

October 4, 2023

Dear Valued Investor,

The S&P 500 lost 3.3% in the third quarter after sliding nearly 5% in September. Putting this into perspective, nothing really qualifies as out of the ordinary. Since 1950, the S&P 500 has historically declined in September 55% of the time, posting an average decline of 3.8%. September has certainly lived up to its reputation as being a weak seasonal period for stocks. The main culprits were rising interest rates and government shutdown fears.

Whether your goal is growth, value, or probably some combination of the two, there wasn't a difference in performance between the two (on the Russell 1000 indexes). Stocks in both investing styles generated nearly identical total returns during the quarter. Growth, however, still maintains its more than 11 percentage point year-to-date gain over value.

Energy was by far and away the top performing sector last quarter and the only sector up on the month. The sector has benefited from higher oil prices and increasingly more shareholder-friendly producers. At the other end of the spectrum, real estate and utilities struggled with 9.7% and 10.1% quarterly declines, respectively, as rising interest rates challenged income-oriented sectors. The U.S. slightly outperformed the developed international markets while emerging markets held up slightly better despite the strong U.S. dollar.

Moving onto the economy, we're feeling the ripple effects as higher short-term interest rates flow into our daily lives—in business and consumer interest rates. For example, would-be homebuyers saw the average 30-year fixed rate reach a 23-year high at the end of last month. Remember, the Federal Reserve (Fed) raised short-term interest rates in an effort to slow the economy and halt inflation, which we are starting to see.

Given the economic backdrop, we wouldn't be surprised if the markets remain a bit choppy this month. In addition to that, October can be bumpy anyway and of course, the prospect of a government shutdown looms in another six weeks. But overall, we suggest staying the course, and there are plenty of reasons to be cautiously optimistic about where we're headed:

- The labor market shows signs of moving in the right direction, with more balance between the supply and demand for workers.
- Inflation is coming down. The Fed is most likely done with its aggressive rate-hiking campaign, which is good news for investors and policymakers alike.
- The fourth quarter is historically the best quarter for the S&P 500, with average gains around 4.2%.

Underscoring these reasons for staying invested is how difficult it is to time the market, despite some of the risks at hand. Plus, opportunities in high-quality fixed income (e.g. U.S. bonds, corporate bonds) are as attractive as they've been in decades. All in all, October can be volatile, but there's probably no need to get spooked by bouts of higher volatility.

Please reach out to me if you have any questions.

Sincerely,



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All data is provided as of October 3, 2023.

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All index data from FactSet.

The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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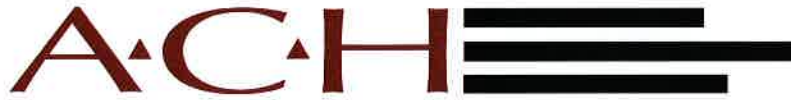
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For a list of descriptions of the indexes and economic terms referenced, please visit our website at lplresearch.com/definitions.

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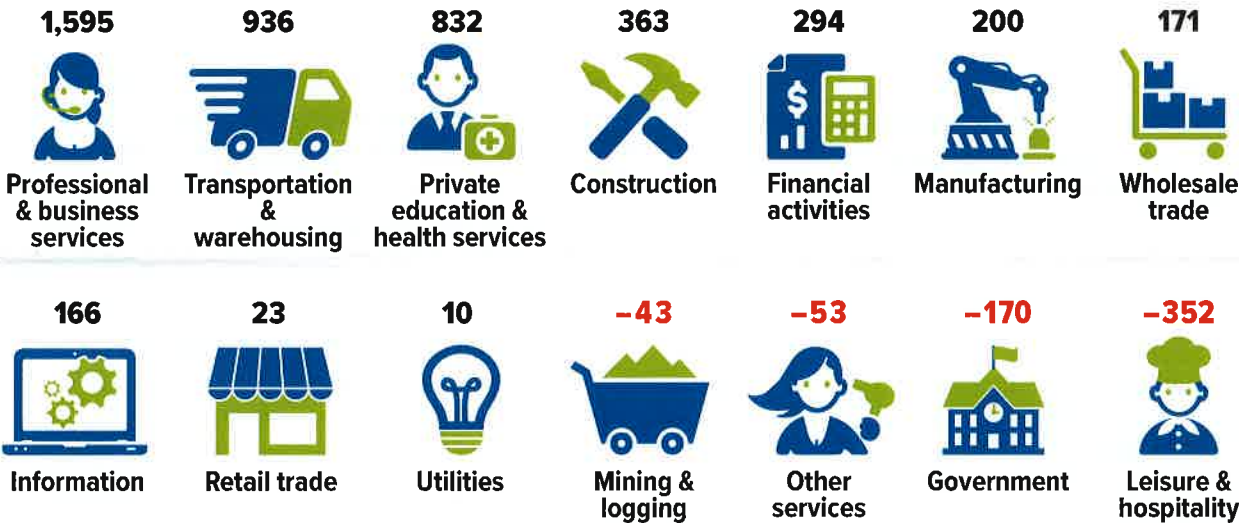
Your Money Management Newsletter

Uneven Jobs Recovery

The U.S. economy lost nearly 22 million jobs during the two-month pandemic recession of March–April 2020. The total job count returned to pre-pandemic levels in June 2022, and by July 2023, there were almost 4 million more Americans working than before the pandemic. But jobs shifted among industries. The biggest gains have been in professional & business services (which includes many remote workers) and transportation & warehousing, while the biggest losses have been in leisure & hospitality and government, largely in public education.



Change in U.S. employment by industry between February 2020 and July 2023, in thousands



Source: U.S. Bureau of Labor Statistics, 2023

156.3 million

Total number of U.S. non-farm employees in July 2023. By comparison, the pre-pandemic high was 152.4 million in February 2020, and the pandemic low was 130.4 million in April 2020.

Source: U.S. Bureau of Labor Statistics, 2023

Practical insights for your **FINANCIAL GOALS**

College Forecast: Skepticism Toward Higher Education Rises

A notable shift in public opinion over the past decade about the value of a college degree may portend a reckoning for the higher education industry in the years ahead — and for the families who are trying to save for and manage the costs. A 2023 survey found disaffection spreading to all age groups, with 56% of Americans saying a four-year college degree isn't worth the cost due to students graduating with significant debt and a lack of specific job skills vs. 42% who think college is worth it.¹ Ten years ago, the survey numbers were almost reversed.

Lower College Enrollment

Public misgivings about college intensified during the pandemic, when academic instruction moved online and families began questioning sky-high tuition costs. This translated into lower enrollment, which continued post-pandemic. For the 2022–2023 school year, the college enrollment rate was 62%, down from 66.2% in 2019–2020. Over the past decade, college enrollment has declined by about 15%.²

There are other factors at play besides public skepticism. A robust job market for less-educated workers has made it easier for high school graduates to justify skipping college and head straight into the labor market. At the same time, alternative forms of job training, such as apprenticeships and certificate programs, have become more prevalent and are increasingly seen as viable educational paths toward landing a good job.

Cost: The Elephant in the Room

A big reason Americans are souring on college is the cost. For the 2022–2023 school year (most recent data available), the average one-year cost for tuition, fees, room, and board was \$23,250 for in-state students at a four-year public college, \$40,550 for out-of-state students, and \$53,430 at a four-year private college.³ But many schools, especially “elite” private colleges, cost substantially more, with some over the \$80,000 mark.⁴

Even with a discount on the sticker price, the total cost over four years is too much for many families to absorb. One result of high sticker prices in recent years has been a surge of interest in public colleges, particularly state flagship universities, many of which offer robust academic and student life opportunities comparable to their private counterparts.

Another factor in the college value proposition is time. Four years (or longer if a student changes majors or doesn't have enough credits to graduate) is a significant investment of time when compared to a one- or two-year certificate or apprenticeship program. Some students are balking at the traditional time commitment of college and the lost opportunity cost of not entering the job market sooner.⁵

The Burden of Student Loans

Many students need to take out federal, and sometimes private, loans to cover college expenses. Interest rates on federal student loans are based on the rate for the 10-year U.S. Treasury note and reset each year. For the 2023–2024 school year, they have increased again and are now the highest in a decade.

The burden of student loan debt was bubbling in the public consciousness for years but boiled over during the pandemic. Nine payment pauses since March 2020 halted repayment, and widespread calls to cancel student debt led to an executive order in August 2022 cancelling up to \$10,000 in federal student loans (\$20,000 for Pell Grant recipients) for borrowers with incomes below certain limits, an order that was struck down in June 2023 by the U.S. Supreme Court.⁶ Also in June, as part of the debt ceiling agreement, Congress ordered an end to the payment pause, and the Department of Education later clarified that payments would start back up in October — a sobering reality for millions of borrowers after three-and-a-half years of payment pauses.⁷

To help those who may be in financial distress, a new income-driven repayment plan — Saving on a Valuable Education (SAVE) — will allow borrowers to cap their monthly student loan payments at 5% of their discretionary income. It replaces the Revised Pay as You Earn (REPAYE) plan, which capped monthly payments at 10% of discretionary income.⁸

1) *The Wall Street Journal*, May 31, 2023 (numbers do not add up to 100% due to rounding)

2, 5) *The Wall Street Journal*, May 29, 2023

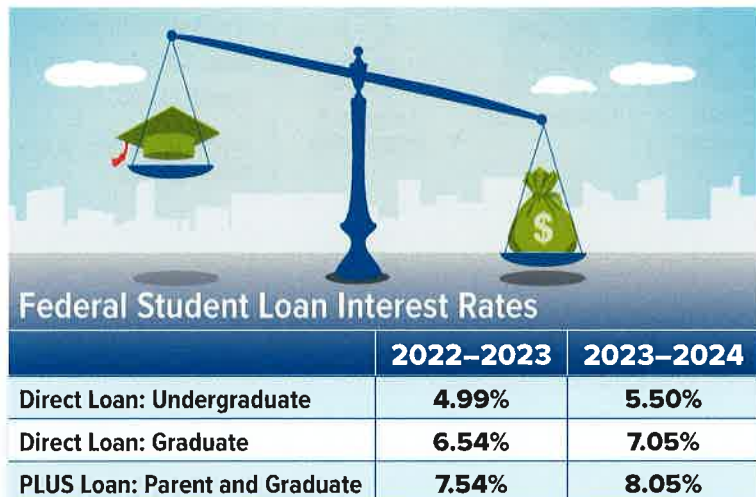
3) The College Board, 2022

4) Harvard University, 2023; Stanford University, 2023

6) *The New York Times*, June 30, 2023

7) Fiscal Responsibility Act of 2023; U.S. Department of Education, 2023

8) U.S. Department of Education, 2023



Source: U.S. Department of Education, 2023

HDHP/HSA Pairing May Help Control Medical Costs

If your employer offers health insurance benefits, one of your options may be a high-deductible health plan (HDHP) with eligibility for a health savings account (HSA). These plans offer potential savings by encouraging you to make cost-effective choices in your medical spending. If you do not have employer-sponsored health coverage, you can choose from a variety of individual HDHPs, including plans through state or federal health insurance exchanges.

Lower Premiums, Higher Deductibles

Premiums for HDHP coverage are generally lower than for traditional preferred provider organization (PPO) coverage. In exchange, you pay a larger annual deductible before the plan begins to cover a percentage of expenses.

Certain types of preventive care, such as annual physicals, health screenings, and selected medications, may be covered without a deductible (in some cases, provided at no cost). HDHPs can also offer telehealth and other remote health-care services without a deductible through 2024. Regardless of the deductible, the costs for medical services may be reduced through the insurer's negotiated rate.

To protect consumers from catastrophic expenses, most health insurance plans have an annual out-of-pocket maximum above which the insurer pays all medical expenses. HDHP maximums are generally higher than those of traditional plans. But if you reach the annual maximum, your total cost for that year would typically be lower for an HDHP, with the up-front savings on premiums. If you have low medical costs, the lower premiums also will generally make an HDHP more cost-effective. For other scenarios, the cost-effectiveness of an HDHP may vary with your situation. Although an HDHP might save money over the course of a year, some consumers could be hesitant to obtain appropriate care because of the higher out-of-pocket expense at the time of service.

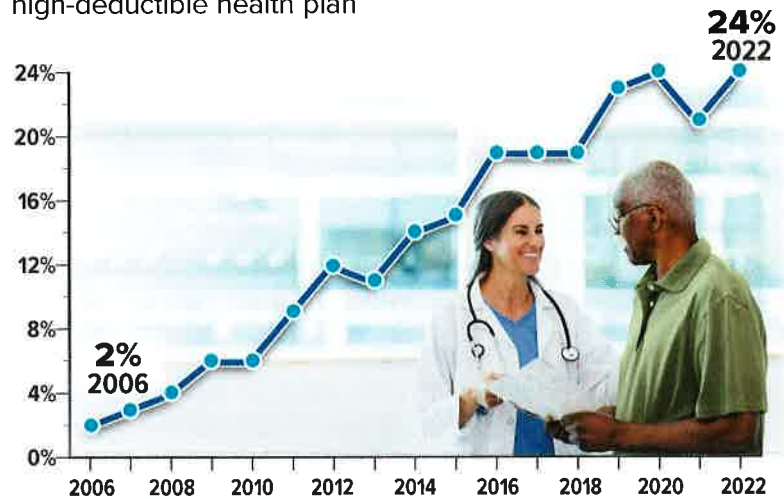
Triple Tax Advantage

You must be enrolled in a high-deductible health plan to establish and contribute to a health savings account, which allows investments within the account and offers three powerful tax advantages: (1) contributions are deducted from your adjusted gross income, (2) investment earnings compound tax-free inside the HSA, and (3) withdrawals are tax-free if the money is spent on qualified medical expenses (including dental and vision expenses). Note that some states do not follow federal tax rules on HSAs.

HSA contributions are typically made through payroll deductions, but in most cases, they can also be made directly to the HSA provider. In 2023, contribution limits are \$3,850 for an individual and \$7,750 for a family (\$4,150/\$8,300 in 2024), plus an additional \$1,000 if the

Growing Trend

Percentage of covered workers enrolled in an HSA-eligible high-deductible health plan



Source: Kaiser Family Foundation, 2022

account holder is age 55 or older. Although 2023 payroll contributions must be made by December 31, you can make direct contributions for 2023 up to the April 2024 tax deadline. Some employers contribute to an employee's HSA, and any employer contributions would be considered in the annual contribution limit.

Saving for the Long Run

Many people use HSAs to pay health-care expenses as they go, but there are advantages to paying from other funds and allowing the HSA to accumulate and pursue tax-deferred growth over time. Assets in an HSA belong to the contributor, so they can be retained in the account or rolled over to a new HSA if you change employers or retire. Unspent HSA balances can be used to help meet health-care needs in future years whether or not you are enrolled in an HDHP; however, you must be enrolled in an HDHP to contribute to an HSA.

Although HSA funds cannot be used to pay regular health insurance premiums, they can be used to pay Medicare premiums and long-term care costs, which could make an HSA an excellent vehicle to help fund retirement expenses. After you enroll in Medicare, you can no longer contribute to an HSA (because Medicare is not an HDHP), but you can continue to use the HSA funds tax-free for qualified expenses. After age 65, you can withdraw HSA funds for any purpose without paying the 20% penalty that typically applies to those under age 65, but you would pay ordinary income taxes, similar to a withdrawal from a traditional IRA.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

You've Received an Inheritance, Now What?

If you've recently received an inheritance, you may be facing many important decisions. Receiving an inheritance might promote spending without planning, but don't make any hasty decisions. Here are some suggestions that could help you manage your inheritance.

Identify a Team of Trusted Professionals

Tax laws can be complicated, so you might want to consult with professionals who are familiar with assets that transfer at death. These professionals may include an attorney, an accountant, and a financial and/or insurance professional.

Consider Tax Consequences

While you might not owe income taxes on the assets you inherit, your income tax liability may eventually increase, particularly if the assets you inherit generate taxable income. For instance, distributions you receive from inherited tax-qualified plans such as 401(k)s or IRAs will likely increase your taxable income.

Also, your inheritance may increase the size of your estate to the point where it may be subject to state and/or federal transfer (estate) taxes at your death. You might need to consider ways to help reduce these potential taxes.

How You Receive Your Inheritance Makes a Difference

Your inheritance may be received through a trust, in which case you'll receive distributions according to the terms of the trust. You might not have total control over



your inheritance as you would if you inherited the assets outright. If you inherit assets through a trust, it's important that you familiarize yourself with the trust document and the terms under which you are to receive trust distributions.

Develop a Financial Plan

Consider your future needs and how long you want your wealth to last. It's a good idea to take some time after inheriting money to formulate a financial plan. You'll want to consider your current lifestyle and your future needs, then formulate a financial strategy to meet short- and long-term goals.

Evaluate Your Estate Plan

Depending on the value of your inheritance, it may be appropriate to re-evaluate your estate plan. Estate planning involves conserving your money and putting it to work so that it best fulfills your goals. It also means helping reduce your exposure to potential taxes and possibly creating a comfortable financial future for your family and other intended beneficiaries.

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