PWMG Perspective Spring 2024

PRENTIS
WEALTH MANAGEMENT GROUP
of Wells Fargo Advisors

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To Our Clients, Family and Friends,

Spring has arrived! The economy is strong. Unemployment is near record lows. The stock market, and our portfolios, are near all-time highs. Together, we have weathered many headwinds over the past few years: the pandemic, supply chain bottlenecks, rapid inflation, sharply rising interest rates, scathing political partisanship, recession scares and geopolitical conflicts. We are pleased to report that our patience, process, and discipline over the past few years have been amply rewarded.

Our goals in this update are to:

1) Provide our current perspective on the economy and markets.
2) Share our outlook and thoughts on portfolio positioning.
3) Highlight investment planning considerations around whether to choose a Roth 401k or a traditional 401K retirement account.
4) Share some exciting news about our team.

Economic & Market Perspective

"Last year, the vast majority of economists, upwards of 85%... were predicting a recession and markets were predicting three interest rate cuts in the back half of 2023. Neither of those came to fruition – they were just outright wrong." "The prudent investor takes care not to lose focus and not to abandon the discipline to stick to fundamentals and principles when others around them march to the momentum of the moment."– Darrell Cronk, *Wells Fargo Investment Institute- February 28, 2024.*

Recently it has become fashionable for economists and market commentators to equate the economy with the flight of a plane. There has been much debate and hand wringing as to whether we will have a hard landing (bad recession), soft landing (mild recession) or no landing (no recession). Our view is that this is a poor analogy. The economy does not land, it fluctuates. Likewise, it is not a rocket ship (contrary to "meme stock" parlance) nor, fortuitously, is it likely to crash and burn.

Given the historic complexities and inaccuracies of economic and market forecasting, we prefer to prioritize the fundamentals of the companies and industries we follow when making investment decisions. Just as we posited in 2020, amidst the foggy mist of the pandemic: great businesses are resilient. They adapt to, and can flourish from, the circumstances at hand. Our primary focus remains on the fundamentals and valuations of the businesses we own. Value and values matter.

Outlook & Positioning

While we remain optimistic and are encouraged by recent economic and market strength, we believe that inflation, rising debt levels and, in turn, the level of interest rates, are cause for vigilance.

Inflation
After a rapid spike following the pandemic, inflation rates have been gradually trending down towards the U.S. Federal Reserve's (the Fed's) 2% target. Goods inflation has been trending down more rapidly than shelter and services inflation, which have been slower to fall. While inflation rates continue to move lower, risks of a resurgence do remain, especially if global economic strength persists and we see higher commodity prices.

We are also cognizant that *"Huge fiscal spending, the trillions needed each year for the green economy, the remilitarization of the world and the restructuring of global trade – all are inflationary."*-Jamie Dimon, CEO of JP Morgan Chase, Shareholder Letter, April 8, 2024.

The Fed & Interest Rates
Policy decisions and rhetoric from the Fed have been major drivers of both equity and bond market performance over the past few years. In 2022, after massive fiscal and monetary stimulus, the Fed raised interest rates at the fastest pace in decades in an effort to combat rampant inflation. As a result, both equity markets and bond markets sold off dramatically in 2022. In 2023, as inflation started to normalize, the Fed signaled that they were done raising interest rates and that their next move would be to cut rates. Markets have rallied strongly on this news into 2024.

The economy, employment, and consumer spending levels have all been incredibly resilient. This puts less pressure on the Fed to cut rates.

Positioning
"*Be fearful when others are greedy, and greedy when others are fearful."* – Warren Buffett. This mindset continues to guide our approach, ensuring that we prioritize risk management while seeking opportunities for long-term growth.

Technological advancements within Artificial Intelligence (AI) have taken both the world and markets by storm. While markets can be prone to an abundance of short-term hype around new technologies, we most certainly recognize the exciting longer-term opportunities that should develop from continued innovations in AI. We are quite optimistic on the business growth and productivity-enhancing potential facilitated by the AI initiatives of our portfolio companies.

As it applies to bonds and interest rates, at some point, the yield curve will normalize. Short term interest rates will fall below longer-term interest rates. For now, we have been quite comfortable maintaining healthy balances of high-quality, shorter-term fixed income exposure and money market funds (currently yielding over 5%). How and when we choose to buy longer-term bonds will be influenced by how inflation, interest rates, and economic conditions develop going forward.

Planning Topic: Traditional 401k vs. Roth 401k…Which to Choose?

Clients often ask us whether it is better to contribute to a traditional 401k or a Roth 401k now that most employer retirement plans offer a Roth 401k option. We have found the Roth 401k to be a compelling alternative to consider.

As a reminder, traditional 401k accounts accept pre-tax contributions and the money grows tax-deferred until pulled out in retirement, when income tax rates apply to the distributions. Required minimum distributions ("RMD's") must begin at age 73. If heirs inherit these accounts at one's passing, distributions are taxed at the heir's income tax rates.

Roth 401k accounts, which accept after-tax contributions, offer several appealing attributes, including tax-free growth, tax-free distributions (including to potential heirs), and have no required distributions in retirement.

In researching this topic for many clients, our calculations have clearly indicated a preference for Roth 401k's over traditional 401k's.

There are many considerations around this topic, and we invite you to discuss your individual situation with us at any time. We recently posted an article that dives deeper into this topic on our website and we encourage you to take a quick read here: Roth 401k News – Is It Time to Rethink How You Save for Retirement.

Team News

We are honored to announce that Prentis Wealth Management Group has once again been named as a ***Forbes Best-In-State Wealth Management Team for 2024***. Additionally, Peter Prentis and Michael Knuff were recently named ***Forbes Best-in-State Wealth Advisors for 2024***.

The success of our practice is due to you, our clients, and your referrals. We are here to assist you and anyone you value in your life.

We extend our heartfelt gratitude for your continued trust and partnership.

Warm regards,

Peter, Mike, Andrew, Joe, and Edita

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