Q2 2024 Investment Update and Outlook

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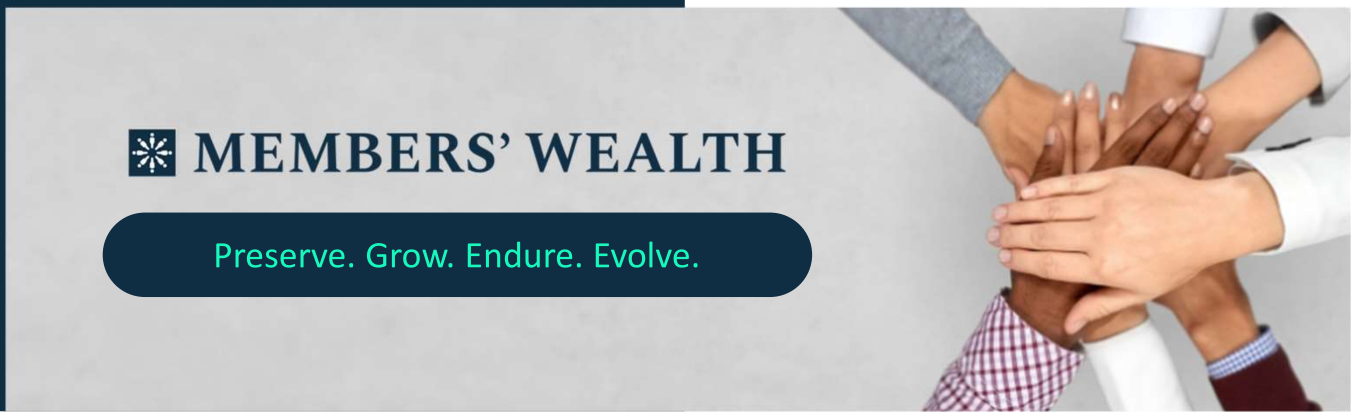


Large and in Charge

It is good to be large and in charge. As measured by the S&P 500 (Table 1), US large capitalization stock returns relative to other major asset classes have been quite remarkable. US large-cap equity exposure in client portfolios as a percentage of their overall equity is typically the largest equity exposure and for good reason! We should have just put the entire portfolio in large-cap US Stocks. Who needs diversification? I love the benefit of hindsight.

Table 1 - YTD Thru 6.30.2024 Results

Symbol	Name	QTD	YTD	1 Yr	3 Yr Ann	5 Yr Ann
^SPX	S&P 500 (US Large Cap Stocks)	4.28%	15.29%	26.67%	10.08%	15.05%
^RUTTR	Russell 2000 Total Return (US Small Cap Stocks)	-3.28%	1.73%	11.90%	-2.73%	7.00%
^DJUSRET	Dow Jones US Real Estate Index Total Return	-1.73%	-2.88%	6.36%	-2.24%	5.66%
^BCTR	Bloomberg Commodity Index Total Return	2.89%	5.14%	6.23%	6.21%	-1.29%
^BBUSATR	Bloomberg US Aggregate - Investment Grade Bonds	0.07%	-0.71%	2.13%	-2.98%	1.35%
^BBMBTR	Bloomberg Municipal Bond	-0.02%	-0.40%	3.06%	-0.85%	2.39%
JNK	SPDR Bloomberg High Yield Bd ETF	0.70%	2.34%	9.72%	0.76%	2.90%
IEMG	iShares Core MSCI Emerging Markets ETF	4.75%	6.86%	12.31%	-4.69%	2.98%
IEFA	iShares Core MSCI EAFE ETF (International Stocks)	-0.38%	5.10%	12.19%	1.97%	4.52%

It is no surprise to Members' Wealth that with this US large-cap equity dominance we continue to witness further concentration into the largest of the large stocks (Bottom of Figure 1). Why is this not a surprise? Because it has happened before (Bottom of Figure 1) and will happen again but will not last forever. Guess what follows a run-up in concentration? Typically, a return to less concentration.

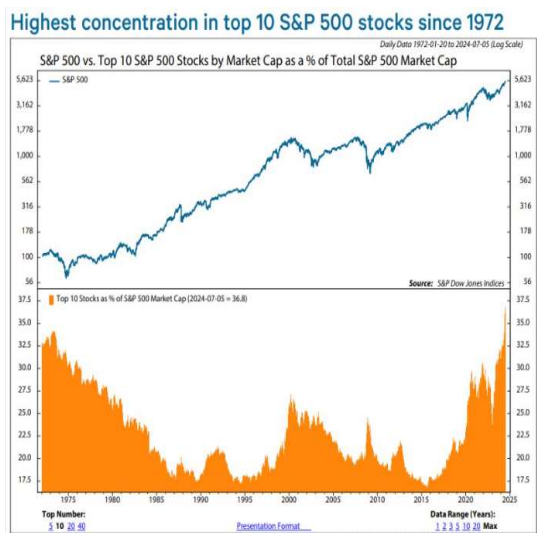


Figure 1 - US Large Cap Stock Concentration

What does that mean for investors? One word: Rebalance. Many data points should be seen as indicators, but not market timing tools. While stock concentration in the short run may not mean much, it should remind you that the diversified portfolio you thought you had, might not be as diversified as when you bought it. Perhaps one should think about rebalancing. We sure are.

Of Note Recently

Trying to forget the US Presidential debate debacle, other headlines like inflation, and its steady decline (Figure 2) – have garnered much of the investing public's top attention.

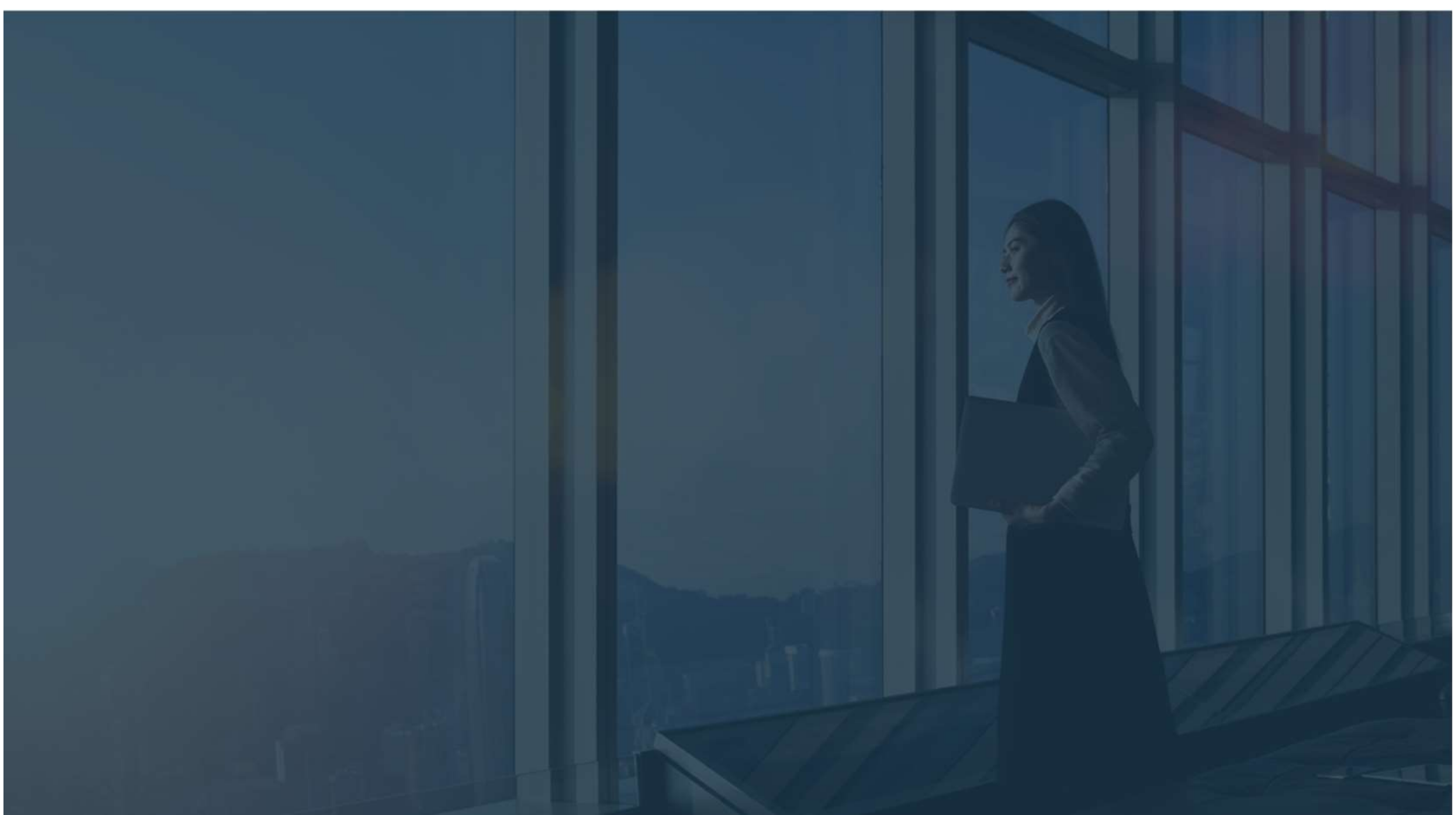
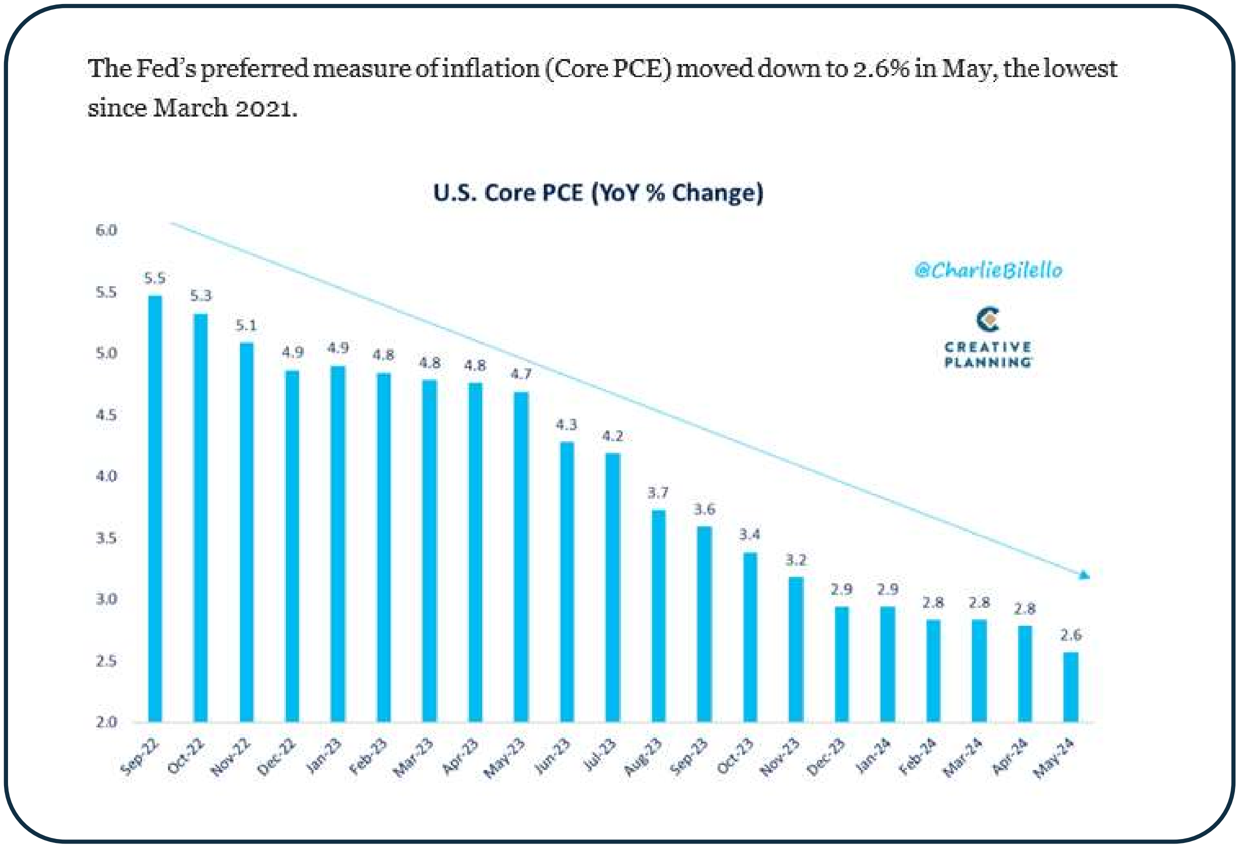


Figure 2 - Declining Inflation



We watch inflation and other data as a guide to where interest rates might be heading. Recent key data points, aforementioned inflation included, currently have the markets pricing in a 95% chance that the Fed will cut rates at least once this year. This is in line with the Fed's own recent forecast which also predicts just one cut in 2024. Other key data to be watching closely include jobs numbers and unemployment. The Labor Department has reported the U.S. added a solid 206,000 jobs during the month of June, slightly beating expectations and continuing a strong run. However, the unemployment rate ticked up to 4.1%, a potential sign of slack in the labor market, but not yet a clear-cut sign of a pending recession (though we are watching closely).

Based on our understanding of how the Federal Reserve looks at such data, these data points provide evidence that the labor market and inflation both appear to have come into better balance, affirming investors' view that the economy is slowing but not crashing. This justifies the prediction of a measured, rather than a drastic, rate cut. With that backdrop, how are the various asset classes faring for investment opportunity?

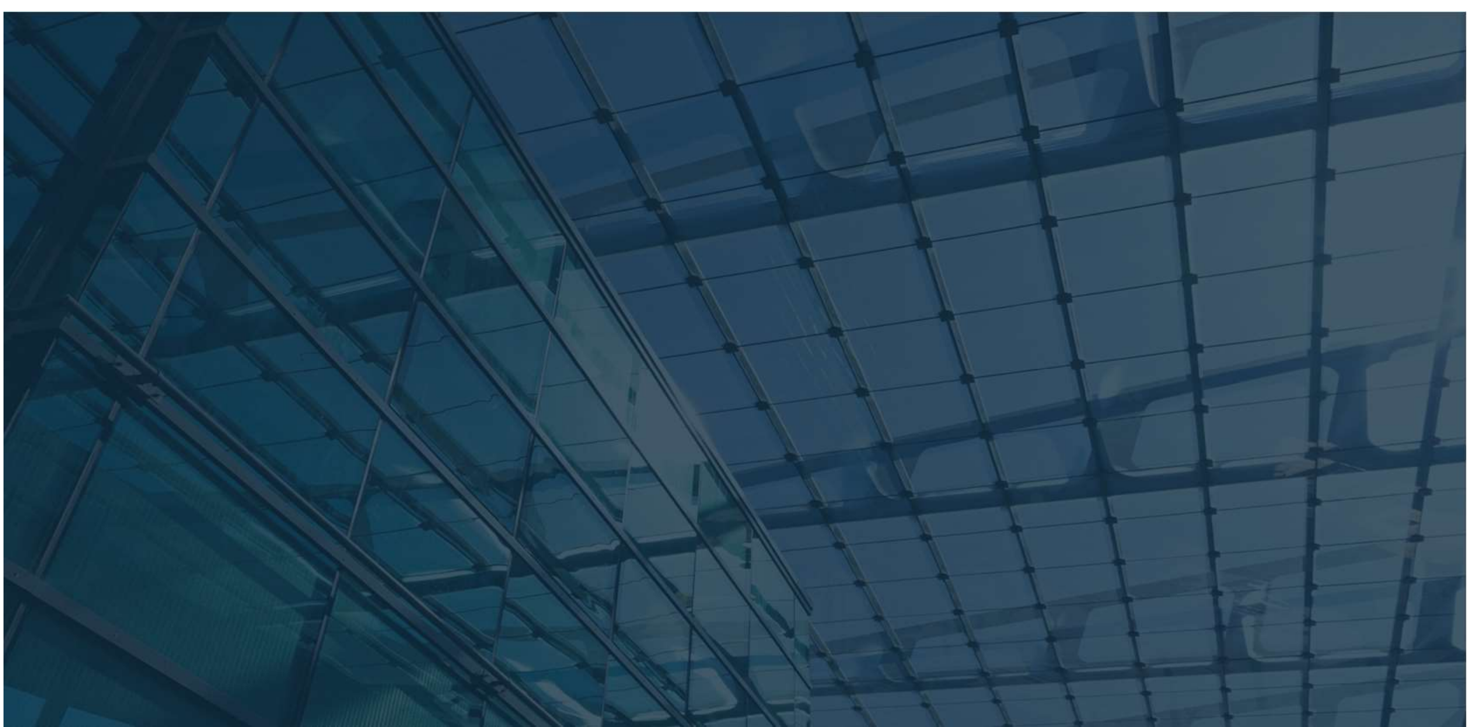
Asset Class Opportunities

Cash and Short-Term Bonds

Money market funds continue to be a fine place to park cash, have your emergency reserves, or money for spending over the next 1-3 years. Right now, you should be getting yields of about 4.5% to 5.5% on your cash or slightly higher on short-term (1-3 year) bond investments. If you are not, let us know and we can help you find a place to move your cash to increase your yields.

We want to note a development that has been evolving at major custodians like Fidelity, Schwab, etc. Due to internal changes from time to time at your custodians, the way in which they sweep your cash into a specific default money market account for safekeeping can shift. On your behalf, we seek to stay on top of the changes. This may cause us to make decisions on your behalf as to how to best manage your cash and money markets. Recently, Members' Wealth manually put in trades for money markets funds to move certain cash to higher-yielding money markets than the default options. The details are nuanced, and this does not affect all accounts nor all account registration types. If you want to learn more about it, please reach out to your team for an explanation.

Though cash remains attractive, where appropriate, at Members' Wealth, we tend to keep cash levels low, choosing instead to remain near fully invested in other longer-term opportunities.

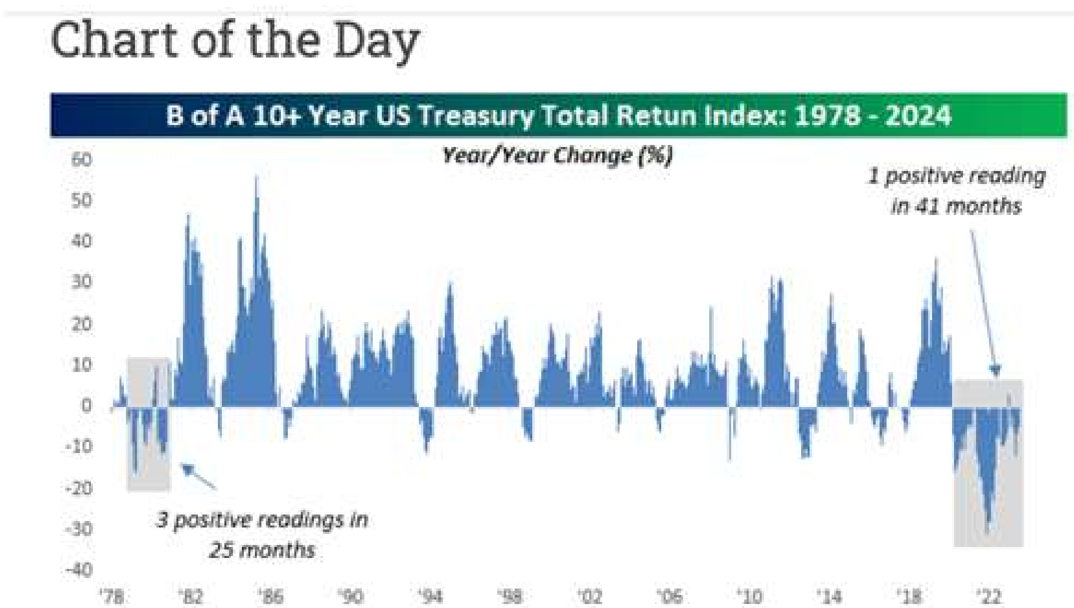


Bonds

So bad they start to look good? A bear market of epic proportions most often plants the seeds for a tremendous amount of opportunity. To paraphrase a powerful investor idiom, it is in bear markets where we make the most money, we just do not know it at the time. We are clearly in one of the worst bond bear markets (Figure 3) in history and most likely the worst many of our investors have ever experienced.

Figure 3 - Bond Bear Market

From Abnormal Returns Blog -Bespoke Blog



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Just this past month, our internal investment research conversation naturally returned to "Why do we own this quality bond crap? Returns are garbage!." It was one of us, I won't say who, but we were all feeling the sentiment. The rest of us could not help but shake our heads in agitated agreement. Then the voice of reason from on high, or was that Tim? reminded us of the benefit of high-quality bonds when perhaps the rest of the world does not look so good and interest rates are slashed and investors run for the Hills of Safety. Reason restored, but bonds still didn't smell like roses. Are high-quality bonds a hedge against bad times or an investment or a little bit of both?

Why stick with or add high-quality bonds to a portfolio? Well for one, yield. The yield and thus the income generated from the bonds are not quite at the peak they were in 4th quarter of 2023 but are still well above the 15-20 year average. And unlike cash where yields can evaporate at the will of the Federal Reserve, with bonds you can lock in the yield for a period of time, and at least in the short term, unlike cash, stand to benefit from a drop in rates (reminder, bond prices increase when rates drop). We were positioned for the rise in rates (the main driver of the recent poor returns) by owning short-term bonds, bond ladders, and overall having a shorter duration bond portfolio than the common bond benchmarks. And yes, bonds can serve as a hedge to the rest of the portfolio in times of market stress. At Members' Wealth, for most investors, where we want quality, yield, and a natural potential hedge to market disruption, we most likely will always have some quality bonds. And perhaps as the bond bear growls loudest through what will ultimately be seen as temporary hibernation, we should be looking through to the end of bond winter for spring.

High Yield Bonds - spreads

Contrary to the growl of the bear in quality bonds, high-yield bond investing has been fun. Fun is relative in this case. Fun means returns have been better than high-quality bonds. Not exactly a running of the bulls but good. Going forward: Caveat Emptor. Beware of the increasing relative risk. We are being cautious though remain invested. There is a time for defense and a time for offense. We like defense now and have those investors with high-yield bonds (formerly known as junk bonds) defensively positioned, though still clipping some high single-digit coupons with relatively short-duration bonds.

Symbol	Name	QTD	YTD	1 Yr	3 Yr Ann	5 Yr Ann
^BBUSATR	Bloomberg US Aggregate - Investment Grade Bonds	0.07%	-0.71%	2.13%	-2.98%	1.35%
^BBMBTR	Bloomberg Municipal Bond	-0.02%	-0.40%	3.06%	-0.85%	2.39%
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Alternatives[i]

Who wants alternatives to US large-cap stocks when US large-cap stocks are doing so well? We remind investors of the comments we made at the end of 2022 when US large cap Stocks were finishing a challenging year and alternative investments, on average, fared much better. At the time we noted the renewed interest in alternative investments relative to US Stocks and Bonds but cautioned on chasing returns.

What is an alternative?

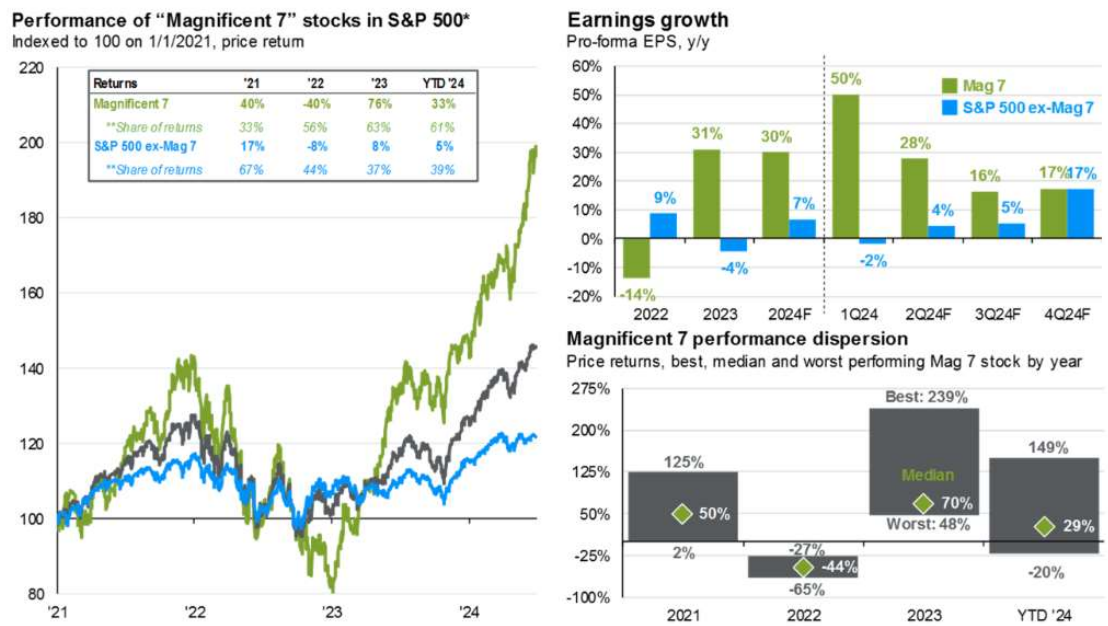
At Members' Wealth, an alternative is something that is not traditional. (Traditional being an investor owning with the expectation of income and/or price appreciation from bonds, stocks, and cash).

For those investors where alternative investments are appropriate, we usually always maintain a position but the sizing may vary based on the relative opportunity to more traditional asset classes. Those with alternative investments in their portfolio will generally note absolute positive returns, outperformance relative to high-quality bonds, and relative underperformance to US large cap equity. As such, you should not be surprised that we may be moving some capital here, if appropriate, in the third quarter rebalancing. If you are unsure if you have or what your weighting is in alternative investments, please talk with your advisor or portfolio manager at your upcoming meeting.

Equity

The equity landscape continues to be dominated by US large-cap equity returns. And more specifically look at what the top tech names in the index (The "Mag 7") influence has been:

Figure 4 - Performance of Magnificent 7



When the top dominates, the rest lags. Figure 5 gives a lot of information about the current state of affairs and the historical results of US stocks across the capitalization and style spectrum. Study this one!

Figure 5 - US Equity Returns and Valuations

10-year annualized

	Value	Blend	Growth
Large	8.2%	12.9%	16.3%
Mid	7.6%	9.1%	10.5%
Small	6.3%	7.0%	7.4%

YTD

	Value	Blend	Growth
Large	6.6%	15.3%	20.7%
Mid	4.5%	5.0%	6.0%
Small	-0.8%	1.7%	4.4%

Since market peak (February 2020)

	Value	Blend	Growth
Large	39.7%	72.9%	97.4%
Mid	37.2%	40.7%	39.7%
Small	33.2%	28.3%	20.2%

Since market low (March 2020)

	Value	Blend	Growth
Large	125.9%	161.2%	188.0%
Mid	142.6%	135.5%	117.2%
Small	134.3%	116.3%	95.4%

Current P/E vs. 20-year avg. P/E

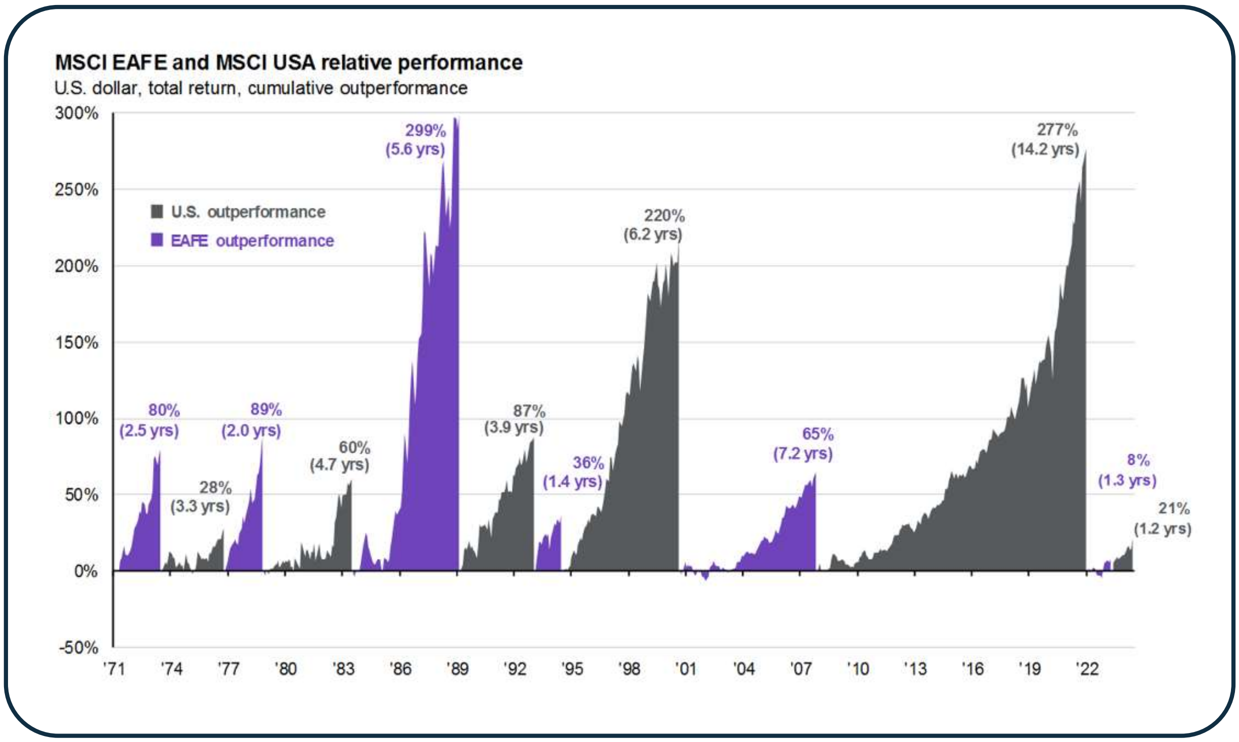
	Value	Blend	Growth
Large	15.3 / 13.7	21.0 / 15.7	28.4 / 19.0
Mid	14.9 / 14.5	17.0 / 16.4	25.6 / 20.6
Small	16.1 / 16.7	21.7 / 21.4	32.9 / 32.3

Current P/E as % of 20-year avg. PE

	Value	Blend	Growth
Large	111.3%	134.0%	149.2%
Mid	102.8%	103.6%	124.3%
Small	96.7%	101.6%	102.0%

Both higher-than-average valuations and prudent portfolio management will most likely have many client portfolios feeling the need to lighten now higher (thanks to appreciation) current allocations to US large-cap equity. While some of the sale proceeds will make their way to the non-equity asset classes, investors should not overlook certain opportunities in more reasonably valued high-quality smaller public companies, nor further afield international stocks. Small stocks and international stocks are not for all investors, but both can be strong additives to positive returns when they are more in favor. The strong US dollar, post-Covid shifts in how global trade dynamics work, among other geopolitical events, and a significant relative underweight to technology stocks relative to US stock markets, have led to relative underperformance abroad in both developed and emerging markets. (Figure 6) shows clearly just how long the US has been outperforming international stocks; nearly uninterrupted since 2008.

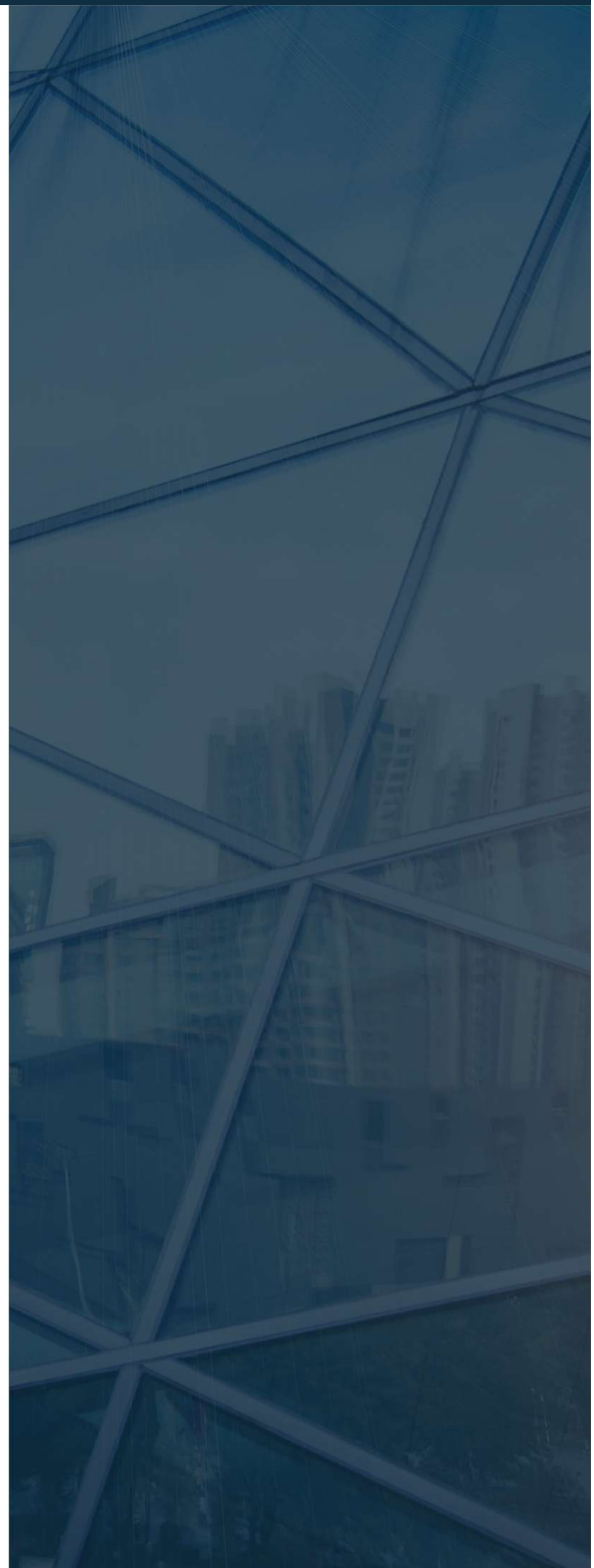
Figure 6 - US vs International Relative Stock Performance



For those with allocations to international markets, we have been quite pleased with some new additions to the investment lineup over the last year. To hear more on specifics for your portfolio, please discuss with your advisor or portfolio manager at your upcoming meeting.

Private Investments

We continue to evaluate opportunities in private investments. From private bonds to real estate to equity, the private side of these major asset classes at times can offer remarkable opportunities in a tradeoff for the additional risk of illiquidity they bear. We are particularly interested in select credit (traditional corporate and infrastructure) and real estate categories currently and where appropriate will be talking with investors about these opportunities. I like this recent quote from John Brady, global head of real estate at Oaktree Investment Management, a distressed investing specialist, about opportunities ahead, “We could be on the precipice of one of the most significant real estate distressed investment cycles of the last 40 years. Few asset classes are as unloved as commercial real estate and thus we believe there are few better places to find exceptional bargains.” Private and/or distressed investing is not for short-term time horizons, nor the faint of heart.



Outlook

Like this recent heat wave – (triple digits in Wichita – why am I in Wichita?)…we do not expect large-cap US stocks to remain as hot as they have been indefinitely. As such, we urge investors to be mindful of too high a concentration in their winners and to mute the siren song of recency bias[ii] and work with us to look where others may have looked but to be more discerning so that we may see what they may have missed. Opportunities abound.

Risk is not just an Investment Term

Asset protection and preservation is multidimensional. Our clients are awesome. They are always working hard to better themselves and their families. We love their passions. This quarter alone we had some great examples that made us want to remind our investors that investment review and discussion are only a part of what is great about working with your team at Members' Wealth. We would like you to think of Members' Wealth as who you first call for all things financial. We are here to help. Just this quarter, we had to consider various forms of:

- insurance (property & casualty, life, umbrella, etc.),
- asset titling and/or ownership structure (i.e.. Joint vs individual, LLC vs individual, etc.), and
- legal agreements

for clients that are buying or selling: real estate, a business, a car, a piece of equipment for their business, etc. There were also job promotions, corporate restructurings, executive compensation analysis, marital engagements, etc. When such events begin to materialize, please speak with us first so that your team of financial professionals with experience in tax strategy, asset protection, financing, law, etc. can brainstorm, educate, strategize, and help implement the appropriate strategy for your family.

We at Members' Wealth are humbled by the opportunity to work with such wonderful families. Our commitment is to elevate each family's wealth plan so they may continue to lead their extraordinary lives intentionally and with purpose. Go, continue to grow, travel, build businesses, and create memories with loved ones.

Enjoy the heat, and the high markets.

[i] Each quarter we like to highlight an alternative strategy or investment or speak to the category as a whole. Part update, part education. What is an alternative? At Members' Wealth, an alternative is something that is not traditional. (Traditional being an investor owning with the expectation of income and/or price appreciation from bonds, stocks, and cash). Alternatives can include but are not limited to real estate, private investments, long/short, market neutral, event-driven, convertible bonds, merger arbitrage, trend-following strategies, managed futures, commodities, and the list goes on.

[ii] Recency Bias… Recency bias is the tendency to weigh recent events more heavily than earlier ones, potentially leading to skewed investment decisions.

Investment advisory services offered through Member's Wealth, LLC, a registered investment advisor. The Dow Jones Industrial Average (DJIA) is a stock market index of 30 prominent companies listed on stock exchanges in the United States. The S&P 500 index is designed to be a broad based unmanaged leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe or representative of the equity market in general. The National Association of Securities Dealers Automated Quotations (NASDAQ) is an American stock market that handles electronic securities trading around the world. The Russell 2000 index is an index measuring the performance of approximately 2,000 small-cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. The Russell 2000 serves as a benchmark for small-cap stocks in the United States.

Visit www.russell.com/indexes/ for more information regarding Russell indices. The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Bloomberg US Aggregate Bond Index, is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the United States.