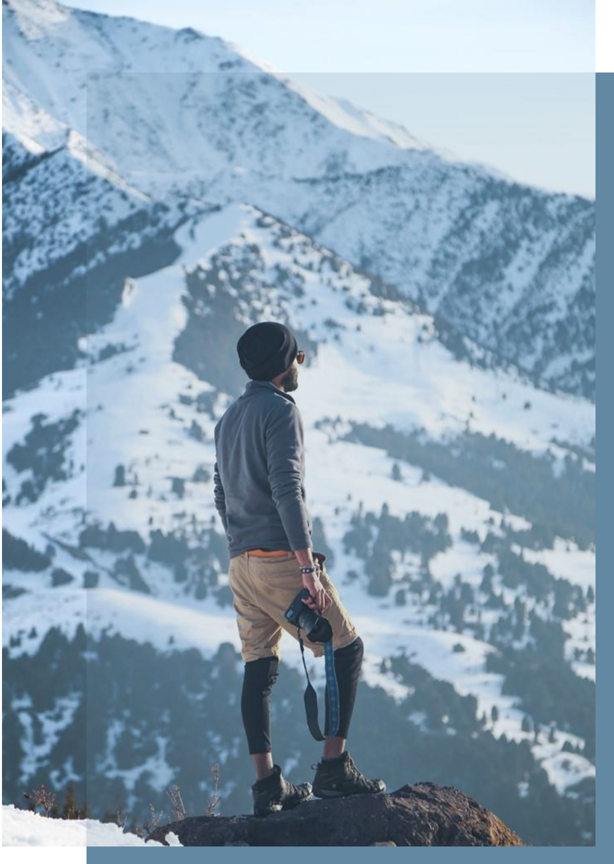
PERSPECTIVES

Benefit Financial Services Group Newsletter

Quarter Ending September 30, 2024



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Market Recap

Brent Miller, CFA® (Senior Portfolio Manager)

While the major U.S. stock market indices finished in positive territory in the 3rd quarter (Q3) of 2024, there was a marked performance divergence, driven by two selloffs (in early August and early September), periodic bouts of sector rotation, and a considerable broadening of the market. While mega cap technology stocks led the way for the first half of the year, the Nasdaq-100 Index[1] lagged during the quarter, appreciating 2.1% compared to the more value-oriented Dow Jones Industrial Average[2], which increased by a more substantial 8.72%. In addition, after narrowing in the 2nd quarter, market breadth improved materially as a more diverse basket of stocks led the S&P 500 Equal Weight Index[3] higher by 9.6% compared to the 5.9% return of the market-cap weighted version of the index.[4]

For the first time in several quarters, international stocks kept pace with or exceeded the performance of their U.S. counterparts, with the MSCI World ex USA Index[5] rising by 7.8% in the 3rd quarter. In advanced economies, Eurozone stocks benefited from resilient economic growth in most member countries and easing inflationary concerns, which in September prompted the European Central Bank (ECB) to cut the deposit rate for the second time this year. In Japan, by contrast, equities were pressured by tighter monetary policy and a stronger yen. Emerging market equity performance was robust, aided to a large extent by a late quarter surge in Chinese stocks resulting from the Chinese government's late September announcement of its biggest monetary stimulus measures since the COVID-19 pandemic.

In Q3 2024, expectations of lower interest rates and the increasing probability of a larger than expected initial rate cut by the Federal Open Market Committee (the "Fed"), came to fruition on September 18th via the Fed's decision to cut the federal funds rate by 0.50% or 50 basis points (bps) rather than the expected 0.25% or 25, which prompted a rally in the U.S. small-cap asset class. Consequently, after underperforming the three major domestic large cap indices in the first half of 2024 by a significant margin, the Russell 2000 Index[6] appreciated by 9.3% during the quarter, handily exceeding the performance of both the S&P 500 Index and the Nasdaq-100 Index.

10-year Treasury yields fell for most of the quarter, bottoming out at 3.60% on September 16th, before rising to close the quarter at 3.78% compared to 4.34% at the end of Q2 2024. The marked decline in Treasury yields, easing inflation concerns, and the expectation of

additional rate cuts in 2024 resulted in the Bloomberg Aggregate Bond Index[7] appreciating by 5.2% in the 3rd quarter. The biggest gains came from long duration bonds, which tend to be more sensitive to changes in interest rates and interest rate expectations.

On the commodity front, the price of Brent Oil fell by 18.2% during Q3 2024. Oil's sharp drop in July and August was primarily attributable to higher supply from OPEC+, increasing concerns about global economic growth dampening demand, and a stronger U.S. dollar, which made oil more expensive for holders of other currencies. In the back half of September, OPEC+ production cuts, stronger economic indicators (particularly in the U.S. and China), and rising geopolitical tensions in the Middle East combined to result in a modest uptrend in crude oil prices to close out the quarter.

As we look forward to the rest of the year, we are hopeful that the Federal Reserve can continue on its path of monetary easing before the economy enters a recession and without triggering new inflation fears, resulting in a "soft landing" scenario for the domestic economy.

Forecast

Steven Yamshon, Ph.D. (Managing Principal)

In this issue of *Perspectives,* we are taking a different approach from our usual forecast and will be looking at the near and far implications of using artificial intelligence in modern warfare, especially in the use of unmanned vehicles such as drones. Although we cannot go in depth about this phenomenon in this quarterly newsletter, we can give you an overview of what the future will look like when it comes to military spending.

After the Vietnam War ended, the U.S. and others lost their appetite for large scale ground wars in which mass casualties are the result. In the modern era, the public will not tolerate such a large loss of lives. Therefore, global militaries are focusing on missiles, drones and other high-tech instruments of warfare, especially drones and electronics.

Drones or unmanned aerial vehicles (UAV) are reshaping the way warfare is played out. Rapid development across the entire supply chain of sensors, payloads, engines, and AI are expanding UAV capabilities. Compared to traditional military hardware such as aircraft, drones are cheaper and easier to develop allowing virtually any government to create their own air force. The Russian-Ukraine war has showcased the abilities of the first true drone war.[8]

China is the innovation leader and powerhouse in the drone market with over an 80% global market share. However, evidence suggest that the U.S. is playing catch up by spending over $24 billion in 2024 on research and development, with more to come. All the armed force branches are rapidly advancing drone technology into their systems. A sign of this is the U.S. Army has slashed its multi-billion-dollar helicopter budget to make way for the deployment of drones. The U.S. Navy has retrofitted the aircraft carrier H.W. Bush to be the world's first air drone command and control center.[9]

Both next generation and current UAV's are beginning to be a significant investment areas. Both aligned and non-aligned countries will be increasing their drone capabilities as the new global arms race has already begun. The Teal Group forecasts that worldwide procurement of drones will go from $14 billion in 2023 to $186 billion over the next ten years.[10]

From an investment perspective, it seems logical that the defensive industry may be a good place to be in the coming years, especially those companies that specialize in technological warfare. Other defense contractors who specialize in payloads should also benefit. Within the defense industry, we are exploring companies that trade at a material discount relative to their near and long-term earnings power.

Portfolio Management

Michael Allbee, CFP® (Principal/Senior Portfolio Manager)

BFSG's rigorous process of investment selection and portfolio construction is rooted in experience and knowledge, unlike many portfolios we see (both professionally and non-professionally managed) that take a more aggressive tactical approach or make investment decisions based on hunches – not science. We thought it would be a good refresher to walk you through our methodology of selecting asset managers with a proven process and established track record.

The methodology starts with a quantitative analysis that compares actively managed funds[11] in any of the given Morningstar Category™ classifications[12] against a custom active peer group that is screened for funds with at least a 3-year track record

and for the lowest expense share class thus eliminating any inappropriate share classes with commissions and/or kickbacks. We then rank each fund using the following quantitative data:

- Trailing net performance on a 3, 5, and 10-year basis
- 12 month rolling period net returns over the past 10 years, measuring the manager's ability to consistently deliver returns in a variety of market cycles
- Sharpe Ratio[13] measured on a 3, 5, and 10-year basis, measuring the manager's efficiency in gaining performance relative to risk taken
- Up and Down Capture ratios[14] measured on a 3, 5, and 10-year basis, measuring the fund's historical ability to perform against its peers in bull and bear markets
- Style Consistency, assigning higher rank to more style consistent funds
- Fund Expenses, assigning higher rank to lower cost funds

Our proprietary quantitative methodology helps us filter the investment universe.[15] We then engage with the fund managers in extensive due diligence to consider several qualitative aspects, such as:

- Management team and tenure
- Firm structure (including the parent firm, if applicable)
- Process and philosophy
- Market cycle and economic environment

BFSG's firmwide Investment Committee (IC) then engages in iterative dialogue between leadership, research analysts, traders and portfolio managers to approve and remove funds from our focus list. We continuously update the quantitative ranking (every quarter) and complete ongoing qualitative due diligence throughout the year.

Portfolio construction and implementation is as important as security and fund selection in our process. Our wealth management teams carefully craft a diverse mix of investments within each portfolio to promote long-term capital growth, keeps portfolios in line with our client's tolerance for risk by rebalancing, and actively manage taxes in an attempt to maximize after-tax returns. This is all driven by an understanding of our client's unique needs and financial goals, and that's what we call *Investing by Design*.

Talk With Us!

Paul Horn, CFP®, CPWA® (Director of Financial Planning)

Life insurance is an important tool for planning for your financial future. The reality is there are many reasons over a person's lifetime why they may need life insurance. The most common reasons for having life insurance are to pay off debts like mortgages and to help family members achieve financial goals, such as retirement or paying for your kids' college tuitions.

To see if there is a need for any type of insurance, the conversation should always start with the two following questions:

1) If something happens, can your family maintain their same standard of living?

Answer: No. Then you should consider life insurance.

Answer: Yes. Then ask yourself the second question.

2) If something happens, do you want to pay the costs or do you want someone else to pay the costs?

Answer: Someone else. Then you should consider life insurance.

Answer: You pay the costs. Then you likely do not need life insurance.

There are two main types of life insurance.

1) **Term life insurance** is like renting a house. It's cheaper but only lasts for a set amount of time, like 10 or 20 years. Consider term life insurance if you need life insurance for a specific period (i.e., to cover debts, income for dependents, or a mortgage).

2) **Permanent life insurance (i.e., universal life or whole life)** is like buying a house. It costs more, but it sticks around forever and can even build up money you can borrow later, so long as the purchaser continues to make each premium payment. Permanent life insurance is ideal if you're looking for lifelong coverage, want to build cash value, or need life insurance as part of estate planning and/or a wealth transfer strategy.

Below is a chart that summarizes the characteristics of Term and Permanent life insurance policies:

Feature	Term Life Insurance	Permanent Life Insurance
Premiums	Lower, but may increase at renewal	Higher, but typically fixed
Coverage Length	Set term (10, 20, or 30 years)	Lifetime coverage
Cash Value	No cash value	Builds cash value over time
Flexibility	Less flexible	Flexible options like loans from the cash value
Best For	Temporary needs (e.g., income replacement, debt payoff)	Long-term needs (e.g., estate planning, leaving a legacy)
Renewability	Yes, but premiums increase with age	Not needed; coverage is for life
Investment Component	None	Has a savings/investment component

What factors should you consider when purchasing life insurance?

- **Overall Cost**: For most, this is the most important consideration. The cost of insurance is determined by your sex (males die sooner so they are more expensive), your age, and your overall health.
- **Your health**: Insurance companies like to know how healthy you are. If you're in good shape, you might get cheaper rates. If not, there may be policies where you don't need a health check, but they will cost more.
- **Your age**: The older you are when you purchase a policy, the more expensive the premiums will be and the more testing a carrier will require. It may make sense to get it while you are younger to reduce your annual premiums.
- **Company reputation**: Make sure the insurance company you choose has a good reputation, so they're still around when your family needs the money. You don't want to end up with a company that disappears like that one sock in the dryer.
- **Extra benefits**: Some policies offer cool extras, like the ability to use part of the money for medical care if you get sick. Like many other things in life, these are nice to have but cost more money and are typically not required.

In the end, picking the right life insurance policy is like picking a pair of shoes. It has to fit your needs, your budget, and provide comfort. That way, you can focus on enjoying life, knowing your loved ones will be taken care of when the time comes. Talk with Us!. We can help determine if there is a need, explore your options based on your personal financial situation, and help determine how much coverage you need.

In the News

- BFSG named one of Financial Advisor (FA) Magazine's "America's Top RIAs" for 2024.*
- Michael Allbee named to Forbes/SHOOK "Best-in-State Wealth Advisor" list for 2024.**

** This annual survey is performed by Financial Advisor Magazine as a means of measuring growth among independent advisors across the U.S. To be eligible firms must be registered investment advisors and provide financial planning and related services to individual clients. All firms must be either independently owned or a freestanding subsidiary of another business. Firms with at least $500 million in assets under management (discretionary and non-discretionary as reported on Form ADV as of yearend 2023) will be included in FA's national "America's Top RIAs". There is no application fee to participate. More about the methodology can be found here. BFSG did not pay a fee to participate in this award.*

*** The Forbes ranking of America's Top Wealth Advisors and Best-In-State Wealth Advisors, developed by SHOOK Research, is based on an algorithm of qualitative criteria learned through telephone, virtual and in-person due diligence interviews, and quantitative data such as revenue trends and assets under management. The algorithm additionally weighs factors such as service models, compliance records and industry experience, and focuses on those that encompass best practices in their approach to working with clients. All advisors that are considered have a minimum of seven years' experience. Portfolio performance is not a criterion due to varying client objectives and lack of audited data. More about the methodology can be found here. BFSG did not pay a fee to participate in this award.*

The Score Board

	09/30/2024	YTD Change
Dow Jones Industrial Average	42,330.15	13.93%
S&P 500*	5,762.48	20.81%
NASDAQ Composite*	18,189.17	21.17%
MSCI EAFE (USD)*	2,468.66	10.40%
Bloomberg Commodity Index	100.34	1.72%
U.S. Aggregate Bond Index	2,258.17	4.45%
10 Yr U.S. Treasury Bond Yield	3.78%	-26bps
30 Yr Fixed Mortgage Rate	6.68%	-31bps
Prime Rate	8.00%	-50bps
Crude Oil ($ / Barrel)	$68.17	-3.14%
Gold ($ / Oz.)	$2,634.58	27.96%
U.S. $ / Euro €	$0.90	-8.17%
Core Inflation (excluding food / energy)**		3.2%
Inflation (including food / energy)**		2.5%

**Without Dividends; **Unadjusted 12-Months ended August 2024; bps (1 Basis Point = 1/100%); UNCH (Unchanged)*
Sources for Score Board and quoted statistics: WSJ, US Dept. of Labor, Federal Reserve

Sources:

1. The Nasdaq-100 Index is U.S. stock market index comprised of the largest 100 non-financial companies listed on the Nasdaq stock exchange. The index is dominated by technology companies and is commonly used as proxy for U.S. large cap technology performance.
2. The Dow Jones Industrial Average, Dow Jones, or simply the Dow, is a stock market index of 30 prominent companies listed on stock exchanges in the United States.
3. The S&P 500 Equal Weight Index (EWI) is the equal-weight version of the S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight of 0.2% of the index total at each quarterly rebalance.
4. The S&P 500 Index is designed to be a leading indicator of U.S. equities and is commonly used as a proxy for the U.S. stock market.
5. The MSCI World ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets countries (excluding the U.S.) and 24 Emerging Markets countries.
6. The Russell 2000 Index is a small-cap U.S. stock market index that makes up the smallest 2,000 stocks in the Russell Index. The index is commonly used as proxy for U.S. small cap stock market performance.
7. The Bloomberg U.S. Aggregate Bond Index is a broad-based index that is commonly used as a proxy for the U.S. bond market.
8. (2024). The Age of Drones is Disrupting the Defense Industry, Financial Times
9. (2024). New UK Strategy to Deliver Drones to the Armed Forces. www.uk.gov
10. (2024). Teal Group forecasts UAV Military Spending. Teal Group
11. Actively managed funds try to beat market returns with investments hand-picked by professional money managers, whereas passive funds are typically designed to track an index and try to keep pace with market returns.
12. The Morningstar Category™ classifications were introduced in 1996 to help investors make meaningful comparisons between mutual funds. Morningstar found that the investment objective listed in a fund's prospectus often did not adequately explain how

the fund actually invested. For example, many funds claimed to be seeking "growth," but some were investing in established blue-chip companies while others were seeking growth by investing in small-cap companies.

13. The Sharpe Ratio is the measure of a fund's risk adjusted performance. It is evaluated to determine how much return per unit of risk has been generated. It is calculated by dividing a fund's annualized excess returns over the risk-free rate by its annualized standard deviation.
14. Shows whether a given fund has outperformed (gained more or lost less) the benchmark during periods of market strength and weakness, and if so, by how much.
15. Upon request, we can provide further details about our quantitative methodology.

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Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your BFSG account holdings correspond directly to any comparative indices or categories. **Please Also Note**: (1) comparative benchmarks/indices may be more or less volatile than your BFSG accounts; and (2) a description of each comparative benchmark/index is available upon request.

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