



## MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

### The Circus is Coming to Town

The equity market closed out 2023 on a high note. The S&P 500 Index advanced for nine consecutive weeks. The major market indices redeemed a poor 2022 showing with a robust 2023. For the year, the S&P 500 Index advanced 26.3%, the Nasdaq 100 Index advanced 53.8%, and the Dow Jones Industrial Average advanced 13.7%.

The Federal Reserve has had a major influence on equity and fixed income markets for the past two years. That is likely to continue in 2024. The Fed has not raised the Fed funds rate since July and its target range remains at 5.25% to 5.50%. The recent Summary of Economic Projections from the December Federal Open Market Committee (FOMC) meeting shows an intention to reduce rates by 0.75% this year. The Fed has repeatedly stressed it makes data dependent decisions on monetary policy and the data, while trending in the correct direction, is not yet at target levels.

Inflation is one of those key pieces of data. The November Personal Consumption Expenditures (PCE) Price Index was at a year-over-year level of 2.6% and the core price level, which exclude food and energy, was at 3.2%. The Fed's target is 2% annualized inflation and expects core inflation, as measured by the PCE Core Price Index, to wind down to 2.4% in 2024.

In addition to taking longer than expected for inflation to subside, the job market has shown more resilience than expected. The unemployment rate is currently at 3.7% and the Fed expects it to rise above 4% in 2024. Wage inflation has

contributed to the overall inflation situation and more slack in the labor market can help in normalizing price levels.

A major qualitative theme for 2024 is going to be the election cycle in the United States. Starting this month with the Iowa Caucus, the election calendar will build steam through primary season. Issues of age and legal uncertainties plague both leading candidates, creating speculation that one or both may not be on the ballot by November. Emotions have run high over the past few election cycles and that sometimes bleeds over into market volatility. While we don't anticipate any major financial market event due to the election, we acknowledge that there could be periods of volatility if there is growing uncertainty as we approach election day.

S&P 500 earnings returned to growth in the second half of 2023 and should continue to grow in 2024. Fourth quarter 2023 earnings reporting is underway and earnings are expected to grow 4.4% year-over-year on 2.6% revenue growth. Full-year 2023 earnings are expected to grow 2.9% on 1.9% revenue growth and full-year 2024 earnings are expected to grow 11.0% on 5.1% revenue growth.

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>4Q23 Return</u>	<u>2023 Return</u>		<u>4Q23 Return</u>
S&P 500 Index	11.7%	26.3%	Aggregate Bond Index	6.2%
Dow Jones Industrial Average	13.1%	16.2%	U.S. Dollar Index	-4.6%
NASDAQ 100	14.6%	55.1%	WTI Crude Oil	-21.1%
Russell 2000 (Small Cap Index)	14.0%	16.9%	Gold	11.6%
International Stocks (MSCI ex-US)	9.8%	16.2%	Real Estate (US REIT Index)	16.0%

Sources: S&P Global, Thomson Reuters



# ACCOUNTING & TAX

By Larry Dixon, EA

## Corporate Transparency Act

In the wild world of taxes, enter stage left: the Corporate Transparency Act (CTA). And with it, its buddy, the Beneficial Ownership Information (BOI) Report! Brace yourselves, the New Tax Year equals new requirements. In the wake of the transforming business landscape, the CTA is bringing a shift towards heightened transparency and accountability. Embracing this evolution in reporting requirements is imperative for businesses and their owners. The message is clear as these changes become integral to the regulatory fabric. These requirements are not going away anytime soon, so we recommend getting on board early.

### Navigating Compliance

Companies will fall into one of three buckets:

1. A reporting company created or registered to do business before January 1, 2024, will have until January 1, 2025, to file its initial BOI report.
2. A reporting company created or registered in 2024 will have 90 calendar days to file after receiving actual or public notice that its creation or registration is effective.
3. A reporting company created or registered on or after January 1, 2025, will have 30 calendar days to file after receiving actual or public notice that its creation or registration is effective.

FinCEN launched the BOI E-Filing website for reporting benefi-

cial ownership information (<https://boiefiling.fincen.gov>) on January 1, 2024. This is where you will do the company reporting.

Anyone the company authorizes can file the BOI report on behalf of the company. When submitting the BOI report, the individual provides their information. This includes their name and email address or phone number.

### Why Does It Matter to You

A person who violates the BOI reporting requirements will face a penalty of \$500 each day. That person may also be subject to criminal penalties of up to two years imprisonment and a fine of up to \$10,000. Potential violations include failing to file a beneficial ownership information report, falsifying reporting, or not updating reports.

### Conclusion

There is a shift towards transparency and accountability for businesses in the U.S. As businesses grapple with compliance, they must recognize that this transformative change isn't transient. It is here to stay. Embracing this evolution contributes to an effort aimed at curbing financial crimes. This ongoing commitment fortifies integrity of economic interactions and fosters trust in our economy. Engage early and avoid the traps.

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

## 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](#).



# BUSINESS RETIREMENT PLANS

By ALAN J. CONNER



## The Mega Backdoor Roth IRA

For those looking to supercharge their retirement savings and take advantage of tax-efficient investment strategies, the Mega Backdoor Roth IRA is worth exploring. This advanced retirement savings strategy goes beyond Traditional and Roth IRAs and offers features and benefits that can help investors build substantial tax-free wealth over time.

### Benefits of a Mega Backdoor Roth IRA

**Tax-Free Growth:** Perhaps the most significant advantage of a Mega Backdoor Roth IRA is the potential for tax-free growth. Since your contributions are made after-tax, your investments can grow tax-free over time. This can lead to substantial tax savings in retirement.

**Flexible Withdrawals:** With a Mega Backdoor Roth IRA, you have more flexibility in retirement. Qualified withdrawals from a Roth IRA are tax-free, and there are no required minimum distributions (RMDs) during your lifetime. This allows you to control your retirement income and potentially leave a tax-free legacy to your heirs.

**Diversification and Investment Choices:** Like traditional IRAs, you have the flexibility to invest in a wide range of assets, including stocks, bonds, mutual funds, and more. This allows you to build a diversified portfolio that aligns with your long-term financial goals.

**Estate Planning Benefits:** A Mega Backdoor Roth IRA can be an essential tool for estate planning. The tax-free nature of qualified withdrawals can provide significant benefits when

passing on assets to heirs or beneficiaries.

**High-Income Access:** Unlike traditional Roth IRAs, which have income limitations for contributions, the Mega Backdoor Roth IRA is accessible to high-income individuals. This makes it an attractive option for those who exceed the income limits for traditional Roth IRAs.

### How It Works

A Mega Backdoor Roth IRA is an extension of the traditional Roth IRA, but with significantly higher contribution limits. To execute the Mega Backdoor Roth IRA strategy, ensure your employer's 401(k) plan allows after-tax contributions and in-plan Roth conversions. Contribute the maximum to your pre-tax and Roth 401(k) accounts while staying within IRS limits. Make after-tax contributions with the remaining available amount, and periodically perform in-plan Roth conversions, paying taxes only on the earnings. These converted funds become part of your Roth IRA within the employer's plan, where they grow tax-free. Repeat this process, invest wisely, and enjoy tax-free growth.

In conclusion, a Mega Backdoor Roth IRA is a powerful financial tool that offers high contribution limits, tax-free growth, and flexibility for savvy investors. However, it's essential to work with an investment or tax professional to ensure that this strategy aligns with your financial goals and that you follow IRS rules and regulations.

Please reach out if we can help: [Contact Us](#)

## Current Business Retirement Plan Contribution Limits

Category	Elective Deferral Limit for 401(k) & 403(b) plans	Annual Addition Limit for Defined Contribution Plans	Limit on Annual Benefits for Defined Benefits Plans	Catch-Up Contribution Limit	Annual Compensation Limit	Highly Compensated Employee Limit	SIMPLE Retirement Plan Contribution Limit
2023	\$22,500	\$66,000	\$265,000	\$7,500	\$330,000	\$150,000	\$15,500
2024	\$23,000	\$69,000	\$275,000	\$7,500	\$345,000	\$155,000	\$16,000
Internal Revenue Code	402(g)	415(c)	415(b)	414(v)	401(a)(17)	414(q)	408(p)

## Bacon Parmesan Popovers

### Ingredients

4 to 6 strips of bacon, finely chopped  
1 cup of milk  
3 large eggs  
1 cup of flour  
1/2 teaspoon salt  
1/4 teaspoon black pepper  
1/2 cup of freshly grated parmesan cheese  
Unsalted butter to grease the pan

### Instructions:

Preheat oven to 450° F. Place popover pan or muffin tin in oven to heat up.

Cook bacon in a skillet until crispy. Drain and chop finely.

In a mixing bowl, whisk together milk and eggs. Sift in flour and add salt and pepper. Wisk until smooth.

Add bacon and parmesan cheese to batter.

Remove pan from oven and brush with unsalted butter. Add batter until cups are three-quarters full.

Bake for 20 minutes, then reduce temperature to 350° F. and bake for an additional 15 to 20 minutes, or until popovers are puffed and golden brown.

Serve warm and enjoy!

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## Follow our Weekly Blog Posts

Each Monday, we publish a report on the NovaPoint website blog highlighting important financial and investment issues for the week. You can find the blog on the website on the News dropdown menu or at <https://novapointcapital.com/blog/>

If you'd like to receive the blog each week via email, please send a request to [info@novapointcapital.com](mailto:info@novapointcapital.com)



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