ANCORA®

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The Ancora Advisory

An Investment Publication for Clients and Friends

Ancora consists of four primary business units; Family Wealth, Asset Management, Retirement Plans and Insurance Solutions. With experienced portfolio managers, distinctive investment strategies, and robust wealth and risk management, we are driven by an entrepreneurial spirit. Ancora delivers tailored solutions so you can achieve more ... on your terms.

The "Less Bad" Economy

John Micklitsch, CFA, CAIA
Chief Investment Officer

Everybody wants to know what the next move in the markets will be. The belief is that if you solve that riddle, untold fortune awaits. Ironically, if you simply shift your horizon to a long-term outlook, good fortune still awaits and with a much higher degree of certainty than trying to predict short-term market moves. To paraphrase the famous equity investor Peter Lynch, we have no idea which direction the next 10% move in the market will be, but we know what direction the next 100% move will be.

That being said, one of the drivers of short-term market moves is actual results versus expectations. In bullish market environments, outlooks for corporate and economic results skew to the upside, leading to higher valuations built on elevated expectations. When actual results fail to meet the lofty expectations, stocks can be punished. On the other hand, in bearish environments where expectations are low and actual results exceed those low expectations, markets can rally for a period of time. If this all sounds as clear as mud and a crazy way to think about investing, you're not wrong, because with short-term market moves you are trying to handicap two variables; actual results and the expectations for those results, which becomes measurably more difficult than a single variable analysis.

This all brings us to the current market environment. There is no shortage of items on today's "wall of worry". These include the risk of a recession, geopolitical tensions, U.S. dollar status, inflation, bank stress, interest rates and a pending debt ceiling showdown, just to name a few. Concerns over those items probably explain 2022's poor performance more so than they do 2023 thus far, because markets are forward-looking and, on that front, 2023's economic conditions have been less bad than perhaps feared. When sentiment and expectations get so low that actual results are "not as bad" as expected, markets can rally in the short-term. A case in point is the reported first quarter earnings of the S&P 500 companies. Thus far, reported earnings are down roughly 1% year-over-year. But, if expectations were for them to be down 3-4%, that "less bad" outcome can be enough to give the market a short-term boost as traders (not to be confused with investors) race to get in front of the next potential trend. However, a "less bad" market or economy has its limits.

Long-term, which is where the real money is made, markets require a healthy and growing economy fueled by innovation, demographic growth and productivity gains. On the productivity front, artificial intelligence has the potential to be a driver of economic growth, but it is still early days. A recent study showed that call center workers were 10-35% more productive when assisted by AI tools in their jobs. The ability to get twelve hours of productivity out of a ten-hour day would be huge for the economy. Just as semi-conductors, personal computers, software, the Internet, mobile phones and the Cloud have made our economy more productive, so too might the age of artificial intelligence. We will be exploring this topic further, incidentally, in a webinar on May 31st. If you are interested in participating, you can register here. We hope you can join us.

In closing, we believe it is important to understand both the near term and long-term forces that move markets. We think we are currently in a "less bad" economic/market environment, where worst-case scenarios around a hard economic landing have yet to materialize. Markets can be supported for a while by "less bad" conditions, but long-term we will need to see signs of a healthy and growing economic cycle with robust consumer activity and capital investment to usher in a true, new bull market. The good news for investors is that you don't have to try to time these cycles to be successful over time. To the contrary, finding an asset allocation that works for you and adapts to your needs, populating that asset allocation with high quality assets/strategies and then exercising patience, good judgement and discipline over multiple cycles, remains the best formula, in our view, to good fortune and the achievement of your long-term financial goals and objectives. ◊

Dumb Things Lead to Great Opportunities

Kevin Gale
Managing Director, Head of Fixed Income

The debt ceiling is an absolute maximum amount of money a government can borrow at any given time. Only two countries in the world have an absolute debt ceiling, Denmark and the United States of America. Most other countries set their debt ceiling limit as a percentage of gross domestic product.

The debt ceiling was established in the U.S. in 1917 to help fund World War I. Only Congress can raise or lower the debt ceiling. Since 1960, Congress has acted 78 times to raise the limit, 49 times under Republican presidents and 29 times under Democratic presidents. The most recent debt ceiling increase was in December 2021, when Congress increased the ceiling to its current limit of $31.46 trillion.

The current total outstanding debt sits at around $31 trillion. With the U.S. government running a deficit in almost every single year, this does not leave much additional room to borrow. Recently, Treasury Secretary Janet Yellen said the government could run out of borrowing capacity as soon as June 1, 2023.

The tight deadline to increase the debt limit has political parties facing off against each other and infighting amongst themselves. Historically, debt ceiling negotiations have been nothing more than a ploy to get something that each party wants. There is no reason to believe that this time will be different.

So far, there is no indication that either party is willing to budge on their demands for raising the debt ceiling. However, on April 26, 2023, the Republican controlled Congress passed a bill raising the debt ceiling, but the bill included significant spending cuts that the Democrat-controlled Senate and President Biden will not agree to. Negotiations are sure to heat up in the coming weeks and are expected to be extremely tense with each side jockeying to get what they want.

Meanwhile, the clock is ticking ever so closely to the June 1st deadline that Treasury Secretary Yellen has recently established. Should the U.S. hit the debt ceiling limit without any extension, the consequences could be extremely negative and would qualify as one of the worst "unforced errors" in financial history. First, it is unclear how the government would handle paying its bills. It could 'prioritize' by insuring debt service payments and debt maturities payments are made first to avoid a default. This would mean reducing payments to Social Security, Medicare and potentially government employees, which could lead to a severe economic

slowdown. The government could also decide not to service its debt, which would likely be a disastrous scenario. U.S. government debt is considered to be one of the safest investments in the world. Not servicing the debt would lead to a crisis of confidence and could lead to significantly increased borrowing costs in the future, if investors are even willing to buy U.S. debt.

The lack of leadership in Washington and the divisive nature of our current government is affecting the American people. Short-term funding costs for the U.S. government have risen on fears over the debt ceiling. This is costing additional money in the form of higher interest expenses for taxpayers. Consequently, confidence in the U.S. servicing its debt could wane, leading to higher future funding costs.

The implications for investors over the debt ceiling are extremely important. With just a few weeks to go until the ceiling is hit, investors are starting to get anxious. We will likely see increased volatility across the market in the coming weeks as we approach the June 1 deadline. Of course, news of a resolution could break at any time. Maintaining a well-diversified portfolio along with some liquidity should position investors well to weather the potential volatility. If there is a meaningful pullback in the market as a result of debt ceiling negotiations, we believe that is a buying opportunity for investors. As Warren Buffett said at the recent Berkshire Hathaway annual meeting, “What gives you opportunities is other people doing dumb things.” In this case, the U.S. Government messing around with the debt ceiling could certainly be classified as a dumb thing. ◊

Preparing for Expiration of the Tax Cuts and Jobs Act

Stephen Forlani, JD
Vice President, Financial Planning

The 2017 Tax Cuts and Jobs Act (TCJA) is set to expire at the end of 2025, bringing into play questions surrounding income tax planning, charitable giving and, perhaps most significantly, estate tax planning. While Congress could still act prior to the expiration of the TCJA, now is the time to take advantage of some of the Act’s more friendly income and estate tax provisions before they expire.

First, note that upon expiration of the TCJA, tax brackets will revert to their 2017 levels, which means that many taxpayers will be subject to higher income tax rates beginning in 2026. Additionally, a number of other key tax provisions will expire and affect high earners or business owners in particular. These include:

- Reduction in the standard deduction (expected to be cut roughly in half from the current $13,850 per individual)
- Elimination of the deduction for Qualified Business Income (QBI)
- Increase in allowable mortgage interest deduction
- Elimination of the cap on deduction for state and local taxes (SALT deduction, currently limited to $10,000)
- Reduction in the annual deduction limit for charitable contributions (from the current 60 percent of AGI back to 50 percent)
- Reduction in the lifetime estate and gift tax exemption (expected to be cut roughly in half from the current $13M per individual)

That last bullet point is of particular significance for high net worth families who may need planning to mitigate the estate tax burden on the next generation. Some provisions of the Code will remain in place, however. For example, the TCJA cut the top corporate income tax rate from 35% to 21%. This rate will remain in place after expiration of the Act. Similarly, there will be no change to the tax treatment of short and long-term capital gains.

With these expected changes on the horizon, it is important to consider planning strategies that can be used to take advantage of more favorable provisions before they expire. Be sure to consider any projected appreciation of a taxable estate when deciding whether certain estate planning tools are necessary, as the ability to use the higher exemption amount may be lost for good once the Act sunsets.

Ancora’s Planning team has been busy meeting with clients to formulate strategies in conjunction with their estate and tax

professionals. For example, recent discussions have involved the utilization of Roth conversions to accelerate deferred taxes into more favorable years, "lumping" charitable donations to a Donor Advised Fund for more efficient philanthropic giving or utilizing various types of trusts to minimize or avoid estate taxes with the transfer of assets.

Every client's situation is different, which is why our team takes a consultative and comprehensive approach to planning, including working with your investment, tax and estate professionals. We encourage you to reach out to your Ancora team if you are interested in learning more on any of these topics or scheduling a review to assess your strategic opportunities prior to the expiration of the TCJA. ◊

Insurance Q&A: The Benefits of an Independent Insurance Agent

Mark DeBlauw
Senior Sales Executive, Property & Casualty

With our 2022 addition of the Ancora Insurance Solutions vertical, we have entered the property and casualty and employee benefits space to further assist Ancora clients. Mark DeBlauw, a Senior Sales Executive on the Ancora Insurance Solutions Team, joins us to explore the independent insurance agency model and the potential benefits of a comprehensive coverage approach.

Q. What are some of the main advantages of utilizing an insurance agency for property and casualty coverage rather than shopping direct?

The holistic approach of an insurance agency model offers several advantages such as comprehensive coverage and a single point of contact as well as independent and objective advice. An insurance agency can provide a wide range of coverage options to meet the diverse needs of individuals and businesses. Whether it's auto, home, liability or commercial insurance, an agency can offer comprehensive coverage tailored to the specific requirements of their clients.

With an agency like Ancora, clients have a dedicated agent who serves as their single point of contact for all insurance needs. This eliminates the hassle of dealing with multiple insurers or policies, making policy changes or claims processing more streamlined and efficient for the client. When purchasing directly, you may have to rely on self-service tools and a general customer support line from the insurance company.

And, because insurance agencies are not tied to a single insurance company, we are independent and can therefore offer objective advice and access multiple insurers to find the best coverage options and prices for our clients. This can help clients make more informed decisions without any bias towards a particular insurer.

Q.A common misconception is that it is more expensive to obtain property and casualty coverage through an insurance agency versus direct. What are the facts on that front?

Insurance agencies work with multiple insurance carriers and have the ability to compare rates and coverage options from different providers. This allows us to potentially find policies that offer better value for our clients. On the other hand, when purchasing insurance directly from an insurance company, you are limited to the rates and options offered by that specific company.

Agencies also have more flexibility to explore options for combining different policies (e.g., home and auto) to potentially obtain discounted rates. Direct purchasers may miss out on these potential savings as well as the personalized advice and guidance that agencies can provide. They can help you understand the nuances of different policies, assess your risks and recommend appropriate coverage levels, which can be invaluable in making informed decisions and ensuring that you have adequate coverage.

Q. What role does the agency play with the client and carrier when there is a claim filed?

When a claim is filed, an insurance agency firm acts as an intermediary between the client (the policyholder) and the carrier (the insurance company). The agency's role is to facilitate the claims process and ensure a smooth and fair resolution for all parties involved.

Ancora serves as an advocate for the client, providing guidance and support throughout the claims process. We help the client understand their policy coverage, rights and responsibilities. We also assist in completing claim forms, gathering necessary documentation and submitting the claim to the insurance carrier

In some cases, the agency may negotiate with the insurance carrier to ensure a fair settlement for the client. We use our experience and knowledge of insurance policies to advocate for the client's best interests. This can involve discussions on coverage, valuation of losses and any potential disputes that may arise during the claims process.

If any issues or disputes arise during the claims process, the agency helps facilitate their resolution. We work with the carrier and the client to address any concerns, clarify policy terms and find a satisfactory solution. The agency may escalate the matter if necessary.

Q. Ancora places many forms of coverage across both personal and commercial lines, but we've been finding that umbrella insurance is often an afterthought for clients. How does umbrella insurance work, where does it fit in and what are some examples of risks that umbrella insurance covers that people might not consider in assessing their risk exposure?
Umbrella insurance is a type of liability insurance that provides an additional layer of coverage beyond the limits of your existing policies, such as auto, homeowners or renters insurance. It is designed to protect you from large and unexpected financial losses that could result from a lawsuit or liability claim.

Umbrella insurance covers a wide range of liability risks, including bodily injury, property damage, personal injury (such as defamation or invasion of privacy) and landlord liability. It may also extend coverage for certain liabilities not covered by your underlying policies, such as libel, slander or false arrest. This type of coverage can be very affordable, especially considering the small premium you pay for the broad protection you receive. We recommend that anyone whose exceeds their liability limits consider adding protection to fill in those gaps.

Q. Is there an example of how our team has optimized a comprehensive coverage solution utilizing Umbrella Coverage and how it benefited the customer over what they currently had in place?
Legal disputes can arise from various situations, such as accidental injuries on your property, defamation claims or incidents involving your pets. As another example, in today's digital age, a simple post or comment on social media could result in a defamation claim. Umbrella insurance can help protect your assets if you are sued and face significant legal expenses. Similarly, if you engage in volunteer work or serve on the board of a nonprofit organization, umbrella insurance can offer liability coverage beyond what the organization's insurance policy may provide.

Q. There are many ways to obtain insurance these days. Why should somebody consider Ancora for their personal or commercial coverage needs? How should they get in touch with our Insurance Solutions team if they're interested in a review of their current coverages?
Above all, we pride ourselves on delivering exceptional service to our clients. We are dedicated to assisting clients throughout the entire process, from policy selection to claims handling and everything in between. Additionally, our agency structure allows us to offer comprehensive and customized coverage options with competitive rates like we discussed.

We're more than happy to schedule a time to review coverages and showcase how we can add value. Simply contact your Ancora relationship team to start the process. We'll ask for specific details about your existing coverage, such as policy numbers, effective dates and any associated documents or contracts. Don't hesitate to express your concerns, ask questions and provide us with any specific requirements you may have. Our team will assess your current coverage, identify any gaps or areas for improvement and provide recommendations accordingly. We look forward to hearing from you. ◊

Market Data Center

As of 4/30/2023

Stocks	1 month	3 months	6 months	YTD	1 year	3 years
S&P 500	1.6%	2.7%	8.5%	9.2%	2.5%	49.3%
Dow Jones	2.6%	0.5%	5.2%	3.5%	5.4%	47.6%
Russell 2000	-1.8%	-8.2%	-3.6%	0.8%	-3.7%	39.8%
Russell 1000 Growth	1.0%	6.6%	11.4%	15.5%	2.1%	45.8%
Russell 1000 Value	1.6%	-2.5%	4.4%	2.5%	1.0%	48.2%
MSCI EAFE	2.9%	2.9%	24.6%	12.2%	9.8%	40.6%
MSCI EM	-0.8%	-5.4%	16.2%	3.2%	-5.4%	14.1%
NASDAQ 100	0.5%	9.6%	16.5%	21.3%	3.7%	49.9%

Dividend Yield	NTM P/E	P/B
1.55%	18.1x	3.8x
1.92%	17.1x	4.2x
1.61%	20.2x	1.9x
0.84%	24.1x	9.0x
2.14%	14.5x	2.3x
2.40%	13.1x	1.7x
2.42%	11.9x	1.5x
0.67%	24.6x	6.1x

Fixed Income	Yield	1 month	3 months	YTD	1 year	3 years
U.S. Aggregate	4.35%	0.6%	0.5%	3.8%	-0.3%	-8.8%
U.S. Corporates	5.18%	0.6%	0.1%	5.3%	1.0%	-7.0%
Municipal Bonds	3.88%	-0.2%	-0.1%	2.3%	2.8%	2.6%
High Yield Bonds	8.42%	0.2%	0.2%	3.9%	1.2%	8.2%

Key Rates	4/30/2023	3/31/2023	1/31/2023	10/31/2022	4/30/2022	4/30/2020
2 yr Treasury	4.06%	4.06%	4.21%	4.49%	2.69%	0.18%
10 yr Treasury	3.45%	3.49%	3.53%	4.07%	2.89%	0.62%
30 yr Treasury	3.67%	3.69%	3.66%	4.20%	2.94%	1.28%
30 yr Mortgage	6.85%	6.81%	6.47%	7.22%	5.41%	3.52%
Prime Rate	8.00%	8.00%	7.50%	6.25%	3.50%	3.25%

Commodities	Level	1 month	YTD
Oil (WTI)	75.28	-0.5%	-6.2%
Gasoline	2.48	-5.2%	-3.6%
Natural Gas	2.57	16.2%	-37.3%
Propane	0.74	-7.1%	-5.1%
Ethanol	2.31	7.2%	5.0%
Gold	1,998	0.6%	9.4%
Silver	25.58	5.9%	6.4%
Copper	3.87	-5.7%	1.7%
Steel	1,070	-3.3%	43.8%
Corn	5.84	-11.6%	-14.0%
Soybeans	14.42	-4.7%	-3.7%

Data Reflects Most Recently Available As of 4/30/2023

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