's not uncommon to have the top 10 stocks contribute a large portion of the positive returns in a successful year in the market, but as the chart below shows, it reached extreme levels by the end of October. As of 10/31/23, the top 10 stocks in the S&P500 were responsible for 134.1% of the market's 8.5% return. This implies that the other 490 stocks in the index were negative, on average, at that point in time.

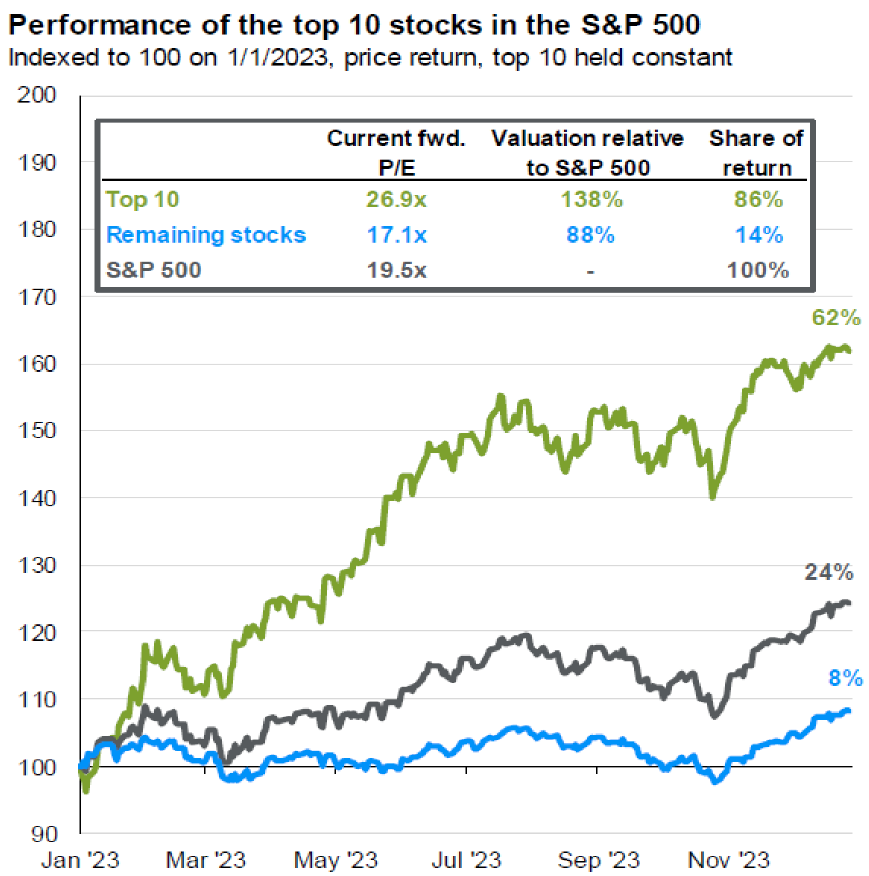
Annual S&P 500 Contribution of 10 Largest Weights During Positive Performance Years[1]
1990 - 2023

Year	Top 10 as % of Total	S&P 500 % Price Return
2023 YTD	134.1%	8.5%
2007	78.7%	3.5%
2020	58.9%	16.3%
1999	54.5%	19.5%
2021	45.0%	26.9%
1998	36.8%	26.7%
1996	33.9%	20.3%
2017	33.3%	19.4%
2019	32.8%	28.9%
1991	28.6%	26.3%
2006	27.6%	13.6%
2016	26.6%	9.5%

[1] Source: Strategas. Data as of 10/30/23.
[2] Source: Piper Sandler. Data as of 9/30/23.
Past performance should not be taken as a guarantee of future results.

Source: The London Company

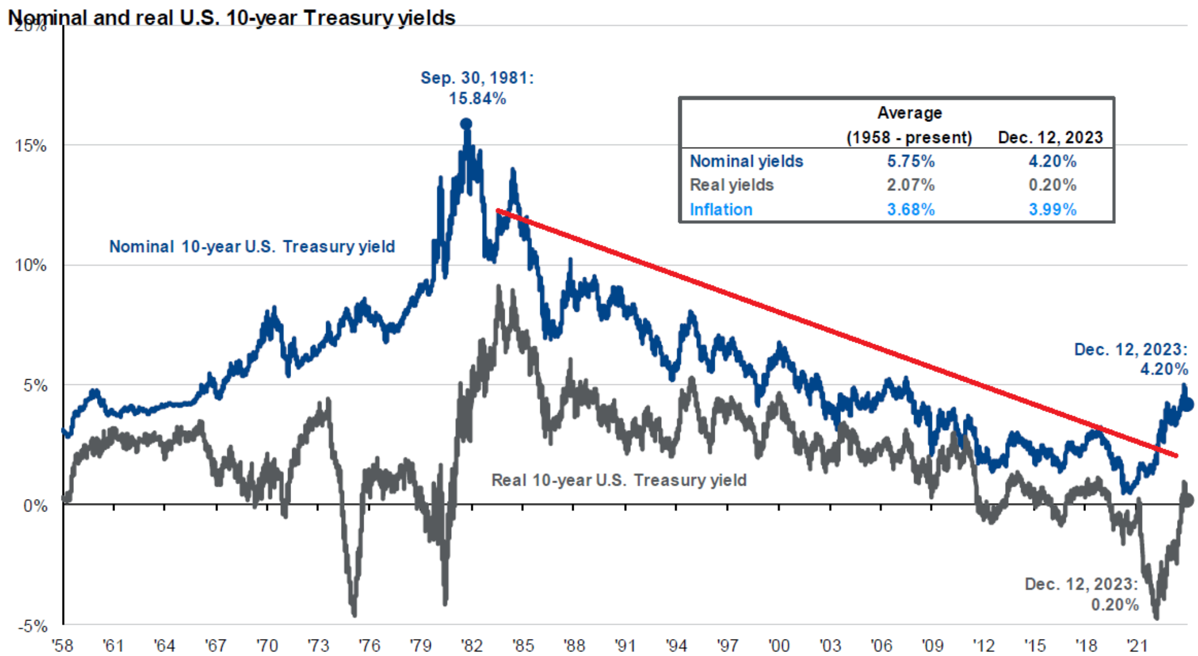
The narrow leadership of the market persisted all year, although market breadth (% of stocks participating in the positive price movement) widened in the 4th quarter, lessening the concentration effect. However, despite the market's widening breadth, the top 10 stocks in the S&P 500 ended up being responsible for 86% of all the contribution to the S&P 500's annual return. Said differently, if the 10 largest stocks were removed from the index for 2023, then the S&P 500's annual return would be 86% lower than it ended up.



Source: JPM Guide to the Markets 1Q24

Equity returns did well this year, with the S&P 500 total return finishing at 26.19%. Adjusting for the concentration effect noted above, the equal-weighted S&P 500 index (RSP) came in at 13.7%, implying a long list of stocks that had much lower performance than the headline returns. Other equity market returns suggest the same story; with the Dow Jones Industrial Average at 16.18%, the smaller companies of the Russell 2000 at 15.1%, international index EAFE (EFA) at 18.40%, and the real estate index (VNQ) at 11.79%

Fixed income began the year in negative territory, marking the beginning of a 3rd consecutive year of negative returns for the bond index, which would have been a first. The fixed income markets were in negative territory for most of the year as the Federal Reserve continued tightening financial conditions. The tightening financial conditions further contributed to reversing the 40-year trend of declining interest rates, which began in 2021.



Source: JPM Guide to the Markets 4Q23

However, in November/December, after the latest inflation data and Fed commentary, bond yields fell as their prices solidified and pulled bond returns into positive territory for the year. The Barclays Aggregate Bond Index (AGG) finished 2023 up 5.65% on the back of this historically strong rally.

Market prospects in 2024 appear to be mixed as investors weigh negative fundamental factors like yield curve inversion, poor leading economic indicator trends, and higher-trending unemployment claims versus positive factors like increased S&P 500 earnings estimates, weaker inflation conditions, and a strong consumer. Ultimately, given the volatility across asset classes, diversification remains an investor's best tool for navigating uneven sector and factor contributions to returns.

Financial planning areas of interest for 2024:

- **Wealthy families and business owners should consider taking advantage of the favorable estate planning environment that 2024 brings**:
  - This year, the estate, gift, and generation-skipping transfer tax exemptions, which are adjusted annually for inflation, is $13.61 million per person. This new exemption amount represents a $690,000 increase over 2023 — offering opportunities for additional wealth transfers, even for those who have made significant prior gifts. However, this favorable planning environment is temporary, as this new exemption amount is scheduled to be cut in half beginning in 2026.
- **The IRS has adjusted the income thresholds for all seven of the federal income tax brackets**:
  - https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2024.
  - It's important that we review your tax bracket and discuss strategies that can save on taxes. GWMG advisors frequently interact with clients' CPAs to discuss advantageous strategies.
  - Please feel free to bring a 2023 tax return copy (when completed) to the next scheduled review.
- **Invest tax-efficiently**:
  - GWMG has been utilizing direct indexes and more tax-efficient separately managed accounts (SMAs) and exchange-traded funds (ETFs) in our brokerage accounts to reduce expenses, as well as client contributions to Uncle Sam. We also pay attention to the Net Investment Income Tax for our high-income clients. https://www.irs.gov/newsroom/questions-and-answers-on-the-net-investment-income-tax .
- **Maximize Retirement Contributions**:
  - Contributing to retirement accounts like a 401(k) or Traditional IRA can reduce taxable income. Consider maximizing these contributions to benefit from tax-deferred growth and potentially lower your tax liability.
  - GWMG suggests reviewing deadlines for maxing out **<u>2023</u>** contributions for accounts like IRAs, Health Savings Accounts (HSAs), and SEP IRAs, which allow contributions up until the tax-filing deadline for prior years.
  - Note that 2024 contribution elections for 401ks and IRAs are increasing and adjust accordingly to max out for the year. https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-contributions

- **Charitable Giving**:
  - Consider a donor-advised fund (DAF) where one can deposit assets for donations to charity over time. You can claim a tax deduction in the year you contribute assets to the DAF rather than in the year the contribution goes to the charity. You also won't pay capital gains taxes on assets you put in a donor-advised fund, and if you donate assets that have capital gains, you typically can deduct the current market value of the asset rather than what you originally paid for it. Finally, assets you put into a donor-advised fund aren't subject to estate taxes, so they don't count toward your total estate value.
- **Customize your 401(k) plan design:**
  - If you own a business, or are self-employed, a 401(k) may be a great tool to save upwards of $69,000 in pre-tax contributions, which is boosted to $76,500 if over 50 years old.
  - Business owners can shape their 401(k) plan to match their tax situation, cash flows, and employee compensation needs.
  - Secure Act 2.0 includes many provisions impacting corporate retirement plans, such as:
    - Matching contributions allowed for qualified student loan payments.
    - Emergency savings accounts.
    - Penalty-free withdrawals for certain emergency expenses.
  - Retirement Plan Sponsors - if your plan suffers from any of the following conditions, please ask us to review and make suggestions:
    - Top-Heavy penalties
    - Corrective distributions
    - Low participation rate
    - High costs
- **Consider Long Term Care Insurance:**
  - LTC insurance can be a smart investment to help cover the cost of extended care, such as nursing home stays or home health care, which can be expensive. This type of insurance offers financial protection by preserving savings and investments for the next generation. It also provides more choices and control over the type of care received. It also can limit the burden of having your immediate family provide care. If you haven't spoken to your advisor about long term care insurance, please bring it up at your next scheduled appointment or simply call the office to schedule a convenient time to speak.

As we embark on a new year, we at GWMG are thrilled to continue supporting you on your financial journey. The upcoming year promises new opportunities and challenges, and we are committed to ensuring that your financial goals remain the focal point of our collaboration.

Looking forward, our team is dedicated to staying abreast of the evolving financial planning, market, and economic shifts. We aim to provide you with tailored strategies that align with your aspirations, whether they involve wealth accumulation, retirement planning, or just investment diversification.

In the year ahead, our focus will be on enhancing financial plans and developing portfolios with resilience and adaptability. We anticipate potential changes in the financial landscape and aim to position your investments strategically to maximize opportunities, reduce taxes, and mitigate risks.

Our goal is the same as it was in 2023. To provide positive, life-altering advice to you and yours.

Sincerely,

Green Wealth Management Group