GLOBAL
WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

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The Basics of Stock Market Indexes

Historically, stock market indexes have been closely watched as an indicator of the market's overall performance. While that role is still important, the number of stock indexes has grown dramatically as mutual funds and investment managers search for relevant indexes to use as benchmarks to compare performance. Indexes are also increasingly used as the base for investment products, allowing investors to invest in defined segments of the market without purchasing all of the underlying stocks.

Indexes can be computed in different ways. Some, like the Dow Jones Industrial Average (DJIA), are calculated using an arithmetic average. The price of stocks are added and then divided by the number of securities in the index, although the divisor is adjusted over time for splitting of shares, distribution of stock dividends, and to account for company substitutions in the index. These indexes do not adjust for the company's total market value, so stocks with the highest share prices have more impact on the index. Other indexes, such as the Standard & Poor's 500 (S&P 500), use market-value weightings, factoring in the differences in individual stocks' market value by multiplying the price of each by the number of shares outstanding. Thus, major corporations have a greater influence on the index.

Another important calculation difference is whether the index is a capital return or total return index. A capital return index, such as the DJIA and the S&P 500, only reflects changes in the shares of the stock in the index. Total return indexes, such as the Russell 2000 and the Dow Jones U.S. Market Index, calculate both share price changes and dividend reinvestment.

Some of the major stock market indexes include:

The **Dow Jones Industrial Average** is comprised of 30 large-company stocks. All of the companies are billion-dollar giants, with no small- or medium-sized firms in the index. The index is the oldest and most widely quoted index.

The **Standard & Poor's 500** is comprised of 500 large-company stocks trading on the New York Stock Exchange, the American Stock Exchange, and Nasdaq, covering a wide variety of industries. This index is considered more representative of the U.S. stock market than the DJIA.. Additionally, various component indexes are calculated from this index.

The **Nasdaq Composite Index** follows the stocks that trade on Nasdaq. This index is generally viewed as a good benchmark for technology stocks.

The **Russell 2000 Index** is viewed as a good benchmark for the performance of smaller-company stocks. The stocks in the index include the 2,000 lowest-capitalization stocks from the Russell 3000, which includes the 3,000 largest-capitalization stocks in the U.S. stock market.

The **Dow Jones US Market Index**, formerly the Wilshire 5000 Index, consists of over 6,000 stocks, including almost all stocks traded on the major exchanges and gives the broadest view of the U.S. stock market. OOO

A Personal Note from Global Wealth Advisors

The Federal Reserve Board (Fed) began the most recent trend of raising the federal funds rate in March of 2022. It raised rates eleven times before pausing in July 2023. As a refresher, the federal funds rate is the interest rate at which banks borrow and lend money to each other. The Fed uses this process to help it achieve its dual mandates of maximizing employment and maintaining price stability.

On Wednesday, September 18th, the Fed lowered the federal funds rate by fifty basis points, or ½ percent. The Fed felt that although the economy is healthy and inflation is still slowly coming down, the unemployment rate has been moving upward. Changes to this rate affect the interest rates offered on US Treasury bills and Certificates of Deposit but also rates for things like car loans, credit card balances and other shorter-term debt.

The US equity and bond markets had anticipated this increase and reacted positively to the news. The are two more Fed meetings this year with one in early November and the other in mid-December. It is possible that the Fed could lower the rate by another seventy-five basis points, or ¾% by year-end. This could help extend the US equity markets' year of strong returns. OOO

Global Diversification Still Requires International Securities

Dimensional Founder and Chairman David Booth recently contributed an op-ed to Fortune about the role uncertainty can play in investment success. Below is the op-ed in its entirety.

'UNCERTAINTY IS UNDERRATED': HERE'S THE REAL REASON MARKETS REWARD THOSE WHO STICK AROUND
By David Booth

Given all that is going on in the world, investors have questions. Will the Federal Reserve cut interest rates, and if so, by how much? Who will win the US presidential election, and will it impact markets? How will global events affect my family and finances? A lot remains uncertain, which can naturally make investors uneasy.

For many people, uncertainty is something to avoid or at least mitigate. People often talk more about the downside to uncertainty than its upside. There's even a term, loss aversion, that reflects how a loss can feel more painful than a gain of an equal amount can feel rewarding.

However, I have a different view: Uncertainty is underrated.

Without it, there would be no surprises, no joy in watching sports, and no 10% average annualized return on the stock market over the past century.[1]

All investments involve risk—there is no guarantee of success. Investors can be rewarded for taking on the risk of not knowing exactly how things will play out.

If there was no uncertainty, returns would be predictable and there would be no difference between putting your money in a savings account and investing it in the stock market.

Think back to the beginning of the pandemic. At the end of March 2020, the S&P 500 Index was down nearly 20% for the year.[2] Yet investors who stayed in the market were rewarded. At the end of 2020, the S&P 500 Index was up 18.4% for the year, a 38% turnaround from its March lows.[3] March 2020 was a scary time for almost everyone. No one knew what was going to happen. Yet even in those dark moments, I had faith in human ingenuity. When people are met with challenges, they are resilient and work to solve them. Companies are no different. Investing in the stock market means investing in the power of human ingenuity to adapt and innovate.

Because of uncertainty, life is one cost-benefit analysis after another, and we have no choice but to manage risk. At the extremes, some people may try to completely ignore risk, while others might try to eliminate it. Most of us fall somewhere in the middle.

We manage risk with our health, work, family, and just about every other aspect of our lives—including investing—because while few things are certain, we still have to make decisions big and small. For example, we can't control the weather, but we can carry an umbrella if it looks like it might rain. And while we can't predict stock market returns, we can manage the risk in our investment portfolios.

WHAT TO AVOID

One way of managing risk is to eliminate some of the things you shouldn't do. When you want to improve your health, you might eliminate fried foods, soda, and sweets from your diet, which can increase your chance of a healthier outcome. It's the same with investing. Eliminate bad habits, like attempting to predict the unpredictable by trying to time the market or pick winning stocks.

Think of everything that has happened in the past 25 years, including:

- The dot-com bubble
- 9/11
- The Global Financial Crisis and Great Recession
- The COVID-19 pandemic

It would be natural to want to time when to exit and re-enter the market. To put the implications of doing so into perspective, consider a hypothetical $1,000 investment in the Russell 3000 Index made at the beginning of 1999. This turns into $6,449 for the 25-year period ending December 31, 2023. Over that same period, if you missed the Russell 3000's best week, which ended November 28, 2008, the

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Your Bond Allocation

Your asset allocation mix represents your personal decisions about how much of your portfolio to allocate to various investment categories. Some factors to consider when deciding how much to allocate to bonds include:

✔ **Your risk tolerance.** The advantage of including both stocks and bonds in your portfolio is that when one category is declining, the other category will hopefully help offset this decline.

✔ **Your time horizon.** The longer your time horizon for investing, the more risk you can typically tolerate in your portfolio, since you have more time to overcome any significant downturns in your portfolio. Make sure you're comfortable with the percentage allocated to each category.

✔ **Your return needs.** Your need to emphasize income or growth is likely to change over your life. When you are trying to accumulate significant assets for a goal far in the future, you may want to allocate more of your mix to stocks. However, when your needs for a predictable income stream become more important, such as when retirement approaches, you may want to allocate more to bonds. ○○○

Global Diversification

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value shrinks to $5,382. Miss the three best months, which ended June 22, 2020, and the total return dwindles to $4,546. See what I mean?

WHAT TO DO

Positive ways of dealing with risk can help you potentially capture the benefits of what scientific research has shown us. With health, that means exercising more, getting regular check-ups, and eating more fruits and vegetables. With investing, that means ensuring our portfolios are diversified across regions and asset classes. While it doesn't guarantee making a profit or averting a loss, diversification allows us to reduce our risk while potentially capturing the returns of the market.

Since we know risk is unavoidable—and it's the source of investment returns—you want to find the amount of risk that is right for you. For example, Treasury bills are considered a relatively safe investing asset whose prices don't fluctuate as much as stock prices. However, Treasuries have provided, on average, a lower return than the stock market. Those tradeoffs can be weighed against your specific needs and preferences, and it's always good to be prepared for a range of outcomes. The more committed you are to a philosophy and a plan you can count on when you are experiencing the ups and downs of uncertainty, the more likely you are to succeed as a long-term investor.

YOU ARE ALREADY BETTER AT THIS THAN YOU THINK

You know more about investing than you think you do, because investing is all about risk and reward, just like every other part of your life. In investing and in life, some years are better than others, but the important thing is to be able to persevere so you're ready for what comes next. That's why I see uncertainty as a positive force and have faith in the ability of people to find better ways to manage risk. I've worked with thousands of investors during my five decades in finance and seen how, when they manage risk better, they live a better life. Instead of trying to predict your future, plan, adapt, and figure out the most sensible solutions for you.

You might not only be underestimating uncertainty—you may be underestimating the positive impact of embracing it. ○○○

1. *In US dollars. Based on S&P 500 index annual returns, 1926–2023. S&P data © 2024 S&P Dow Jones Indices LLC, a division of S&P Global.* ***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.*
2. *Decrease of 19.6% was from Jan. 1, 2020–March 31, 2020. Increase of 38% was from March 31, 2020–December 31, 2020.*
3. ***Past performance is no guarantee of future results.*** *S&P data copyright 2024 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Indices are not available for direct investment; therefore their performance does not reflect the expenses associated with the management of an actual portfolio.*

Bond Investing Tips

Consider the following tips if bonds are part of your investment portfolio:

✔ **Determine your objectives before investing.** Decide how much of your portfolio you want invested in bonds.

✔ **Diversify your bond holdings among different bond types.** Consider government, corporate, and municipal bonds, as well as different industries, credit ratings, and maturities.

✔ **Understand the risks that affect bonds.** The most significant risk is interest rate risk. When interest rates rise, bond values fall, while values rise when interest rates decline. Other risks include default risk, or the possibility the issuer will redeem the bond before maturity; and inflation risk, or the possibility that inflation will outpace the bond's return.

✔ **Choose bond maturity dates carefully.** When you will need your principal is a major factor, but the current interest rate environment may also affect your decision. You may want to stagger or ladder the maturity dates in your portfolio.

✔ **Follow interest rate trends.** At a minimum, follow the prime rate, Treasury bill rates, and Treasury bond rates. Understand the significance of the yield curve and track its pattern over time.

✔ **Compare interest rates for specific bonds before investing.** Interest rates can vary substantially among different bond types and among bonds with different maturities or credit ratings.

✔ **Research a bond before purchase.** Review the credit quality, coupon rate, call provisions, and other significant factors.

✔ **Consider the tax aspects.** By comparing the after-tax rate of return for various types of bonds, you may be able to increase your return. Depending on the bond, the interest income may be fully taxable or exempt from federal and/or state income taxes.

✔ **Review your bond holdings periodically.** Evaluate the credit ratings of all your bonds at least annually to ensure the quality hasn't deteriorated. Also, ensure your holdings are still consistent with your overall investment objectives and asset allocation plan.

✔ **Call for assistance with your bond holdings.** You should use carefully designed strategies to make bond decisions. Please call if you need help. ○○○

Fee Clarification Update

To our clients: A housekeeping item.

From time-to-time we ask you to review and update anything we should be aware of including but not limited to your address, phone number, email, risk tolerance, etc. As always, if something has changed, please let us know so we may make any changes to our records and evaluate any impacts.

We also wanted to let you know that we are updating our client agreement and Form ADV Part 2 to provide additional detail regarding our practices for fee adjustments. Our Form ADV Part 2A, Item 5 currently states that "A pro-rata fee is calculated for partial quarters." We wanted to clarify that this relates to new accounts, terminated accounts, certain deposits by you into your account, and certain withdrawals by you from your account.

We have clarified the sentence to now say "A pro-rata fee is calculated for partial quarters for new or terminated accounts, and pro-rata fee adjustments are made for cash flows of $1,000 or more into or out of existing accounts." The way we calculate the quarterly fee has not changed; this newly amended sentence simply clarifies the pro-rata policy in writing.

Please let us know if you have any questions or would like additional information. ❍❍❍

Bonds and Interest Rate Changes

Basically, interest rate changes affect bond prices as follows:

✔ **Interest rates and bond prices move in opposite directions.** The price of a bond will decrease in value when interest rates rise and increase in value when interest rates fall. The price of an existing bond changes to provide the same return as an equivalent, newly-issued bond at prevailing interest rates. Since you receive the full principal value at maturity, holding a bond until maturity eliminates the impact of interest rate changes.

✔ **Interest rate changes have a more dramatic affect on bonds with longer maturities.** Since long-term bonds have a longer stream of interest payments that don't match current interest rates, their price must change more to compensate for those interest rate changes.

✔ **Bond price changes are less significant for bonds with higher coupon rates.** Bonds with coupon interest rates near or above current interest rates will experience the least amount of price fluctuation. ❍❍❍

Financial Thoughts

Americans now believe they will need $1.46 million to retire comfortably, according to a recent survey of 4,588 adults. That is up from $1.27 million a year ago. It's also about $1 million more than the average survey participant's nest egg (Source: Northwestern Mutual, 2024).

About six out of every 10 jobs people do today didn't exist in 1940. While many of those jobs were created by new technologies, some came from changing consumer needs. And while in the first 40 years of that nearly 80-year period most of the new jobs, which included many manufacturing and clerical positions, were scooped up by the middle class, the more recent jobs have tended to be either highly paid white-collar roles or lower-wage service jobs (Source: U.S. Census, 2023).

Though the vast majority of renters polled said they want to own a home in the future, 61% said they are worried they will never be able to (The Guardian, 2024).

The number of students enrolled in vocational-focused community colleges increased 16% from 2022 to 2023 (National Student Clearinghouse, 2024). ❍❍❍

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