FLORIDA FIDUCIARY 2023 MARKET SUMMARY

Florida Fiduciary
Wealth Management
(863) 688-0900
Floridafiduciary.com

Stock Markets 2023

The Dow Jones Industrial Average as of the writing is up 12.2%. The S&P 500 is up 21%. The NASDAQ is up almost 39%. Meanwhile, the 10-year Treasury Bond yield began 2023 at 3.88% and is currently at 4.20%.

The markets have survived 2023 with bated breath, hanging for any encouragement from the Federal Reserve. At the end of July, the markets seemed poised to rejoice that the rising rate cycle had ended but were then slammed with a temporarily rising inflation rate. The Fed announced higher for longer interest rates and all the interest rate sensitive securities plunged again until November, when it again appeared that economic data might suggest that the rising interest rate cycle was changing. More economic data came out in December that showed, while still here, inflation is declining.

The Dow Jones is now at a record high. The S&P 500 and the NASDAQ are a couple of percentage points away from their all-time high. Most of these gains have transpired over the last seven weeks, which shows that timing the market is very difficult to do. Wall Street predictions for next year are in a very broad range for the S&P 500 performance. In other words, they do not know any more than you or I. In our opinion, the equally weighted S&P 500 will outperform the dollar weighted.

It seems that if one was invested in the major stock market indexes, one fared well, but if invested in mid or small caps, or sectors out of favor, it was not as successful. Sectors rotate and investment strategies change. It could very well be that what fared poorly in 2023, may appear more favorable in the year to come. The one thing that's reliable in the markets is that things change.

Be diversified and be attentive to new directions that will inevitably begin to appear.

Interest Rates

As you're aware, interest rates have gone straight up for the past two years. The Fed Funds rate is defined as the interest rate that U.S. banks pay one another to borrow or loan money overnight, which also affects interest rates on everyday consumer products, such as credit cards or mortgages. The Fed Funds rate has gone from 25 basis points to over 5% over the same period. The over-stimulus packages that the government injected into the economy, particularly the PPP loans, caused a spike in inflation that we haven't seen since the 1980s. The Federal Reserve was forced to raise interest rates to help stave off inflation that has had a tremendous impact on all American lives. The effect on fixed income investments (bonds, preferred stocks) has been the worst on record[1]. When interest rates go up gradually, the fixed income market can adjust accordingly. When interest rates rise rapidly it cannot. At the latest Federal Reserve meeting on December 12, 2023, they indicated that there will be rate cuts next year. Over the last thirty days, fixed income prices have made a strong rebound, which in our opinion, will continue into the near future if inflation remains under control.

Dividend Growth

Entering 2024 with lower inflation and interest rates, a dividend growth strategy focusing on dividend sustainability and financial quality remains attractive.

[1] Wall Street Journal
[2] U.S. Census Bureau
[3] Wealthscape

Stocks with a history of dividend growth, on the other hand, could present a compelling investment opportunity in an uncertain environment. An allocation to companies that have sustainable and growing dividends may provide exposure to high-quality stocks and greater income over time, therefore buffering against market volatility and addressing the risk of rising rates to some extent. This argument goes beyond the traditional realm of domestic large-cap stocks. It also works for small- and mid-cap stocks and can be applied to international markets as well.

Dividend growth stocks tend to be of higher quality than those of the broader market in terms of earnings quality and leverage. Quite simply, when a company is reliably able to boost its dividend for years or even decades, this may suggest it has a certain amount of financial strength and discipline.

Dividend growth stocks could be attractive to market participants looking for disciplined companies that can endure difficult market and economic environments relatively well.

In summary, given the focus on quality balance sheets, dividend growth strategies could be attractive to market participants that are worried about volatility but still want to remain invested in equities while generating some income.

Derivative Income Strategy

Derivative Income Strategy is nothing new, but you can now do Derivative Income Strategy writings on the indexes. Here's how it works, for example, an ETF or closed end fund uses a straightforward strategy against the S&P 500, or you could also use the NASDAQ, Dow Jones, or the Russell 2000. Now, as with any investment, there's always an upside and a downside.

The upside is when the volatility index (VIX) is high. The premium on these ETFs is also high. Currently, they're yielding high single digits with appreciation potential on top of that. It will also have less volatility because of the high dividend that comes in monthly.

The downside is that if there's a strong stock market the upside can be capped depending on the ETF strategy that you use.

Now different ETFs have different investment objectives. Some will outperform others depending on their strategy. Knowing which one and when to use it is highly important.

These ETFs tend to underperform in a strong market and do better in a down or flat market.

Buffered ETFs

This strategy has been around for about 4 or 5 years. In some years it works and some others it doesn't. Here are the basics of this strategy: The sponsor uses either the NASDAQ or the S&P 500 for its index. Each month there are new caps and buffers that last 12 months. Let's say, for example, in one month that it's on the S&P 500 and it has a 14% cap and a 10% buffer. Here's how this will work, if the S&P 500 is up 20%, this ETF will be up 14%. If the S&P 500 is up 10% then the ETF would be up 10%. Now, if the S&P 500 is down 20% this ETF will be down 10%. If the

[1] Wall Street Journal
[2] U.S. Census Bureau
[3] Wealthscape

S&P 500 is down 8%, then this will be flat. It's a way to participate in the stock market with some downside protection. Using the most-valued month's pricing is essential for this strategy to work.

Long-Term Care

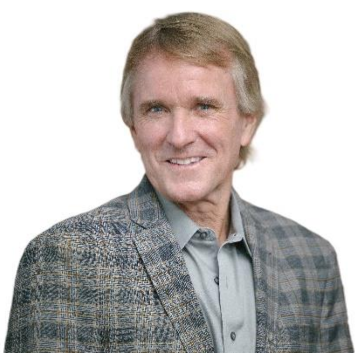
Long-term care insurance is not a pleasant subject to talk about, but life insurance isn't either. A long-term care event happens to a family not just an individual. Consider these facts: there are over 90,000 centenarians in the United States[3]; 70% of Americans will need some level of long-term care but only 10% have coverage. Most people's first objection is that it is expensive and, truthfully, it is. However, a long-term care facility intercepting any intended inheritance to one's beneficiaries is also a very expensive option. Let us explore long-term care options for you. Your beneficiaries will thank you.

Retiring

Retiring is or should be everyone's goal. There are a lot of factors that determine when this happens. The amount of assets, social security, investment performance, debt, education costs, inflation and the anticipated income that would be required to maintain a similar lifestyle even while in retirement. The rule of thumb and successful formula in the past was to draw 4% of moderately invested assets. With the rise in interest rates and inflation, we believe that this percentage will not work going forward. A comprehensive financial plan can answer many of these questions.

CD Rates as of 12/14/2023 [3]

1 Year	4.8%
2 Year	4.2%
3 Year	4.1%



KEVIN CAMPBELL
Registered Principal
Registered Fiduciary™

DAN CLARK, CMT
Chartered Market Technician®

JACQUELINE REYES
Financial Operations/
Administrative Support

1 Wall Street Journal
2 U.S. Census Bureau
3 Wealthscape