BRIAN D. LOWDER, INC.

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Financial Market Overview

The third quarter performance for stocks was a reversal from the second quarter's decline. Each stock category was up 3%-10% during the third quarter. The third quarter stock market advance was also much broader compared to last quarter as all stocks (not just technology and AI stocks) were up during the third quarter. Year-to-date, stocks have reached another all-time high record.

Both the overall broad stock market index and the **S&P 500 Index** were up about 5-6% during the third quarter. The real story was the small-company stock category -- which had been lagging behind large-company and tech stocks for almost 3 years -- was up 10% during the third quarter alone. Value stocks beat growth stocks while AI and tech stocks lagged the market.

The NASDAQ stock index, dominated by technology stocks, was up only 2.5% during the third quarter, and up about 21% since the beginning of the year.

The Dow Jones Industrial Average was up over 8% during the third quarter – but up only 12% during the last three quarters of 2024.

Large-company ***growth*** stocks (dominated by tech stocks) were up a modest 3% during the third quarter and up 24% for the 2024 calendar year through September. Large-company ***value*** stocks (older and established companies) were up a whopping 9.3% during the third quarter and up about 15% this year through September 30, 2024.

Mid-size ***growth*** stocks were up over 6.5% during the third quarter and up just under 13% over since the beginning of this year. Mid-size ***value*** stocks were also up near 10% during the third quarter, and up almost 15% this year through September 30, 2024.

International stocks were up almost 7% during the third quarter and up almost 13% year-to-date, however emerging markets (smaller-country international stock indexes) were up about 7.5% during the third quarter and up almost 15% during the first nine months of 2024.
Investment real estate prices (real estate investment trust – not home values) had the largest performance increase during the third quarter – up over 17% and up 13.5% year-to-date. Interest rates (commercial mortgage rates) moved lower during the third quarter and the notable decline in performance in this real estate category since mid-2022 was reversed. The bounce off bottom was just a matter of time.

Water utility stocks have been down for the past year, but reversed course and were up 12% during the third quarter. Energy stocks were flat during the third quarter but up about 5% during the first nine months of 2024. Gold price performance was up over 27% for the year and about 13% during the third quarter. More on this subject later – when both gold and stocks are hitting record levels at the same time, at least one of them is wrong as these categories normally perform in the opposite direction of each other.

Fixed income or bond prices for intermediate and long-term bonds reversed course and began to rise due to a small decline in interest rates – up about 5.75% during the third quarter and up down about 4% for the year through September. Short-term bonds and Certificates of Deposit with 6-12-month maturities are paying less as interest rates moved down slightly - paying just under 5% which is more than all other bonds with maturities of up to 30 years.

The following chart displays sample returns of various asset categories for the calendar year and during the third quarter of 2024:

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Year-To-Date 2024	3rd Qtr. 2024	Index Return (*includes dividends reinvested*)
+ 12.31%	**+ 8.21%**	**Dow Jones Industrial Average (^DJI)**
+ 21.87%	**+ 5.77%**	**Standard & Poor's 500 Index (^GSPC)**
+ 20.60%	**+ 6.19%**	**DJ U.S. Total Stock Market (VTI)**
+ 24.30%	**+ 3.13%**	**Large-company stock-Growth (IWF)**
+ 16.44%	**+ 9.37%**	**Large-company stock-Value (IWD)**
+ 12.82%	**+ 6.59%**	**Mid-Size Stocks – Growth (IWP)**
+ 14.90%	**+ 9.97%**	**Mid-Size Stocks – Value (IWS)**
+ 13.12%	**+ 8.38%**	**Small-company stock- Growth (IWO)**
+ 8.83%	**+ 10.10%**	**Small-company stock- Value (IWN)**
+ 12.92%	**+ 6.89%**	**International (EFA)**
+ 14.85%	**+ 7.68%**	**Emerging Markets (EEM)**
+ 13.53%	**+ 17.29%**	**Real Estate Investment Trusts (VNQ)**
Fixed Income (includes appreciation)		
+ 4.00%	**+ 2.87%**	**Short-term U.S. Treasury (SHY)**
+ 4.16%	**+ 5.72%**	**Intermediate U.S. Treasury (IEF)**
Alternative Investment Category		
+ 27.14%	**+ 13.05%**	**Gold (GLD)**

**All returns calculated using adjusted historical quotes from finance.yahoo.com*

FINANCIAL MARKET OUTLOOK

The third quarter performance was much better than most people expected and the stock market is still 25-30% above fair valuation according to fundamental evaluation metrics. The implication is "better times" are just ahead.

We won't discuss in length the obvious concerns from our previous newsletter. Instead, just imagine a scenario where you have been absent from society and news for two years in a remote area on the top of a beautiful mountain and when you return, you discover the following situation.

Inflation has been blazing for two years, and while lower today, is still above an acceptable level. There is continued escalating conflict in the Middle East and in Russia/Ukraine, the U.S. Total Government Debt (owed back by taxpayers) is at all-time 35 trillion dollar high, credit card debt is at an all-time high, the price of gold is up 27% in the past 9 months, we are weeks away from a Presidential election that appears to be very close, our citizens and politicians are staunchly divided, significant income tax increases (corp. tax rate, capital gains tax, income tax etc.) are being proposed as necessary, and now our ports are in jeopardy of a shutdown over a labor strike by dockworkers, pushing us back into the supply-chain shutdown similar to the first year of Covid. About 60% of containerized trade moves through the East Coast and Gulf Coast ports and a walkout would shut down imports of food, vehicles, heavy machinery, construction materials, clothes and more.

Then, the first question posed to you is: How do you think the U.S. stock market has performed since January 1, 2024? What are the odds that you would guess correctly – **the stock market is up over 20% in nine months.**

Clearly investors either do not understand or are unaware of what fair valuations are or more likely, they expect better times ahead. Since the stock market is an anticipatory measure of future economic growth, the stock market may simply be anticipating better economic times ahead and is simply moving up now. That could be the case.

Stocks are already priced about 25 -30% higher than "normal" as measured by price-to-earnings ratios. Even though the latest third quarter stock performance was broadly based – meaning all stocks were going up – still more stocks included in the S&P 500 Index have underperformed the index itself for the past 2 years. About 20-30 stocks have powered this upward advance (mostly tech/AI) while and the other 475 stocks have underperformed.

Lastly, when gold, stocks, bitcoin and crypto currencies are all increasing in the same direction at the same time, do not be surprised, rather be prepared for volatility.

INVESTMENT OUTLOOK AND RECOMMENDATIONS

Our outlook and the investment decisions we are making have not changed. The stock market is above a fair valuation - wait until at least the end of 2024 to make any significant changes or increases to your stock holdings. We are continuing to hold a higher-than-normal proportion of short-term U.S Treasuries and certificates of deposits with very short maturities (6-12 months) in the fixed income section of client portfolios. Since the beginning of 2023, the stock

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portion of our client portfolios hold less equities (stocks) than normal, and some portion of the accounts invested in Treasuries/certificate of deposits *will go back into stocks* sometime in the future.

We are still taking a middle-of-the-road stance and are cautious over the short-term. It is necessary for a continuation of a broad-based stock market improvement (like the third quarter 2024) before we can experience a *sustainable* rally.

When a sustainable stock market arrives, large-company value stocks should perform well and small and mid-size company U.S. stocks will be even more attractive. This category has lagged in performance over the past 2 years and this category excels above the market averages when sustainable stock market advances are underway. Emerging markets that exclude China (small-company stocks of smaller international companies) have started to increase faster than expected.

We have identified several stock investments that we intend to add to client portfolios outlined on your blue recommendation sheets, but the timing of when to purchase is still uncertain. Ideally, we will begin adding additional stocks to client portfolios carefully and slowly within the next 6-12 months.

CHANGING INHERITED IRA RULES

Required Distributions from IRAs and Most Retirement Plans Have Changed

Prior to 2020, IRA account holders could defer withdrawing RMD's (Required Minimum Distributions) from their Traditional IRA, SEP-IRA, Simple IRA, and most company retirement plan accounts until age 72 (now age 73 beginning in 2023). Today, anyone reaching age 73, must begin taking these required distributions each year. The required amount is calculated by dividing the IRA account value at year-end by life expectancy (life expectancy tables are provided by the IRS).

For example, the IRS joint life expectancy table states that a 73-year-old has a life expectancy of 26.5 years. Therefore, an IRA account holder with a $100,000 IRA who has reached age 73 in 2024, must withdraw at least $3,774 ($100,000 divided by 26.5) in this first year. Now, the IRS has changed the rules regarding required distributions for individuals **who inherit an IRA or company retirement plan.**

IRS finally Provides Clarity on Inherited IRAs:

First, there are exceptions to the discussion below and the exceptions are listed briefly here. Continue reading until the end of this newsletter for a full discussion for anyone who matches any of the exceptions below:

a) *Surviving Spouse* of Deceased IRA holder
b) The deceased IRA owner's *child under 18 years old*
c) Any individual who is *not more than 10 years younger* than the original (deceased) IRA owner
d) Disabled
e) Chronically ill

The big change in Required Minimum Distributions calculations applies to *INHERITED IRAs*

PRIOR TO 2020: If you ***inherited*** *an IRA account of any kind including rolled over company retirement plan accounts*, the same life expectancy calculation method applies to determine how much you must withdraw each year. The annual Required Minimum Distribution is calculated based *on your own* (normally much longer) life expectancy – not the life expectancy of the person who died. Using a longer life expectancy allows inherited IRA owners to take smaller required annual distributions because their life expectancy is longer. In effect, the inherited IRA account holder can stretch out the taxable annual required minimum distributions over their lifetime which reduces income taxes and allows the IRA account to grow in value over time. That's why these inherited IRA accounts were referred to as "stretch IRAs".

***How long an inherited IRA account holder can stretch out taking required minimum distributions IS NO LONGER based on your life expectancy.* Now, it**

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is only *10 years* and most inherited IRA account holders must take out *a minimum amount each year regardless of age (There are several exceptions, including a surviving spouse – see all exceptions discussed at the end)*! This new rule applies to future inheritors of IRAs and most people who did *inherit an IRA since 2020*. That means higher taxable IRA distributions must be taken over a shortened 10-year time period.

The problem with this new rule is that it did NOT specify whether people (who inherited an IRA beginning in 2020 and later) are required to make some withdrawals (required distributions) **each year**, or taking out as little as desired as long as all of the account value was withdrawn within 10 years. The latter is what everyone assumed – you could decide how much to withdraw and when as long as the entire inherited IRA account value was withdrawn over 10 years.

As a result, many people who inherited an IRA since 2020 and did not need or want to take annual taxable withdrawals yet, did not take any money out over the last 4 years (2020-2024) and chose instead to wait and withdraw larger amounts later on – but not beyond the 10-year period. The IRS's final rules say money *must come out **each year*** for most heirs of inherited IRAs since 2020.

The IRS has said they will not penalize people for not taking some required annual distributions on Inherited IRAs since 2020. However, the IRS also said they will not extend the 10-year period for those account holders who did not withdraw any funds in 2021-2024.
It gets a little complicated from here on and we will discuss at the end who the new IRS rules DO NOT apply to (yes there are exceptions).

The new rules on Inherited IRA account holders apply to those who **inherited** an IRA since 2020 and future inheritors of IRAs. How much must be withdrawn each year is determined as follows:

The first step or the "Y" in road to determine which method is used to compute your required annual distributions is to answer these questions: *How old was the person who died and gave you the Inherited IRA? Did the deceased IRA account holder die BEFORE, or AFTER his or her "Required Minimum Distribution" beginning date? (The "RMD" age is now 73 – or age 72 before age 2022).*

We will start with the new rules for those individuals who inherited an IRA from someone who was *deceased ON or AFTER reaching age 73*. This means the deceased IRA account holder was already taking annual required minimum distributions. You, the inherited IRA account holder, must start taking annual distributions (withdrawals) starting the year after the death of the original IRA account holder. Example, if the original deceased IRA holder was age 74 in 2024, then you must start distributions in the first year following the date of death (2025) and continue doing so for 10 years (2025-2034). This means *a minimum amount* referred to as the Required Minimum Distributions (RMDs) must be paid to the beneficiary (you) in years 1-9, with all of the remaining balance to fully deplete the account by year 10.

The inherited IRA account holder uses his or her own life expectancy in the calculation (not the deceased IRA account holder's life expectancy) that determines the minimum amount that must be withdrawn in years 1-9. The entire Inherited IRA balance, if any in year10, must be withdrawn.

To avoid a big income tax bill in year 10, some Inherited IRA account holders will take more than the minimum required distribution amount in all 10 years to smooth out the income tax cost.

If a new inherited IRA account holder did not take any annual distributions over the last four years (2021-2024) during this confusing interpretation period, there will be no IRS penalties and you do not have to make up for the missed annual distributions since 2021.

To determine (calculate) the Required Minimum Distribution in 2025 and forward, the inherited IRA owner uses his/her life expectancy factor that applied to the beginning of the 10-year period (year after deceased IRA owner died) and then subtract 1 each year thereafter when making future calculations.
For example, if your life expectancy factor (refer to the

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IRS Life expectancy charts) was 28 years at the beginning of the 10-year period after original IRA holder died in 2021, and your first required year was 2022 - then you would subtract 1 for each subsequent year. In this example, you start with your life expectancy of 28 years minus 1 for 2023, minus 1 for 2024 and minus 1 for 2025 – or 28 years minus 3 is 25. Your first year (2025) life expectancy factor is 25.

If the IRA account balance was worth $100,000 on 12/31/2024, then you must take out $4,000 ($100,000 divided by 25). And so on until the 10th year. In year 10, the entire IRA account balance must be withdrawn (and taxed). Therefore, you may want to take out more than the minimum ($4,000 in my example) amount and chose instead to take an equal amount over the ten years ($10,000 per year).

The other new rule for those individuals who inherited an IRA and the ***deceased original IRA holder HAD NOT yet reached at 73 AND did NOT start taking any Required Minimum Distributions*** then you DO NOT HAVE TO USE LIFE EXPECTANCY FACTORS nor do you *have to take/withdrawals each year.* In this situation, the inherited IRA account holder can opt to 1) wait until year 10 to take all the IRA balance, 2) take annual amounts of any amount desired, 3) skip some years and take nothing, or however you want to do distributions as long as the IRA account is fully depleted by the end of the 10-year period.

Which of the two calculation methods discussed above must be used by the Inherited IRA account holder is ***totally dependent upon the age of the deceased IRA account holder (younger than age 73 OR age 73 and older).*** Either you must use life expectancy factors and take at least the minimum required distribution amount OR you don't have to use any mathematical calculations – just make sure the entire Inherited IRA account balance is zero after 10 years.

Now, let's talk about the EXCEPTIONS to the two methods discussed above (which both require a zero Inherited IRA balance at the end of year 10 – referred to as the 10-Year Rule). **If you are one of the exceptions listed below, you must take Required Annual Distributions …….. but the time period is your life expectancy – not the 10-year rule. This means your required annual distributions are spread out over *your life expectancy* and more importantly, you *don't have to take any large remaining balance out at the end of a 10-year period. In summary, you are still required to take annual Required Minimum Distributions, but the minimum amount is smaller and spread out over your life expectancy – not 10 years.***

HERE ARE THE EXCEPTIONS TO BOTH NEW RULES ABOVE

a) The deceased IRA owner's spouse
b) The deceased IRA owner's child – however, once a minor child reaches the age of majority (18 most states) they will then be subject to the 10-year withdrawal rule over the ensuing 10 years.
c) Any individual who is not more than 10 years younger than the original (deceased) IRA owner. – ex. Original IRA holder was 68 and you, as beneficiary are between ages 58 and 68.
d) Disabled - as defined by the IRS
e) Chronically ill - as defined by the IRS

There are also different Withdrawal Rules for INHERITED ROTH IRAs.

THE 10-YEAR RULE FOR INHERITED ROTH IRAs

Beneficiaries of Roth IRA's are also subject to the 10-Year Withdrawal Rule with two key differences. They don't have to take ***annual required minimum distributions*** but rather they can take whatever amount annually if any, as long as the Roth IRA account balance is zero at the end of the tenth year. Plus, ***all distributions are NOT taxable.***

The takeaway of this discussion above is if you have received an inherited IRA account since 2020, and are not the surviving spouse or meet the other 4 exceptions above, then just be aware and remember the rules have changed. Seek advice.

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ANNOUNCEMENTS

Our Office Manager, Jennifer Finley is retiring! Jenn has played an important role in running our office over the past 10 years and will turn the page in mid-October 2024. We will miss her presence but know she will enjoy the next chapter. Tayler Foster, replacing Pam Priest who retired earlier this year, will take over as our office manager.

Contact Us

Brian D. Lowder, Inc.

Brian D. Lowder, CFP®, CFA
Michael Kinnear, CFP®, CFA
Rebecca Dodge, CFP®, CFA
Jennifer Finley
Tayler Foster

Address
12780 High Bluff Drive Suite 100
San Diego, CA 92130

Telephone
(858) 794-6800

Fax
(858) 794-6906

Website
www.bdlowder.com

Email
brian@bdlowder.com
mike@bdlowder.com
rebecca@bdlowder.com
jenn@bdlowder.com
tayler@bdlowder.com

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