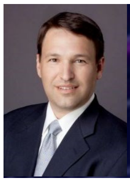
2nd Quarter 2024 Newsletter
April 2024

NovaPoint Capital ● 1175 Peachtree Street NE, Suite 1825, Atlanta GA 30361 ● Phone 404-445-7885 ● www.novapointcapital.com



MARKET UPDATE

By JOSEPH SROKA, CFA, CMT

Waiting Game

The equity market built on 2023's gains with a strong first quarter of 2024. The S&P 500 Index advanced 10.6%, the Nasdaq 100 Index advanced 8.7%, and the Dow Jones Industrial Average advanced 6.1%.

The three top gaining sectors during the first quarter were Energy, Communication Services, and Financials. The three bottom performing sectors were Real Estate, Consumer Discretionary, and Utilities. The 10-year U.S. Treasury yield rose to 4.20% from 3.88% at the start of the year.

Monetary policy continues to play an influential role in market direction. The expectation that the Federal Reserve will ease policy and lower short-term interest rates has moved forward on the calendar over the course of the quarter. The current probability, based on CME Fed funds futures, is that an initial decline in interest rates will be in July. Most commentary from the Federal Reserve is that the Federal Open Market Committee can remain patient on the decision to lower interest rates until core inflation has moved further toward its 2% annual target. As of the release of the February Personal Consumption Expenditures (PCE) Price Index, the annual rate of core inflation is 2.8%.

For energy investors, oil was a bright spot during the quarter, advancing 16.1%. The International Energy Agency (IEA) forecast oil markets will be in a deficit for 2024. IEA upped their demand growth by 110,000 barrels to 1.3 million barrels a day growth. Reasons cited included a stronger U.S. economic outlook and the increased need for ship fuel, as vessels take longer routes to avoid Houthi attacks in the Red Sea. Extended OPEC+ production cuts have continued to restrict supply.

We are seven months away from the U.S. presidential election. Speculation remains that that one or both of the leading candidates may not be on the ballot by November. As we move through the party conventions in July and August, that speculation may be cleared up and the polling should get more accurate as voters focus on issues that will help them make their decision for November. We continue to believe the heightened emotions of an election year could cause market volatility, but that no major market event should be caused by the election. As always, some industries could be advantaged or disadvantaged by the policies of the party that controls government following the election.

S&P 500 earnings have returned to a period of growth following the negative earnings cycle in the first half of 2023. Full-year 2024 earnings are expected to grow 10.9% on 5.1% revenue growth and full-year 2025 earnings are expected to grow 11.6% on 5.9% 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.

	1Q24 Return
S&P 500 Index	10.6%
Dow Jones Industrial Average	6.1%
NASDAQ 100	8.7%
Russell 2000 (Small Cap Index)	5.2%
International Stocks (MSCI ex-US)	4.7%

	1Q24 Return
Aggregate Bond Index	-0.6%
U.S. Dollar Index	3.2%
WTI Crude Oil	16.1%
Gold	8.1%
Real Estate (US REIT Index)	-0.4%

Sources: S&P Global, FactSet

Real Estate Cost Segregation

Real estate cost segregation analysis is a strategic tax planning tool that allows property owners to accelerate depreciation deductions, defer taxes, and improve cash flow. This method involves identifying and reclassifying personal property assets and land improvements from the general building costs, thereby shortening the depreciation time for taxation purposes. The primary goal of cost segregation is to identify all construction-related costs that can be depreciated over a shorter tax life than the building.

With the conventional approach, the depreciation of your commercial property extends uniformly over 39 years for all its assets or components and 27.5 for residential properties. Through a cost segregation analysis, a fraction of your building's assets might be reassigned to a shorter lifespan category, making them eligible for bonus depreciation. Leveraging the value of these assets, property owners could potentially venture into acquiring further income-generating properties.

This is because personal property assets and land improvements, which can include items like carpeting, decorative lighting, and landscaping, are depreciated over 5, 7, or 15 years, rather than over 27.5 or 39 years for residential and commercial properties, respectively. This front-loading of depreciation expenses generates substantial tax deductions in the early years of property ownership.

Cost segregation also enhances cash flow by allowing investors to defer taxes. The increased cash flow can be reinvested into the property or other investments, creating an opportunity for further growth and profitability. This is because you are realizing a loss without having to spend the extra cash.

The last benefit is by identifying and differentiating the components of a property, a cost segregation study can help you efficiently manage and maintain your property by reducing operating costs over time.

However, it's important to note that cost segregation studies are complex and should be conducted by professionals with expertise in tax law, engineering, and construction costing. The upfront cost of a study can be outweighed by the tax savings, but it's crucial to conduct a cost-benefit analysis to ensure it's the right strategy for your property.

In conclusion, real estate cost segregation analysis offers significant tax benefits that can enhance the profitability of property investments. By accelerating depreciation, deferring taxes, and improving cash flow, investors can optimize their tax position and increase their investment's value.

We work with a firm that performs cost segregation analysis. 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

Defined Benefit Plans

Defined Benefit Plans, traditionally associated with large organizations and government employers, offer predetermined, fixed benefits upon retirement, typically based on factors like salary history and length of employment. While less common for independent contractors, who are essentially self-employed individuals or small business owners, setting up a Defined Benefit Plan can offer several compelling features and benefits, especially for those seeking to maximize their retirement savings and tax advantages.

Features of Defined Benefit Plans

High Contribution Limits: Unlike defined contribution plans (e.g., 401(k)s), the contribution limits for defined benefit plans can be significantly higher, allowing for larger annual savings for retirement. With a maximum retirement benefit of $3.5 million at age 62, we have seen contributions range from $100k for a person in their early 40’s to well over $500k for someone in their late 50’s.

Tax Deductions: Contributions to the plan are tax-deductible, reducing the taxable income for the independent contractor. This can be particularly advantageous for those in higher tax brackets and those who are phased out of the QBI tax deduction.

Predictable Retirement Benefit: The plan provides a predictable, fixed benefit at retirement, calculated based on earnings and years of service. This can offer peace of mind and financial stability in retirement. The current maximum benefit is $3.5 million at age 62, but that number increases annually.

Potential for Accelerated Funding: Independent contractors who are closer to retirement age can potentially "catch up" on their retirement savings by making larger contributions than would be allowed in other types of retirement plans. Our clients receive a suggested funding amount that includes a minimum, maximum, and suggested funding level. If someone has a large windfall in a given year, they can accelerate the funding level of the plan to defer the taxes on that windfall.

Professional Management: Defined Benefit Plans are typically professionally managed, which means the contractor does not need to make investment decisions.

Benefits of Defined Benefit Plans

Maximize Retirement Savings: For high-earning independent contractors, Defined Benefit Plans allow for the accumulation of substantial retirement savings in a relatively short period, especially if they start the plan later in their career.

Tax Efficiency: The ability to deduct contributions from taxable income can lead to significant tax savings, particularly in years where the contractor has higher earnings.

Customized Retirement Strategy: Independent contractors can tailor their Defined Benefit Plan to fit their specific retirement goals and financial situation, offering a level of customization that is not always available in defined contribution plans.

Estate Planning Benefits: In some cases, Defined Benefit Plans can be structured to provide benefits to a surviving spouse or other beneficiaries, offering a form of life insurance and contributing to the contractor's estate planning strategy.

Competitive Advantage: For independent contractors who employ others, offering a Defined Benefit Plan can help attract and retain high-quality employees by offering a compelling retirement benefit.

Considerations

Cost and Complexity: Setting up and maintaining a Defined Benefit Plan can be more complex and costly than other types of retirement plans due to actuarial valuations, administrative requirements, and mandatory funding obligations. Most plans we see cost approximately $2,500 to maintain.

Commitment: Independent contractors need to commit to making regular contributions, which can be substantial, to fund the promised benefits. Plans must be fully funded each year, so participants must be willing to fund catch up contributions in down market years if investments do not perform as expected.

Regulatory Requirements: These plans are subject to federal regulations, including minimum funding requirements and coverage rules, which can add to the administrative burden.

Contact Us

For independent contractors, especially those with higher incomes and a desire to maximize their retirement savings, a Defined Benefit Plan can offer a powerful tool for building wealth and reducing taxes.

We can analyze your current retirement options and see if a defined benefit would be beneficial based on income, age, tax situation, and other factors.

Please reach out if we can help: Contact Us

Pea and Bacon Risotto

Ingredients

1 tablespoon olive oil

4 slices of bacon, chopped

1 small onion, finely chopped

2 cloves garlic, minced

1 cup Arborio rice

1/2 cup dry white wine (optional)

4 to 5 cups chicken broth

1 cup fresh or frozen peas

1/2 cup freshly grated Parmesan cheese

2 tablespoons unsalted butter

Salt and ground black pepper

Fresh mint leaves, for garnish (optional)

Zest of 1 lemon, for garnish (optional)

Instructions:

Heat the broth in a saucepan over low heat. Keep it warm as you prepare the risotto.

In a large, heavy-bottomed pan, heat the olive oil over medium heat. Add the chopped bacon and cook until crisp. Remove the bacon from the pan and set it aside on a paper towel-lined plate to drain. Leave the bacon fat in the pan.

In the same pan used for the bacon, add the chopped onion. Cook over medium heat until the onion is translucent and soft, about 5 minutes. Add the minced garlic and cook for another minute until fragrant.

Add the Arborio rice to the pan, stirring to coat the grains with the bacon fat. Cook for 1-2 minutes until the edges of the rice become slightly translucent.

Pour in the white wine (if using) and stir until it has been absorbed by the rice.

Begin adding the warm broth one ladle at a time, stirring frequently. Wait until each addition is almost fully absorbed before adding the next ladle of broth. Continue this process until the rice is creamy and cooked to your liking, about 18-20 minutes.

About 3 minutes before the risotto is done, add the peas to the pan. They will cook in the heat of the risotto.

Once the rice is creamy and the peas are tender, remove the pan from the heat. Stir in the grated Parmesan cheese and butter until well combined. Season with salt and freshly ground black pepper to taste.

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 subscribe here: SUBSCRIBE

NovaPoint CAPITAL LLC

NovaPoint Capital is an investment management and advisory firm. We manage investment portfolios for individuals, family offices, businesses and their retirement plans, nonprofit organizations, and institutions.

Visit our website: www.novapointcapital.com

Alan J. Conner
President
aconner@novapointgroup.com
404-596-8935

Joseph Sroka, CFA, CMT
Chief Investment Officer
jsroka@novapointgroup.com
404-941-8910

Frederick Wright, CFA
Managing Director
fwright@novapointgroup.com
404-920-8574

Larry Dixon, EA
Accounting Managing Director
ldixon@novapointgroup.com
360-813-4080

Steven Chrysosferidis
Vice President
schrysosferidis@novapointgroup.com
478-299-3661

Brett Stroney
Managing Director
bstroney@novapointgroup.com
440-221-5265