



MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

Core Inflation Remains in Focus

Market returns struggled in the third quarter as the Fed pushed out expectations for interest rate easing well into 2024 and higher oil prices kept overall inflation high, even as core inflation has started to ease.

The S&P 500 Index declined 3.3% in the third quarter and finished the first nine-months up 13.1%. The Nasdaq 100 Index declined 2.9% and ended the third quarter still up a strong 35.4% year-to-date. The Dow Jones Industrial Average saw the smallest third quarter decline among the major indices at 2.1% but weaker performance in the first half of the year has the Dow up only 2.7% year-to-date through September.

The Federal Reserve still appears likely to complete its current cycle of raising interest rates later this year. Whether they are already done or there is one additional increase in the Fed funds rate before year-end, there is a building consensus they have already done the heavy lifting on monetary policy and the rate increases over the past 18-months should continue to whittle down the pace of inflation. The current “higher for longer” stance is a question about when it would be appropriate to ease policy decisions. Regardless, the Fed now has a lever to pull by lowering interest rates if the economy starts to decline beyond its parameters.

Crude oil rose 28.5% during the quarter and is up 13.1% year-to-date. OPEC+ countries led by Saudi Arabia announced they would be keeping lower production quotas in place through at least year-end, even as demand continues to increase gradually.

Core inflation, as measured by the Personal Consumption Expenditures (PCE) Price Index has moderated in recent months. Month-to-month changes from June through August were +0.2%, +0.2%, and +0.1% respectively. While the last year-over-year reading in August for core PCE was +3.9%, the pace of incremental monthly changes is moderating toward the Fed’s goal.

While concerns about the Fed pushing rate increases too far appears to be lessening, concerns over passing a bill to keep the government running past mid-November have re-emerged due to the need to appoint a new Speaker of the House. Likewise, as the Russia-Ukraine war has come off the headlines, it has been replaced by the Hamas attacks in Israel. There is a persistent underlying level of emotional turmoil that seems to pass from crisis to crisis but it should not detract from long-term investment decision making.

Many corporations have adjusted to the current economic environment. Third quarter earnings reporting season is underway and the S&P 500 Index are forecast to grow earnings by 1.3% in the quarter versus the 2.8% decline seen in the second quarter, marking an inflection point. Even the 2.8% decline in the second quarter was initially expected to decline by 8.1% at the start of the reporting cycle, so revisions have been positive over the past few months.

Our equity holdings are well-diversified across sectors. We favor high-quality stocks with a demonstrated track-record of increasing dividends as we believe they are more durable through economic cycles.

	<u>3Q23 Return</u>	<u>YTD Return</u>		<u>3Q23 Return</u>	<u>YTD Return</u>
S&P 500 Index	-3.3%	13.1%	Aggregate Bond Index	-2.7%	-0.4%
Dow Jones Industrial Average	-2.1%	2.7%	U.S. Dollar Index	3.2%	2.6%
NASDAQ 100	-2.9%	35.4%	WTI Crude Oil	28.5%	13.1%
Russell 2000 (Small Cap Index)	-5.1%	2.5%	Gold	-3.7%	1.3%
International Stocks (MSCI ex-US)	-3.8%	5.3%	Real Estate (US REIT Index)	-8.0%	-5.0%

Sources: S&P Global, Thomson Reuters



ACCOUNTING & TAX

By Larry Dixon, EA

Optimizing Corporate Structure

Self-employed professionals such as independent contractors, physicians, or consultants can protect their hard-earned assets and maximize their profitability by properly setting up the best corporate structure for their business.

There are two important reasons why Limited Liability Companies (LLC) are generally a good step when conducting business. The first is asset protection, if done properly your LLC can provide protections against business-related debt and liabilities. Secondly, an LLC offers tax flexibility. LLCs can choose to be taxed as corporations (C Corps) or elect S Corp status, depending on their tax planning needs. The answer to this is the first step in creating a good tax plan.

Here are six essential steps to the creation of your own LLC.

Choose a Business Name

Select a unique and distinguishable name for your S Corp. Ensure that the name complies with state regulations and is not already in use by another business. If you are required to include your professional credential, such as M.D. or D.O. for physicians, it will be necessary to be a 'PLLC' vs. an 'LLC.'

File Articles of Organization with the state

While the term 'articles of organization' may sound like complex legal terminology, it's quite straightforward. It is the simple form you submit to your Secretary of State, essentially stating, 'I'd like to create an LLC, please.' This document, typically spanning just one or two pages, asks for essential details such as your business name, address, registered agent, and the number of members or managers involved. All you need to do is print it, complete the necessary information, pay the fee, and send it off to your state's Department of State office. Most states have an online version through the secretary of state website.

Obtain an Employer Identification Number (EIN)

An EIN is a unique identifier for your business. It is basically a social security number for your business. You need this number to file taxes for your LLC as well as other basic things like hiring employees. The application can be completed through the IRS website.

File Form 2553

To attain S Corp status, it's necessary to submit Form 2553, known as the "Election by a Small Business Corporation," to the IRS. This form essentially signals your corporation's choice to be recognized as an S Corp for tax purposes. However, there are specific eligibility requirements to qualify for S Corp status, such as having no more than 100 partners inside the business. This is our primary tax strategy when starting the process to mitigate taxes.

Create an Operating Agreement

While not an absolute legal mandate, it matters. An operating agreement serves as a binding contract between you and your company. Neglecting this document can potentially unleash disorder and possibly weaken the corporate veil of your LLC. This document is malleable and can be updated at the convenience of you and the other partners if applicable.

File State and Local Permits and Licenses

Depending on your location and the nature of your business, you may need to obtain various permits, licenses, and registrations at the state and local levels. The most important of these registrations are with the Department of Revenue and the Department of Labor. This will allow your company to pay your state and local payroll taxes. This is necessary for the orderly conduct of your business and to remain compliant with your state. This will be another application with your specific state Department of Revenue and Department of Labor websites.

Creating a business, even if just for yourself, can be both a professional milestone and a personal passion. Crafting an LLC can be an exhilarating and savvy choice, not just about exciting possibilities but also about safeguarding your hard-earned assets and optimizing benefits, particularly when exploring S Corps. Through six essential steps, we've demystified the process. As you move to the end of the process you must remember to properly maintain the business annually.

If you need help, please let us know: [Contact Us](#)

BUSINESS RETIREMENT PLANS

By ALAN J. CONNER



How many 401(k)'s do you have? How many do you need?

From Several to One

You may have multiple 401(k) accounts if you have worked at several companies and left your account with each employer's plan when you moved. If these are accounts you haven't been paying attention to, it may make sense to consolidate them into a Rollover IRA. You aren't getting the benefit of pre-tax contributions and you are no longer earning a match. In essence, you aren't getting the benefit of participation. You are likely limited to the mutual fund choices at that plan, while you may prefer the freedom to better control your investment choices. In this case it may make sense to transition from multiple old 401(k)'s to one Rollover IRA. You can still contribute to the 401(k) at your current company.

Employee There, Owner Here

You may be an employee at a company that offers a 401(k) plan, but you may also have your own small business. In this case, you may be able to participate in the 401(k) at your employer and also have a retirement plan for your own business. The plan at your employer allows you to reduce the tax on your W-2 wages. If the employer offers a matching contribution, then that is an additional monetary benefit for participating in the plan. Meanwhile, if your self-owned business is making money, you can potentially set up a 401(k) or other retirement plan to reduce the tax on your earnings in that business.

In this instance, our suggestion is to maximize the employee contribution at your W-2 job, and, if applicable, get the maximum employer match. You can then determine the amount available that could be contributed to a 401(k) plan for your own business. When utilizing multiple active 401(k) plans, the annual maximum contribution amount is still \$66,000, and the maximum employee contribution is \$22,500 (plus the \$7,500 catch up contribution if you are over age 50). Managing multiple 401(k) accounts does take a bit of care to make sure that you don't violate the employee maximum contribution, and combined maximum.

One is Better than None

If you are self-employed or a business owner with no current retirement plan in place, you are missing out on the opportunity to lower your taxes and build assets for retirement. If you have one or more 401(k) accounts at previous employers and are now self-employed or a business owner, you can transfer those assets into a new 401(k) that you set up for your business. You can select the features and benefits of the plan to include a Roth option and loan provision. Plus, you can decide on the investments for the plan. This gives you more control of your assets and allows you the ability to design the best plan for your needs.

An overview of the types of business retirement plans available is in our [2023 Business Retirement Plan Guide](#).

Do You Know Your Risk Number?

Individuals often classify their investment risk tolerance with adjectives such as "Conservative", "Moderate", or "Aggressive". These can be highly subjective and may not correctly identify the amount of risk someone is actually comfortable taking.

One self-described Moderate investor may feel uncomfortable if their portfolio fell 5%, while another may not feel uncomfortable until their portfolio falls more than 20%.

While investors understand that the purpose of taking risk is to achieve investment returns, they may not have a realistic sense of how much risk is required to achieve a targeted level of return. In this case, they may not be taking enough risk and are left wondering why they are unable to achieve

the returns they are targeting.

We work with clients to identify the level of risk they are comfortable taking and balance it with the investment objectives they are seeking to achieve.

Follow this link to take our [complimentary risk analysis questionnaire](#).



Bacon-Wrapped Stuffed Chicken Breasts (by ChatGPT-4)

We asked ChatGPT-4 to select our recipe this month

Ingredients

4 boneless, skinless chicken breasts
8 slices of bacon
1 cup of cream cheese
1/2 cup of grated cheddar cheese
2 cloves of garlic, minced
1/4 cup of chopped fresh spinach
1/4 cup of chopped sun-dried tomatoes
Salt and pepper to taste
1 teaspoon of paprika
1 tablespoon of olive oil
Fresh parsley for garnish (optional)

Instructions:

Prepare the Filling: In a mixing bowl, combine cream cheese, cheddar cheese, minced garlic, chopped spinach, and sun-dried tomatoes. Mix until well combined.

Prep the Chicken: Preheat your oven to 375 °F (190 °C). Flatten the chicken breasts using a meat mallet to about 1/2-inch thickness.

Season: Season each chicken breast with salt, pepper, and a sprinkle of paprika.

Stuff the Chicken: Place a generous spoonful of the cheese mixture in the center of each flattened chicken breast. Fold the chicken over the filling and secure with toothpicks if needed.

Wrap with Bacon: Wrap each stuffed chicken breast with 2 slices of bacon. Try to cover as much of the chicken as possible.

Sear the Chicken: Heat olive oil in a large, oven-safe skillet over medium-high heat. Add the bacon-wrapped chicken breasts and sear for about 2-3 minutes per side, until the bacon is crispy.

Bake: Transfer the skillet to the preheated oven and bake for 20-25 minutes, or until the chicken is cooked through and no longer pink in the middle.

Serve: Allow the chicken to rest for a few minutes before serving. Garnish with fresh parsley if desired and enjoy your meal!



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