ROCKBRIDGE
INVESTMENT MANAGEMENT

OFFERING ROCK-SOLID FINANCIAL ADVICE

NEWSLETTER HIGHLIGHTS

Capital Market Activity

Bob Ryan

A Year in Review

After plenty of ups and downs throughout the year, financial markets turned in reasonable results in 2023. A globally diversified stock portfolio was up 16% and the Barclays Aggregated Bond Index (a reasonable proxy for bonds) returned 6%. News on several fronts helps to explain this year's results:

Interest Rates, Inflation, and Prospects for a Soft Landing

Throughout 2023, all eyes were on the Fed's effort to tamp down inflation without spurring on a recession and many were uncertain about their ability to pull this off. During the year, the Fed raised its Federal Funds Target Rate by 1% to 5.5%, which seemed to have the desired effect as the annualized change in the Consumer Price Index fell from almost 7% to 3% by the end of the year. Unemployment remained at historic lows in a growing economy, suggesting a soft landing – not the conventional wisdom at the start of the year.

Stocks responded positively. The tech-laden S&P 500 was up over 26%; domestic small company stocks (Russell 2000) were up 17%; international developed markets (EAFE Index) returned 18% and emerging markets (MSCI Index) returned 10%.

Bond yields fell back in response to expectations that the Fed is done raising interest rates. The yield on the closely watched 10-year Treasury Note fell over 100 basis points (1%) from its October peak. Yields are now about where they were at the beginning of the year, producing returns for Treasury securities of about 4% across all maturities.

Artificial Intelligence and the Magnificent Seven

News on Artificial Intelligence (AI) impacted financial markets positively. Amid the short-term uncertainty it is clear the impact of AI will be profound. Domestic tech companies expected to benefit from AI, termed the "Magnificent Seven" (Apple, Amazon, Google, Meta, Microsoft, Nvidia and Tesla) representing 30% of the value of the S&P 500, were up big in 2023. An equally weighted portfolio of these stocks more than doubled over the year.

Interest Rate Risk and Bank Failures

Higher interest rates, which rose rapidly from near zero, mean that banks are susceptible to interest rate risk by funding long-term loans with short-term liabilities. This risk explains the failures of Silicon Valley Bank, Signature Bank and Republic Bank as well as increased concern of the banking system in early 2023.

Political Upheaval

We have endured our share of political upheaval in 2023 including the ongoing fighting in Ukraine, the brutal attack by Hamas and Israel's response, coupled with ongoing dysfunction in Congress. This political wrangling, global uncertainty, and ~17% inflation over the last three years helps to explain the public perception of the domestic economy being generally worse than what the numbers imply.

What's Ahead in 2024

The beginning of a year is when we are treated to various forecasts of what's ahead. Don't pay any attention – no one knows. A long history of market behavior does give us a sense of what's expected, but what's realized is driven by surprises, both positive and negative. Market prices are the best predictor and diversification is the best way to deal with uncertainty. Take advantage of the wonders of compound interest by rebalancing to maintain established commitments to several markets and avoid getting caught up in predictions.

2024 Retirement Account and Tax Bracket Updates

Madelyn Murray

The new year brings several changes to retirement account contribution limits, income phaseouts, and tax brackets. Below is a summary of the key changes for 2024:

401(k) Contribution Limits

The elective deferral limit for 401(k), 403(b), and most 457 plans has increased to $23,000 for 2024, up from $22,500 in 2023. The catch-up contribution limit for those aged 50 and over remains unchanged at $7,500. In total, individuals over age 50 can contribute up to $30,500 to the common retirement plans in 2024.

SIMPLE/SEP IRA Contribution Limits

The elective deferral limit for SIMPLE IRAs increased to $16,000 in 2024 from $15,500. The catch-up contribution limit for those aged 50 and over remains $3,500. The SEP IRA maximum contribution limit is 25% of compensation or $69,000, whichever is lesser, for 2024.

High Earners Catch-Up Delay

The Secure 2.0 Act announced starting in 2024, high earners (those with an annual income exceeding $145,000) can only make catch-up contributions to Roth portion of their 401(k) accounts. However, on August 25, 2023, the IRS announced a two-year delay for this provision. This means that everyone aged 50 and over can make pre-tax catch-up contributions through the end of 2025, no matter their earnings.

IRA Contribution Limits

The limit on annual contributions to Traditional and Roth IRAs increases from $6,500 to $7,000 in 2024. The catch-up contribution limit for those 50 and older is unchanged at $1,000. The deduction phaseout range for taxpayers making contributions to a traditional IRA starts at $77,000 for single filers and $123,000 for joint filers in 2024. The income phaseout range for making contributions to a Roth IRA starts at $146,000 for single filers and $230,000 for joint filers in 2024.

HSA Contribution Limits

The limits for Health Savings Account (HSA) contributions have increased for 2024. The contribution limit for individuals with HSA eligible coverage is $4,150, up from $3,850 in 2023. The contribution limit for HSA eligible family coverage rises to $8,300, up from $7,750. Individuals aged 55 and over can make an extra $1,000 catch-up contribution to their HSAs.

FSA Contribution Limits

The Flexible Spending Account (FSA) salary contribution limit rises to $3,200 in 2024, up from $3,050 in 2023. The Dependent Care FSA limit remains at $5,000 for married couples filing jointly, or $2,500 for married filing separately (Income limitations apply).

2024 Tax Brackets

The income ranges for all seven federal income tax brackets have been adjusted for inflation in 2024. Shown below are a comparison of the Federal tax brackets sourced from the IRS.

Marginal tax brackets

	2023		2024	
RATE	SINGLE FILER	MARRIED FILING JOINTLY	SINGLE FILER	MARRIED FILING JOINTLY
37%	>$578,125	>$693,750	>$609,350	>$731,200
35%	>$231,250	>$462,500	>$243,725	>$487,450
32%	>$182,100	>$364,200	>$191,950	>$383,900
24%	>$95,375	>$190,750	>$100,525	>$201,050
22%	>$44,725	>$89,450	>$47,150	>$94,300
12%	>$11,000	>$22,000	>$11,600	>$23,200
10%	≤$11,000	≤$22,000	≤$11,600	≤$23,200

Be sure to consult with your Rockbridge advisor to determine how the 2024 updates impact your personal financial plan. Key changes include increased retirement and healthcare savings contribution limits, along with inflation adjustments to tax brackets and other retirement account phaseouts.

Cash Management In A Declining Interest Rate Environment

Zach DeBottis

Over the last two years, interest rates have risen at a historic clip. As a result, Rockbridge has dedicated more time helping clients manage cash reserves to take advantage of the current market environment. In previous years, "high yield" savings accounts were (and some still are) paying less than 1%. Now, it is easy to find money market funds earning in excess of 5% annually.

However, we know that this won't remain the case forever, and given the most recent guidance by Chairman Powell, we'll almost certainly enter a declining interest rate environment at some point in 2024. With that being said, now is an important time to review the goals of your cash reserves. We would classify these "goals" into three major categories:

Emergency Fund / Short-Term Use

For cash earmarked for known expenses within the next year, or cash acting as an emergency reserve for those worst-case scenarios, we recommend maintaining safe, liquid investments such as a purchased money market fund or high-yield savings account.

While the interest earned in these accounts will trickle down as the Fed starts to lower short-term rates, this is still the best option for short-term cash reserves. Still, it's important to make sure the interest rate you receive on these monies is competitive relative to market rates.

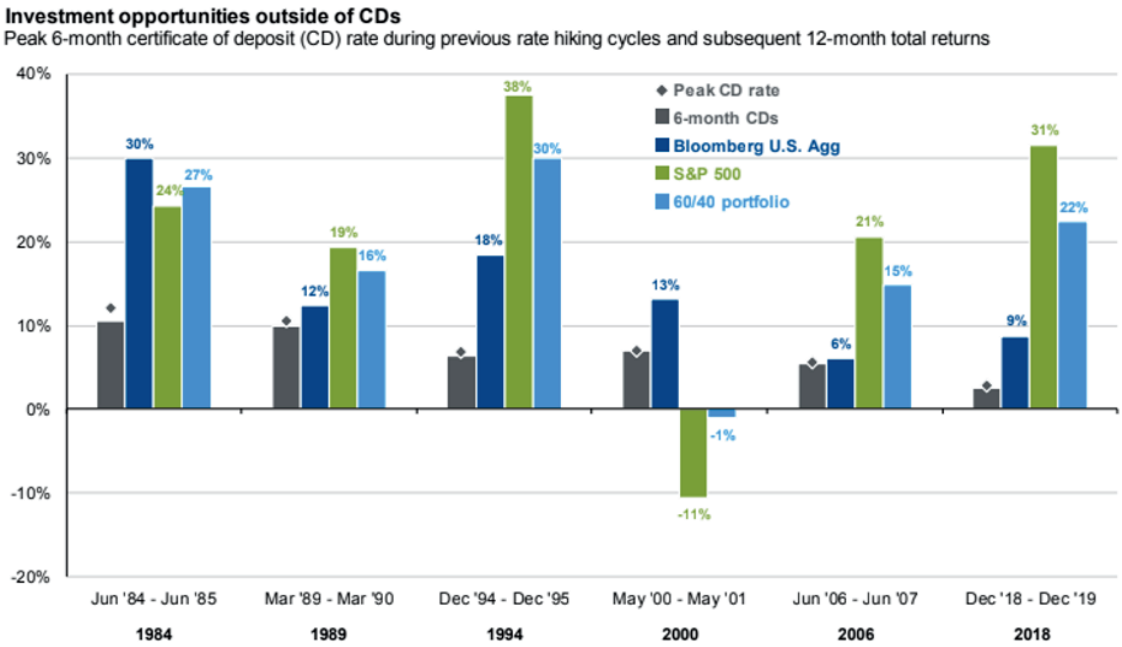
Intermediate Term Use / Goal Funding

This is the bucket for which we'd allocate cash earmarked for major expenses or cash flow needs in the next 1-3 years. Given this timeframe, we'd caution investors against taking stock market levels of risk and volatility, but we also know that fully liquid options won't be as attractive as interest rates come down.

For these intermediate term cash goals, it may be a good time to purchase a Treasury bond or Certificate of Deposit (CD). This allows you to lock in an interest rate today and ensure that level of interest is earned throughout the duration of the investment. These investments can still be sold if you need the principal sooner than expected; however, you might be selling at a premium or discount from face value.

Long Term Goals

If you have cash on the sidelines that isn't earmarked for a specific goal in the short or intermediate-term, we recommend putting a plan in place for getting this money invested in a diversified stock/bond portfolio. Shown below is a chart from J.P. Morgan's Economic and Market Update as of 12/31/2023 that illustrates 12-month market performance following a peak period of 6-month CD rates:



While this doesn't gaurantee future market performance, this data is consistent with the correlation of positive stock market performance in declining interest rate enviornments.

Bottom Line

While earning 5% on cash reserves might feel like the best decision today, it's important to consider the bigger picture. If you have questions about the status of your current cash reserves, a Rockbridge advisor would be happy to help develop a plan for you.

ROCKBRIDGE SPOTLIGHT

Continued Growth in Rockbridge's Tax Preparation Service

At Rockbridge, we firmly believe that tax preparation is an important service that simplifies our clients' lives while also arming our advisors with the necessary information to make the best possible financial and tax planning recommendations. We're committed to offering tax preparation to our clients and we strive to continually improve the quality of our service and the experience we deliver. As such, we've made some exciting changes as we move into the 2023 tax season.

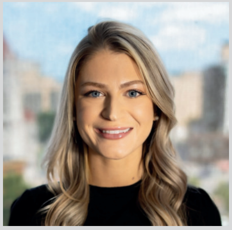
We're pleased to announce that we've hired two internal tax advisors from Syracuse area CPA firms. Our new team members, David Krawczyk and Alexys Jacobs, will be responsible for overseeing our tax preparation service and reviewing our clients' returns for tax planning opportunities. We've also partnered with a local firm, Pellizzari & Pellizzari, CPAs, to take on the specific responsibility of preparing client tax returns. Pellizzari & Pellizzari, CPAs was founded by the father-son duo of Philip and Jeremy with the intention of continuing the legacy of excellence in accounting established by Philip throughout his 50-year career.

This new partnership allows our internal tax team to focus on driving financial and tax planning actions that result from your tax return. We've aligned our core skillset as financial advisors and partnered with local CPA professionals to provide better value to our clients. Please browse to the tax services page on our website (Rockbridge Tax) to learn more about Dave and Alexys as well as our new partners at Pellizzari & Pellizzari CPAs.

ROCKBRIDGE INVESTMENT MANAGEMENT

Pellizzari & Pellizzari, CPAs

Dave Krawczyk
CPA, MSA



Alexys Jacobs

Philip Pellizzari
CPA

Jeremy Pellizzari
CPA

Michael Geremia

Market Returns

Returns from Various Markets:

The following table shows the returns from various markets over periods ending December 31st, 2023:

Market/Asset Class	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
FIXED INCOME						
3-Month US Treasury Bills	1.37%	5.02%	2.15%	1.88%	1.25%	1.46%
Bloomberg US Agg Bond	6.82%	5.53%	-3.32%	1.10%	1.81%	3.17%
Bloomberg 1-5 Yr Credit	3.96%	5.94%	-0.17%	2.21%	2.00%	3.07%
DOMESTIC STOCKS						
S&P 500	11.69%	26.29%	10.01%	15.68%	12.03%	9.69%
S&P 500 Value	13.63%	22.23%	13.11%	14.11%	10.01%	8.52%
S&P 500 Growth	10.09%	30.03%	6.62%	16.22%	13.35%	10.48%
Russell 2500	13.36%	17.46%	4.26%	11.68%	8.37%	9.08%
Russell 2500 Value	13.76%	15.98%	8.81%	10.80%	7.43%	8.35%
Russell 2500 Growth	12.60%	18.96%	-2.67%	11.42%	8.77%	9.44%
MSCI US REIT	16.00%	13.74%	7.10%	7.39%	7.59%	8.00%
INTERNATIONAL STOCKS						
MSCI EAFE	10.42%	18.24%	4.02%	8.16%	4.28%	5.59%
MSCI Emerging Markets	7.86%	9.83%	-5.08%	3.68%	2.66%	6.83%
U.S. Consumer Price Index	-0.34%	3.35%	5.61%	4.07%	2.79%	2.58%

Market Benchmark Portfolios:

The following table shows the returns from our market benchmarks over periods ending December 31st, 2023:

Rockbridge Portfolio	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
All Equity (99/1)*	11.73%	19.54%	5.97%	11.13%	7.94%	8.16%
Aggressive (70/30)*	10.10%	15.38%	3.53%	8.59%	6.38%	7.00%
Mod/Aggressive (60/40)*	9.55%	13.96%	2.68%	7.66%	5.80%	6.54%
Moderate (50/50)*	8.99%	12.56%	1.82%	6.69%	5.20%	6.05%
Mod/Conservative (40/60)*	8.44%	11.16%	0.95%	5.68%	4.58%	5.53%
Conservative (30/70)*	7.45%	9.75%	0.53%	4.72%	3.89%	4.84%
Cap Preservation (10/90)*	5.36%	6.93%	-0.26%	2.69%	2.43%	3.32%

*Values represent the ratio of stocks to bonds in the portfolio benchmark.

Note: These results were developed by simulating past returns in the various markets included in each benchmark, assuming the reinvestment of dividends and other earnings. The BofA Merrill Lynch 3-Month U.S. Treasury Bill Index represents money market/cash; the Bloomberg US Aggregate Bond Index represents the total U.S. bond market; the Bloomberg 1-5 Yr Credit Index represents the U.S. corporate bond market; the S&P 500, S&P 500 Value Index and S&P 500 Growth Index represent the domestic large-cap market; the Russell 2500, Russell 2500 Value Index and Russell 2500 Growth Index represent the domestic small-cap market; the MSCI U.S. REIT Index represents the U.S. real estate market; the MSCI EAFE Index represents the developed international equity market; the MSCI Emerging Markets Index represents international emerging markets. Benchmark Portfolio returns include Real Estate and Emerging Markets allocations beginning in July 2011. Benchmark Portfolio returns do not include allocations to these asset classes prior to June 30, 2011. Benchmark portfolio returns include Corporate Bond Market as of January 1, 2019 and do not include an allocation to this asset class prior to this. This data is presented to show the long-term relationship between returns at various levels of investment risk. It is not intended to present performance results experienced by clients of Rockbridge Investment Management, but is intended to provide a benchmark against which actual performance might be judged. Also, readers should recognize that future investments would be made under different economic conditions. It should not be assumed that future investors would experience returns, if any, comparable to those shown above. The information given is historic and should not be taken as any indication of future investment results.