Investment Insights

A Resource for Investors, Attorneys and CPAs

August 2023

at a glance

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DIVERSIFIED PORTFOLIOS, INC.

Market Update

August 2023

Asset Class	July Return	YTD Return
Large U.S. Stocks: S&P 500 Index	+4.5%	+20.7%
Small U.S. Stocks: Russell 2000 Index	+6.5%	+14.7%
Developed International Stocks: MSCI EAFE Index	+4.1%	+15.3%
Emerging Market Stocks: MSCI Emerging Markets Index	+6.6%	+11.4%
Bonds: Bloomberg Barclays U.S. Aggregate Index	+0.2%	+2.0%
Cash: FTSE 3-Month Treasury Bill Index	+0.4%	+2.6%

Source: Schwab - as of July 31, 2023

Markets are having a nice summer

The summer has been a strong one for global equity investors. Markets were relatively calm during April and May while financial stability concerns receded following the banking issues seen in the first quarter. Moving into June, equity markets celebrated the start to summer by moving higher and the Federal Reserve did not raise interest rates for the first time in 11 meetings. Meanwhile, tech investors cheered based on perceived significant progress in artificial intelligence and its implications for the global economy. Equity market returns have been led by large tech and semiconductor stocks, although some of these gains were given back during a mild sell off in mid-August.

Bond returns were muted. Interest rates drifted higher over the quarter despite the Federal Reserve pausing their rate hiking program (for now) in response to some progress being made on the inflation front. As economic data in the U.S. continues to come in better than feared, hopes of the Federal Reserve cutting interest rates aggressively in the near future are being dashed, and interest rates on the front end of the U.S. yield curve are rising as a result. We view this as a healthier “return to normal” for the bond market, compared to the zero-interest rate regime seen in the U.S. over the previous decade. As a result, slow and steady returns are the base case for bond investors over the medium term.

Despite higher interest rates and fears of recession, the second quarter was another solid one for the U.S. economy. A slowing of the inflation rate is helping to stoke optimism amongst businesses and consumers. While the most recent headline Consumer Price Index (CPI) of 3.2% is slightly above the Federal Reserve’s goal of 2%, it was just last summer the inflation rate peaked at 8.9%. Undeniable progress has been made in achieving the price stability our economy needs to function properly. Lower gas prices (although recently rising) and the removal of the inflation story from the nightly news are helping consumer confidence, while the unemployment rate hovers near an all-time low. Consumer spending historically is 63% of the GDP, and a steadier U.S. consumer is helping to keep the economy on the right track.

All performance data represents total returns for the stated period. Past performance is no guarantee of future results. Indices are not available for direct investment, and index performance does not reflect expenses associated with the management of an actual portfolio.

DIVERSIFIED PORTFOLIOS, INC.

Deeper Dive: Cash is not Trash!

August 2023

The Federal Reserve, in its attempts keep inflation under control, has been raising interest rates aggressively, bringing the Federal Funds Rate to its highest level in 22 years. Investors can now earn at least 5.25% in what are considered risk-free, short-term treasury bills, and as such, should make sure their cash management strategies are reviewed.

Once upon a time, banks would provide their clients with a competitive interest rate on bank balances in checking and savings accounts. When interest rates were cut to zero in response to the Financial Crisis of 2008, banks appropriately cut their rates they paid on bank balances to zero. With interest rates near zero from 2008-2022, cash kept on the sidelines for nothing more than safety made sense, since money market funds and money market instruments such as Treasury Bills and Commercial Paper paid nothing. Today, with the Federal Funds Rate targeted between 5.25%-5.50%, there is a pressing need for investors to re-evaluate how much cash they keep at the bank.

At Diversified Portfolios, we are pursuing cash management strategies for our clients and have been investing in instruments like Money Market Funds, Treasury Bills, and other Money Market securities with yields of 5.25% to 5.50%. This represents quite an opportunity over bank accounts, due to bank executives electing to keep their interest rates on checking and savings accounts as low as the competitive landscape will allow in order to boost shareholder returns.

We believe this is "low hanging fruit" for investors. As an example, $100,000 in a standard Chase checking account will pay $10 a year, whereas $100,000 in a 1 Year Treasury Bill would pay $5,340 in 12 months. The term and dollar amount can be tailored to the investor depending on their circumstances, but many investors have cash laying idle that they do not need for their regular monthly cash flow. The best environment for cash yields in 22 years should be a call to action to capitalize on the higher rates.

Cash Instrument	Interest Rate*
Standard Bank of America Checking Account	0.01%
Standard Chase Checking Account	0.01%
Bank of America 7 Month Certificate of Deposit	4.51%
Chase 6 Month Certificate of Deposit	4.50%
Schwab Government Money Market Fund	5.21%
3 Month Treasury Bill	5.43%
6 Month Treasury Bill	5.50%
1 Year Treasury Bill	5.34%

*As of August 9th, 2023

Source: Schwab, Bank of America, JPMorgan Chase as of August 9th 2023

DIVERSIFIED PORTFOLIOS, INC.

Financial Planning

August 2023

Secure Act 2.0! – IRS Notice 2023-54

Another delay for Inherited IRA RMDs

As we mentioned in our last Investment Insights, those who inherited IRAs starting in 2020 would be able to delay taking Required Minimum Distributions (RMDs) from those accounts through the end of 2022. In July of this year, the IRS released Notice 2023-54 which further punted any proposed RMD requirements (or penalties) until 2024.

Traditional IRA RMDs for those turning 72 this year

IRA owners who thought they were reaching RMD age this coming year and took a distribution, only to find out too late that the new required age is 73, are offered a temporary reprieve through Notice 2023-54. This reprieve allows them to treat these distributions as a rollover, and in contrast to traditional rollovers, not be subject to the 60-day window or "once-per-year" rollover rule if completed before October 1st, 2023.

With many of these rules changing frequently, it's important to determine the most appropriate course of action on an annual basis and in the context of your comprehensive financial plan. Talk with your advisor for clarification and help.

2023 Tax Year Reminders

- Participants in 401k, 403b, and other employer sponsored plans can contribute a maximum of $22,500, ($30,000 over the age of 50).
- IRA contribution limits have increased to $6,500, ($7,500 over the age of 50).
- For those in profit sharing or defined benefit style plans, the back half of the year is the perfect time to begin calculating contributions for 2023.
- Many states made tax law changes, including Michigan, reducing their individual income tax rate from 4.25% to 4.05%. This is proposed to go back in 2024.
- Individual annual gift exclusions increased from $16,000 per year per person to $17,000. This includes "Super-Funding" 529 college education plans where an individual can gift up to $85,000 per person in one year.

We're here to help

The team at Diversified Portfolios is wishing everyone a great start to the fall season as we work through the 3rd quarter of the year. We are here to help on any investment or financial planning question.

Sources: www.irs.gov – www.Michigan.gov

Disclosures

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