Insight Newsletter
FALL 2023

Litman Gregory
WEALTH MANAGEMENT

What's Inside

Investment Commentary: Third Quarter 2023

Market Recap

The S&P 500 reached a 2023 high at the end of July before selling off 7.5% through August and September to finish the quarter down 3.3%. Year-to-date the index remains up a solid 13%. Smaller-cap stocks (Russell 2000) also had momentum early in the quarter but changed course and ended the quarter down 5.1%, though are still positive 2.5% year-to-date. Developed international stocks (MSCI EAFE) declined 4.1% in the quarter yet remain up just over 7% year-to-date. Emerging market stocks (MSCI EM) fell 2.9% bringing down their year-to-date return to just under 2%.

In bond markets, the 10-year Treasury yield climbed nearly 70bps in the quarter, ending the period at 4.59% – the highest level since before the financial crisis in 2008. As a result, core bonds (Bloomberg U.S. Aggregate Bond Index) fell a sharp 3.2% over the quarter. High-yield bonds (ICE BofA US High Yield) managed to eke out a small quarterly gain and are up 6% year-to-date.

Multi-alternative strategies (Morningstar Multistrategy Category) and managed futures (SG Trend Index) demonstrated their diversification benefits. Multi-alternative strategies returned 0.2% and managed futures gained 1.15% in the quarter.

Investment Outlook and Portfolio Positioning

From a macroeconomic perspective, the big question remains whether the U.S. economy can avoid recession or not, and the timing if one does occur. It goes without saying that the answer will likely lead to meaningfully different market outcomes. If the Federal Reserve (Fed) can manage to sufficiently slow the economy (and inflation) while avoiding recession, we would expect to see the market's gains broaden out beyond the large-cap technology-related sectors. Conversely, if the Fed's tightening leads to recession, we expect broader-based market declines (*see table on page 2).*

There are reasons to be cautious — our base-case economic scenario is for a mild recession looking out to 2024. We have seen one of the quickest and sharpest tightening cycles in history, and lending standards have tightened considerably. Both factors create recessionary conditions, and the Fed has a history of raising rates too far, tipping the economy into recession. Since 1931, there have been 19 hiking cycles and in only three instances did the economy avoid a recession.

However, on the positive side, if the economy falls into recession, we believe it will be relatively mild. There are several data points supporting a more positive outlook for the economy (strong consumer spending, healthy household balance sheets, among others), plus this has been one

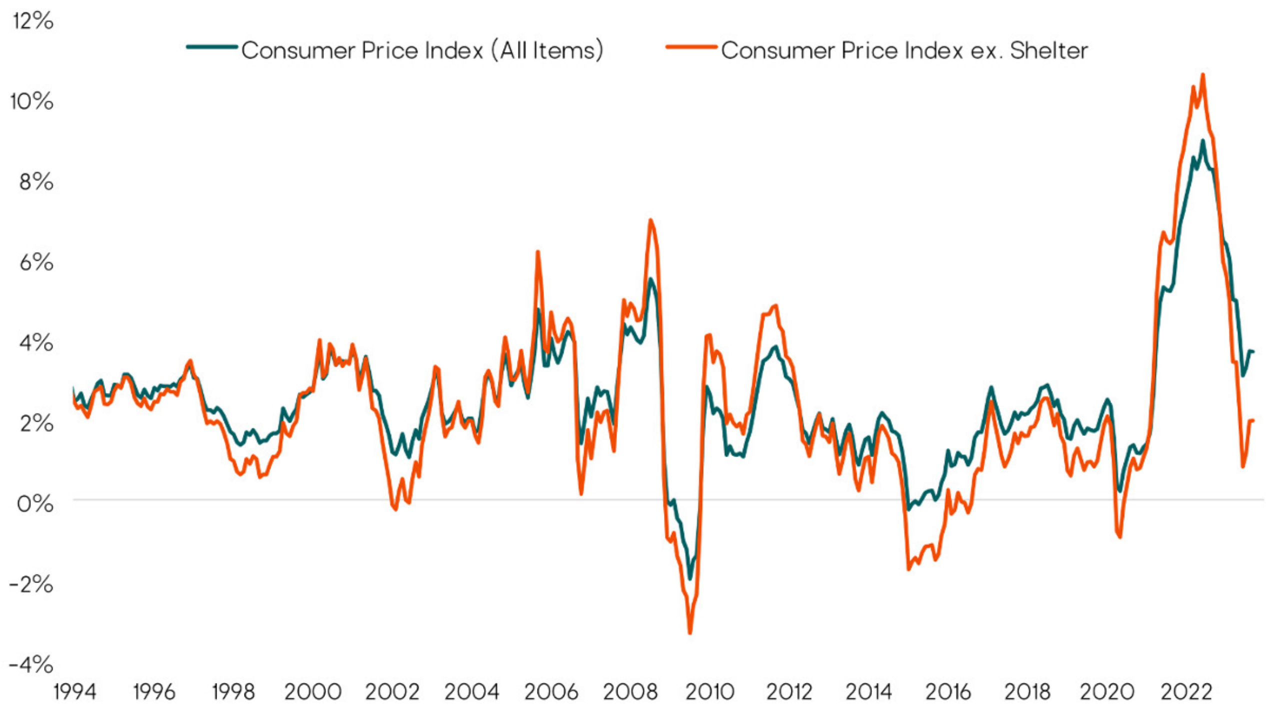
Beginning of Tightening Cycle	End of Tightening Cycle	Duration of Tightening Cycle (Months)	Total FED Funds Increase Over Tightening Cycle (%)	Ensuing Recession	Months Between End of Tightening and Recession's Start
Feb 1928	Jul 1928	5	1.5	Aug 1929	13
Jan 1948	Jan 1953	60	1	Nov 1948	*
Apr 1955	Aug 1957	28	2	Aug 1957	0
Sep 1958	Sep 1959	12	2.25	Apr 1960	7
Jul 1963	Dec 1965	29	1.5	No recession	
Nov 1967	Apr 1969	17	2	Dec 1969	8
Jan 1973	Apr 1974	15	3.5	Nov 1973	*
Aug 1977	Feb 1980	30	7.75	Jan 1980	*
Sep 1980	May 1981	8	4	Jul 1981	2
Sep 1987	Feb 1989	17	1.5	Jul 1990	17
May 1994	Feb 1995	9	2.25	No recession	
Aug 1999	May 2000	9	1.5	Mar 2001	10
Jun 2004	Jun 2006	24	4.25	Dec 2007	18
Dec 2015	Dec 2018	36	2.25	Feb 2020	14
Mar 2022	Jul 2023	16	5.25	?	
Average		21	2.83		9.89
Median		17	2.25		10

Source: Federal Reserve and NBER

of the most anticipated recessions ever. Amid all this built-up anticipation many companies have already laid off workers and slowed hiring. These corporate moves help loosen the labor markets and potentially ease inflationary pressures.

Meanwhile inflation has come down meaningfully from its June 2022 high of 9.1% to a recent reading of 3.7%, suggesting the Fed's hiking regime may be coming to an end *(see chart on page 3).*

Inflation Has Fallen Towards Fed's 2% Goal



Source: U.S. Bureau of Labor Statistics. Data as of 9/30/2023.

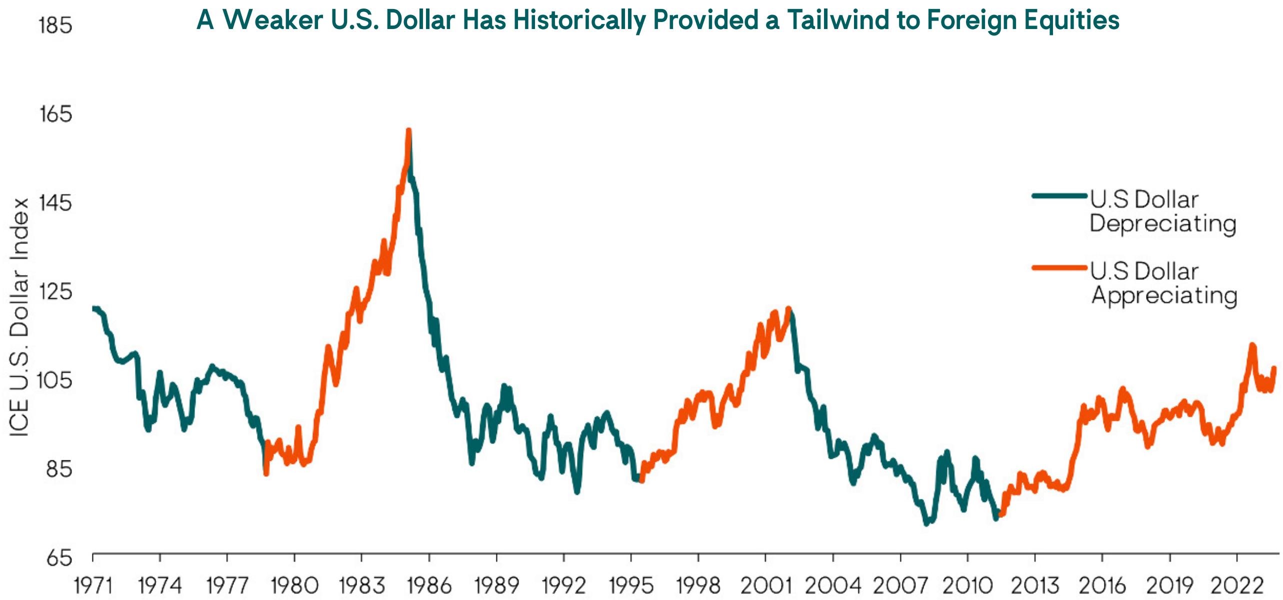
The rise in interest rates has resulted in steep losses for bonds over the past couple years. The silver lining is that looking forward, today's higher yields mean higher expected returns. We remain positive on core bonds given their combination of healthy fundamentals, attractive current yields, and the downside protection they provide portfolios in the event of a recession.

Additionally, there are several fixed-income sectors outside of traditional "core" bonds that provide attractive risk-return potential. We continue to have meaningful exposure to higher-yielding, actively managed, flexible bond funds run by experienced teams with broad opportunity sets. Some are currently yielding in the high single digits, while maintaining an eye on capital preservation and interest rate risk.

U.S. stocks have seen returns dominated by a handful of mega-cap companies (*see chart on page 4*). While we maintain significant exposure to U.S. stocks (including mega caps) we see other parts of the U.S. stock market as more reasonably valued and thus remain diversified across styles (i.e., growth, value, blend) and market caps (larger and smaller cap stocks).

Source: Ned Davis Research. Data as of 9/30/2023.

Looking overseas, we have a slight overweight to foreign stocks. Though we see downside risk as comparable to U.S. stocks in the event of a recession, we believe their more attractive valuations along with the likelihood of a tailwind from a gradual decline in the U.S. dollar give them better long-term return potential than their domestic counterparts *(see chart below)*.



Jan. 1971 - Oct. 1978	Nov. 1978 - Feb. 1985	Mar. 1985 - Jul. 1995	Aug. 1995 - Jan. 2002	Feb. 2002 - Jul. 2011	Aug. 2011 - Sept. 2023
Non-U.S. Stocks: 179%	U.S. Stocks: 169%	Non-U.S. Stocks: 404%	U.S. Stocks: 123%	Non-U.S. Stocks: 104%	U.S. Stocks: 320%
U.S. Stocks: 38%	Non-U.S. Stocks: 60%	U.S. Stocks: 336%	Non-U.S. Stocks: 10%	U.S. Stocks: 38%	Non-U.S. Stocks: 66%

Source: Bloomberg LP and Morningstar Direct. Data as of 9/26/2023. Annualized returns in U.S. Dollars. U.S. Stocks: S&P 500. Non-U.S. Stocks: MSCI World ex. U.S. Index.

Finally, we continue to maintain our core positions in multi-alternative strategies and trend-following managed futures. In particular, managed futures stand a reasonable chance of generating positive absolute returns during periods of losses for stocks and/or bonds, thus providing considerable diversification benefit. This was the case in 2022, where managed futures saw strong double-digit gains while stocks and bonds both experienced double-digit losses.

Closing Thoughts

As we look ahead, a mild recession is still within our base-case economic scenario looking out to 2024. Of course, the timing and magnitude of the Fed's response to economic data will be critical to the outcome. However, we can't rule out the possibility that the Fed threads the economic needle and successfully guides us to (or lucks into) the rare soft landing of lower inflation and slower economic growth without recession.

Given the uncertainty, we expect volatility and will seek to take advantage of market dislocations when they create high-conviction opportunities to increase returns. This is not to suggest that we are anything but long-term investors. We remain mindful of the risk mandate in each strategy we run and believe that taking a disciplined long-term view that is grounded on fundamentals is the path to successful investing.

We thank you for your continued trust in us.

—Litman Gregory Wealth Management

Reaction to Conflict in Israel and the Middle East

We are devastated by the extraordinary violence and atrocities unfolding in Israel and the Middle East, and we know these events are directly impacting members of our employee and client communities who have personal connections. We hope that your family and friends are safe, and yet we also recognize there are many people who are affected and who do not currently feel safe.

Our work as investment advisors regularly requires us to manage through uncertainties, but this kind of conflict goes beyond those efforts and motivates us to be a source of support to one another and to our clients. In that regard, please let us know if there is anything we can do, even in a small way, to help support your peace of mind during these turbulent times.

Replay: Litman Gregory Client Symposium

On October 4th, Litman Gregory Wealth Management hosted an investment symposium presentation featuring iMGP Chief Investment Officer U.S. **Jack Chee** and iMGP Global Chief Investment Officer **Philippe Uzan** in discussion about the current state of the global economy and financial markets, and where they see investment opportunities. Senior Advisor **Craig Keller** moderated the discussion, and together they covered questions about U.S. fiscal and monetary policy, inflation, and analysis of the global equity markets and fixed income opportunities.

The presentation materials and video replay can be viewed **here**.

Cybersecurity Awareness Month – Protecting Against Imposter Scams

October is “Cybersecurity Awareness Month” and a great time to revisit important safety reminders to protect yourself against common fraud and cyber-attack attempts, especially around finances.

“Imposter scams” are quite prevalent, so we are focusing this post on how to identify and protect against them.

An imposter scam is where a fraudster impersonates a trusted individual, business, or organization in order to convince their target to transfer money and/or provide personal information to them. These scams have been on the rise in recent years and are currently the most commonly reported fraud according to the Federal Trade Commission.

Because these scams can include fraudsters impersonating individuals from trusted organizations like Charles Schwab, Fidelity, and other financial or banking institutions (even our own advisory firm) we wanted to share more information about how these scams occur, and the steps that you can take to protect yourself and your financial information.

How Does An Imposter Scam Work?

Imposter scams can begin a multitude of ways, with fraudsters using some of the following common strategies:

- Contacting you via text, email, phone call, online advertisement, or social media post.
- Claiming to be a security officer or technical support for a trusted company, such as Apple or Microsoft.
- Pretending to be an employee of a trusted financial institution like Schwab or Fidelity.
- Asking you to download software and/or request access to your computer remotely.
- Sending you a text message or email with a link or attachment asking you to approve or decline a transaction, enter or set up new login credentials, or take some other action for your account(s).

Steps You Can Take To Protect Your Accounts:

To protect your accounts and your personal information it is important to look out for red flags and take the following steps.

1. Verify the legitimacy of the organization or individual trying to reach you, particularly in the event that you did not initiate the contact. Should you have any doubts, contact the financial institution directly (using a phone number directly from the institutions website, or account statement, etc.), or in the case that it is related to your Schwab or Fidelity accounts, you can reach out to your advisor or client service team.

2. Never assume that you are talking with an institution or company based on the email address or the name appearing on caller ID. Phone calls, texts and emails can be made to appear as though they are coming from a trusted organization when they are in fact from a fraudster.

3. Use extreme caution and take time to research if you receive a request to send money urgently.

4. Double check the URL of the website or link sent to you by email to validate it is a legitimate website address.

5. Again, when in doubt contact the organization by phone using a number you know is correct to confirm any requests verbally.

You can find more steps to take to **protect yourself against cybersecurity risks** as well as actions our team takes to protect our clients' financial information in our blog post published last Fall.

Please reach out to your Advisor and/or our Client Service team if you suspect that you have been involved in a fraud attempt or if you have any questions. We are here to help you keep your financial and personal information as safe as possible.

It's Beginning To Look A Lot Like Year End Tax Planning Season

Earlier this year, we wrote about the **tax planning opportunities presented from the SECURE Act 2.0**. As we near the end of this year we wanted to highlight some of the timeless tax strategies that we focus on in our discussions with clients.

- **Maximize the use of tax-deductible retirement plan contributions** each year to lower your tax liability as much as possible. This includes employees with the option to use 401k plans, and also IRA savers who can continue to make contributions even after age 70½.

- **Make annual or one-time gifts of securities to family members** to transfer taxable income and future gains from your portfolio to others, potentially reduce family-wide tax liability, and reduce your taxable estate during your lifetime. (The annual gift tax exclusion amount went up to $17,000 from each giver to each recipient this year.)

- **Gift appreciated securities held for more than one year** directly to charities or to a charitable donor-advised fund (DAF). The tax deduction is based on the value of the gift in the tax year of the gift, and tax liability on any unrealized capital gains is eliminated for you.

- **Concentrate multiple years of charitable gifting into one year** (referred to as "charitable bunching") in order to maximize the tax deduction benefits of giving.

- **Consider qualified charitable distributions (QCDs) from IRAs for those over age 70½**, especially if you would not otherwise receive as advantageous a tax deduction for gifting taxable assets. QCDs also count towards any required minimum distributions, but are limited to $100,000 each year.

- **Consider a Roth IRA or Roth 401(k) conversion, or even discretionary taxable distributions of IRA assets**, especially if this will be a low-income-tax-rate year for you and/or when asset values are down. If you have not begun taking required minimum distributions (RMDs) from IRAs, this strategy will also help reduce or eliminate your pre-tax traditional IRA assets before your RMDs kick in.

In our portfolio management, we regularly look for opportunities throughout the year to maximize after-tax portfolio returns beyond investment selection, allocation, and periodic rebalancing. As part of our strategic focus on tax sensitivity in managing investment strategies **we utilize some of the following techniques in our client portfolios**:

- We aim to **hold investments in taxable accounts for more than one year** before selling them so that long-term capital gains tax rates will apply. The tax difference can be significant. (However, we always assess the potential risk and return tradeoffs that result from any decision to extend an investment holding period.)
- When raising cash, we do so by **selecting securities or individual tax lots of a security that have the lowest taxable gain** consequences.
- We **consider carefully before selling investments with large built-in gains**, unless the sale is justified by a higher expected return from another investment or is necessary to maintain portfolio asset allocation objectives.
- We seek to **place the interest-earning portion of portfolios in tax-deferred accounts** given interest income is taxed at the top marginal rate, unlike long-term capital gains.
- For portfolios without significant tax-deferred assets, we will generally recommend **holding tax-exempt bonds in lieu of taxable bonds**, depending on the client's marginal tax rate.
- We **look for opportunities to "harvest" capital losses** if there is market volatility throughout the year, as well as during our year-end review. These realized losses can then be used to offset realized gains elsewhere within or outside the portfolio, either in the same tax year or rolled forward to future tax returns. Proceeds can then be placed in comparable investments so the portfolio allocation remains intact.
- We **consider any anticipated taxable year-end distributions** from investments within a portfolio when rebalancing, raising cash or harvesting taxable losses.

As always, we welcome the opportunity to discuss these planning topics with our clients and to coordinate with their tax advisors to determine the best techniques for each client's individual tax situation. Please contact your Advisor for more information and to review your situation.

Note: As with all tax planning strategies, every person's situation is different. We suggest consulting with your tax advisor before implementing any of these tax planning techniques.

Key Tax Changes In 2023 and 2024

In addition to the changes that became effective this year with the SECURE Act 2.0, several other tax related changes went into effect that may impact your tax planning situation. Here are a few key highlights for changes effective starting 2023 and the changes expected for 2024:

	2023	2024
401(k), and other employer-sponsored plan contribution limits	Annual contribution limit is $22,500, with those age 50 or older allowed to make an extra "catch-up" contribution of $7,500, for a total of $30,000.	Annual contribution limit will increase to $23,000, with those age 50 or older allowed to make an extra "catch-up" contribution of $7,500, for a total of $30,500.
IRA contribution limits	Traditional IRA and Roth IRA contribution limits (combined) is $6,500, and up to $7,500 with the catch-up for those age 50 or older.	Traditional IRA and Roth IRA contribution limits (combined) will increase to $7,000, and up to $8,000 with the catch-up for those age 50 or older.
Annual gift tax exclusion limit (*This is the amount that any individual can give to another individual without having to report the gift to the IRS as a taxable gift or require them use part of their lifetime gift and estate tax exemption amount.*)	The annual gift tax exclusion amount is $17,000.	The annual gift tax exclusion limit will increase to $18,000.
Estate and gift tax exemption limit (*Note: Current estate tax law states this exemption amount will "sunset" after 2025 and revert back to the 2016 limit of $5 million per person, indexed for inflation.*)	The federal estate and gift tax exemption amount is $12.92 million per person.	The federal estate and gift tax exemption amount is estimated to increase to $13.61 million per person.

Litman Gregory Wealth Management Named on Forbes' 2023 America's Top RIA Firms List

Litman Gregory Wealth Management has been named by Forbes as one of America's Top RIA Firms for 2023. Published on Forbes.com, this list highlights registered investment advisory (RIA) firms that have strong pedigrees when it comes to providing a steady hand for clients and preserving their wealth over the long term. Forbes works with SHOOK Research, whose selection process is based on several key factors including firm size, total assets, processes that support client relationships, team purpose, firm culture, leadership, and more. SHOOK Research received 42,643 nominations and from those selected 250 top firms.

"Being named as one of America's Top RIA firms by Forbes is truly attributable to the entire team at Litman Gregrory Wealth Management and their daily focus on our clients first philosophy," said LGWM/iMGP CEO Jeff Seeley. "We are very appreciative to have received this recognition as it further affirms our commitment to our clients."

At Litman Gregory Wealth Management, we appreciate every employee's contribution to our company and to our clients, during both good times as well as times of market and economic uncertainty. The dedication our entire team has to our clients and their financial well-being is a source of pride and is only possible because of the trust and confidence placed in us by our clients. For that reason, we celebrate this honor with our clients, and thank each of them for their many years of partnership.

The full list of Forbes' 2023 America's Top RIA Firms can be viewed **here**.

Research Team Changes

In June 2021, Litman Gregory became part of global asset management firm iM Global Partner (iMGP). The strong alignment in investment philosophy, expansion in research capabilities, and strengthening of investment solutions were among the key drivers in the decision. iM Global Partner's research focus is global in nature and the expertise of the global group includes analysts in London, Paris, Luxembourg, and the U.S. Following the merger, the research team was integrated with iMGP Fund Management (iMGP FM), with iMGP Global Asset Management Chief Investment Officer (CIO) Philippe Uzan leading the group, and Jeremy DeGroot as CIO, Asset Management U.S. and reporting to Philippe.

After 24 years with Litman Gregory/iMGP FM, Jeremy stepped down from his role on September 20, 2023. We are grateful to have benefited from Jeremy's keen intellect, deep investment knowledge and discipline during his long tenure. We are pleased to announce that Jack Chee, previously Director – Portfolio Management and Head of Fixed Income Strategies at iMGP FM has taken on the U.S. CIO – Asset Management role. Jack has worked closely with Jeremy over the past 23 years on manager and asset class research and the management of Litman Gregory's globally allocated portfolios. Jack now reports to Philippe Uzan and oversees the iMGP U.S.-based research team, which will add another analyst in the near future. Jeremy spent a good amount of time with Jack before his departure in order to transition his CIO responsibilities.

It is never easy to say goodbye to a long-time colleague but given the strength and breadth of our collective team, we believe our overall asset management framework continues to be strong. Looking ahead, we look forward to the continued growth of the iMGP global research team as we seek to deliver on our mission to help clients achieve their financial goals.

Learn more about **Jack Chee** and **Philippe Uzan**.

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A list of all recommendations made by LWM within the immediately preceding one year is available upon request at no charge. For additional information about LGWM, please consult the Firm's Form ADV disclosure documents, the most recent versions of which are available on the SEC's Investment Adviser Public Disclosure website (adviserinfo.sec.gov) and may otherwise be made available upon written request to compliance@lgam.com

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Index Disclosure

Any reference to a market index is included for illustrative purposes only, as it is not possible to directly invest in an index. Indices are unmanaged, hypothetical vehicles that serve as market indicators and do not account for the deduction of management fees or transaction costs generally associated with investable products, which otherwise have the effect of reducing the performance of an actual investment portfolio.

The Standard & Poor's 500 Composite Stock Price Index is a capitalization-weighted index of 500 stocks intended to be a representative sample of leading companies in leading industries within the U.S. economy. Stocks in the Index are chosen for market size, liquidity, and industry group representation.

The MSCI ACWI Index represents the performance of large- and mid-cap stocks across 23 developed and 24 emerging markets. The index covers 2,900 constituents across 11 sectors and approximately 85% of the free float-adjusted market capitalization in each market.

The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada. With 799 constituents, the index covers approximately 85% of the free float- adjusted market capitalization in each country.*

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

The Bloomberg U.S. Aggregate Bond Index is a broad-based benchmark that measures the investment grade, U.S. dollar- denominated, fixed-rate taxable bond market.

The US High-Yield Market Index is a US Dollar-denominated index which measures the performance of high-yield debt issued by corporations domiciled in the US or Canada.

The ICE BofA US High Yield Index is market capitalization weighted and is designed to measure the performance of U.S. dollar denominated below investment grade (commonly referred to as "junk") corporate debt publicly issued in the U.S. domestic market.

The ICE U.S. Dollar Index is a geometrically-averaged calculation of six currencies weighted against the U.S. dollar.

The S&P/LSTA Leveraged Loan 100 Index (LL100) dates back to 2002 and is a daily tradable index for the U.S. market that seeks to mirror the market-weighted performance of the largest institutional leveraged loans, as determined by criteria. Its ticker on Bloomberg is SPBDLLB.

The MSCI Hedged Indexes include all of the securities and weights of each corresponding unhedged MSCI Parent Index, enabling investors to measure the impact of hedging currency, for all the constituents of the Parent Index.

Contact

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