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Established 2011

VOL 17 ISSUE 4 SIGNATUREIA.COM

The SIA Report

Q4 2024

Fed Rate Cuts: Implications for Your Portfolio

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After an unprecedented rate-hiking cycle aimed at controlling the inflationary effects of Covid-era stimulus, the Federal Reserve (Fed) appears largely on track in its goal of combating inflation. Now, the Fed seems to have entered a new phase of rate cutting in hopes of achieving a soft economic landing. Most recently, the Fed announced its latest rate cut and signaled plans for only two more cuts in 2025, reinforcing its commitment to a cautious approach. One might ask, however, why is the Fed even cutting rates in the first place—and what does that mean for your portfolio?

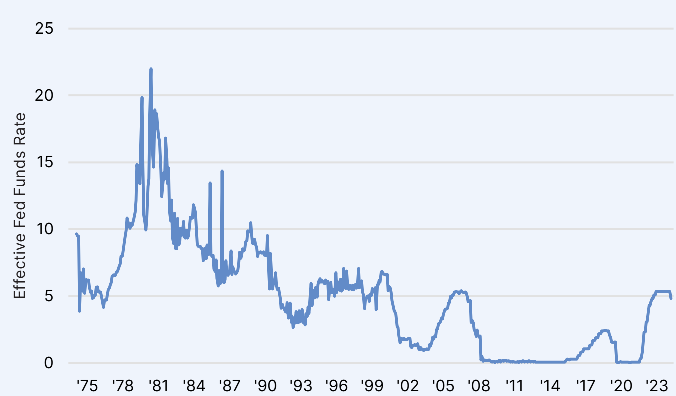
Why Is the Fed Cutting Rates?

To understand the Fed's decision to cut rates, it's essential to recognize the Fed's dual mandate: supporting maximum employment while maintaining price stability. It does so primarily by adjusting the short-term interest rates it controls, which help determine the interest rate on many loans, such as credit cards, some car loans, and businesses' shorter-term borrowing, among other rates. However, note that the rates on longer-term loans—such as mortgages—and yields on corporate and municipal bonds, are based on Treasury bond yields, which are largely market-driven, though may be influenced by Fed policy.

The Fed raises rates to make borrowing more expensive, thus reducing the demand for goods and services to combat inflation. Conversely, rate cuts are intended to stimulate the economy by lowering borrowing costs, encouraging spending, and boosting employment. With inflation moderating and concerns rising about potential economic slowing, the Fed has shifted its focus from reducing inflation to supporting employment.

Currently, the Fed funds rate remains above the "neutral" rate, a level that neither stimulates the economy nor slows it, placing current monetary policy in a restrictive zone. By cutting interest rates, the Fed is now moving closer to reaching this neutral interest rate. As such, investors should regard the Fed's move as a return to a more normal interest rate environment, where the Fed is neither trying to combat inflation nor stimulate growth. The Fed's goal is to reach a "soft landing", where economic growth slows enough to reduce inflation but not so much that unemployment increases by an undesired amount.

Effective Fed Funds Rate



Source: FactSet. Data through 9/30/24.

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Estate Planning Essentials

Setting up the building blocks for a more impactful legacy

By April Rosenberry, JD, LLM in Taxation
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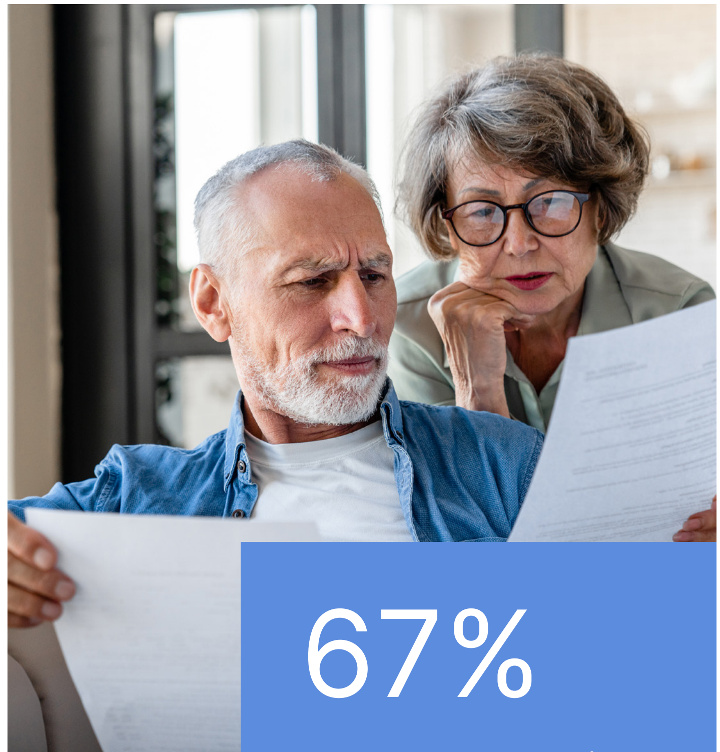
Regardless of your age or the extent of your wealth, estate planning should be an essential part of your overall financial planning. Not only does estate planning offer the means to preserve and ultimately distribute your assets according to your wishes, it helps you determine that your personal healthcare wishes and directives are followed and helps minimize exposure to taxes and avoid probate on your estate.



67%

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Yet according to a recent survey, more than two-thirds of adult Americans (67%) have yet to implement any sort of estate planning.[1]

From Pablo Picasso who died intestate (causing his estate settlement to take six years at a cost of $30 million) to the more recent death of Prince who passed away without a will or estate plan (leading to a contentious and costly 5+ year legal battle for his $156 million estate), there's no shortage of cautionary tales about the importance of having a plan. Yet far too many people either procrastinate entirely or fail to update their estate plans to reflect changing circumstances.

The simple truth, however, is that estate planning doesn't need to be overly challenging, difficult or time consuming. Establishing a solid estate planning foundation for yourself and your family can be as easy as 1-2-3:

Define Your Legacy

Before diving into estate planning specifics, it's important to first take time to reflect on what matters to you most; to help bring greater clarity to your legacy objectives and goals.

- What are your priorities regarding the eventual transfer of your wealth?
- What values do you hope to instill in future generations?
- What charitable causes or civic organizations would you like to support?

By documenting these core values, you'll be able to strengthen bonds across generations. And through defining the legacy you wish to leave, you're able to create a roadmap for how you want to be remembered and the impact you want to leave behind.

1 Source: Think Advisor "Two-Thirds of Americans Don't Have an Estate Plan: Survey," October 2022

Identify Your Assets

Next, you will need to gather information on all your financial assets (identifying their type, title and value) so your team can establish a full understanding of your overall planning needs. Along with your financial assets, thoughtful planning involves identifying and leveraging non-financial assets such as personal property (e.g., heirlooms, photos, jewelry, keepsakes) as well as digital assets (e.g., social media, blogs, audio files, cloud storage, electronically stored documents, etc.). And don't forget to include your furry or feathered friends. Under many state laws, pets are considered personal property, allowing you to provide for their financial and personal care in your estate planning documents.

These simple steps will help ensure that all of your assets are accessed and transferred to intended beneficiaries pursuant to your wishes.

Draft Key Estate Planning Documents

Once equipped with insights about your legacy and a clearer understanding of your assets, it will be time to draft a handful of important estate planning documents. While there's no 'one size fits all' list of documents that are applicable for everyone, the following are often considered foundational elements for a wealthy individual's estate plan:

Will—your will is a legal document that outlines how you want your assets to be distributed upon your death. With some exceptions, wills are governed by your state's Probate Court (meaning a judge will oversee your estate assets, beneficiary rights, and distributions). In some states, probate has the potential to be lengthy, expensive and challenging for your surviving family.

Assets may take up to two years to reach your beneficiaries, and costs can average 7% (although your specific costs may significantly differ since total probate costs depend on the value and type of an estate's assets). Also, keep in mind that most probate processes are a matter of public record; meaning your personal information (and that of your beneficiaries) will be accessible to the public.

Lifetime (Revocable) Trust—a revocable trust is a versatile tool that allows you to hold and plan for assets during your lifetime, and then ultimately transfer those assets to beneficiaries upon your death. Revocable trusts are specifically designed to bypass the probate process and allow your named decision-makers more control over how and when assets are distributed through a private process outside of the courts.

Beneficiary Designations—allows assets such as retirement accounts, life insurance policies, annuities and payable-on-death bank accounts to also circumvent the probate process; passing directly to the named beneficiaries. This means it's vital to conduct periodic reviews of all your beneficiary designations to ensure they still align with your overall estate planning goals.

Durable Power of Attorney—should you become incapacitated at any point in time, this document appoints someone to make financial decisions on your behalf.

Health Care Directives (Living Will & Healthcare Power of Attorney)—document your specific preferences for medical treatment if you are unable to communicate. It's a way to ensure your cultural, religious and personal wishes concerning life-saving measures and end-of-life care are honored.

Additionally, for individuals with a net worth of more than $5 million (or $10 million for married couples), there are certain tax and trust strategies (i.e., *Advanced Strategies*) which can be implemented to deliver an extra measure of long-term tax minimization and asset protection.

Once in place, your estate planning documents should generally be reviewed every few years to ensure they still meet your wishes and remain compliant with any changes to current tax laws. They should also be updated to reflect any life changes (e.g., marriage, divorce, births, deaths) as well as any significant changes to your financial situation.

Conclusion

By taking a little time to better understand the fundamentals of estate planning, you can create a stronger plan that will highlight your legacy and help determine the distribution of your assets in accordance with your wishes. Establishing and maintaining a thoughtful estate plan can help provide clarity and set the foundation for informed decisions about your future and that of your loved ones.

FED RATE CUTS continued from cover...

"I believe successful wealth management is the result of an ongoing collaboration between investor and advisor, built upon trust and maintained according to the highest standards of integrity and knowledge."

Brian D. Holmes,
MS, CFP®, AIF®
President & CEO

ABOUT SIA

Signature Investment Advisors® (SIA) is a Registered Investment Advisor firm offering investment management solutions that are tailored to meet the unique needs of affluent individuals and organizations. In partnership with your wealth manager, we bring our combined experience, knowledge, and high level of service to provide a dynamic process that can help meet your investment objectives and goals.

What Do Rate Cuts Mean for Your Portfolio?

Next, as to the question of what the Fed rate cuts mean for your portfolio, there are some key themes.

1. **Bonds:** When interest rates fall, existing bonds become more valuable, and their prices typically rise. Why? Because they were issued at higher rates, making them more attractive than new bonds issued at lower rates. However, new bonds will offer lower yields, which means less income for investors. Of course, not all bonds react the same way—corporate or municipal bonds as well as mortgage-backed securities, which carry credit risk, may not necessarily rise or fall in tandem with Treasury bonds, which do not have credit risk.

2. **Stocks:** Historically, stocks have often performed well following Fed rate cuts, particularly if the economy avoids a recession, though past performance does not guarantee future results. Lower interest rates can stimulate economic growth by making borrowing cheaper for businesses, potentially boosting their profits. Plus, lower interest rates can lead to higher stock prices by making the future earnings or dividends of a company more valuable in current dollars. Sectors that tend to pay high dividends, like real estate and utilities, may become more attractive to income-seeking investors as yields on savings accounts and bonds decline, as can certain financial stocks like banks.

3. **Savings Accounts and CDs:** For savers, rate cuts typically mean a decrease in the interest earned on savings accounts and certificates of deposit (CDs). This can be disappointing for those relying on interest income, as their cash savings won't grow as quickly.

4. **Real Estate:** Rate cuts may favor investments in commercial real estate or real estate investment trusts (REITs), especially those that pay high dividends. As borrowing becomes cheaper, these investments may become more attractive for income-seeking investors.

Conclusion

While the Fed's rate cut is generally positive for investors, it's important to remember that economic conditions can change rapidly, and many factors influence the price of investments beyond Fed policy. The key is to stay informed, maintain a diversified portfolio aligned with your long-term goals, and avoid making drastic changes based on short-term market movements.

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