



More of the Same by Robert Sokolowski



A quarter is often a long enough period to observe material changes in markets and the economy. However, this first quarter saw far less change than usual. It was mostly a continuation of the trends from late 2023. We believe the low volatility and strong returns we saw in Q1 are indicative of a stable and growing economic and business environment.

The strong stock market performance seen in late 2023 has thus far carried over into 2024. Furthermore, as the chart below shows, stocks of all sizes and geographical regions are participating.

	VAL
• iShares Core S&P Mid-Cap ETF (IJH) Total Return Price % Change	31.81%
• iShares Core S&P 500 ETF (IVV) Total Return Price % Change	28.36%
• iShares Core S&P Small-Cap ETF (IJR) Total Return Price % Change	26.86%
• iShares Core MSCI Intl Dev Mkts ETF (IDEV) Total Return Price % Change	22.76%
• iShares Core MSCI Emerging Markets ETF (IEMG) Total Return Price % Change	15.03%



Likewise, every sector of stocks is participating. Encouragingly, the rally since late October has been much broader than the early 2023 rally which was concentrated in the technology and communications services sectors. As you can see, financials and industrials have led the way with very strong performance from materials as well.

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SPECIAL POINTS OF INTEREST

- Our office will be closed the following days for market holidays this quarter:
 - Monday, May 27th, 2024
 - Wednesday, June 19th, 2024
- We will be out of the office the afternoon of Friday, April 19th. We wish everyone in the Lowcountry a Happy Heritage!
- If you would like to schedule a meeting for planning or portfolio questions, don't hesitate to contact us!

	VAL
Financial Select Sector SPDR® ETF (XLF) Total Return Price % Change	35.09%
Industrial Select Sector SPDR® ETF (XLI) Total Return Price % Change	31.73%
Communication Services Sel Sect SPDR®ETF (XLC) Total Return Price % Change	30.10%
Technology Select Sector SPDR® ETF (XLK) Total Return Price % Change	29.76%
SPDR® S&P 500 ETF Trust (SPY) Total Return Price % Change	28.28%
Materials Select Sector SPDR® ETF (XLB) Total Return Price % Change	25.25%
Real Estate Select Sector SPDR® (XLRE) Total Return Price % Change	24.33%
Consumer Discret Sel Sect SPDR® ETF (XLY) Total Return Price % Change	23.42%
Health Care Select Sector SPDR® ETF (XLV) Total Return Price % Change	20.94%
Consumer Staples Select Sector SPDR® ETF (XLP) Total Return Price % Change	16.41%
Utilities Select Sector SPDR® ETF (XLU) Total Return Price % Change	13.77%
Energy Select Sector SPDR® ETF (XLE) Total Return Price % Change	13.54%



Apr 3, 2024, 12:38 PM EDT Powered by **YCHARTS**

Financials, industrials, and materials are all cyclical sectors, and rallies in those stocks typically indicate investor optimism on the broader economy. This optimism seems warranted because economic data continues to trend positively:

- US Real GDP grew at a 3.2% annualized rate in Q4 of 2023.
- Consumer spending grew 3% annualized in the same period.
- The US economy added 2.6 million jobs in the last year, and 275,000 in February alone.
- There are 1.35 job postings for every unemployed person.

The biggest issue in the economy remains inflation, the progress on which appears to have stalled out for the time being. However, as we have discussed in prior newsletters, there are factors, especially in the calculation of housing inflation, that can cause the stated number to significantly lag current conditions. Fed officials are indicating they are taking this into consideration and that they see measured inflation easing in the coming months.

The Fed announcement that they were not raising rates on November 1st was a welcome relief for both the stock and bond markets. The bond market began to price in rate cuts in 2024 and most pundits thought the first

rate cuts would come in May or June of this year. However, given the persistent strength in the economy and stubborn (though significantly lower) inflation, that is probably too optimistic. In fact, the futures market now forecasts a 97% chance of no change in rates in May and only a 63% chance of a cut in June.

Regardless of the decisions the Fed makes on rates, businesses and the economy have proven they can handle a higher rate environment. It might be reasonable to expect a slight easing in rates due solely to weakening inflation pressures, but a return to the ultra-low rate environment we had before 2022 probably won't happen unless we enter a severe recession. If the last year has shown us anything, it's that we don't need lower rates to support the economy, corporations, or markets.

Looking Ahead

Stocks performed very well in Q1 with the S&P 500 up about 10.6%. This would be a great return for an entire year. Throughout the quarter we pared back positions in stocks that had grown to be too large. We also paid close attention to overall stock and bond allocations and rebalanced portfolios as appropriate. We continue to be pleased with the performance of both our stock and bond strategy and most clients' portfolios look very good compared to their benchmarks- especially on a longer-term basis.

Barring an unforeseen exogenous event, our biggest concern for stocks is that we have seen such strong returns in a short period of time. The S&P 500 is up about 28.3% since October 27th and the market was remarkably calm during that time- we didn't even get a single 2% pullback! It would be a symptom of a very healthy market if we got a small correction or even just chopped sideways for a while.

That being said when we have had high returns and low volatility in the past, it has typically been predictive of positive returns going forward. Of course, historical results do not guarantee future results, but if we can maintain this strong and stable business and economic environment, there's no reason to think stock and bond market returns will be poor. If the inflation rate falls further, that will be icing on the cake.

Market Index	Q1 Total Return	YTD Total Return	1 Year Total Return
S&P 500	10.6%	10.6%	29.9%
DJIA	6.1%	6.1%	22.2%
Nasdaq Comp	9.3%	9.3%	35.1%
MSCI EAFE	5.5%	5.5%	14.8%
Russell 2000	5.2%	5.2%	19.7%
US Aggregate Bond	-0.7%	-0.7%	1.6%

Trade Settlement Period Shortened

Starting May 28, 2024, the trade settlement period for U.S. and Canadian securities traded on U.S. exchanges will be shortened to one day after the trade date. Currently, the settlement period is two days after the trade date. This shortened settlement period reduces risk and allows us to get cash to clients sooner.



5 Red Cedar St., Suite 201

Bluffton, SC 29910

Phone: (843) 271-6088

www.metiswealthllc.com



Jenn Sokolowski, CFP®
Owner & Financial Planner
jenn@metiswealthllc.com

Robert Sokolowski, CFP®
Owner & Investment Manager
rob@metiswealthllc.com

A Brief Overview of Taxable Brokerage Accounts By Jenn Sokolowski

Tax-advantaged retirement accounts are the most common way for people to save and invest. However, for a variety of reasons these accounts may not be an option or the best solution depending on a person's unique situation or goals. A taxable brokerage account can be a great way to invest and build wealth, but they don't get the love that IRAs and 401(k)s do. These accounts don't give you a tax deduction or tax-free growth, but they do offer their own set of benefits that make them an integral part of a financial plan.

The simplest way to think of a taxable brokerage account is that it is similar your savings account at a bank, but the money can be invested in all types of financial assets such as stocks, bonds, and ETFs. Retirement accounts, like IRAs, SEPs, and 401(k)s, have strict limits on who can contribute and how much can be contributed annually. It's not uncommon for someone to be ineligible to contribute to a retirement account due to their level of income, or active participation in their employer's retirement plan. Likewise, some eligible people may have already contributed the maximum amount allowed for the year, but they have additional cash to invest. Furthermore, people often have goals before retirement for which they want to invest. These scenarios are where taxable brokerage accounts make sense.

There is no limit on how much money you can put in a taxable account. There are also no distribution rules with these accounts. This means that you can take money out of the account at any age and at any time. Roth IRAs have some tricky rules about removing money from the account penalty-free. This can be confusing and may not work for your goals. Other types of retirement accounts have a minimum age tied to them for when you can take money out without being penalized- usually 59.5. Being able to withdraw your money at any time for any reason without penalty is a huge perk of a taxable account. This allows you to save for goals such as college, vacations, vehicles, or real estate without worrying about penalties for removing your money before a certain time period.

Brokerage accounts are called taxable for a reason. There are no tax deductions when you make contributions like with traditional IRAs or 401(k)s and there is no tax-free growth like with a Roth IRA. Every year the account holder will receive a 1099 from their custodian for the prior year that details all the income and capital gains or losses. Tax will be due on the income from dividends and interest as well as any realized net capital gains. While some may see annual taxation as a disadvantage, the nature of how brokerage accounts are taxed typically results in a lower tax bill when you take a large sum from the account. In traditional retirement accounts, you would be taxed on the entire withdrawal at ordinary income rates whereas taxable accounts have no taxes on distributions themselves. As I mentioned before, the only taxes due would be on the portfolio income and net realized capital gains.

Another tax advantage brokerage accounts have is that long-term capital gains are taxed at capital gains tax rates which range from 0%-20% depending on your income. These rates are lower than your top marginal bracket for ordinary income. Long-term capital gains apply when an investment is held for more than a year. Short-term gains occur when investments are held for less than a year and are taxed at ordinary income rates. Qualified dividends also enjoy capital gains tax rates. That means that not all income earned in a taxable account is taxed at ordinary income rates.

Flexibility and capital gains tax treatment are two reasons why we like to see clients have some of their financial assets held in taxable accounts. They are a great way to save for goals that may be shorter term than retirement and they provide tax flexibility in retirement. Early retirement is another great use for these accounts because money held in retirement accounts may have rules around when funds can be distributed penalty-free.

If you think this type of account may be a good fit for you or if you have questions about them, please contact us!



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