Roberts Wealth Advisors

Quarterly Commentary

April 2024

In This Issue:

Market Strength Continues Into The 1st Quarter

The returns of the stock markets defied many prognosticators' cautious guidance in 2023. Through the first quarter of 2024, the same markets appear poised to repeat the feat. The Standard & Poor's 500 (S&P 500) ended the quarter at an all-time high of 5,254, having risen 10.6% since the beginning of the year. The upward trajectory continues a trend that began for stocks in late October, rising 28.4% in that period.

It is natural to view the robust market returns with a discerning eye, questioning whether the latest run up has the characteristics of an inflating bubble that will soon burst. There are indeed some company valuations that are alarming, but many more reasons support our expectation that current levels can be maintained through the remainder of the calendar year.

The FOMC catalyst is yet to come. We have spilled a lot of ink in past commentaries writing about the Federal Open Market Committee (FOMC) and their anticipated adjustments to their benchmark Federal Funds rate. In late October 2023, the stock market pivoted as investors began to anticipate cuts in the benchmark rate as inflationary measures appeared under control. Though that narrative remains, the anticipated rate reductions are still yet to come and are likely to be pushed further and further into 2024. The longer the delay in rate reductions, the less of an impact the lower borrowing costs can have on current year company financials.

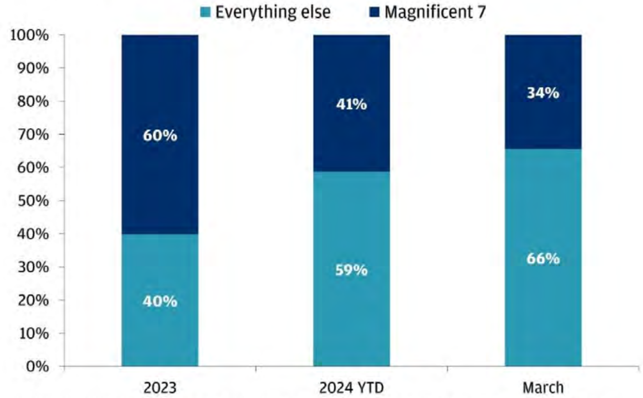
Company earnings started the year strong. Last year, earnings of companies in the S&P 500 fell three quarters in a row. Revenue growth had flattened during the year, and corporate managers faced dual headwinds of rising labor costs due to tight market and heightened borrowing costs. The Magnificent 7 stocks were made popular as they bucked the trend of earnings decline, contributing nearly a quarter of the earnings of the entire S&P 500 by themselves. The earnings recession is now over, with S&P 500 constituent companies making a return to profitability in the previous two quarters. The stock market often discounts the impact of anticipated events, rising or falling prior to the actual occurrence of the event. The generation of earnings by corporations is fundamental to the establishment of its value for shareholders. The recent strength of corporate earnings supports the current level of the stock market.

Participation in market growth is broadening. The much-ballyhooed Magnificent 7 stocks that drove the index returns in the past year have shown signs of distress, as two of the names, Tesla and Apple, both declined by double digits in the first quarter. The remaining five large company growth stocks that comprise the Magnificent 7 continue to post outsized gains, with NVIDIA (+82.3%) and Meta Platforms (+39.7%)

again leading the way. Despite the continued strength of these largest companies in the S&P 500, the broadening of the market was an encouraging development for investors. The equal-weighted S&P 500 index improved by 7.3% in the quarter, an indication that it is more than just large growth companies that are attracting investors' attention. This trend is also apparent when observing the returns of each individual economic sector. The Technology sector had a good start to the year, rising 8.2% in the first quarter, but ranked only seventh of the eleven economic sectors that comprise the S&P 500 in the period. Leading the way in the first quarter were the Energy, Communications, and Financial sectors who all enjoyed an appreciation of greater than 12%. Company earnings growth has not been concentrated to a narrow group of stocks, but has now extended to include a much broader group of industries. The growth across multiple sectors is further indication of the health of the U.S. economy. The largest ten companies in the S&P 500 now comprise over one-third of its total value. A broadening of market returns is likely to generate better relative returns for well diversified portfolios.

Room to run? The rally has been broadening

Contribution to S&P 500 returns, %



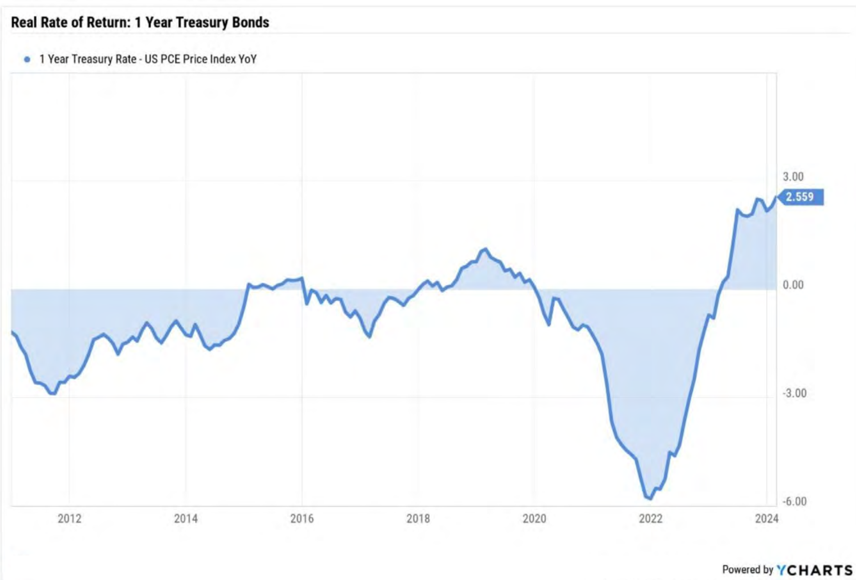
Sources: Bloomberg Finance L.P. Data as of March 26, 2024. Note: Constituents are per the SPDR S&P 500 ETF due to data availability. The Magnificent 7 group includes Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia and Tesla. **Past performance is no guarantee of future results. It is not possible to invest directly in an index.**

Valuations remain compelling. It is difficult to make an argument that the stock market is cheap as it trades at all-time highs. The S&P 500 price-to-earnings (P/E) ratio has crept above 20x earnings during the most recent rally, which has long been a sign of frothy stock valuations. A deeper look suggests the same large names that have led the recent market surge are also the most expensive. The largest ten names trade at a forward P/E multiple of 28.4x earnings, while the remainder of the S&P 500 index trades at a forward multiple of 18x, further supporting our thesis that there will be a shift in stock return leadership.

Expanding the scope beyond the domestic S&P 500 index reveals even further opportunities for diversified portfolios. From the beginning of 2023, stocks in international companies, as represented by the Morgan Stanley All-World Index excluding U.S. companies (ACWI ex-U.S.), have generated a solid 21.6% investment return. Despite the appreciation of international stocks, their valuations relative to their U.S. counterparts are the cheapest they have been in twenty years, trading at a P/E ratio of 13.4x earnings. Many of the same fundamental factors that are positively impacting corporations in the U.S. remain true for international stocks. Those factors include the stabilization of central bank lending rates, growth of consumer expenditures, and the opportunity for technological improvements to drive company margin improvement. Additionally, the anticipated growth of the middle classes in India and China remains a secular theme that will provide investment opportunity for years, if not decades, to come.

Even within the U.S. markets, opportunities exist beyond just the large company-oriented S&P 500. Small company stocks have historically been more sensitive to economic cycles. Periods of higher interest rates have a greater impact on small companies as access to capital becomes more constrained when lending restrictions tighten. If rates decline as expected in the second half of the year, small company stocks should enjoy a period of relative outperformance compared to large company counterparts.

Real returns exist in bonds. The FOMC has remained steadfast in their fight against inflation. Much to investors' chagrin, Fed governors have been consistent in their desire to keep rates high until they are certain inflationary pressures have abated. U.S. Treasury Bonds yield an annual rate of over 5.0% on maturities shorter than one year, while the Personal Consumption Expenditures Index (PCE), the FOMC's preferred measure of inflation, is at 2.45%. The difference between these two measures is the real rate of return on the one-year treasury bond. At over 2.5%, this level is the highest it has been in nearly 15 years.



The first quarter of 2024 proved to be a good one for investors as better than expected corporate earnings supported stock valuations. We anticipate the momentum to continue through the second quarter as margins continue to expand in an environment where company revenues start to accelerate. A broadening of market returns is underway, which will lead to a transfer of leadership from the large cap growth companies that have dominated over the last 15 months.

The Wonderful World of Health Savings Accounts (HSA)

A Health Savings Account (HSA) is a tax-advantaged savings account that lets you set aside money to pay for qualified medical expenses. HSAs are paired with high-deductible health plans (HDHPs) that offer lower monthly premiums and higher deductibles. A higher deductible will result in more out-of-pocket expense prior to insurance kicking in. The HSA accounts are designed to cover out-of-pocket expenses, making them a great fit for those that tend to underutilize their healthcare. The best feature is that contributions to an HSA receive a triple tax-free benefit that allows your healthcare dollars to stretch even further:

1. Contributions are always tax deductible regardless of how high your income is.
2. Once the balance of your HSA account reaches the plan's investment threshold (typically $2,000), you may choose to invest a portion of your HSA dollars where it can grow tax free — similar to a 401(k).
3. When you use the funds for qualified medical expenses, withdrawals are also tax-free.

What is a qualified medical expense? HSAs are not just for medical bills and co-pays. They can cover a surprising range of expenses, including prescriptions, medical equipment, eyeglasses/lenses, EpiPen®, sunscreen, Tylenol, LASIK, mental health therapy, orthodontia, and hand sanitizer to name a few. A full list of qualified expenses can be found here or on the IRS website [IRS (.gov) Publication 969].

When is the best time to enroll in an HSA? The earlier you enroll, the better. Since there is an annual contribution limit, the account incurs the greatest benefit when it has many years to grow. For 2024, individuals can contribute up to $4,150 and families can contribute up to $8,300. HSA users ages 55 and older can contribute an extra $1,000 annually.

If you invested $200 in an HSA every month starting when you were 25 years old and earned an average 10% annual return, by the time you were 65, you could have almost $1.3 million — a significant health care nest egg for your golden years.

It's a great way to prepare for future healthcare costs. The financial burden that comes with aging can be significant. Many experts estimate that a large percentage of retirees' savings will go toward healthcare costs. According to data from the annual Genworth Cost of Care Study, the median annual cost of an in-home health aide in 2023 was approximately $75k, whereas a private room in a nursing home now costs about $114k a year. Medicare, which begins at age 65, may cover a portion of these costs, but the burden is on each individual to make up the difference. Once enrolled in Medicare you can no longer contribute to an HSA; however, you can still take tax-free distributions for qualified medical expenses from an HSA. You can even use it to pay for Medicare premiums directly or reimburse yourself if your Medicare premiums are paid directly out of your Social Security benefits.

Jumpstart your HSA. You can make a one-time HSA contribution from your IRA in the amount equal to or less than the year's IRS contribution limit, effectively turning tax-deferred income into tax–free money that can be used on medical expenses that you will almost certainly incur.

Can I use my HSA to pay for long-term-care premiums? Yes, but it is limited based on your age. In addition, the long-term-care policy must be "tax-qualified"; most traditional policies are, but you will want to confirm that with your insurer before using HSA funds to pay the premiums. The accumulated value of an HSA account could also be an effective source of funds to use in lieu of expensive long-term care policies to cover future healthcare costs.

Who Can Enroll in HSA

- ☑ Be enrolled in an HDHP.
- ☑ Have no other insurance coverage.
- ☑ Cannot be claimed as a dependent by anyone.
- ☑ Cannot be enrolled in Medicare.

What If I Spend it on Non-Qualified Expenses?

Non-qualified distributions will be taxed as ordinary income + a 20% penalty.

However, at age 65, non-qualified expenses are no longer penalized but are taxable.

Spousal Benefits

A spousal HSA beneficiary can maintain the HSA in their own name and can continue to access the funds. Distributions for qualified medical expenses will be tax free just as they would have been to you.

While HSAs have a lot of benefits, they are not for everyone. Because participants must be on a high-deductible plan to open and contribute to an HSA, that can be a deal-breaker for some. If it is the right fit for you or your family, there are plenty of tax saving and retirement planning benefits to enjoy. If you would like to learn more about the benefits of a health savings account, feel free to reach out.

Portfolio Activity

The strength in the underlying fundamentals of the stock markets provided the confidence to expand our equity holdings into names we believe are either undervalued or have an expanding opportunity in a growing industry. Our equity transactions included adding to both existing holdings and new positions.

Index Performance	Q1	YTD
Dow Jones Industrial	6.14%	6.14%
Standard & Poor's 500	10.56%	10.56%
Nasdaq Composite	9.31%	9.31%
MSCI EAFE (Europe, Australasia, Far East)	5.78%	5.78%
Russell 2000 (Small Company)	5.18%	5.18%
MSCI ACWI (All Country World Index)	8.20%	8.20%
Barclays Intermediate Term Bond	-0.78%	-0.78%
Barclays Municipal Bond	-0.39%	-0.39%
Barclays Short Term Bond	0.14%	0.14%

We took advantage of some weakness in two portfolio names to increase our positions in Ventas (VTR) and Nike (NKE). We added to our exposure in the Healthcare and Technology sectors by initiating positions in Pfizer (PFE) and Coherent (CHR).

Due to lagging relative performance, we conducted an in-depth review of the senior housing REIT market. Ventas has been part of our core portfolio for several years. Our evaluation of both the stock and the senior housing sector in general added to our conviction in the position. Senior housing remains not only a long-term secular trend but one we believe is likely to accelerate in the next few years[2]. Ventas is one of only a handful of companies with the scale to benefit. As it manages its debt load and optimizes its operating portfolio, we believe it is likely to hit an inflection point, where further gains in resident occupancy should exponentially improve its profitability.

This quarter's "Featured Stock" is one of the oldest pharmaceutical companies. Pfizer is a pharmaceutical major that benefitted extensively from the vaccine rollout during the pandemic but had a difficult time sustaining higher sales as the pandemic wound down. As a result, its stock price declined more than 50% from mid-2021 to the fall of 2023[1], and we initiated a position in January. We believe that Pfizer is materially undervalued given its long-term track record of drug discovery and commercialization and the stock will normalize in the years ahead.

Lastly, Coherent, our newest position, was added late in the first quarter. We believe COHR is an underappreciated and relatively undervalued participant in the Artificial Intelligence (AI) revolution. One of the company's major products is data center transceivers, which are essential in AI data center architectures. The transceivers allow digital signals to be transported via fiber optics and then translated back to digital signals. As the number of AI data centers and the speed required within them continues to grow, Coherent should continue to benefit from a long runway of capital expenditures in expanding data center infrastructure. The Coherent technology portfolio is not limited to strictly data centers, but has additional applications in telecommunications, healthcare, and manufacturing.

Footnotes: [1]YCharts.
[2]NIC Investment Guide, Investing In Seniors Housing & Care Properties (5th Edition).

TOP 10
U.S. HOLDINGS

- Microsoft
- Alphabet
- Apple
- Amazon
- Trane Technologies
- J.P. Morgan
- Qualcomm
- Linde
- Visa
- Thermo Fisher

Firm Announcement

Cute baby ALERT!!! Meet Emma - the newest member of the extended RWA family! Please join us in congratulating Sarah Whitman and her family who welcomed their second child, baby Emma in October of last year.

Financial Hygiene Check-Up

Practicing good financial hygiene can mean several things, but one area that comes to mind is keeping financial accounts organized. Over time, it is easy to accumulate extra accounts, and while there might be legitimate reasons to keep investable assets spread out in different accounts across various institutions, oftentimes the account creep happens unintentionally. It is common to say that we are going to get around to closing that old checking account, transferring shares from a brokerage account we no longer use, or rolling over that 401k from a company you no longer work for, but life gets in the way. We recommend taking some time this year to simplify your financial management by checking off the following items.

- ☑ Maintain one or two bank accounts that suit your needs and close unnecessary ones to reduce paperwork and fees.
- ☑ Rollover old employer retirement accounts (e.g. 401k) into your current plan or into an IRA Rollover.
- ☑ Make sure accounts are titled correctly (e.g. matches your current legal name), have the correct mailing address and have up to date beneficiaries listed.

Why Is This Important?

When assets are spread out in different accounts across various institutions, it can be difficult to know exactly how much you have and what you are invested in. Fewer accounts can mean less administrative hassle and better visibility into your financial situation.

Minimizing the number of accounts you own can significantly lessen the burden of distributing assets to your beneficiaries when the time comes. Your assets will be easier to disperse to your loved ones if they are organized in fewer places.

Financial Zen is the peace of mind that comes from having fewer online logins, fewer statements, and fewer tax documents to keep track of. It is a good feeling to know your financial house is in order!

Featured Stock: Pfizer (PFE)

Pfizer Inc., founded in 1849, is one of the world's premier biopharmaceutical companies. Headquartered in New York City, Pfizer has grown from a small chemical business into a global pharmaceutical powerhouse, renowned for its commitment to healthcare innovation and the development of medicines and vaccines that address some of the most pressing medical challenges. Pfizer derives 98%[1] of its revenues from sales of biopharmaceutical products. The largest portion of Pfizer's revenue comes from its Primary Care products, comprising 52%[1] of total revenue in 2023, with Specialty Care and Oncology products making up 26%[1] and 20%[1] of total revenue respectively. The three segments cover a wide range of therapeutic areas, including oncology, vaccines, cardiovascular health, immunology, and neurology.

Not long ago, Pfizer was the most well-known name in the healthcare sector when it partnered with BioNTech and delivered a vaccine that could protect against Covid-19, boosting its revenue past $100B[1]. Since 2022, the stock is down 55% from an all-time high and is going through $3.5 billion cost cutting effort, including layoffs, as the management overestimated the demand for Covid-19 vaccines and treatments.

We added Pfizer to our portfolio this quarter because of its attractive valuation for a premier name in "Big Pharma", and its new potential sources of growth related to oncology and weight-loss pills that target large and fast-growing segments of the pharmaceutical industry. In 2023, Pfizer made the largest pharmaceutical acquisition of the year by buying Seagen, a cutting-edge cancer-drug company for $43 billion to enhance its oncology pipeline.

The company is also developing a weight-loss pill to compete with the likes of popular diabetes and weight-loss products developed by Novo Nordisk and Eli Lilly. The management has been secretive about releasing any data points related to its once-a-day weight-loss pill. If the pill is proven to be effective, we believe it can have an immediate positive impact on the company's stock, as it provides exposure to the weight-loss drug market that is forecasted to grow from a $6 billon market in early 2023, to $100 billion market by 2030 according to Goldman Sachs Research.

We believe that management's mistake in overestimating potential Covid-19 revenue is correctable, and while the company has since gone through a difficult period, the management recognizes that 2024 needs to be the year of execution, and we believe that Pfizer will continue to be a premier name in the pharmaceutical industry.

Source: YCharts

Topic Spotlight: Do I Need Travel Insurance?

There is a lot to think about when planning your next vacation, including the considerable financial risks of traveling. When is travel insurance worth it? Like most answers, it depends.

What type of coverage should I get? The are five main types of coverage: trip cancellation & interruption, baggage loss & delay, travel medical and medical evacuation. You can buy them à la carte or as a combined package.

Coverage Type	Description	Consideration
Trip Cancellation & Interruption	Trip cancellation coverage will reimburse the non-refundable, prepaid costs for your itinerary if you experience a qualifying event, like an injury, serious illness, death of a family member, and some natural disasters.	Trip cancellation coverage is more valuable if you've booked prepaid adventure tours or lodging. Check your credit card travel benefits first, you may already have coverage for this.
Baggage Loss & Delay	Baggage loss and delay coverage will compensate you for lost, stolen or damaged items. These benefits are typically available after a specified waiting time, often after 12 hours.	Your credit card and/or homeowner's insurance may cover your personal belongings while traveling. Make sure to review your existing coverage before purchasing a benefit you already have.
Travel Medical	Most health insurance plans, including Medicare, do not provide coverage in other countries. Travel medical coverage provides you with health and accident insurance if you become ill or injured on your trip. Typical coverage includes costs for hospital bills, ambulance services, medicines, x-rays, and labs. Your travel medical coverage will cover up to a specific cost listed in your policy.	It's always an option to purchase travel medical coverage as a stand-alone plan (average price is $93 per trip). Senior travelers and even travelers in good health, should assess travel medical coverage if traveling outside the US.
Medical Evacuation	It can cost between $20,000 and $200,000 to be transported by helicopter or ambulance should you need immediate care at a medical facility. Medical evacuation coverage will pay up to a specific maximum for your transport and can help pay for evacuation and ground ambulance costs, medical escorts, or the cost for family to transport to you, among other things.	If you plan to travel to a remote destination far from quality medical services, or you're embarking on a high-risk, outdoor adventure, medical evacuation insurance is a must. *Pro tip:* consider purchasing coverage directly through memberships with **Global Rescue** or **The American Alpine Club**, the latter offers not just a rescue benefit, but discounts on gear and lodging too!

How much does travel insurance cost? The cost of travel insurance is a function of travel length, value of your trip, cost of local health care, breadth of the coverage you want, and your age. According to Forbes, travel insurance typically costs 5-6% of your total trip cost. For example, the average travel insurance cost is $228 for a $5,000 trip, and the range for rates falls between $154 for a basic policy to up to $437 for a policy with generous coverage. Said otherwise, for a 60-year-old traveler, average rates range from $270 to $724 depending on coverage ranges.

What is not included in travel insurance? Travel insurance is intended to safeguard the uncontrollable elements of your vacation; it will not cover losses within your control. Make sure to review the fine print of what is covered within a policy before purchasing. If you've booked a trip but think that you may need to cancel for a reason that's not covered by trip cancellation, you may want to consider adding on a CFAR (Cancel For Any Reason) policy. This will reimburse up to 50-75% of your nonrefundable costs if you cancel the trip for a non-covered reason.

Where Can I Get Travel Insurance? Browse various policies and get quotes on travel insurance comparison sites like **Square Mouth** and **TravelInsurance.com**. Remember, many premium credit cards provide coverage for common travel mishaps, like lost or delayed baggage. While such coverage through your credit card is free, you cannot customize your coverage to meet your travel needs. Card-provided coverage usually does not offer any medical coverage, but can provide benefits for relatively inexpensive, domestic travel.

The Gist. Travel insurance can be particularly meaningful if you plan to venture out of the country and if you've prepaid a significant portion of the cost, but that doesn't mean it is needed for every trip. Make sure to review your existing coverage (health insurance, credit card offerings, and homeowner's insurance) before purchasing a comprehensive travel insurance plan. If you do purchase travel insurance, you'll want to retain a paper trail of your losses if you encounter any; documentation is required when filing a travel insurance claim. RWA wishes you safe and spectacular travels this summer!