ROCKBRIDGE
INVESTMENT MANAGEMENT

OFFERING ROCK-SOLID FINANCIAL ADVICE

NEWSLETTER HIGHLIGHTS

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Capital Market Activity

Bob Ryan

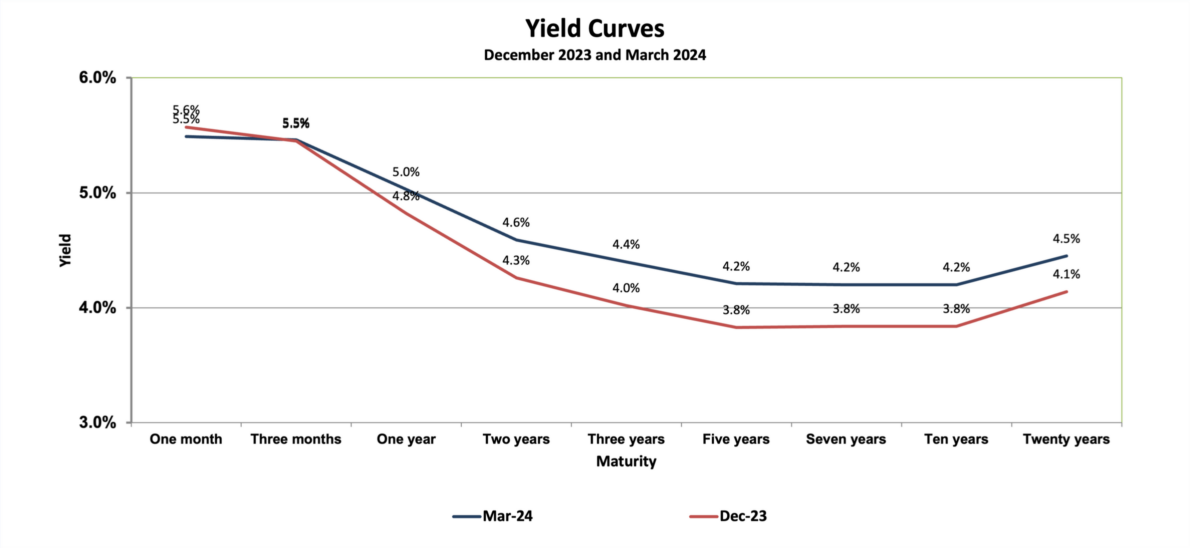
Stocks

Stocks turned in a good first quarter. Large-cap stocks (S&P 500) led the way, up by more than 10%. Other market indices are up from 2% to nearly 6%, as well.

Over the trailing twelve months stocks are up nicely. The S&P 500 is up 30%. It was a good period for other stock market indices also – 20% for small company stocks, 15% in developed international markets, and 8% in emerging markets.

While expectations of near-term reductions in the Fed funds rate are undoubtedly contributing to the positive stock market environment, the prospects for AI are driving much of the recent activity, especially in the S&P 500. The so-called "Magnificent Seven" tech companies are expected to lead the AI charge (Alphabet, Amazon, Apple, Microsoft, Meta, Nvidia and Tesla).

Bonds



The chart above shows bond yields over several maturities. Short-term yields remained relatively flat since the beginning of the quarter, but yields increased in longer maturities. As bond prices and returns move inversely to changes in yield, over the past quarter our short-term index (1–3 year Treasuries) was up 0.2% while the index for long-term bonds (7–10 year Treasuries) was down 1.9%. Over the trailing 12 months – up 3% at the shorter end, and down 1% for longer maturities.

The downward pattern of bond yields is consistent with expectations for reduced interest rates ahead. The spreads between nominal and inflation-adjusted yields suggest reasonable inflation levels going forward – about 2.5% for five years. This measure of expected inflation is close to the Fed's target.

NVIDIA: A Bubble or Rational Exuberance

Clearly, the stock market is positive for the future of Artificial Intelligence (AI). The trajectory of Nvidia, a company engaged in the production of products supporting the AI industry, is especially a case in point. Its stock price has nearly doubled since the first of the year – up 220% over the trailing 12 months. Truly extraordinary performance that raises the "bubble" question.

A bubble is characterized by a rapid run-up of asset prices that is well above any reasonable measure of intrinsic value. Unfortunately, bubbles are best recognized in hindsight. Adding to the uncertainty, it oftentimes is in response to the emergence of a new paradigm. Clearly, AI fits the bill. However, while the recent rise in Nvidia's stock price reflects exuberance, it could be a bubble if it strays dramatically from reasonable measures of its value.

Nvidia reported a blockbuster fourth quarter – year over year sales up 265% and income up 769%. Its current PE ratio is 40 times projected 2025 earnings, well above market averages which can signal "exuberance." However, stock prices reflect expected future earnings well beyond one year. While projecting earnings far into the future, especially in this AI-uncertain environment is tricky, Nvidia is a legitimate company, well-positioned as a leader in the industry. While, no doubt, there will be volatility as new information in an uncertain environment emerges, generally, prices established in a well-functioning market are the best reflection of an uncertain future.

Understanding Restricted Stock Units

Madelyn Murray

Restricted stock units (RSUs) have become an increasingly common form of compensation, especially for executive or leadership positions. But what exactly are RSUs and how do they affect your overall financial plan? While RSUs can be a valuable component of your total compensation, understanding their benefits, risks, and how they fit into the financial planning process is crucial for making informed decisions. Here's a brief overview of RSUs:

What are Restricted Stock Units (RSUs)?

Restricted stock units are a form of equity-based compensation used by companies to incentivize and retain key employees. They represent the right to receive shares of the company's stock at a future date if certain vesting requirements are met. The vesting period is usually contingent on continued employment over a specified period of time. Unlike stock options, the employee receives the full value of the shares once they vest.

Benefits of RSUs

- Alignment with Company Performance: RSUs allow employees to share in the potential upside of the company's growth and rising stock price.
- Deferred Taxation: Unlike stock options, where taxes are typically due upon exercise, RSUs generally aren't taxable until they vest. This deferral can provide financial and tax planning opportunities.
- Long-Term Perspective: Since RSUs typically have vesting schedules that span several years, they encourage a long-term focus, incentivizing you to stay with the company.

Risks of RSUs

● Stock Price Volatility: The value of RSUs is tied to the performance of the company's stock. If the stock price fluctuates significantly, so does the value of your RSUs, potentially leading to unexpected gains or losses.
● Employment Risk: RSU vesting is typically contingent upon your continued employment with the company. If you leave the company before the RSUs vest, you may forfeit your unvested shares.
● Concentration Risk: Holding a significant portion of your wealth in your employer's stock exposes you to concentration risk. If they represent a large portion of your net worth, a decline in the company stock can greatly impact your financial position.

Tax Considerations

● RSUs are taxed as ordinary income once the shares vest. The fair market value of the shares at vest is considered taxable compensation income and also sets your cost basis for the share lot.
● After vesting, any additional gain or loss when you sell the shares is treated as capital gain or loss for tax purposes. If you sell them within one year of vesting, the transaction is considered a short-term gain or loss. Holding the shares for more than one-year will allow for more favorable long-term capital gains rates.
● Employers typically withhold taxes based on the value of RSUs when they vest. The amount withheld is based on the applicable federal, state, and local income tax rates, as well as any required payroll taxes. However, the withholding may not cover the full tax liability associated with the RSUs, particularly if you are in a higher tax bracket. In the event your employer does not withhold taxes upon vesting, you should contact a tax professional to see if estimated tax payments are required.

How Do RSUs Fit Into My Financial Plan?

● Diversification: Having too much of your net worth tied to a single company stock can increase overall portfolio risk. Reducing risk may involve gradually selling vested RSUs and reinvesting the proceeds in a diversified portfolio.
● Tax Planning: The vesting schedule of RSUs can create significant taxable events. Rockbridge can help you forecast the tax impact, allowing you to set aside sufficient cash reserves to cover the resulting tax liabilities.
● Retirement Planning: How RSUs should be handled depends greatly on your specific goals and risk tolerance. Rockbridge can help model different scenarios and create a thoughtful strategy to maximize the benefits of RSUs while mitigating risks.

Summary

In conclusion, while RSUs can be a valuable component of your compensation package, they come with inherent benefits and risks that need to be carefully managed. Rockbridge can work with you to incorporate RSUs and other forms of equity compensation into your financial plan. Please don't hesitate to reach out to a Rockbridge advisor today if you have any questions or concerns with your compensation package.

2024 Tax Planning Insights

Alexys Jacobs

As we conclude another successful tax preparation season, the following months are a crucial window to identify and execute tax planning strategies for 2024. Our recent partnership with Pellizzari & Pellizzari CPAs has allowed us to focus our efforts on tax planning for our clients. We highlighted below some of the common strategies and noteworthy items we came across this year.

- **Withholdings**: If you are unsure of your withholdings or estimated tax payment requirements, ask your financial advisor or tax professional to prepare a tax projection. This is especially relevant in years of irregular income; whether it be due to a change in employment, receiving a bonus, transitioning to retirement, beginning Social Security, etc. Being proactive before it's too late will help you avoid an unexpected tax bill and related underpayment penalties.
- **Consider making Qualified Charitable Distributions (QCDs) if you are over the age of 70-1/2**: QCDs allow you to make charitable contributions directly from your IRA. These distributions will satisfy your RMD requirement and are **not** taxable. Please note that QCDs will not be explicitly reported on your 1099-R, so be sure to let your tax preparer know that you've made QCDs.
- **Donor Advised Funds (DAFs):** Charitable contributions only provide a tax benefit if you are itemizing your deductions. Therefore, those who make annual charitable contributions and take the standard deduction do not receive a tax benefit from their contributions. In these situations, using a Donor Advised Fund will allow you to accelerate your contributions into one tax year and receive a sizable itemized deduction.

- **Roth Conversions**: Roth conversions allow you to convert traditional IRA dollars to a Roth IRA. You are required to pay income tax on the conversion amount in the year of the conversion, however, the dollars you convert into your Roth IRA will continue to grow and ultimately be distributed tax-free. Depending on your tax bracket, proximity to retirement, and desire to leave an inheritance, converting a portion of your pre-tax savings may be a beneficial long-term strategy.
- **529 Plans**: A great college savings vehicle that offers a state tax deduction and tax-free growth and distributions. With that said, if the funds are not used for qualified education expenses, you will incur significant tax penalties upon distribution. If you are unsure of your child's future path or are concerned about over-funding your 529 plan, ask your advisor about alternative savings strategies for your child.
- **Inherited IRA Implications**: When you inherit an IRA, you're likely subject to RMDs and have to liquidate the account within a specified time period. There are high penalties associated with failure to take required distributions from an inherited IRA. It is important you understand all of the relevant circumstances and distribution obligations for your situation.
- **Related-Party Loans:** Related-party loans are a great way to lend to your children without contributing to your lifetime gift tax exemption amount. These loans have various requirements regarding loan terms, interest rates, etc. Reach out to an advisor if you would like assistance structuring a related-party loan that complies with the Applicable Federal Rate Rulings.

Taking action on tax planning matters will have a meaningful impact on your 2024 tax year and beyond. If you are interested in tax planning or preparation services, we suggest reaching out to your financial advisor to allow for sufficient planning time prior to year-end.

Rockbridge Spotlight

Please join us in congratulating Dave Krawczyk and Alexys Jacobs on their recent achievements as Rockbridge continues to develop a talented advisory pool to help our clients reach their goals.

Dave has passed his Certified Financial Planner exam (CFP®)

Dave notes, "It was a great learning experience, but I'm happy to have it behind me, and I would like to thank my wife, Katie, for supporting me every step of the way."

Alexys has passed her IRS Enrolled Agent (EA) exam

Alexys says, "It was great to expand on my tax knowledge. I look forward to sharing with our clients!"

Congratulations Dave and Alexys!

Market Returns

Returns from Various Markets:

The following table shows the returns from various markets over periods ending March 31st, 2024:

Market/Asset Class	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
FIXED INCOME						
3-Month US Treasury Bills	1.29%	5.24%	2.58%	2.02%	1.38%	1.52%
Bloomberg US Agg Bond	-0.78%	1.70%	-2.45%	0.36%	1.54%	2.99%
Bloomberg 1-5 Yr Credit	0.51%	4.67%	0.19%	1.83%	1.98%	3.00%
DOMESTIC STOCKS						
S&P 500	10.56%	29.88%	11.49%	15.05%	12.96%	10.15%
S&P 500 Value	8.05%	25.58%	12.17%	13.25%	10.62%	8.76%
S&P 500 Growth	12.75%	33.73%	10.19%	15.77%	14.56%	11.15%
Russell 2500	6.92%	21.44%	2.98%	9.91%	8.84%	9.14%
Russell 2500 Value	6.07%	21.33%	5.35%	9.38%	7.69%	8.35%
Russell 2500 Growth	8.50%	21.11%	-0.80%	9.38%	9.55%	9.60%
MSCI US REIT	-0.32%	10.37%	4.03%	4.14%	6.54%	7.37%
INTERNATIONAL STOCKS						
MSCI EAFE	5.78%	15.32%	4.78%	7.32%	4.80%	5.66%
MSCI Emerging Markets	2.37%	8.15%	-5.05%	2.22%	2.95%	6.47%
U.S. Consumer Price Index	1.17%	2.81%	5.42%	4.07%	2.76%	2.55%

Market Benchmark Portfolios:

The following table shows the returns from our market benchmarks over periods ending March 31st, 2024:

Rockbridge Portfolio	Quarter	1 Year	3 Years	5 Years	10 Years	20 Years
All Equity (99/1)*	6.97%	20.63%	6.01%	9.98%	8.46%	8.28%
Aggressive (70/30)*	4.78%	15.09%	3.79%	7.58%	6.68%	7.04%
Mod/Aggressive (60/40)*	4.03%	13.23%	3.00%	6.70%	6.03%	6.56%
Moderate (50/50)*	3.28%	11.38%	2.21%	5.77%	5.36%	6.04%
Mod/Conservative (40/60)*	2.53%	9.55%	1.42%	4.82%	4.66%	5.49%
Conservative (30/70)*	1.93%	8.03%	1.04%	3.97%	3.93%	4.78%
Cap Preservation (10/90)*	0.79%	5.08%	0.33%	2.21%	2.39%	3.26%

*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.