GLOBAL
WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

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Over The Top

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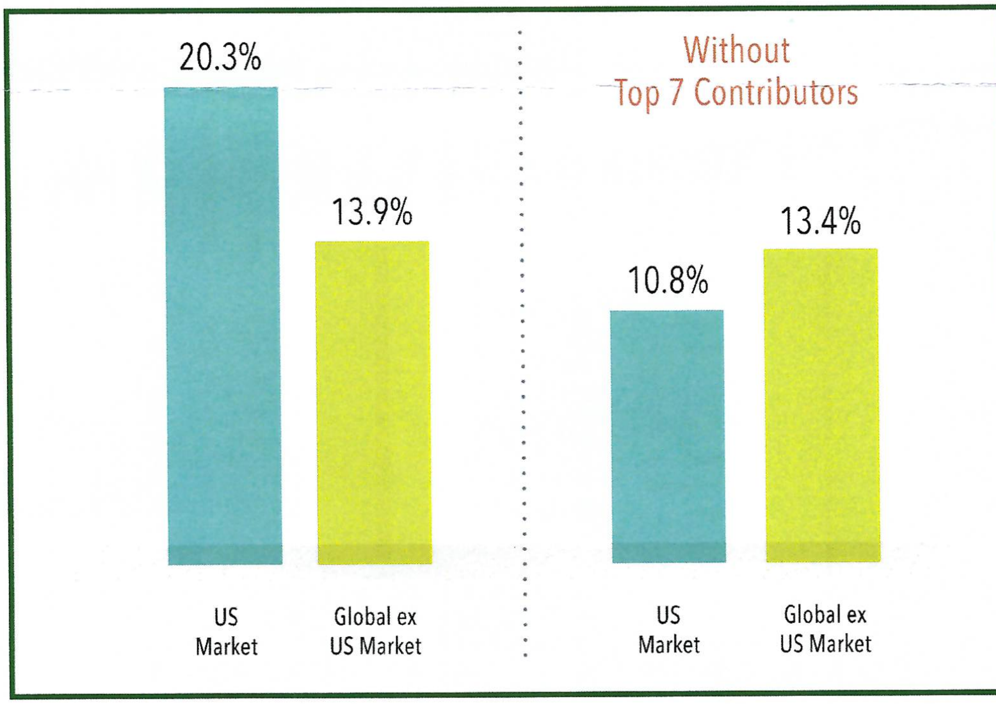
September 12, 2023

US stocks outpaced non-US stocks in the first seven months of 2023, adding another data point to a decade-long stretch of US market dominance. While some investors may see this as further reason to question the benefit of global diversification, it's important to note how much of this year's US advantage stemmed from a handful of stocks.

The top seven contributors to the US market—Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla, and Meta—have returned a collective 66.3%, accounting for a sizable portion of the Russell 3000 Index's more-than-six-percentage-point outperformance vs. the MSCI All Country World ex USA Index. Without these seven stocks, the Russell 3000 return falls from 20.3% to 10.8%, which would lag the non-US index with or without its top seven contributors.

Of course, market concentration cuts both ways: benefiting in some periods (like this year) and detracting in others. One of the big selling points for global diversification is reducing your portfolio's concentration, helping to mitigate the ups and downs from a handful of stocks. For example, the 25 largest US stocks account for about 38% of the Russell 3000 Index but just 23% of the globally diversified MSCI All Country World IMI Index.[1] ○○○



1. *Weights as of June 30, 2023.*
Past performance is no guarantee of future results.
Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio. US and global ex US markets represented by, respectively, the Russell 3000 Index and the MSCI All Country World ex USA Index (net dividends). The top seven contributors are the top return contributors specific to each index. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2023, all rights reserved.

A Personal Note from Global Wealth Advisors

The Federal Reserve Board met on September 21st and chose to leave the Federal Funds Rate at 5.25% to 5.50%. If you remember, the Fed has raised the benchmark eleven times since March 2022. Chairman Powell referenced good numbers on the inflation front but did indicate that there could be another quarter point interest rate increase before the end of this year to help bring inflation further down to the target core inflation rate of 2%. Remember, core inflation removes food and energy due to the monthly variability of prices. Prices on those two items have continued to be high and that directly impacts consumer budgets and spending.

The next question on people's minds is whether the US economy with suffer a recession in 2024 and if so, will the Fed's policies help to make it a softer or harder landing if that occurs. Things that could impact those scenarios are changes in unemployment and consumer spending, continued inflation, and the Federal Funds Rate. If the Fed starts to lower rates next year that can help boost the economy. However, if inflation remains higher than the target rate of 2.0%, the Feds can hold these rates for a longer term. Unfortunately, there are a lot of changing variables to this economic equation, so it is really a matter of waiting to see how things unfold. That's why thinking long-term about equities is so important. It allows you to ignore the volatility inherent in the short-term. ○○○

Do Downturns Lead to Down Years?

Dimensional Fund Advisors LLP
September 1, 2023.

Stock market slides over a few days or months may lead investors to anticipate a down year. But the US stock market had positive returns, despite some notable dips in many of those years.

Intra-year declines for the index ranged from 3% in 2017 to 49% in 2008. Many years with large intra-year declines saw positive annual returns. In 17 of the last 20 years, US stocks ended up with gains for the year (see Exhibit 1).

Volatility is a normal part of investing. Tumbles may be scary, but they shouldn't be surprising. A long-term focus can help investors keep perspective. ❍❍❍

Exhibit 1

Calculating Your Investment's Basis

Your capital gain or loss on the sale of an investment equals the proceeds from the sale less your basis. When you purchase an investment, your basis equals the price you paid plus any fees or commissions. Other factors can affect your basis calculations:

- ✔ Reinvested dividends are added to your basis at full market value plus any fees or commissions.
- ✔ The basis of any investment received as a gift is the donor's original basis plus any gift tax paid by the donor. However, if you then sell the investment at a loss, your basis is equal to the lesser of the donor's basis or the investment's fair market value on the date of the gift.
- ✔ For inherited investments, the basis is the market value on the date you inherited the investment, typically the date of the donor's death.
- ✔ Your basis in stock that has been split is the same as your basis before the stock split.
- ✔ When you exercise a stock option, your basis equals the price you paid for the shares plus any fees or commissions, which may be lower than market value. Shares must be retained for at least one year after purchase and for two years after receipt of the option, or any gains will be taxed as ordinary income. ❍❍❍

The Basics of College Financing

Intimidated by the prospect of coming up with the money for your children to go to college? It's not surprising, since, along with buying a house and providing for your retirement, it's one of the most sizable financial transactions most people ever make.

Basically, there are three sources of college money: your own (or your child's), money that doesn't have to be repaid, and money you or your child have to pay back. If you need one or both of the latter, you're probably going to have to fill out an application or two and work with the college admissions office to finalize a financial aid package.

Grants

This is the free money — which doesn't have to be repaid — and it can come from three sources: the school itself, the federal or state government, and private sources. Most grants come from the first two sources. To get it from either the government or the school, your family has to complete a generic, government application form called the Free Application for Federal Student Aid, or FAFSA, for every year you have a student in college.

The FAFSA asks for your family's financial information, including annual income (based on your federal tax return), taxes paid, unpaid income, savings, and the like. Money in tax-advantaged retirement plans and annuities is excluded from the calculation. The FAFSA also asks for demographic information, including your family's size, how many students you have in college, and whether your child is attending college full- or part-time.

FAFSA administrators apply a formula that determines your Expected Family Contribution, or EFC, which is how much money you are reasonably expected to pay out of pocket for college bills. The gap between your EFC and those bills is considered your need for grants. Normally, this need-based financing comes from two or all three of the primary sources: the school's endowment, the federal government, and your state government.

Since grants are need-based, the greater your family income and the more savings you have, the higher your EFC and the less grant money your child will receive.

Scholarships

Scholarships are another form of free money for college. Unlike grants, however, they're usually not need-based, so your child may be eligible no matter how high your income. They're based on merit or special talents — like academic achievement, athletics, or musical skills — or characteristics, like your or your child's religion, national background, or your child's field of study. Some community organizations conduct essay or other contests to determine winners of scholarships they sponsor.

To find these opportunities, search the Internet or contact your student's high school guidance counselor, your church or synagogue, and your local community organizations. Few of these organizations offer scholarships to cover full tuition for four years, but for that very reason many families overlook this source of aid. You shouldn't.

Loans

Especially given the current job market, it makes sense to be prudent in taking on student debt, whether it's in your name or your child's. Still, loan financing can play an important role in your financial plan, especially since, in general, you can secure a college loan no matter what your income or financial assets. There are limits, however, to how much students are allowed to borrow per year and in the aggregate.

Most student loans are financed through banks, but are sponsored by the federal government, in accordance with its terms and rules. Student loans come in two forms: subsidized and unsubsidized. Their distinguishing characteristic is when the loan starts accruing interest, and whether there's an income limit for eligibility.

With subsidized loans — which do have income eligibility restrictions — the federal government pays the interest charges while the student is studying at least half-time, for the first six or nine months after graduation, and during any period of declared hardship deferment. Unsubsidized loans — which have no income eligibility limitations — begin accruing interest from the date of disbursement. Required repayments can be suspended for financial hardship, but the interest continues to accrue.

Normally, your child's college financial aid office arranges for the loans — both the kind and the amount — based on your FAFSA calculations. If this package is still not enough, you can also apply for a Federal PLUS loan in your own name or directly to lenders in your child's name for supplemental private loans. Federally sponsored student loan rates are generally lower than those on private loans. ○○○

Financial Thoughts

As of year-end 2020, 38% of participants in 401(k) retirement plans were in their 20s or 30s. However, participants age 50 and older held 63% of all assets in these plans. Younger participants tend to have more aggressive asset allocations, with more than 80% invested in equities. This compares with 56% of 401(k) plan assets in equities among participants in their 60s. Overall, 42% of participants are invested in equities and another 35% invest in balanced funds, largely target-date funds. Target-date funds remain common offerings, available in 86% of 401(k) plans. Approximately 68% of participants offered target-date funds invest in them (Source: *AAII Journal*, January 2023).

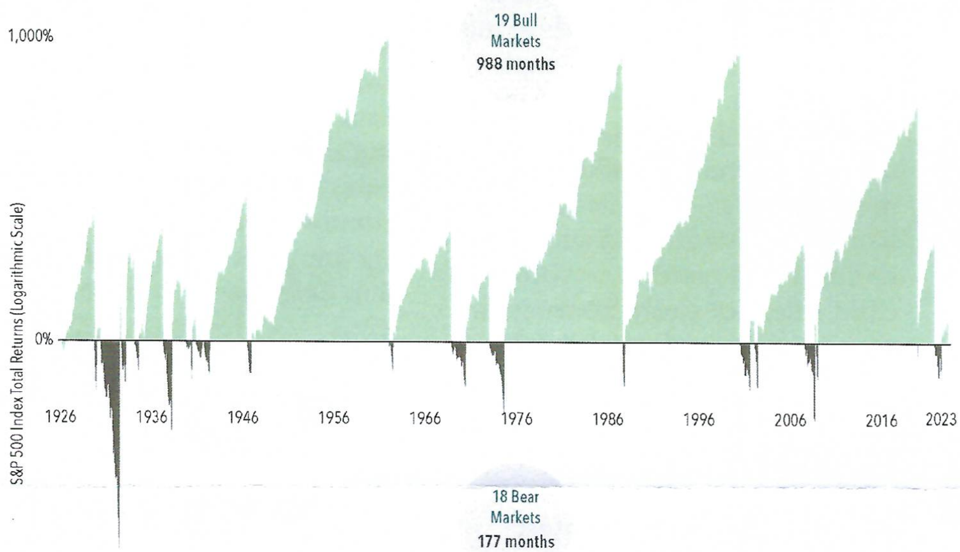
Equal-weight portfolios invest an equal amount of money in each company's stock in the portfolio. In value-weighted portfolios, individual components of the portfolio are included based on their total market capitalization, so that larger-company stocks receive a higher weight. Between 1963 and 2021, an equal-weight portfolio comprising the entire universe of stocks outperformed similar value-weight portfolios by 3.5%; an equal-weight portfolio of S&P 500 index stocks outperformed by 2.2% (Source: *AAII Journal*, January 2023). OOO

DIMENSIONAL QUICK TAKE

Dimensional

Bulls, Bears, and Long-Term Benefits of Stock Investing

S&P 500 INDEX TOTAL RETURNS
January 1926–June 2023



Stock returns are volatile, but nearly a century of bull and bear markets shows that the good times have outshone the bad.

- From 1926 through June 2023, the S&P 500 index experienced 18 bear markets, or a fall of at least 20% from a previous peak, ranging from –21% to –80% across an average length of 10 months.
- On the upside, there were 19 bull markets, or gains of at least 20% from a previous trough. They averaged 52 months in length, and advances ranged from 21% to 936%.
- When bull and bear markets are viewed together, it's clear equities have rewarded disciplined investors.

The stock market's ups and downs are unpredictable, but history supports an expectation of positive returns over the long term.

Past performance is no guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

In USD. Chart end date is June 30, 2023; the last trough-to-peak return of 26% represents the return through June 2023. Due to availability of data, monthly returns are used from January 1926 through December 1989; daily returns are used from January 1990 through present. Periods in which the cumulative return from peak is -20% or lower, and a recovery of 20% from trough has not yet occurred, are considered bear markets. Bull markets are subsequent rises following the bear market trough through the next recovery of at least 20%. The chart shows bear markets and bull markets, the number of months they lasted, and the associated cumulative performance for each market period. Results for different time periods could differ from the results shown. A logarithmic scale is a nonlinear scale in which the numbers shown are a set distance along the axis and the increments are a power, or logarithm, of a base number. This allows data over a wide range of values to be displayed in a condensed way.

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