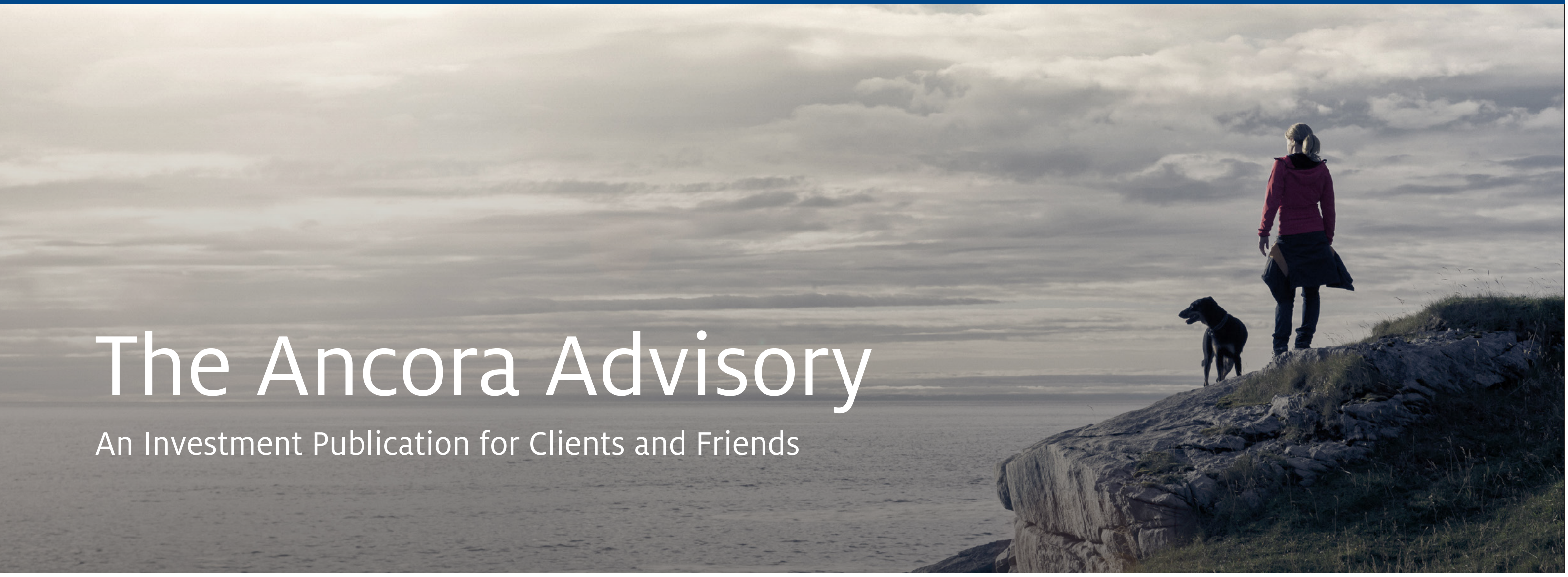
ANCORA

Third Quarter 2023



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.

Quality & Value: Two are Better Than One

John Micklitsch, CFA, CAIA
Chief Investment Officer

Quality is an essential ingredient in many aspects of life, including investment. In its simplest form, quality represents the ability of an asset to endure, adapt and thrive across many different environments. One-of-a-kind assets, talented management, strong balance sheets, consistent free cash flow, high barriers to entry and large reinvestment opportunities are all signs of a high-quality business. If you find a business like this, you are already standing on first base. But is quality alone enough to ensure a great outcome and win the long-term investment game? The short answer is, not entirely. Valuation matters and ideally, you find both in an investment.

Two well-regarded investors have held similar views on the topic of quality and value, and, for both, quality carries a higher weight though neither liked to overpay for an asset. Warren Buffett is famous for saying, “it is far better to buy a great company at a fair price, than a fair company at a great price.” Bob Torray, who I worked for in my first asset management job, used to say, “the longer you intend to hold a stock, the less relevant price paid is and the more relevant the quality of the underlying business becomes.” For both esteemed investors, this is in large part because reinvestment opportunities play such an important part in long-term shareholder value creation and quality companies tend to find smarter or better ways to reinvest back into the business than lower quality ones.

My own version of this quality versus value theme takes me back to my twenties when I was visiting a friend in Chicago. It was wintertime and, in a hurry to make the flight, I neglected to pack a coat. With some time to kill, I went to a Nordstrom on the Magnificent Mile. Overwhelmed by the plethora of options I zeroed in on a beautiful wool coat with a great liner that felt like silk. I could hear my father saying, “don’t try on the coat unless you plan to buy it,” but with the assistance of the salesperson, I tried it on anyway. The fit was perfect, but it was more than I had ever contemplated spending on a piece of clothing. But I was in the big city and bought it! For the next fifteen winters, that coat took great care of me and provided a far higher return on investment than I ever imagined at the time of purchase. Quality has a way of doing that, but are there limits?

Which brings us to today's market environment. The narrow breadth of the market in 2023 is well documented. A handful of large stocks have driven returns. Nobody debates the quality of these technology-oriented businesses. They are innovative, well run and the world continues to digitize itself. But if you pay 100x earnings for a business, there is an assumption of growth built into that valuation. Priced at these levels, nothing can go wrong because the margin of safety in the price paid does not allow for it. Late arrivers who bought the stock with the expectation of growth as far as the eye can see will be disappointed and sell if it doesn't materialize because absent growth, the payback on the investment is 100 years!

In another remarkable measure of how far quality can take a business, a well-known tech company, currently carries a $3.0 trillion market cap which is bigger than the entire Russell 2000 universe of companies combined. Nobody would dispute its place in the Mount Rushmore of Corporate America, but from the standpoint of the law of large numbers, is it more likely that a $3 trillion market cap company doubles over the next five years (generating a 12% annualized return) or that a $300 million upstart does? There is little doubt the $3.0 trillion company's business will be more resilient to economic disruptions and change than a $300 million company, but is it easier to find a $3.0 trillion market cap creating business opportunity or a $300 million opportunity for the second company and its shareholders?

The beauty of investing is that everybody has a different goal for the holdings in their portfolio. Some want and need the battleship; others need or want the smaller speedboat. Many investors seek both to receive the benefits of both. That is what makes markets and is one of the key principles of diversification. Regardless of the securities you seek for your portfolio, however, if you start with a quality first bias and then layer in discipline on valuation, you give yourself two ways to win. But in the end, quality, like a good winter coat, is a smart starting point for weathering the harshest of market conditions. ◊

Higher Bond Yields Equal Opportunity

Kevin Gale
Managing Director, Head of Fixed Income

Since March of 2022, the Federal Reserve has raised The Federal Funds Rate an unprecedented 525 basis points (5.25%). These interest rate hikes have led to the highest yields the bond market has experienced in over 15 years. Real yields (the difference between a bond's yield and inflation) have turned decidedly positive as inflation has fallen from its peak. Bonds are once again an asset class that can provide a meaningful return to portfolios.

In the fixed income markets, duration is a measure of sensitivity to changes in interest rates. It measures how long it takes, in years, for an investor to be repaid what they are owed from the borrower. With the significant rise in interest rates, we believe it is time to start extending duration in bond portfolios as we are nearing what we believe will be the peak of rate increases by the Federal Reserve. Extending duration represents an opportunity to lock in higher rates and reduce reinvestment risk.

We could see additional rate hikes (1-2) by the Fed if inflation continues to remain well above the committee's 2% stated target, but we believe we are closer to the end than the beginning of the current tightening cycle. Even with the end of the cycle in view, we believe we are in a 'higher for longer' rate environment by the Federal Reserve, which should afford bond investors an opportunity to continue to produce higher income from their fixed income investments.

With the recent increase in long-term yields, the 5-year Treasury yield is at 4.4% and the 10-year Treasury yield is at 4.2%. These rates allow investors that have been sheltering in short-term bonds to extend out to lock in higher yields for longer. To mitigate this reinvestment risk on shorter-term bonds, we favor a laddered bond portfolio approach. In a laddered bond portfolio, bond maturities are staggered, giving investors exposure to multiple maturity points on the yield curve. In addition, with this approach, investors will have bonds maturing on a regular basis, giving the opportunity for re-investment or re-allocation based on the investor's needs. A high quality, well-diversified laddered bond portfolio in today's yield environment can yield 5.0-5.5% on a pre-tax basis. In our opinion, a diversified bond portfolio, mixed with equities and alternatives, can help improve the risk-adjusted returns of a portfolio without the same return give up of fixed income's recent low interest rate past. Bonds are back. ◊

Assessing the Macro Environment; When the Micro Truly Matters

David Sowerby, CFA
Managing Director, Portfolio Manager

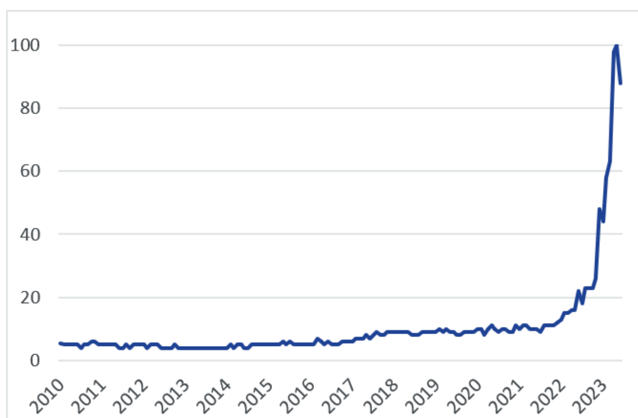
When building client portfolios, our objective as portfolio managers is to blend each client's personal needs with our overall view of the markets and the macroeconomic backdrop at any given point in time. In the current environment, there is considerable debate about a potential recession, though the health of the job market and low unemployment rate make an argument for recession avoidance. In addition, second quarter real GDP growth was +2.4%, comfortably above recession levels. In contrast, the last 18 months have marked one of the more stringent periods of monetary tightening and rising interest rates on record and higher interest rates, negative money supply growth and an inverted yield curve are traditionally harbingers of recession.

More importantly, recession or not, understand that it is not simply a binary event of all or nothing when it comes to the economy. Simply put, we are more likely to experience slower business conditions, which are inevitable in the business cycle. I have personally managed portfolios long enough to have experienced four economic recessions and seven bear markets. Each time, a good understanding of the companies in my portfolio and their financial strength has proven to serve me better than any macro forecast would.

I often discuss my unwavering focus on the "trinity," namely a company's balance sheet, statement of cash flows and income statement. Cash flow is an especially critical factor given that it has less manipulation compared to an income statement. In particular, I focus on free cash flow and free cash flow margin as a great decider between the companies I would own and those I would pass on. In addition, as interest rates have risen, the health of a company's balance sheet is essential to maintain and grow their dividends and pursue share buybacks while servicing debt obligations. This steadfast focus has resulted in portfolio holdings that can achieve greater downside protection and preservation of capital.

Regarding the much-discussed rise of artificial intelligence, there have been several high-profile technology stocks, such as Nvidia and C3AI, that are up more than 200% this year. We are believers in the productivity-enhancing potential of AI and are seeing its early benefits particularly in call center companies, greatly enhancing their output. This is not simply a replacement of jobs, but rather enhancing the output of existing employees. Several well-known companies, such as Microsoft, Apple and Broadcom, are both developers and eventual beneficiaries of AI. But the benefits can also extend to consumer beneficiaries such as Wyndham, Marriott Hotels and McDonalds, to name a few. More companies are profiling their AI initiatives on recent quarterly earnings calls. The adjacent chart best shows the rise in AI interest via Google searches on the subject. We have a positive, but realistic, view of the benefits of AI, but will continue to pay great heed to the valuation of a company and not allow irrational exuberance to cloud our value discipline.

U.S. Google Search Activity for the Terms "Artificial Intelligence" or AI



Source:Google Trends as of 06/30/2023
A value of 100 is the peak popularity for a search term on Google's Scale

In my experience, patient capital typically wins over full market cycles. It has now been 3 ½ years of investing since the onset of the pandemic. The early days were filled with high levels of uncertainty with the economy shutting down and a rapid 35% decline in the S&P 500. Forecasting the pandemic would have been highly unlikely and it served as proof that oftentimes the greatest risk is the one you do not know.

An emphasis on bottom-up company fundamentals was essential pre-pandemic and has transcended multiple bear stock markets. Now, 3 ½ years later, markets are meaningfully higher than pre-pandemic levels. Even the worst bear markets have shown that the U.S. economy and companies prove resilient to the shareholder when given time. The table below reinforces this ability of U.S. businesses to achieve favorable results, even if one had bought shares just before a negative macro event and market decline. We worry about the macro, but more importantly invest bottom-up focusing on company fundamentals to see us through.

	5-Year Cumulative Returns			Cumulative Return
Purchased	**10/16/1987**	**9/7/2001**	**9/12/2008**	**2/19/20 as of 6/30/23**
S&P 500 Index	+72.8%	+30.0%	+50.3%	+38.7%
ICE BofA U.S. 3-Month Treasury Bill Index	+41.5%	+12.0%	+1.0%	+4.3%

Source: Bloomberg ◊

Building Habits Early for a Better Financial Future

Stephen Forlani, JD
Vice President, Financial Planning

Mike Rayfield, CFA, CFP®
Vice President, Investment Advisor

This Summer, Ancora's wealth planning team introduced an educational webinar series designed for early to mid-career professionals. The Foundational Finance series aims to explore the building blocks of financial wellness, such as the basics of wealth accumulation and long-term financial planning. We recognize that many individuals receive limited financial education in college or in their early careers. Our goal is to help fill this knowledge gap and provide young people with a more solid foundation to build upon in terms of their financial independence, retirement savings and protecting their families during their wealth accumulation years.

Long-term financial planning should be goal-based, comprehensive and tailored to the specific individual, couple or family. Before looking at the bigger picture, however, it is important to establish productive financial habits at a young age. In an effort to provide guidance to those seeking to establish these habits, we have focused our first Foundational Finance series on three topics: maximizing the efficiency of your employer-sponsored retirement plan, understanding basic investment concepts as you begin to build a portfolio and ensuring you have the right approach to securing your financial health for the long term.

Our intention is for these topics to address key questions that young professionals may be facing early on in their careers. We discuss some of these questions below but would also encourage young people to watch the recorded sessions available on our website for those who were not able to join us live. We also hope to tailor future Foundational Finance topics based on participant feedback and continue the series in the future.

Q: If you had to give one piece of advice to an early to mid-career professional, what would it be?
Start saving early! Every dollar you are able to put away as early as possible will have a meaningful impact on your retirement, especially if you are able to start saving in your early 20s. It's amazing what a few hundred dollars of savings can turn into in 40+ years. We often see young people start their careers and decide to put off saving for retirement for 5-10 years when they'll likely have a higher salary. However, due to the power of compounding, they are actually doing a huge disservice to themselves by missing out on that growth potential. Additionally, human psychology tells us that establishing good habits early on can be easier to maintain and can lead to increased savings levels as someone progresses in their career.

Q: Are there any ways to enhance retirement savings?
Absolutely. The simplest way is by taking full advantage of any employer match that may be offered with your employer-sponsored retirement plan. Many employers offer some sort of matching contribution, which typically requires the employee to also contribute

at least a specified minimum amount. It is important to check the provisions of your employer's plan to confirm whether and how much of an employer match may be available to you. In addition, by contributing to either a traditional retirement plan or Roth retirement plan, you can enhance your spending ability in retirement. We discuss these concepts in more detail in Session I of the Foundational Finance series.

Q: How should early to mid-career professionals invest their retirement savings?

It is important to understand that there is no such thing as a 'perfect' portfolio and there is no singular method of investing that would be right for everyone. When investing your retirement savings, there are really two key things to consider: 1) your ability to take on risk; and 2) your willingness to take on risk. Note that when we talk about risk in this sense, we are referring to the risk level of the portfolio as a whole. Most young people have the ability to take on risk because their investment time horizon is very long (30-40 years until retirement). A longer time horizon allows for greater ability to withstand the market's inevitable short-term fluctuations.

However, the more difficult aspect to assess is your willingness to take on risk. We often hear people say that they have a high tolerance for risk, but that sentiment changes very quickly if the market suffers a significant decline over a short period of time. It's important to consider the down-markets as well as the up-markets when contemplating your willingness to take on risk.

Your portfolio should then be assembled according to your risk preferences. When a portfolio is not appropriately allocated to match a risk tolerance, we might witness someone 'panic selling' in a down-market, which can harm their portfolio's long-term growth potential. They'd likely be worse off than if they had chosen a more conservative portfolio to match their risk tolerance. There is absolutely nothing wrong with having either a high or low tolerance for risk; the important factor here is to understand your tolerance and make sure your investment portfolio is tailored to match understanding that less risk is commonly associated with less return over extended periods of time.

Q: What are some other financial wellness tools to consider beyond investments?

Session III of the Foundational Finance series explores this topic in-depth. There are a number of simple things you can do to protect your assets and your partner or family. We discuss some of the basic estate planning documents such as wills, medical power of attorney and financial power of attorney, which are an important step in determining who will make decisions in times of crisis and how assets may pass to the next generation. Some may also want to consider setting up trust documents that will govern the transfer and distribution of assets to future generations, among other considerations. We help many of our clients find the right estate planning attorney to address their specific needs and goals.

Another important planning tool to consider is life insurance. If both spouses are working and something happens to one of them, a modest life insurance policy could help supplement one salary and lessen the financial burden on the family in the event of a premature death. While these are difficult topics to contemplate, small steps taken now can provide protection and peace of mind for the future.

Lastly, we often see additional property and casualty insurance policies overlooked by young people. As you progress in your career and your assets grow, it is very important to revisit your coverages on a regular basis to ensure your family and your assets are protected. Coverage can be fairly inexpensive and is an important facet of your holistic financial plan.

We recognize that every individual or family situation is different, so the estate planning documents and insurance needs will be different for everyone. The first step is to start thinking about your needs and building your roster of professionals (estate attorney, financial advisor, insurance consultant, etc.) who can help you along the path to financial wellness.

We greatly appreciate the participation of those who have attended our live Foundational Finance sessions and look forward to presenting more topics in the future. If you haven't been able to join us, we encourage you to check out the recordings available on our website and reach out to our wealth planning team if you would like to discuss any of these topics further. ◊

How Recent Legislation Impacts Your Retirement and Legacy

Jerry C. Thomas, CFP®
Investment & Insurance Consultant

Over the years, tax law has undergone several changes that have impacted clients' retirement and legacy planning. The SECURE Act eliminated the "stretch IRA" provisions for anyone other than a surviving spouse. This means that beneficiaries of an inherited IRA must withdraw all funds from their inherited accounts within 10 years of receiving them. This change has eliminated their ability to "stretch" out payments, which previously allowed for a longer distribution period with tax-favorable growth.

On the other hand, the Tax Cuts and Jobs Act offered us favorable tax advantages, such as reduced income taxes, a higher standard deduction and increased limits on federal estate and gift taxes. However, these changes are reverting to prior levels on January 1, 2026.

What is the Problem?

The impact on clients is that any qualified income will now be taxed at a higher rate, whether that is received by you or your heirs. Additionally, the rate of distribution has been limited from a lifetime to ten years, creating the potential for higher taxation during your retirement years or your heirs' highest income-earning years.

There are three issues to consider:

- If you take qualified distributions, they will be taxed at a higher income tax rate. This impact may be compounded by RMDs (required minimum distributions).
- Any inherited qualified money will need to be distributed by the end of the 10-year period after receiving it, potentially increasing the beneficiary's tax liability and reducing the overall size of the gift.
- If you need to use your qualified money to pay for long-term care, the increase in distributions will raise your adjusted gross income, inadvertently increasing your 7.5% threshold for deducting qualified medical expenses.

How Can You Plan More Efficiently?

One way to mitigate your tax risk is by repositioning your qualified money into alternative wealth transfer vehicles. One method is to utilize a qualified charitable distribution, which would allow you to directly gift a portion of your qualified money to a qualified charity while taking a deduction for those gifts in that year.

While the qualified charitable deduction may be a strategy for some, if you find yourself in a "what if" position — such as wondering if you'll need those funds for retirement, if you might want to change your gifting plan or if you'll need those funds for long-term care — you may need a more flexible planning option. That option might involve utilizing another alternative wealth transfer vehicle, such as a life insurance policy. While one would still have to recognize ordinary income tax on the distributions from the qualified plan to pay the premium of the life insurance policy, the life insurance policy offers the following advantages:

- The death benefit is income tax-free.
- The policy can be purchased inside an irrevocable trust for federal estate tax planning.
- The policy can be used to pay for long-term care; by accessing the death benefit to pay for care.
- The policy grows cash value on a tax-favorable basis. If your needs change, you have an exit strategy.

Depending on your overall goals, life insurance can be a valuable tool in helping to alleviate tax risk. It aids in transferring assets efficiently to the next generation, avoiding income taxation or federal estate/gift taxation and protecting against the costs of long-term care. ◊

As always, don't hesitate to contact your Ancora advisor or relationship team if you have any questions or would like to learn more about these topics. Visit our website at www.ancora.net to read past newsletters and find other news and insights from the investment professionals at Ancora.

Market Data Center

As of 7/31/2023

Stocks	1 month	3 months	6 months	YTD	1 year	3 years	Dividend Yield	NTM P/E	P/B
S&P 500	3.3%	10.5%	13.4%	20.5%	12.7%	45.7%	1.42%	19.4x	4.0x
Dow Jones	3.5%	4.8%	5.3%	8.4%	10.2%	41.4%	1.89%	17.8x	4.3x
Russell 2000	6.1%	13.7%	4.4%	14.6%	7.6%	39.6%	1.42%	22.2x	1.9x
Russell 1000 Growth	3.4%	15.5%	23.0%	33.3%	16.9%	40.1%	0.73%	27.3x	10.2x
Russell 1000 Value	3.5%	6.1%	3.3%	8.7%	7.9%	46.9%	2.02%	15.0x	2.3x
MSCI EAFE	2.7%	2.9%	5.9%	15.4%	15.7%	30.3%	2.12%	13.3x	1.7x
MSCI EM	6.0%	8.0%	2.2%	11.5%	7.2%	3.3%	2.13%	12.6x	1.6x
NASDAQ 100	3.9%	19.1%	30.6%	44.5%	22.3%	46.5%	0.56%	25.9x	6.5x

Fixed Income	Yield	1 month	3 months	YTD	1 year	3 years
U.S. Aggregate	4.85%	0.0%	-1.5%	2.3%	-3.5%	-12.5%
U.S. Corporates	5.56%	0.1%	-0.9%	4.3%	-2.4%	-14.5%
Municipal Bonds	3.99%	0.0%	-0.1%	2.3%	0.5%	-2.9%
High Yield Bonds	8.41%	1.1%	1.6%	5.6%	2.0%	2.2%

Key Rates	7/31/2023	6/30/2023	4/30/2023	1/31/2023	7/31/2022	7/31/2020
2 yr Treasury	4.86%	4.87%	4.06%	4.21%	2.90%	0.10%
10 yr Treasury	3.95%	3.81%	3.45%	3.53%	2.64%	0.54%
30 yr Treasury	4.02%	3.85%	3.67%	3.66%	2.98%	1.20%
30 yr Mortgage	7.26%	7.15%	6.85%	6.47%	5.28%	3.09%
Prime Rate	8.50%	8.25%	8.00%	7.50%	5.50%	3.25%

Commodities	Level	1 month	YTD
Oil (WTI)	81.80	15.8%	1.9%
Gasoline	2.91	20.8%	13.0%
Natural Gas	2.63	-5.0%	-35.8%
Propane	0.74	37.3%	-4.6%
Ethanol	2.44	-0.9%	10.9%
Gold	2,009	4.1%	10.0%
Silver	24.97	8.5%	3.9%
Copper	3.99	6.8%	5.0%
Steel	825	-10.1%	10.9%
Corn	5.13	3.7%	-24.4%
Soybeans	14.31	-5.0%	-4.4%

Data Reflects Most Recently Available As of 7/31/2023