

SUMMIT PERSPECTIVE

IS 2024 THE YEAR OF DIVERSIFICATION?

By John O'Dea

Readers of the *Summit Perspective* may recall our fall edition where we compared the economy to a weather forecast, with a recommendation to “dress in layers”. It was a metaphor for diversification, preparing for the unexpected with low-risk assets, while holding fast to the long-term principles of investing in equities. We argued you simply cannot time when markets will move quickly, and therefore need to be a participant when it does. That advice proved timely when in late October, the Federal Reserve Board signaled the end of its interest rate hiking cycle, touching off a whopper of a year-end rally. In short order, the major market indices pushed dramatically higher, turning a relatively flat year into a real winner.

As the journey through 2024 begins, diversification may prove as important as ever. The world in 2024 is a complicated and interconnected web of challenges and opportunities, but making investment policy out of predicting outcomes would be dangerous! Rather than guess, let's discuss the headline issues and plan for multiple outcomes.

The Likelihood of Recession

At the beginning of last year, pundits were almost unanimous that recession was coming to the U.S. economy. Trouble is ... they were wrong! Warning investors about impending recessions is a common strategy among prognosticators. Negative predictions increase your press exposure, and if you predict a recession long enough you are bound to be right eventually. As we begin 2024, the consensus on recession is far more mixed. Some economists think we may experience a mild and short-lived recession, while others think a “soft landing” has been achieved and recession can be avoided.

There are signs that various parts of the economy have already corrected without



bringing down the whole. The technology space, for example, lost over 240,000 jobs in 2023—50% more than 2022. Housing saw its growth rate slow as well. Home prices increased due to a shortage of inventory; however, 2023 saw the rate of those increases slow¹. Meanwhile, unemployment remained low, and the consumer continued to show robust health as economic activity in the fourth quarter was above expectations. The usual recipe for a more severe recession is to have all components of the economy suffering at the same time, and that does not seem to be the case at present.

While there is always a possibility of recession arising from an unexpected disruption, we are not concerned with which camp is “right” about their prediction this time around. Any recession is likely to be mild, and even stronger versions have proven temporary ... merely a speedbump on the road of American growth and ingenuity.

Interest Rates

Some of the smartest economists on earth were dead WRONG on interest rates as the U.S. Federal Reserve hiked rates at the fastest clip in history. Now, some of those same analysts are predicting dramatic rate REDUCTIONS. The respected analytics firm Morningstar, for example, in December of 2023 forecasted six interest rates cuts in 2024 starting at the March meeting². Meanwhile, data provided by the Fed suggested the Fed Members themselves did not believe rates would experience cuts that dramatic. According to the Fed data released in December of 2023, a large

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Diversification is for the many moods of the market.

– Benjamin Graham

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KUDOS!

Summit Spirit Award:

David Moe

Each quarter, Summit recognizes one team member who receives kudos from their peers and managers for going the extra mile. The winner receives \$1,000 to donate to the charity of his or her choice. Congratulations to Client Services Coordinator David Moe as the recipient of this quarter's Summit Spirit Award!

David: I am donating my Summit Spirit Award to the High Fives Foundation, a non-profit organization that helps athletes and veterans who have sustained spinal cord, brain, and other injuries get back to the sports they love. Their numerous programs have helped over 700 individuals return to participating in their favorite sports activities such as skiing, snowboarding, and motor sports. They provide a support system and help pay for sports equipment, living expenses, training facilities, and camps through donations and grants. They also promote awareness of injury prevention.

I was first introduced to the High Fives Foundation by my cousin, Max, who sustained a spinal cord injury during his senior year of high school. Max is an avid tennis player. Our grandfather taught each of my cousins how to play tennis, which became a way for our family to bond. The High Fives Foundation provided Max with a wheelchair so he could continue playing. I'm grateful and looking forward to supporting the organization as they continue to help others pursue their passions.



For additional information about High Fives Foundation visit:
www.highfivesfoundation.org/

SUMMIT UNIVERSITY



Upcoming Workshops



It's time to sign up for our winter/spring retirement seminars!

RETIREMENT PLANNING TODAY

Whether you plan to retire 20 years from now or have just recently retired, the information you'll learn in this class can deliver rewards throughout your lifetime. During this two-evening workshop, you will learn how to create an informed retirement plan and set goals for a successful retirement.

Second Saturday Divorce Workshop

Are you considering divorce, or in the midst of a divorce? As you contemplate your next steps and possibly plan your next chapter, it is important to have the tools needed to evaluate the impact divorce can have on your personal and financial life.

This workshop run by an attorney, a therapist, and a financial advisor will touch on the legal, emotional, and financial topics involved with divorce. Discussions will include issues and challenges that everyone considering or going through a divorce should understand. Come educate yourself and explore various options available to you as you work toward building a strategy for future emotional and financial success.



Financial professionals do not provide specific tax/legal advice and this information should not be considered as such. You should always consult your tax/legal advisor regarding your own specific tax/legal situation.

Learn more and register for classes through the Summit University page on our website:

summitadvisors.com/education/university/

You may also scan the QR code.



COMMUNITY CORNER

REACHING NEW HEIGHTS: A SUMMIT FINANCIAL FOUNDATION UPDATE

As we begin a new year, we would like to provide you an update on the remarkable strides made by the Summit Financial Foundation in the pursuit of fostering positive change. Last year was particularly transformative, with the Foundation setting new benchmarks in philanthropy and community development.

Key Statistics

In 2023, the Summit Financial Foundation proudly contributed a total of \$16,500 to various initiatives, marking an impressive 21% increase from the previous year. What's even more commendable is that \$5,500 of this sum was allocated to Summit employee matching grants, effectively amplifying the impact of our collective giving.

This substantial increase in funding reflects the Foundation's unwavering commitment to making a meaningful difference in the lives of those who need it most. It signifies not just financial growth but, more importantly, the expansion of our capacity to support initiatives that align with our mission.

Collaborative Partnerships

The Summit Financial Foundation collaborated with 19 outstanding organizations in 2023, each contributing to the diverse tapestry of our impact. We would like to extend our heartfelt gratitude to these organizations for their dedication and passion in creating positive change.

Organizations We Impacted in 2023

Monterey Bay Aquarium

Hawai'i Community Foundation

Hively

Children International

Rooms of Hope

Missing Man Ministry

HERS Breast Cancer Foundation

Hospice of the East Bay

Oakland Zoo

Girls Soccer Worldwide

SHE-CAN

CharitySmith

Mercury One

USO

Lazarex Cancer Foundation

Wilber

Girls Inc.

Special Olympics of Northern California

Each of these organizations plays a vital role in addressing social challenges, from environmental conservation to healthcare support and youth empowerment. The Summit Financial Foundation is proud to stand beside these organizations, collectively working toward a brighter and more sustainable future.

Looking Ahead

As we reflect on the achievements of 2023, the Summit Financial Foundation remains steadfast in its commitment to fostering positive change. The Foundation will continue to identify impactful projects, forge new partnerships, and strive for excellence in philanthropy.

We extend our deepest appreciation to our supporters and the communities we serve. Your trust and collaboration empower the Summit Financial Foundation to make a lasting difference. Together, we are building a legacy of positive impact and transformative change.



HAPPY 2024!

The beginning of a new year is the perfect time to get organized.

Consider the best way to review and store information about your home, your health, and important documents. Contemplate these categories as you get started:



Home ownership and maintenance



Medical history and physician information



Pet care information



Digital property and assets



Annual benefits and work history



Insurance policies and beneficiaries

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portion of members were anticipating three to four cuts in 2024 – half the Morningstar forecast³. And seemingly at every public speaking opportunity, Fed governors are quoted as saying rates may stay higher for longer.

We want to caution investors from thinking a flurry of rate cuts is coming, thereby leading to a huge market rally. “Don’t fight the Fed” is an oft mentioned axiom in the investing world, and if they are telling us they think rates may not decrease as fast as the market is predicting, we should take them at their word. However, it does seem that rate increases are in the rearview mirror for now. That is a positive for everything from mortgage rates to bond prices and company valuations. We advocate a portfolio that could handle rates staying at this level for longer or benefitting from their eventual reduction. Diversification seems the prudent play.

Geopolitics and the Presidential Election

In an election year, the rhetoric around how markets will perform under a particular candidate reaches a fever pitch (We have received questions about this already!). We will have more to say about this in the months ahead but suffice to say that the American economy is bigger than the president. Our economy has continued to power forward despite our partisan bickering and differing fiscal policies. We expect the election of 2024 to be every bit as bitter and partisan as any on record, and we also believe that the great companies that make up our markets will figure out a way to innovate, grow their sales and profits, and thrive in a democratic or republican administration.

On the world stage, war has either broken out or on the verge of doing so in several regions. Ukraine is still battling Russian invaders, the Israel and Hamas war threatens to spill into a greater Middle Eastern conflict, and China is saber rattling against Taiwan. It is a full plate for world leaders trying to keep a lid on conflict in multiple theaters. There is no doubt that a big escalation in one of these areas would have implications for our economy and markets. We would hate to try to make investment policy out of what a power-hungry dictator or nation state might do, so the only rational play is to stay diversified so you could weather a tough situation, but still participate in equity markets should the conflicts stay confined.

Opportunities in Equities

Recently, being diversified across different asset classes in the stock market has not been as profitable as merely buying U.S. large-cap growth stocks. This was even more true in 2023, given the outsized impact the “Magnificent Seven” had on the S&P500 and NASDAQ indices. This group includes Microsoft, Amazon, Meta, Apple, Alphabet, Nvidia, and Tesla and they grew over 107% in 2023 compared to 24% for the S&P 500s⁴. To be fair, the earnings and growth rates on the Magnificent Seven are far in excess of their peer, so many pundits believe their dominance will continue. We cannot know the outcome of this, but we would recommend having assets in more places than those completely dominated by just a few companies.

One area that presents a potential valuation opportunity is small-cap companies. The outsized impact of big tech has led to small caps trading at a discount relative to large-cap equities. In addition to their relative value, they tend to perform well in a period of falling interest rates. So, while the big names grab the headlines and still require our attention, increasing allocation to smaller organizations may benefit diversified portfolios.

Fixed Income Positioned Better

Bond investors felt pain in 2022 as interest rates increased at an unprecedented rate, causing double digit losses for bondholders. While stocks have more opportunity to recover as the earnings and profits of their respective firms improve, bonds do not have that luxury. A bond merely has its coupon payment and the return of its principal at maturity. As a result, the primary driver of their price is the movement in interest rates. If interest rates rise (like in 2022), the prices fall, and if interest rates fall, the prices rise. Now that interest rates are 500% higher than at the beginning of 2022, bonds provide a better value proposition than in many years. The current income payments are higher than in recent memory (due to higher interest rates), and the likelihood of at least some rate cuts in the future provide a possible price appreciation opportunity that did not exist previously. While stocks will always outperform bonds in the long run, bond investors now have a chance at meaningful returns, whereas money allocated here in years past offered some protection but no upside. Once again, diversifying into some fixed income may be suitable for many investors in this market cycle.

Summary

With the lesson of the late 2023 rally top of mind, we are reminded that timing the market is impossible and making investment policy out of economic forecasts is dangerous. As we forge into 2024, we lean into one of the oldest axioms in investing: Don’t put all your eggs in one basket! Diversification seems simple and obvious, but in recent years it has lost some of its luster as large U.S. growth stocks have dominated the returns. With a recession a possibility, interest rates uncertain, and geopolitics full of landmines, we believe that diversification can help mitigate some risk and provide more flexibility given the range of outcomes. Now that fixed income looks as attractive as it has in decades, and certain areas of the equity market representing value outside of large cap tech, diversification may not hold back investor returns either. We invite you to chat with your advisor about the year ahead, and your diversified portfolio.

¹ *The US Housing Market is Set to Cool This Fall, Setting Up a Rare Opportunity for Buyers as Sellers Slash Prices, Zillow Says*; Business Insider; Oct. 3, 2023

² *We Predict 6 Interest-Rate Cuts in 2024*; Morning Star; Dec. 14, 2023

³ *Summary of Economic Projections*; Dec. 13, 2023

⁴ Blackrock Student of the Market – Quarterly Greatest Hits – January 2024

SUMMIT SYMPOSIUM

entertain. educate. inspire.

Casa Real at Ruby Hill Winery
410 Vineyard Ave, Pleasanton, CA 94566
Saturday, February 24, 2024 | 10:00 a.m. - 3:00 p.m.

Eric Maddox | Author, Motivational Speaker, and Consultant



In 2003, Eric Maddox's life took a historic turn when he joined a Delta Force team in the hunt for high-value targets in Iraq. Through over 300 interrogations and five intense months, Eric's tenacity led to the capture of Saddam Hussein. His exceptional contributions earned him prestigious accolades, including the National Intelligence Medal of Achievement, the Defense Intelligence Agency Director's Award, and the Bronze Star.

Transitioning from military service, Eric became the first civilian interrogator hired by the Defense Intelligence Agency where he conducted an astonishing 2,700+ interrogations of prisoners from 25 different countries. Today, he devotes himself to imparting the invaluable skill of Empathy Based Listening to audiences worldwide.

Don't miss this rare opportunity to gain insights from Eric's wealth of experiences and discover the power of using empathy in communication.

John Tousley, CFA | Managing Director and Global Head of Market Strategy in the Client Solutions Group at Goldman Sachs Asset Management



John specializes in providing invaluable insights into global capital markets, macro strategy, and strategic implementation. Join us for an enlightening session where John will share his wealth of knowledge on pressing issues concerning our nation's economy. Gain profound insights into Goldman Sachs's perspectives on inflation trends, the potential impact of AI on the labor market, implications of the upcoming presidential election, and receive a comprehensive overview of the global economy and financial markets.

With an impressive 23-year tenure at Goldman Sachs and a remarkable 32 years of industry experience as an investment professional and portfolio manager, John brings a depth of knowledge that is sure to enrich your understanding of crucial economic developments and bring you unparalleled insights into the forces shaping our financial landscape.

Matthew Goerke | Creator of The Memory Switch Program



Matthew Goerke is regarded as a leading authority of memory development, having shared his groundbreaking techniques with thousands of people. He has collaborated with esteemed speakers like Zig Ziglar, Ed Forman, and Tony Robbins, while also training executives from America's largest corporations.

The creator of the "Memory Switch Program," Matthew will share the latest advancements in memory technology and valuable insights aligning these methods with your desired achievements both professionally and personally. No matter your age or where you are in your career, you will walk away with tips to boost your memory and become more effective in your day-to-day activities. Matthew's philosophy is encapsulated in the belief that there is no such thing as a bad memory, only an untrained one!

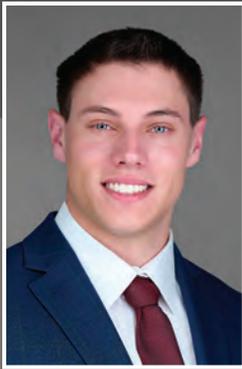


Join us for our signature event! Learn, be inspired, and enjoy great food and wine.

RSVP by February 12th:
Angela Bessiere | angela@summitadvisors.com
SUMMITADVISORS.COM

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STAFF SPOTLIGHT **Welcome to Summit, Justin!**



Justin Ward, Associate Advisor

Justin has joined Don Ledoux's and Aaron Peabody's practice team as an Associate Advisor. Justin holds his Series 7 and 66 licenses and is a driven professional with a diverse background in the world of finance and entrepreneurship. Having earned his bachelor's degree in finance from San Jose State University, Justin honed his financial acumen and analytical skills during his academic years. He didn't just stop at academics; Justin was also a proactive student who ran a successful financial newsletter business while in college. He also expanded on his knowledge and gained valuable experience by joining a top Commercial Real Estate firm in the East Bay. As a real estate agent, Justin gained respected industry insights, demonstrating his ability to navigate complex markets and provide expert advice to clients.

Beyond the world of finance and business, Justin is a family-oriented individual who cherishes quality time with his loved ones. His passion for the outdoors is evident through his love for hiking and surfing. Justin's commitment to health and fitness is a central part of his life, frequently dedicating time at the gym to maintain a healthy lifestyle. His multifaceted interests and dedication to personal well-being highlight his well-rounded and holistic approach to both his professional and personal life.

SUMMIT TRIVIA CHALLENGE



The answer to this quarter's question can be found on the Summit Facebook page facebook.com/summitfinancialgroup/. Each person submitting the correct response will be entered to win a \$25 Starbucks gift card.

Ready? Here it is ...

Which nonprofit organization did Summit support this holiday season?

Know the answer?

Email it to angela@summitadvisors.com by February 23. The Trivia Challenge winner will be notified via email.

IMPORTANT TAX-TIME UPDATE:



Due to our recent transition from Securian to Raymond James, you will receive two 1099 tax forms for each taxable account you held for the 2023 tax year. One form will be issued by Securian/Cetera for activity up to the transition date, and the other will be issued by Raymond James for activity thereafter. Check your inbox for an email from your advisor that contains detailed instructions and timelines for accessing each form or go to our [website](#) to learn more.

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