ROANOKE CONNECTIONS

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CARY STREET PARTNERS

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FIRST QUARTER 2024 REVIEW & OUTLOOK

WHITNEY BROWN

Financial Advisor
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- After concluding their latest meeting on March 20, the Federal Reserve appeared to confirm the market's expectation for the discount rate to move lower later this year. The consensus view sees three quarter-point rate cuts in the second half of the year. Slightly hotter than expected inflation readings for January and February have not dissuaded Chair Powell or the broad market that the prevailing trend for inflation is down. Powell has also made clear that inflation need not fully return to the 2% target before the Fed can be comfortable cutting rates, only that the trend be convincingly in that direction.

- The start date and number of Fed rate cuts for 2024 remains uncertain. What is unmistakable is the Fed's pivot from a tightening bias to an easing one. That has buoyed equity markets over recent months. With short-term interest rates holding above 5% and inflation around 3% and falling, real rates are squarely positive. Even with an easing bias in place, if the Fed waits too long to cut rates or does not cut enough, monetary policy can remain effectively restrictive. Having so far engineered a soft landing, the Fed has a delicate balancing act to pull off if they are to avoid causing a recession down the road.

- Despite short-term interest rates remaining at highs not seen since before the Global Financial Crisis (GFC) of the late 2000s, markets are taking it all in stride. After a narrow mega-cap driven market advance in the first part of 2023, market breadth widened in the last quarter of '23 as more mid and small cap stocks participated to the upside. Expanding breadth has only improved throughout the first quarter of this year. With a large majority of stocks in intermediate or short-term uptrends, market trend analysis affirms the view of a broad equity market ensconced in a solid and durable intermediate-term uptrend.

- As investors in 2024 we find ourselves with a broader opportunity set than we have seen in many years. Equities are still attractive and performing well, but it is no longer a TINA (there is no alternative) environment. Investment grade bond yields have revived from ultra-low levels of the 2010s and early pandemic days to reach new highs for the post-GFC era. The very long-term trend for yields is likely to be higher. For context using the most common benchmark 10-year U.S. Treasury note, this means a higher range than the post GFC range of zero to 3%. Even cash, which earned next to nothing for years, offers +5% returns in the form of Treasury bills and money market funds, although this has the potential to pivot lower if the Fed acts on rate cuts later this year. With an eye to a more inflationary economic environment for the future, commodities may present some viable opportunities. The recent action in gold prices may be a good indication of growing interest in commodities and other real assets.

- Our view is that--for now--equities are comfortable with higher interest rates. Declining interest rate volatility since the beginning of the year has been helpful in this regard. Rebounding corporate earnings, productivity growth, and some loosening of tight labor markets support the positive market sentiment for equities. Coupled with reasonably attractive yields on bonds and appealing returns on cash, balanced and well-diversified portfolios should be well positioned for what could be a choppy election year market environment. ■

MARKET MEASURES	1st QTR	YTD
S & P 500 (price)	10.2%	10.2%
Dow Jones Industrial Average	5.6%	5.6%
NASDAQ Composite	9.1%	9.1%
Russell 2000	4.8%	4.8%
MSCI EAFE	5.1%	5.1%
Bloomberg Inter. Gov't/ Credit Bond Index	-0.1%	-0.1%
	3/31/24	**3/31/23**
10-Year U.S. Treasury Bond Yield	4.21%	3.47%
Three-month U.S. Treasury Bill Yield	5.37%	4.79%

Source: Telemet Orion

BY BOB MARTIN
Financial Advisor , Managing Director

BUFFY MANGUS
Financial Advisor, Vice President

WEALTH PLANNING AND TAXES–ROTH IRA CONVERSIONS

An important aspect of comprehensive wealth planning is managing and mitigating taxes. Utilizing **MoneyGuideElite** we can hypothetically evaluate the merits of various planning strategies to potentially reduce taxes. One effective strategy involves Roth IRA conversions. Roth IRAs are a special type of IRA funded with after-tax earnings. They have the distinct advantage of allowing all future earnings and original contributions to be withdrawn tax free in retirement. Tax regulations allow traditional IRA owners to convert all or a portion of it to a Roth IRA with the condition that the converted amount is subject to being taxed as current income.

ROTH CONVERSION

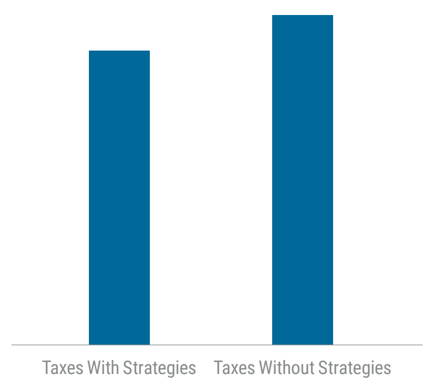
Ideally, at retirement you want the flexibility of utilizing income from various funding sources including tax-deferred accounts (IRAs and 401(k)s), taxable accounts (individual or joint accounts), and tax-free accounts (Roth IRAs) to optimize your various funding sources and better manage your tax liabilities. If you find yourself over-allocated to tax deferred assets from which all withdrawals are taxed, that can create hefty tax liabilities and accelerate the spend down of that funding source. One strategy to offset this situation is to convert portions of your IRA each year to a Roth IRA and pay the taxes upfront. Preferably you would do this during periods of time when earned income is projected to be lower — for instance, at retirement and before required minimum distributions (RMDs) begin.

Let's look at a hypothetical example of a Roth conversion strategy.

ASSUMPTIONS:

- Hypothetical client has about $2,000,000 in IRA and 401(k) assets today.
- They are age 62 today.
- They want to start Roth conversions when they retire around age 69 and earned income is much lower.
- They will use other after-tax monies to pay the taxes on the amount they convert.
- They will convert to Roth as much of their IRA as possible each year while targeting total income to stay below the upper limit for the 24% marginal tax bracket.
- They want to stop conversions concurrently with the onset of required minimum distributions, giving them approximately a 5-year window to do the incremental conversions.

End of Plan Tax Results



Estimated Lifetime Tax Savings
$232,305
Values are in Current Dollars

By executing this simple strategy, they can accrue approximately **$232,305** in estimated lifetime tax savings (values are in current dollars). These tax savings are derived from paying the taxes at targeted intervals when income taxes and income can be projected — lowering their taxable income in the future and allowing the converted assets to grow in the Roth chassis where future income and capital gains can no longer be taxed. A further benefit is heirs will have a significant window of time over which to spread their withdrawals from the inherited Roth IRA allowing even more time for tax-free earnings growth.

We are excited about the insights and opportunities that we can provide you through wealth planning.
Contact us if you would like to discuss a Roth conversion strategy or explore any other planning topics.

This graphic and analysis is part of the Roth conversion illustration available through Envestnet/Money Guide. https://www.moneyguidepro.com/ifa.

WEALTH PLANNING SOLUTIONS

Based on our more than 40 years of working with clients throughout all phases of their lives, we have gained valuable knowledge and experience in various aspects of financial planning. During this time, our planning process has been more general in nature and has tended to err on the conservative side.

JIM HALL

Financial Advisor

Managing Director

Now that we are part of Cary Street Partners, we are excited to share that we have access to an interactive financial planning software suite that is widely recognized throughout our industry. MoneyGuideElite allows us to be more precise and provide detailed solutions as we engage with you in a conversation to help answer your most important questions:

The software allows us to enter current data relating to income, expenses, portfolio holdings, and types of accounts along with your financial goals. The application then uses this data to run a hypothetical projection of how likely you are to achieve those goals. Once we have finished the initial projection, we can then make adjustments interactively with you to determine how certain actions (i.e., retiring a year earlier or later) would affect our confidence in meeting your objectives.

MoneyGuideElite also will allow us to analyze tax savings potential associated with conversions from a traditional IRA to a Roth IRA. Please see the related article on Roth conversion strategies on the opposite page. Further, we will be able to assist with Charitable Gift planning or Education planning for children or grandchildren.

In coming months, we will be hosting informal receptions to demonstrate these planning capabilities. Let us know if you would like to attend one of our receptions or if you would like to start a planning conversation individually.

MORE ON CHOOSING QUALITY

JOHN HUBARD
Portfolio Manager
Vice President

Last quarter I wrote about a few of the characteristics we require of stocks to be included in our clients' portfolios. We consider ourselves "growth investors" with an important proviso. We seek companies that are growing their earnings and revenues at high rates and investing free cash flow back into their businesses at attractive rates of return, but we don't forgo quality requirements. Owning higher quality stocks adds a margin of safety and an element of risk management to a portfolio.

Higher quality stocks are generally less volatile than the broad market and tend to have higher earnings visibility and more consistent earnings and revenue growth. It is our belief that price volatility is only a crude proxy for risk, but we recognize the behavioral aspects of investing and realize that higher levels of volatility can lead to higher levels of anxiety for investors. It has been our experience that some investors simply do not have the stomach for elevated volatility, so it makes sense to focus on quality to ensure the investor can stay the course. Outsized returns can only be achieved if the investor is able to live with shorter-term price oscillations.

Some companies achieve rapid growth at the expense of other prudent considerations such as manageable debt and positive cash flow. While stocks growing their earnings and revenue at triple digit rates can appreciate quickly in price, they can just as quickly be halved for an earnings announcement that was only "OK." We strive to find investments at the intersection of the growth universe and the quality sphere. We do not believe that growth and quality are mutually exclusive. Compelling investment opportunities exist in quality companies that have rapidly growing earnings and revenues. In addition to factors discussed in last quarter's newsletter (high and consistent returns on invested capital, savvy management, and low capital intensity) we look for the presence of an economic moat or a sustainable competitive advantage likely to enable continued outperformance of peers. Examples being high switching costs, intellectual property, network effects, and cost advantages from efficiency of scale.

Quality companies must have excellent profitability metrics. Consistent profitability enhances earnings stability and thus reduces price volatility. Attractive valuation also matters. We believe that valuation should be a guidepost for portfolio inclusion, but focusing too much on low valuation can lead to owning a portfolio of cheap stocks of average companies, which is not the objective. To paraphrase Warren Buffet, we would prefer to buy excellent companies at fair prices than fair companies at excellent prices.

We are dedicated to the continuous improvement of our investment process and are confident that it offers an appropriate balance of risk, safety, and the potential to generate excess returns. We will offer more insights into our philosophy and methods in future quarters.

CARY STREET PARTNERS

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TAKE YOUR WEALTH MANAGEMENT TO A HIGHER STANDARD

C. Whitney Brown, Jr., CFA®, CIC, **Robert P. Martin**, AWMA®, FPQP™, **James E. Hall, Jr.**, **Buffy Mangus**, **John S. Hubard**, J.D., **W. Stebbins Hubard, Jr.**, **Edwin R. Feinour**