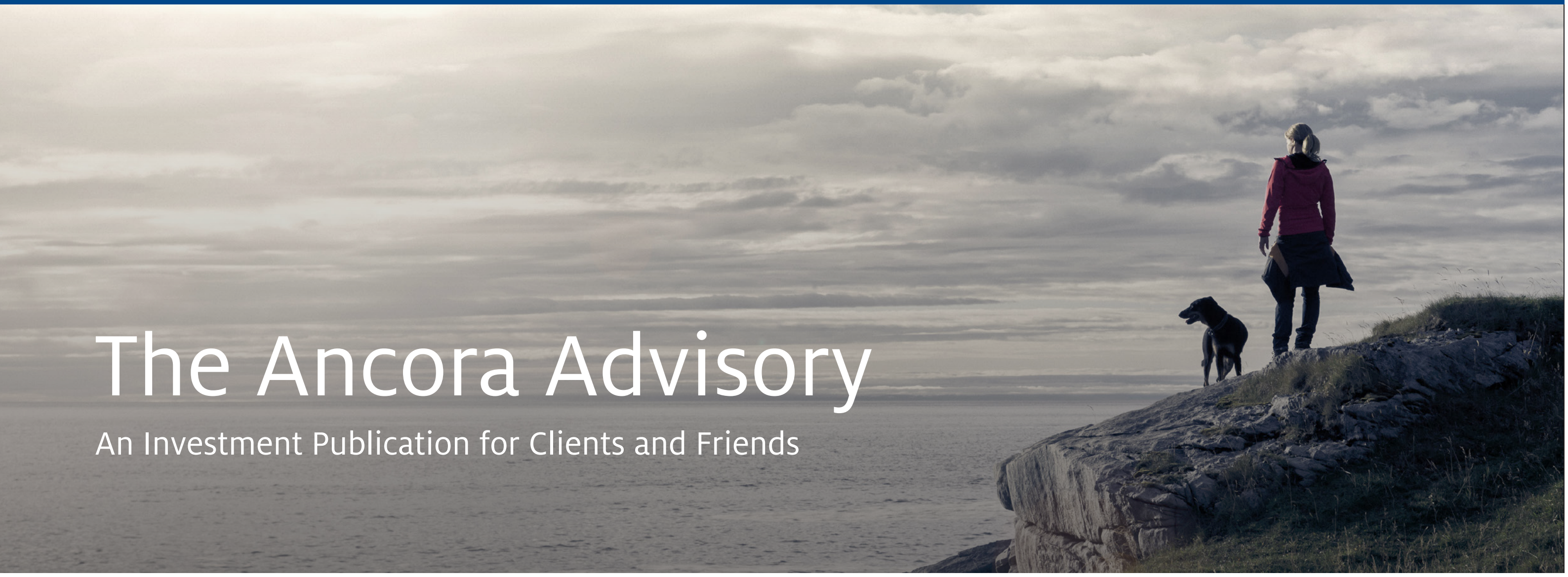
ANCORA

First Quarter 2024



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.

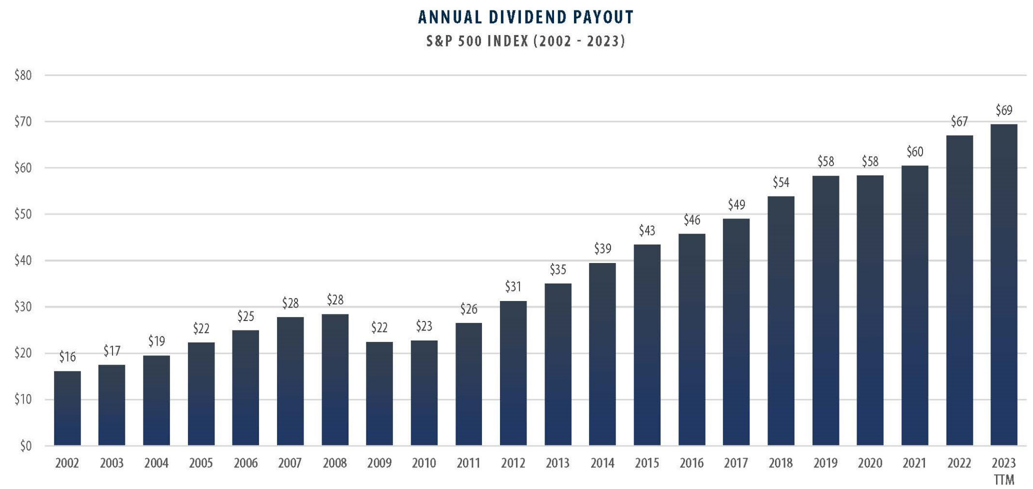
What You Are Really Buying with Stocks

John Micklitsch, CFA, CAIA
Chief Investment Officer

Ben Graham was Warren Buffett's mentor during his time studying economics at Columbia University Business School in the early 1950s. It was Graham who said, "in the short run, the market is a voting machine but in the long run, it is a weighing machine." This mindset registered with Buffett and many other successful investors and became a competitive advantage in deploying capital. But let's look closer at what this really means and how you can apply its simple wisdom to your own decision making.

The best way to explain something is often with a picture. The following chart shows the combined annual dividend payout of the S&P 500 Index companies over the last 21 years. Over this period, the aggregate dividend of S&P 500 businesses grew from $16 in 2002 to $69 in 2023. There were some economic bumps in the road, such as in 2008-2009 during the global financial crisis and the pandemic in 2020-2021, but otherwise the increases were steady and remarkably consistent.

S&P 500 Dividends Per Share



First Trust Portfolios L.P. Source: S&P Dow Jones Indices. As of 9/29/2023. Past performance is no guarantee of future results. This chart is for illustrative purposes only and not indicative of any actual investment. TTM = Trailing 12-months. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The index cannot be purchased directly by investors. 12-month real dividend per share. 2002 marked the end of a bear market and precedes the 2003 tax reform. There is no guarantee that companies will declare dividends in the future or that, if declared, they will remain at current levels or increase over time. *The information presented is not intended to constitute an investment recommendation for, or advice to, any specific person. By providing this information, First Trust is not undertaking to give advice in any fiduciary capacity within the meaning of ERISA, the Internal Revenue Code or any other regulatory framework. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgment in determining whether investments are appropriate for their clients.*

In fact, if we measure the standard deviation of the growth of the dividend over that period, it comes to a mild 8% volatility. However, over the same period, the standard deviation of the actual Index was twice that. If the value of a stock is thought to be the present value of its future stream of cash flows (in this case measured as dividends which have been consistent and growing), why would there be such a difference in volatility between the cash flow of a collection of businesses and the short-term valuation of them?

This is where Graham's short-term "voting machine" concept enters the picture. Along their own unique journey, various market participants with different objectives, time horizons, motives, etc. react differently to the news of the day. They are voting on the impact the next news item will have on their stocks through their own perspective, though they have no more ability to predict the short-term any better than the next person. Collectively, this additional volatility is the impact that the so-called Mr. Market effect has on the otherwise consistent long-term valuation of cash flows generated by a diversified collection of quality businesses. How else could you explain, other than Mr. Market's short-term influence, that in 2022, when the S&P 500's dividend increased from $60 to $67, we saw an 18% decline in price. Then in 2023, when the dividend rose at a lesser pace to $69, the markets came roaring back with a 26% return as the cycle turned from short-term fear to greed. These time periods show the short-term voting machine market in action versus the long-term weighing approach exercised by most successful investors.

Morgan Housel, the author of *The Psychology of Money* and *The Same as Ever*, recently said in a podcast that a stock is nothing more than a set of numbers we know today and a story about what those numbers could become tomorrow. Nobody knows for sure what the future will bring, but if your analysis of investment opportunities is rooted more on the weighing side of the equation and less on the voting side, we believe your odds of long-term success will increase dramatically. And you may have less stress and more enjoyment with the investment process to boot. ◊

The Rise of Inflation during Times of Conflict

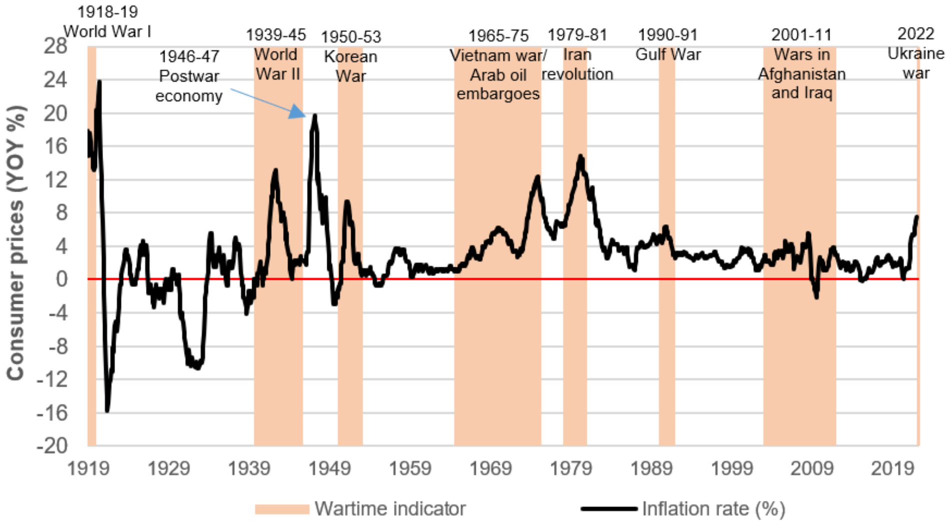
Kevin Gale
Managing Director, Head of Fixed Income

Inflation has been a primary challenge for central banks around the world. For the past several years, central banks have been raising interest rates to bring down levels of inflation, the likes of which we have not seen in over 40 years. We know inflation can destroy economies and there are many reasons it can persist, including too much money supply, supply chain issues, workers shortages, rising commodity prices, natural disasters and war.

Which brings us to the current situation in the Middle East, which has seen its share of conflicts over the years ranging from regional flare ups to global powers entering the region seeking stability or change, but often ending in greater instability. Recently, that instability has led to increased conflicts between Israel and Hamas. Further intensifying the situation are Houthi rebels backed by Iran attacking cargo ships in the Red Sea, threatening some of the most important shipping lanes in the world. This situation has shaken up the lower inflation scenario the Federal Reserve is relying on to begin cutting interest rates in 2024 and beyond.

While it remains to be seen how the tension in the Middle East will escalate, if at all, we have looked back through history to see how inflation has aligned with other conflicts to gauge how the current situation could impact interest rate outlooks. In nearly every previous major conflict, inflation has spiked considerably. We would expect that, if tension were to escalate further in the Middle East, this time would be no different. The explanation lies in the current region itself.

U.S. Inflation Rate in Wartime Periods



RSM, The Real Economy Blog Source: BLS, NBER, RSM US

Approximately 12% of global trade, worth more than $1 trillion (about $3,100 per person in the U.S.) passes through the Red Sea every year, including about 30% of global container traffic. Should the Houthis or any other militants continue attacking container ships in the area, global supply chain interruptions like those we experienced during the COVID-19 pandemic could follow. If these interruptions were to persist, we would expect to see inflation pick up, forcing central banks around the world to change their narrative of lower rates and potentially replace them with raising rates again.

While the extent of the impact on the Middle East is highly uncertain, we know a larger scale conflict will present major challenges for the region and the world. So far, the impact on the financial markets has been limited. However, investors should be prepared for the possibility of tensions escalating in the region leading to greater volatility in the financial markets, including increased inflation. A well-diversified portfolio that is balanced with your risk appetite and longer-term return needs can help mitigate the impact of this scenario. For further information please contact your Ancora representative.

Author's Note: Please note that here we discuss only the potential economic and market impact of these events, acknowledging that the physical and emotional toll has been far greater and that the situation is still developing. Our thoughts are with all those whose lives are affected by these events. ◊

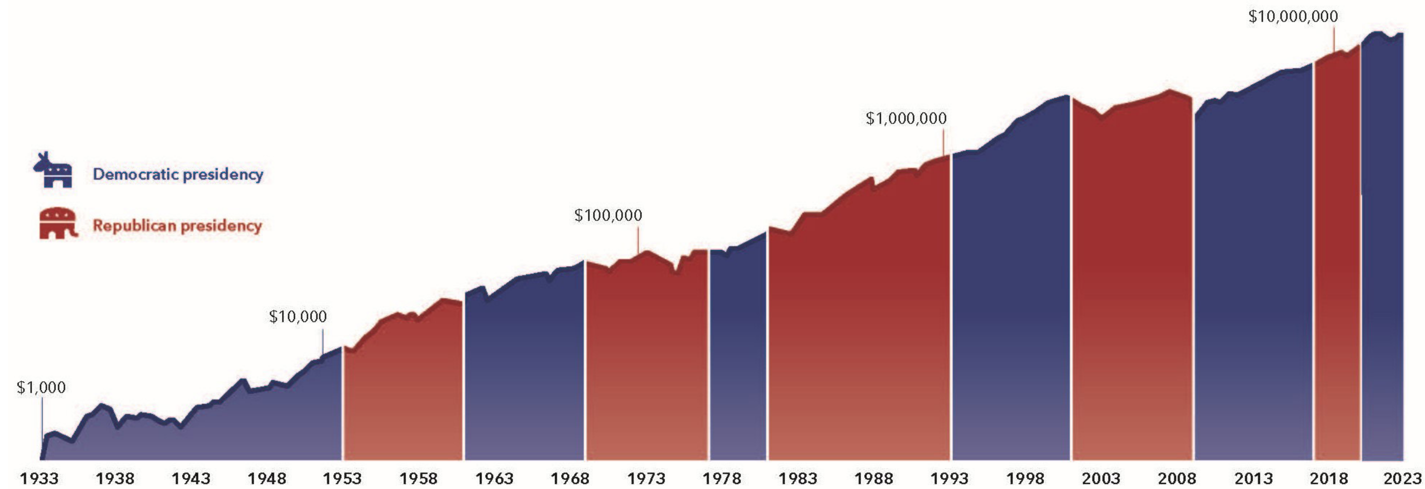
Presidential Elections and Long-Term Investments

John Micklitsch, CFA, CAIA
Chief Investment Officer

U.S. presidential elections every four years are a significant event for the country and the world. Administration changes can usher in new laws and policy initiatives, not to mention a range of emotions and forecasts resulting from the outcome. When viewed through the lens of time, however, what does not change with each passing election is the innovation engine that is capitalism and the rewards it reaps for those who participate.

The following chart is a good visual aid for this topic. It depicts close to a century of presidential elections marked against the growth of $1,000 invested "in" the S&P 500 Index (hypothetically, as you cannot invest directly in an index). While the blue and red stripes alternate regularly, the growth of investment continues with no correlation as to the party that holds the White House. Capitalism remains the star of the show.

Growth of a hypothetical $1,000 investment in S&P 500 Index



Sources: Capital Group, RIMES, Standard & Poor's. Chart shows the growth of a hypothetical $1k investment made on March 4, 1933 (the date of Franklin D. Roosevelt's first inauguration) through June 30, 2023. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale. Past results are not predictive of results in future periods. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

All of this is not to say that elections do not matter or that elections do not have consequences, they most certainly do. It is simply an early reminder heading into the 2024 election season to not let your emotions and feelings about the candidates derail your long-term investment planning. Warren Buffett likes to tell the story of how, because of capitalism, in the span of just one generation the American middle class now lives better than John D. Rockefeller did at the height of his wealth. While that kind of advancement may be a challenge to repeat, the next generation of Americans will have access to medical treatments, entertainment, and technology that no amount of money today can buy, because they have yet to be invented. Be patient and not reactionary with your investments this November so that you can benefit from the innovation that is yet to come. Your future self will thank you. ◊

The TCJA Sunset Is on the Horizon

Vanessa Mavec King, CFP®
Senior Vice President, Financial Planning

The Tax Cuts and Jobs Act (TCJA), passed in 2017 as one of the largest changes to U.S. tax law in decades, will sunset after 2025. The TCJA included many income tax provisions such as lower income tax brackets, a standard deduction and a cap on state and local tax deductions, among others. It also increased the charitable deduction against adjusted gross income from 50% up to 60% for cash contributions. Most dramatically though, it increased the unified gift and estate tax exemption amount to an unprecedented level, which is what we will focus on here.

The Act included a "sunset" provision for the individual, estate, gift and generation-skipping tax changes. This provision is a clause in the legislation that indicates a certain date when the tax law changes will end and revert to pre-TCJA levels. This date is set for January 1, 2026, and while Congress could act before this sunset occurs, it is worth considering taking advantage of this planning window now while it is still open.

Gift & Estate Tax Exemption

The lifetime gift exemption is the total amount of money an individual can give before being subject to a 40% gift tax. In 2024, under current TCJA provisions, the exemption is $13.61M per person or approximately $27.22M per married couple. This amount can be transferred during life or at death, while being sheltered from gift and estate tax. Any gifts made or residual estate value above the exemption amount are then subject to the gift and estate tax at 40%. Once the sunset occurs, the exemption amount is scheduled to be cut in half, so the total exemption per person would be closer to $7M and $14M per married couple, depending on inflation. Meaning, if your wealth planning model shows that you will have an estate value of more than $7M and $14M at death, you are likely to have to pay estate taxes on the excess.

For those with taxable estates looking to tax-efficiently transfer wealth, 2024 and 2025 represent an opportunity to take advantage of the higher exemption amount while it still exists. There is no penalty or "claw-back" that will occur when the higher exemption amount is used and transfers are made before the TCJA sunsets.

Gifting Considerations

Gifting strategies are highly personal and dependent on each family's circumstances and goals. Ancora's Estate & Wealth Planning team members are happy to discuss or model any of these ideas or others as a part of your estate and wealth transfer strategy. In short, the goal is to give gifts while the higher exemption is in place, and in doing so, remove the current and future appreciated value of the asset from the taxable estate.

Keep in mind that some forms of gifting do not count towards the exemption amount and require no tax filing. As examples:

› Annual Exclusion Gifts: Individuals can give up to $18,000 annually to another individual without needing to file a gift tax return or eat into their lifetime exemption. As an example, a married couple (two individuals) with three married children (6 individuals) and four grandchildren could gift up to $360,000 this year. And, if annual exclusion gifts are made to 529 Plans, up to 5 years' worth can be funded all at once.

› Direct payments made on another's behalf to educational institutions for tuition or directly made to medical institutions for medical needs also do not eat into the gift exemption nor do they count as annual exclusion gifts.

In addition, we have outlined a few strategies to consider now as ways to utilize the current exemption level and transfer wealth efficiently before sunset occurs.

For those ready to make gifts to the next generation:

› Assets can be given outright to beneficiaries. A gift tax return should be filed when the amount exceeds the annual exclusion, but no tax is due until the lifetime exemption amount is surpassed.

› Irrevocable Trusts allow for the permanent gifting of assets but act as an entity with some protection and guardrails in place for beneficiaries.

For those hesitant to lose control of the gifted asset:

› Spousal Lifetime Access Trusts allow one spouse to gift assets to a trust giving a lifetime interest to the other spouse and the remainder of interest to the next generation. These trusts are irrevocable.

For those with assets expected to appreciate rapidly:

› Grantor Retained Annuity Trusts allow for an asset to be gifted to an irrevocable trust for a set period during which the Grantor receives an annuitized income stream. At the end of the period, any excess is transferred to beneficiaries.

For those who are charitably inclined:

› Donor Advised Funds are charitable investment accounts established at a public charity. The client can make donations to the account, take an immediate deduction and make grant recommendations to qualified charities of their choice at an undefined pace over their lifetime. The fund can be managed by the next generation into the future as well.

› Charitable Trusts are irrevocable arrangements that generate an income stream to the client or other beneficiaries for a determined period with the remainder of assets being donated to specific charities.

For those who prefer to focus on wealth replacement for estimated estate taxes rather than gifting assets now:

> Irrevocable Life Insurance Trusts are set up to own and benefit from a life insurance policy on the life of the individual who set it up and are not includable in the individual's taxable estate. The premium payments to the trust are considered gifts and at death, the insurance proceeds are resources to the trust's beneficiaries.

These are some, though certainly not all, ideas that our financial planners use with clients to mitigate estate tax implications. With the TCJA sunset on the horizon, we encourage all clients to review their financial plan if they have not recently or reach out to their Ancora representative to schedule time with our Estate & Wealth Planning team. ◊

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 find other news and insights from the investment professionals at Ancora.

Market Data Center

As of 1/31/2024

Stocks	1 month	3 months	6 months	YTD	1 year	3 years	Dividend Yield	NTM P/E	P/B
S&P 500	1.6%	15.9%	6.2%	1.6%	20.4%	35.5%	1.37%	20.2x	4.5x
Dow Jones	1.3%	15.9%	8.2%	1.3%	13.9%	33.5%	1.77%	17.8x	4.7x
Russell 2000	-3.9%	17.7%	-2.1%	-3.9%	2.1%	-2.6%	1.40%	21.8x	1.8x
Russell 1000 Growth	2.4%	18.7%	9.5%	2.4%	34.7%	32.1%	0.60%	27.4x	11.8x
Russell 1000 Value	0.1%	13.6%	2.4%	0.1%	5.8%	29.0%	2.02%	15.2x	2.4x
MSCI EAFE	-0.5%	13.5%	2.0%	-0.5%	8.0%	12.8%	2.99%	13.6x	1.8x
MSCI EM	-4.5%	6.6%	-6.7%	-4.5%	-4.6%	-22.4%	2.76%	11.6x	1.6x
NASDAQ 100	1.8%	19.1%	9.1%	1.8%	42.4%	34.6%	0.56%	26.0x	7.3x

Fixed Income	Yield	1 month	3 months	YTD	1 year	3 years
U.S. Aggregate	4.59%	-0.2%	8.3%	-0.2%	2.0%	-9.2%
U.S. Corporates	5.21%	-0.4%	12.3%	-0.4%	3.4%	-10.7%
Municipal Bonds	3.86%	0.0%	8.1%	0.0%	3.0%	-1.7%
High Yield Bonds	7.96%	0.1%	8.3%	0.1%	7.3%	2.7%

Key Rates	1/31/2024	12/31/2023	10/31/2023	7/31/2023	1/31/2023	1/31/2021
2 yr Treasury	4.22%	4.25%	5.06%	4.86%	4.21%	0.12%
10 yr Treasury	3.95%	3.88%	4.90%	3.95%	3.53%	1.09%
30 yr Treasury	4.19%	4.03%	5.06%	4.02%	3.66%	1.85%
30 yr Mortgage	6.96%	6.99%	8.06%	7.26%	6.47%	2.88%
Prime Rate	8.50%	8.50%	8.50%	8.50%	7.50%	3.25%

Commodities	Level	1 month	YTD
Oil (WTI)	75.85	5.9%	5.9%
Gasoline	2.27	10.0%	10.0%
Natural Gas	2.10	-9.8%	-9.8%
Propane	0.81	19.7%	19.7%
Ethanol	1.52	-6.3%	-6.3%
Gold	2,067	-0.2%	-0.2%
Silver	23.17	-3.8%	-3.8%
Copper	3.90	0.6%	0.6%
Steel	865	-23.8%	-23.8%
Corn	4.48	-4.9%	-4.9%
Soybeans	12.25	-4.9%	-4.9%

Data Reflects Most Recently Available As of 1/31/2024