DIVERSIFIED PORTFOLIOS, INC.

Investment Insights

A Resource for Investors, Attorneys, and CPAs

September 2024

at a glance

Market Update

Interest rates are moving lower and value stocks are moving higher.

Upcoming Election and your Money

Exploring the impact of the upcoming election on markets

Financial Planning

New RMD rules in 2025 & other reminders for 2024.

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Market Update

September 2024

Asset Class	Quarter To Date	YTD Return
Large U.S. Stocks: S&P 500 Index	2.0%	17.6%
Small U.S. Stocks: Russell 2000 Index	3.0%	4.8%
Developed International Stocks: MSCI EAFE Index	2.2%	7.6%
Emerging Market Stocks: MSCI Emerging Markets Index	-1.8%	5.5%
Bonds: Bloomberg Barclays U.S. Aggregate Index	5.6%	4.9%
Cash: FTSE 3-Month Treasury Bill Index	1.1%	3.8%

Source: Schwab - as of September 11th, 2024

Lower Interest Rates Are Leading Global Markets Higher

Many of the themes that dominated market movement over the previous 18 months have reversed over the summer. Higher rates and higher share prices for companies focused on artificial intelligence have given way to a lower interest rate environment, benefitting real estate companies, value stocks, and fixed income investors.

In the United States, investors have cheered on inflation data that is starting to near the Federal Reserve's target of 2%. In addition, GDP for the 2nd quarter came in at around 3%, a solid pace as U.S. economic strength continues to show resilience. However, the summer has shown some modest signs of a slow-down in the pace of hiring. Labor market struggles coupled with a more normal inflationary environment led to a Fed rate cut on September 18th for the first time since 2020. In addition, the rate on the 10 Year U.S. Treasury has fallen about 1% since April. This has major implications for residential housing, real estate companies, and smaller stocks with more debt on their balance sheets.

Globally, the economic data out of China is worrisome. The Chinese economy has struggled to restart following the pandemic, which has weighed on emerging market equities.

A silver lining for global investors is that China, the world's factory, may start to export deflation as prices fall in the region.

For fixed income investors, the summer has been sunny! When bond investors purchase securities in a higher interest rate environment, a modest fall in interest rates can really pack a punch. This is evidenced by bonds leading the way in returns thus far in the third quarter. Balanced investors with allocations to both stocks and bonds should take solace in a more normalized interest rate environment, as bonds have the ability to offer stability to an overall portfolio.

It has been another good year of returns across asset classes. While there are always reasons for angst, global commerce continues to chug along and companies are reporting earnings growth. Putting it all together, some asset classes have performed better than others, and a balanced and diversified investor has thus far seen results that are strong for the second year in a row.

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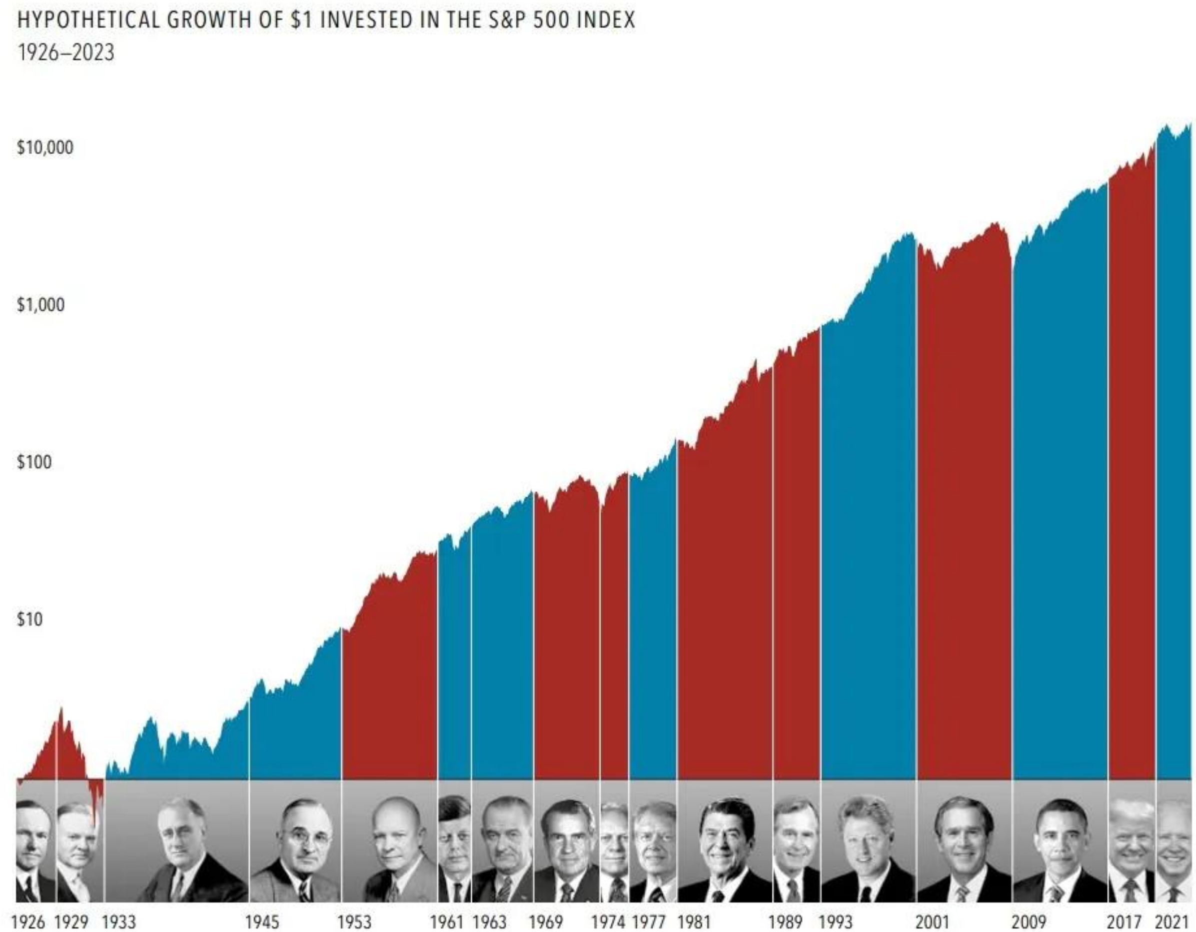
Deeper Dive: The Upcoming Election

Historically, there has been no correlation between control of the White House and stock market returns.

The graph below from Dimensional Fund Advisors (DFA) reminds investors that, going back a century, there has been no sustained relationship between the winner of U.S. presidential elections and stock market returns. Publicly traded corporations in the U.S. have grown their earnings by about 10% per year over the long term, which matches long term investment returns. DFA notes that U.S. presidents can certainly have an impact on economic priorities and fiscal policies, but that these factors are only part of the story. Economic cycles, interest rates, technological and productivity advances, and global economic factors outside the control of the executive branch historically have had more of an impact.



Source: DFA – September 2024

Financial Planning

2024 RMD Rules for Spousal Beneficiaries

A spouse who inherits an IRA has more flexibility than a non-spouse beneficiary. Depending on your situation, you may want to consider one of two preferential options:

- Delay any RMDs until the original account owner would have reached RMD age.
- Roll over the account into an IRA in your own name.

Based on the age of the original account holder and the age of the inheritor (as well as the cash needs of the inheritor), one option may provide more advantageous results.

2024 RMD Rules for Non-Spousal Beneficiaries

In 2024, the IRS has once again kicked the can on enforcing penalties for not taking RMDs from inherited retirement accounts. Individuals can delay taking RMDs through the end of the year, penalty free.

Unfortunately, the IRS has ruled that RMDs will begin in 2025. RMDs will be calculated based on the 2024 year-end value, without any need for making up for prior years unless directed otherwise by your tax professional.

We recommend working closely with your advisory team to help determine the strategies that make the most sense for your comprehensive financial plan.

2024 Reminders

- Participants in 401k, 403b, and other employer sponsored plans can contribute a maximum of $23,000, ($30,500 over the age of 50).

- IRA contribution limits (both traditional and Roth IRAs) have increased to $7,000 ($8,000 over the age of 50).

- Michigan residents benefitted from reduced state taxes in 2023 with rates dropping from 4.25% to 4.05%. In 2024, the Michigan state tax rate will return to 4.25%.

- In 2024, individual annual gift exclusions increased from $17,000 per person, per year, to $18,000. This includes “Superfunding” 529 college education plans, where an individual can gift up to $90,000 per person in one year.

- With marginal tax rates expected to increase at the start of 2026, those in lower brackets may want to consider completing Roth Conversions during 2024 and 2025.

We’re here to help

The team at Diversified Portfolios is wishing for a great fall for you and your families. We are here to help with any investment or financial planning questions, so please never hesitate to reach out.

Sources: www.irs.gov – www.Michigan.gov · www.kitces.com

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