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AI, Deglobalization and the Labor Markets

To Mitigate Risk, Separate Your Personal and Business Assets

Identify the Connection Between Net Worth and Risk Tolerance

The Financial Advisor Newsletter

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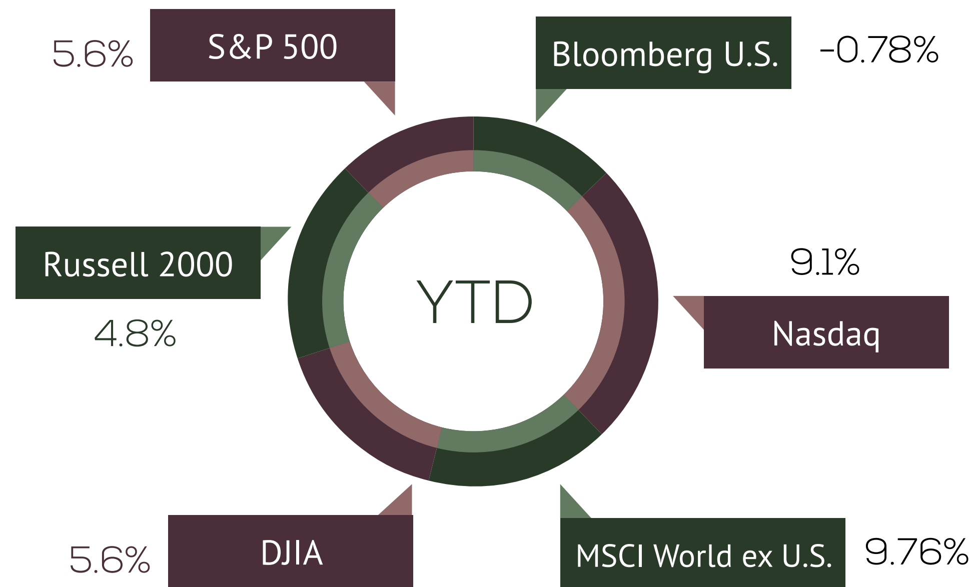
Front cover photo taken by Patrick L. Sullivan



Source: WSJ, 04/01/2024 & FactSet, 03/28/2024. Inclusion of these unmanaged indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will effect actual investment performance. Individual investor results will vary. Past performance does not guarantee future results. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing the stocks of 30 companies maintained and reviewed by the editors of the Wall Street Journal. The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Nasdaq composite is an unmanaged index of securities traded on the Nasdaq system. (The Dow Jones Global ex US is a stock market index measuring equity securities traded globally in 64 countries, excluding the U.S.). The Bloomberg US Aggregate Bond Index is a benchmark index composed of US securities in Treasury, Government-related, Corporate, and Securitized sectors. The Russell 2000 index measures the performance of the 2000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

KEVIN'S **VIEW**

AI, DEGLOBALIZATION AND THE LABOR MARKETS

It's hard to believe that the first quarter of 2024 is already behind us. After a very good 2023 for the stock markets, we saw continued strength during the first quarter of 2024. The economy seems to be continuing right along with strength in employment and other economic indicators, such as manufacturing and consumer spending. The overall data has been so good, in fact, that the Federal Reserve has left interest rates unchanged so far this year. We think there are three major trends to keep an eye on for the rest of the year, Artificial Intelligence, Deglobalization, and the Labor Markets.

Artificial Intelligence (AI) is by far the biggest theme we are seeing companies embrace right now. It echoes back to the "dot.com" era where every company was talking about how they were setting up their "online presence" and how they were leveraging it to help their actual business whether that was selling pet toys or jet engines. Now companies are discussing how they plan to use AI to serve customers and cut costs. And those companies that are building the "shovels and pickaxes" (such as chip manufacturers) in this AI "gold rush" are now household names and topics of cocktail party victory laps. Just like its "dot.com" predecessor, the AI boom will also be marked by overindulgence, shaky business plans, and the occasional outright fraud. However, AI will also likely change our world in ways we could not imagine just a few years ago. I recently started reading Superintelligence: Paths, Dangers, Strategies by Nick Bostrom an in-depth book on AI and the possible routes things may go. The scale of potential for AI is quite humbling and some of the possible paths can make the most dystopian of futures look relatively bright. AI is here to stay though, and we continue to view it as a necessary component for business in the future.

One trend we've mentioned in the past is Deglobalization or the unwinding of global supply chains. To fully understand the effects of Deglobalization we must first revisit its predecessor, Globalization. The promise of Globalization was opening up markets and allowing free trade with different countries that could specialize in producing different goods and global trade. This would allow for the free flow of goods and would result in a higher standard of living for everyone. For the most part Globalization delivered on its promise, the standard of living in many countries around the world increased drastically between 1990 to 2020. However, while Globalization did raise the standard of living for the poorest of countries, it resulted in wage stagnation for lower earners in wealthy countries and in increased wealth concentration in almost all countries. There were definitely winners and losers from that trend. In the late 2010's, movements

in a number of different countries started to push back against the effects of Globalization and then the COVID pandemic happened. The pandemic basically shutdown global trade for a period of time, resulting in snarled supply chains and delays in everything from cars to medications. There was now a laser focus on where things are made and whether or not we could get them during a disruption. The last nail in the coffin was the Russian invasion of Ukraine and the return of Great Power competition. Deglobalization means that we will start producing more goods either within the United States or in very friendly countries nearby (think Mexico and Canada). We've already seen significant investments in new factories to produce everything from microchips to batteries and other goods. This will likely result in increasing new demand for "blue collar" jobs which leads us to the Labor Markets.

The Labor Markets are likely to be constrained for a number of years. Globalization had a downward pressure on labor as a company could make goods anywhere and could move production to the lowest costs. Hence the reason that many companies opened factories in the Far East, which resulted in an excess of employees here in the United States. We also had two of the largest generations in history, Baby Boomers and Millennials, at working age which exasperated the glut of workers. Now Baby Boomers are retiring and one of the smallest generations in history, Generation Z, are coming into the work force. This will likely result in continued higher wages as companies fight over staffing. Higher wages typically result in higher inflation. Higher inflation leads us to higher interest rates. It is our expectation that we will see higher interest rates for longer than most people expect. So far, the Federal Reserve has kept interest rates elevated, and we do not expect relief before the last quarter of the year and are investing appropriately. We will be watching the Labor Markets closely to see if this holds up. An increase in unemployment may signal a short-term reprieve, but the long-term trend looks strong.

As always, we thank you for your continued trust. If you have questions or concerns or have had a recent change in your situation or goals, please reach out. ☐

The highest compliment we can receive is when you let your families and friends know about us.
Referrals Welcome!

DID YOU KNOW?

The SECURE 2.0 Act allows tax-free rollovers of 529 funds to Roth IRAs
Effective in 2024, beneficiaries of 529 college savings accounts may transfer unused funds directly to a Roth IRA. The industry is still striving to clarify certain specifics, but we do know the general requirements.

This is an innovative planning opportunity for families that overfunded 529 accounts for certain beneficiaries or who may now choose to intentionally do so to take advantage of this benefit.

- The 529 plan must be open for 15 or more years.
- Contributions and associated earnings must have been in the 529 plan account for at least 5 years in order to qualify for a rollover to a Roth IRA. Contributions and associated earnings made within the last 5 years are ineligible.
- A lifetime maximum of $35,000 per beneficiary can be rolled over from a 529 plan to a Roth IRA.
- The 529 to Roth IRA rollover is subject to the IRA annual contribution limit for the taxable year applicable to the beneficiary for all individual retirement plans maintained for the benefit of the beneficiary. Thus, the total amount that can be rolled over from a 529 plan to a Roth IRA annually is the annual IRA contribution limit for the year, reduced by the total of any other IRA contributions made by the beneficiary in that year.

SULLIVAN & ASSOCIATES NEWS

HUGE congratulations to Katee! She has been working diligently and recently passed the Series 66 Securities Exam! We are proud to announce that she is now accepting clients. In addition to the Series 66, Katee also holds the Series 6, Series 7, and Life, Accident, & Health licenses. Additionally, Katee welcomed her second grandson, Daxtyn, in January and recently adopted a new German Shephard puppy, Maui. Maui is an absolute stinker, but is working very hard in puppy preschool.

We would also like to congratulate Allison on passing her Colorado Notary exam. She is now an official Notary Public! All clients are welcome to bring documents to our office to be notarized.

Spring 2024 MARKET CLOSURES

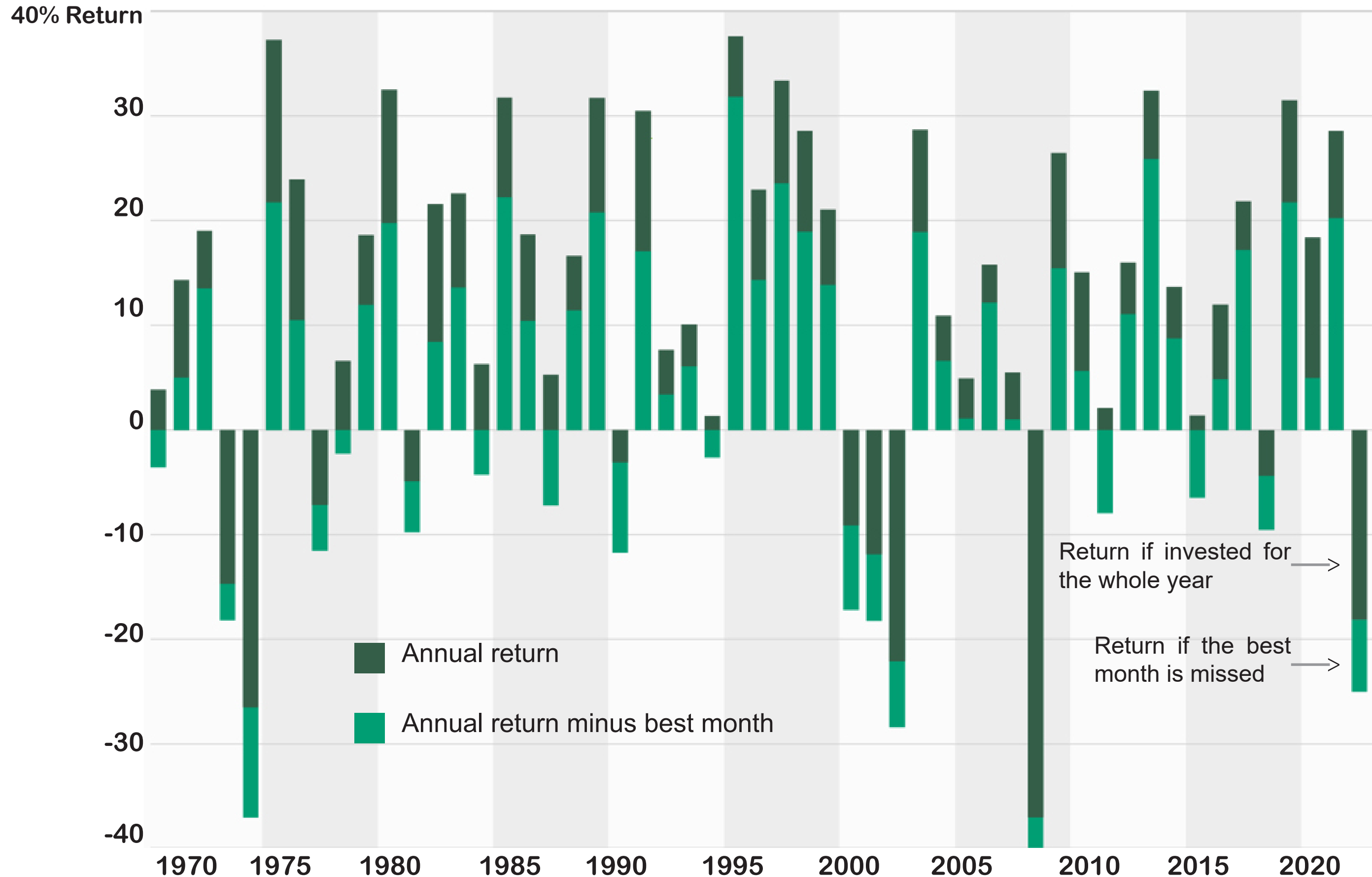
May 27: Memorial Day

June 19: Juneteenth (observed)

July 4: Independence Day

MARKET-TIMING RISK

THE EFFECTS OF MISSING THE MONTH OF ANNUAL RETURNS, 1970-2022



Missing the one best month during a year drastically reduced returns. During years when returns were already negative, the effect of missing the best month only exaggerated the loss for the year. In seven of the 52 years shown—1970, 1978, 1984, 1987, 1994, 2011, and 2015—otherwise positive returns would have been dragged into negative territory by missing the best month.

Stocks are represented by the Ibbotson® Large Company Stock Index. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. ©2023 Morningstar and Precision Information, dba Financial Fitness Group 2023. All Rights Reserved.
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TO MITIGATE RISK, SEPARATE YOUR PERSONAL AND BUSINESS ASSETS

Along with the rewards of business ownership come risks. Here are some asset protection strategies worth considering:

Diversify Your Legal Instruments

Make your business a standalone company. Sole proprietorships and general partnerships leave liability for company debts, judgments, and lawsuits. Creditors can lay claim to personal and business assets. In an S corporation, shareholders can be liable only for the money they invest in the business, and creditors can't seize personal assets over a lawsuit or other loss. In a C corporation or LLC, there is limited legal liability for directors, officers, workers, and shareholders.

Corporate documents should be created by an attorney and kept readily available. Annual maintenance includes paying required state fees, holding mandatory meetings, and keeping meeting minutes. Keep separate financial accounts for your personal life and business and use the company name on corporate documents.

Add Another Layer

If your corporation owns property, you can add a second layer of protection by having the property owned by a separate LLC. Make sure the entity has a written procedure in place for fixing hazards when identified. Consult an attorney to determine if a strategy like this is right for you.

Insurance Is A Must

Rather than targeting assets of the business, someone seeking damages can pursue money available through insurance. Purchase the right amount and kind of insurance – whether you rent property, own a rental property, or operate a professional practice or retail space. A knowledgeable insurance agent can advise you on what you need and help you reassess your needs annually.

Next Steps

Protecting assets is as important as protecting your business.

- Think about what business structure works best to protect you from actions against your business.
- Ask our office about an owner's only 401(k) to potentially prevent loss of retirement savings in the event of a lawsuit against your business.
- Talk to an insurance agent to make sure you have the right amount and types of coverage. ☐

Source: Raymond James

IDENTIFY THE CONNECTION BETWEEN NET WORTH AND RISK TOLERANCE

UNDERSTANDING YOUR RISK PROFILE IS AN IMPORTANT COMPONENT OF MANAGING SIGNIFICANT WEALTH

Nobody wants to financially erode the portfolio they've built by making risky choices at the wrong time. You spend nearly half of a lifetime working hard to prepare for a secure retirement, so no wonder it isn't easy to convince yourself to embrace risk. As vital as wealth preservation is, especially when nearing retirement, returns are still an important consideration.

So how do you get over the risk hurdle? Research shows your financial advisor can help. Those who work with an advisor perceive potential higher-risk investments with less negativity. They're also more apt to recognize the importance of holding thoughtfully selected risk within an investment portfolio compared with wealthy investors who don't partner with an advisor.

But how risky is too risky when it comes to wealth preservation and generating returns for high-net-worth investors? You might be surprised.

Sometimes looking at the numbers is an exercise in perspective.
Investors with significant wealth have a greater ability to absorb financial losses better than others – but emotion can sometimes get in the way of

seeing the broader context. An amount that may initially cause “sticker shock” may be a fraction of your liquidity when considering the bigger picture. Your advisor may be able to run simulations that show how your unique portfolio would react to market pullbacks or changes in interest rates. Seeing these potential outcomes can help clarify the level of risk that fits your tolerance and your investment goals – and it may turn out to be higher than you thought.

Age is less important when determining risk for investors with significant wealth.

Your investment time horizon – the length of time you expect to hold an asset – is an important component of risk tolerance. Older investors typically have a shorter time horizon given their proximity to retirement and the usual need to make portfolio withdrawals at that time. However, age may have less impact on the overall risk tolerance of affluent investors whose income needs in retirement are already accounted for. If it’s unlikely you’ll need to liquidate assets in the near term to meet your spending needs, it may be appropriate to maintain a less conservative allocation for longer.

Being too conservative can be a risk.

Avoiding undue risk is always wise. However, you want to be sure to balance risk with the potential return when it comes to your overall plan to outpace inflation and meet your financial goals in retirement, whether that’s supporting your grandkids’ education, giving to charitable causes, or taking that once-in-a-lifetime trip. With the more complex planning needs that come with being an affluent investor, it’s important to discuss with your financial advisor an asset allocation that can help maintain your lifestyle over the long-term.

Focus less on market timing and more on the timing of your life.

Creating a diversified portfolio and revisiting it as your life and goals evolve is more important than any one investment decision. Your financial advisor can help you determine which opportunities provide the best potential for reward for the risk taken that aligns with your unique circumstances, life plans and goals, and provide you with the peace of mind not to “jump” into and out of the market at the wrong time.

More risk assets, more thoughtful rebalancing.

Because private wealth individuals typically hold meaningful wealth in risk assets like equities, which can change significantly in value over time, it’s important to establish a plan with your advisor for periodically returning your portfolio to its target asset allocation. It’s also important for your advisor to see the whole financial picture; holding assets in multiple accounts without informing your advisor of your full portfolio may increase the risk of becoming overly concentrated or underexposed to certain markets. Your selected strategy will have important tax consequences, so talk through various approaches to determine the best fit.

Create a steady withdrawal strategy for retirement.

Capital preservation is important to prevent income loss. You’ll still need

to ensure your liquidity needs are met with a holistic income strategy. Consider the income sources you'll have in place, which may include Social Security, pensions, annuities, dividends, bond coupons, etc., and work with your advisor to address any potential mismatch between what'll be generated and what you'll need to maintain your desired lifestyle as well as access capital if there is ever a need.

Confront concerns head-on.

One way to bring comfort to the idea of taking on risk is to simply talk about it openly. Have conversations with your financial advisor to help you understand your risk tolerance today and how risk can affect your future. When ideas and numbers become more tangible, they become more manageable. Your financial advisor can speak directly to the matters that will impact your portfolio the most but change your lifestyle the least.

Maintaining a large portfolio into and through retirement doesn't have to mean giving up on returns and opportunities for growth when that risk is managed thoughtfully. It just may take a true understanding of your overall financial outlook, and transparent conversations with your financial advisor, to help you get there. ☐

Source: Raymond James

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