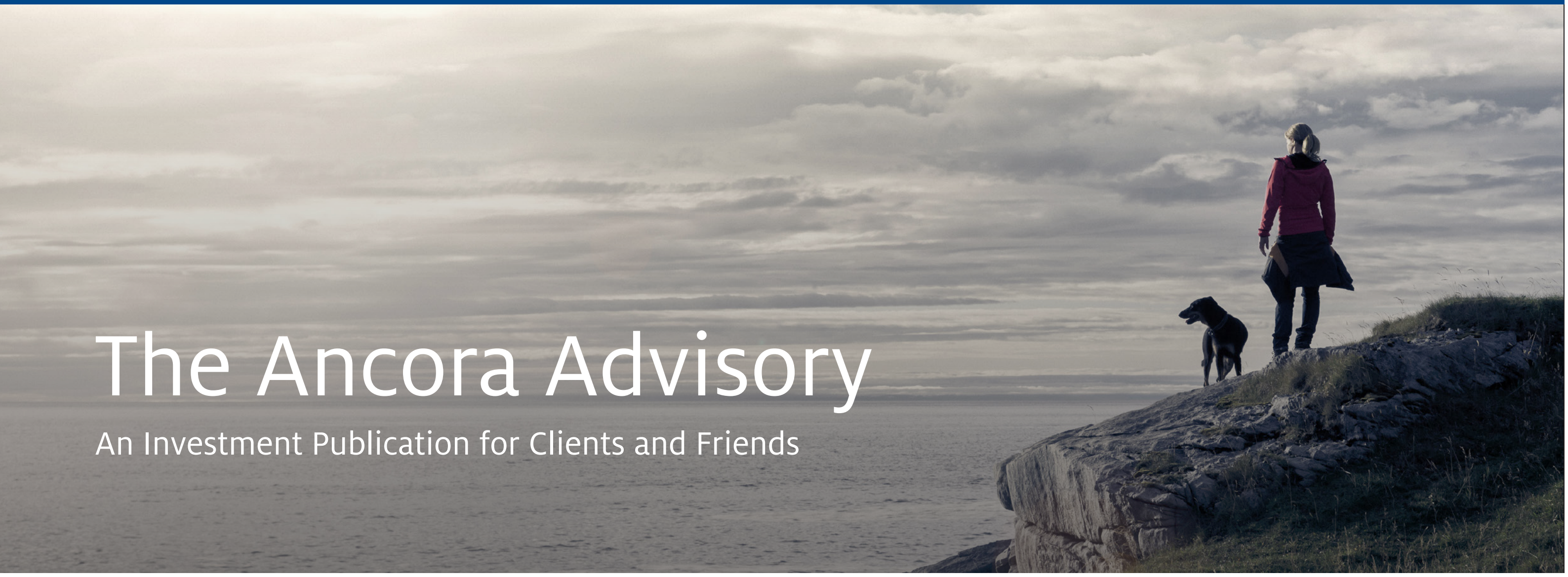
Second Quarter 2024



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.

Choose Your Hard: Embracing the Long Haul in Life and Investing

John Micklitsch, CFA, CAIA
Chief Investment Officer

Investing, much like life, is a marathon, not a sprint. We are constantly bombarded with messaging promising quick-fixes and instant gratification; diet pills, get-rich-quick schemes and overnight success stories paint a tempting picture. However, the reality is far more nuanced. There are no shortcuts to lasting success, neither in achieving your health goals nor in building a secure financial future. You can build it fast or you can build it well and, as we like to say, you cannot outrun your shadow. If you are taking shortcuts, they will become apparent.

The “Choose Your Hard” concept emphasizes this truth. This idea highlights how every path has inherent challenges. The demanding work required to maintain a healthy lifestyle is undeniable, but so are the consequences of neglecting your health. Similarly, the disciplined approach of long-term investing may seem tedious compared to chasing hot stocks, but the risk of significant losses looms large with the latter. With meme stock surges back in the news recently, it is a suitable time for this reminder as you will undoubtedly hear about somebody, somewhere, who secured their financial future in a mere matter of weeks. The temptation to get there faster explains why, despite overwhelmingly negative odds, there is still a thriving market for lottery tickets. They are about fast over slow. Easy over hard. And while any of these shortcuts are tempting, they are likely to produce what our colleague, Al Miller, refers to as an “abundance of nothing.”

By contrast, Warren Buffett had no illusions of getting rich quickly at the start of his career. He just knew he wanted the independence that would come from a strong financial foundation. With a clear understanding of the power of compounding, Buffett set out on his capital allocation journey and the results are undisputable. Yet, it often comes as a huge surprise to people to learn that over 99% of Buffett’s wealth came after the age of 55, which illustrates the magnitude of what is known as the last double when analyzing compounding rates.

The key to your own journey lies in aligning your choices with your long-term goals. Just as a well-diversified portfolio offers stability and growth potential over time, building a healthy lifestyle requires consistent effort across diet, exercise and sleep. Investing in yourself through education and skill development translates to greater career opportunities and financial security. By embracing the "hard" that aligns with your vision, you are building a solid foundation for the future.

The Choose Your Hard mentality empowers you to take ownership of your unique path, in any endeavor. Temporary discomfort pales in comparison to the satisfaction of achieving your goals through hard work and perseverance. In both life and investing, choosing the hard but sustainable path leads to a more rewarding and secure future. ◊

The Greatest Risk Is Often Not Taking Sufficient Risk

David Sowerby, CFA
Managing Director, Portfolio Manager

Consider the list of global and domestic risks that investors are facing today: conflict in the Middle East and Ukraine, tensions in the South China Sea, inflation, border issues, the upcoming Presidential election, federal spending and debt and, of course, additional risks that we are not yet aware of.

This list feels longer than usual, so it is understandable why an investor might seek the perceived safety of their mattress, otherwise known as cash, for their portfolio allocation. However, we know that diversified portfolios with an appropriate allocation between stocks, bonds and alternatives have traditionally provided the optimal balance of participating well in up-markets and, importantly, protecting capital in down-markets. This is an effective way to think about an allocation; a balance between return-seeking assets and risk-mitigating assets.

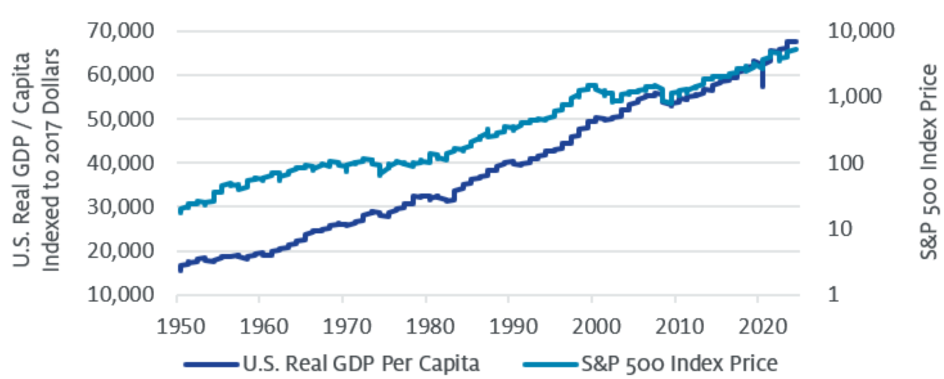
Allocating to return-seeking assets is based on the long-held belief that, in aggregate, U.S. companies create shareholder value, even in the face of mounting global and domestic uncertainty. Just consider the following:

1. As of the first quarter of this year, corporate profit and cash flow margins were at some of their highest levels in the last 20 years. Notably, my preferred metric of free cash flow margin, meaning the cash left over in American businesses for shareholder distributions, buybacks and reinvestment, is higher than pre-pandemic levels despite our long list of current risks.

2. We are now more than four years out from the stock market's February 2020 peak, just prior to the pandemic, and the U.S. stock market is up more than 60% since then. That accomplishment is even more impressive considering we have witnessed two bear markets in that timeframe (in 2020 and 2022). U.S. stocks, despite all sorts of headlines, have meaningfully outperformed Treasury bills, which returned a cumulative 9% over that same period.

The belief that there is risk in not taking sufficient risk is best exemplified by the description of being an optimistic realist when investing. The following chart shows the long-term path of U.S. GDP (Gross Domestic Product) per capita, overlayed with the S&P 500 Index, used as a representation of the U.S. stock market. One can see that economic and profit growth are well correlated to the gains in the S&P 500, which delivered an 11% compound annualized return since 1950.

U.S. GDP Growth vs. S&P 500 Growth



Source: FRED

The U.S. stock market has consistently demonstrated that, over a reasonable five-year interval, companies are skilled at delivering shareholder value. While the long-term 11% annualized return for U.S. stocks is less likely in the next five years, an annualized total return (price appreciation plus dividends) of 7-8% is realistic given the likely path of profit, cash flow and dividend growth for U.S. companies. And as stated at the outset, there is a risk in not participating in that type of growth potential within your portfolio. ◊

Estate Planning Essentials

Vanessa Mavec King, CFP®
Director, Financial Planning

Estate planning can certainly sound daunting or like something only the ultra-wealthy need to worry about. However, it is one of the most important steps someone can take to ensure that their assets and loved ones are well taken care of. Avoiding the planning process can have lasting and costly consequences.

While there are many in-depth and more complicated planning techniques, there are several documents that our Wealth & Estate Planning team recommend all our clients have in place. Think of these as the foundation of an estate plan that can be added to depending on the needs of your assets and situation.

A **Basic Will** is a legal document that states your wishes on how your assets will be distributed at your passing. The document names the person you would like to be responsible for distributing your estate and, if applicable, who will be the guardian of your children. If there is no Will in place, state law will dictate what happens to your estate. Assets passing through the Will go through probate unless there is a trust in place, or the asset is a Will Substitute (such as an account with a named beneficiary, like life insurance and retirement accounts, or assets titled with a specific designation such as “transfer on death” (TOD) that will bypass the probate process).

A **Living Will** states your desired medical directives should you be in a non-cognitive or terminal healthcare state. This would include decisions such as whether to remain on life sustaining support.

A **Healthcare Power of Attorney** is a document that names the agent or person you would like to make medical decisions on your behalf should you be unable to do so.

A **Durable Financial Power of Attorney** names the person that you would like to be able to make financial decisions and take financial action on your behalf if you are unable.

Each of these Power of Attorney documents allow you to name a successor agent(s) should your first choice be unable or unwilling to act as agent.

Lastly, a trust is a legal document that allows the grantor (you) to name a trustee to manage the assets held in the trust, according to the trust’s directives. A **Revocable Living Trust** allows you to act as both the grantor and trustee during your lifetime and continue to edit and make changes to the trust. Frequently, the grantor (you) would also be the beneficiary of the trust during your lifetime. Living trusts are used for probate avoidance, control of assets after death, protection and privacy of assets and, in some cases, tax planning strategies. While they are not necessary for everyone, in many cases they make sense as part of an estate plan, and not just for the very wealthy.

The most important aspect of estate planning is the peace of mind that it imparts. You will be sure that your wishes are known and that there are legal processes in place to fulfill them. The process of estate planning raises some challenging questions but the decisions and conversations it provokes are particularly important and should not be ignored.

Ancora's Wealth & Estate Planning team is available to assist you as you begin your estate planning process. Our team can review any documents you may already have in place and work in partnership with your estate attorney or refer you to one of the many estate attorneys we work with and deeply trust. ◊

Insurance Q&A: Navigating Rising Costs

Kevin Neitzel
Managing Director, Property & Casualty

Kevin Gale
Managing Director, Head of Fixed Income

Inflation has impacted many areas of the economy in recent years. Recently, consumers have felt the pain of inflation in the form of higher property and casualty insurance premiums. As a full service, independent insurance agency, Ancora Insurance Solutions is well positioned to discuss the current property and casualty landscape and what consumers and business owners should consider to best manage their insured risks. We discussed this timely topic with Kevin Neitzel, who leads Ancora's Property & Casualty team, and Kevin Gale, who leads Ancora's Fixed Income team.

Q: Mr. Neitzel, we know that car ownership in general is getting more expensive and a major component of that cost is insurance. Year-over-year premiums are up substantially. From your vantage point, what is driving those increases?
A: The auto insurance marketplace is experiencing rate increases of as much as 40% with the average increase being 18%. Increased labor and material costs, advanced and costlier vehicle technology and chip shortages for new vehicles are all to blame. Miles driven have also climbed back to pre-pandemic levels, along with significant increases in traffic accidents. Supply chain and labor shortage difficulties are impacting car parts used for repairs, which are taking significantly longer and costing more. All of this adds up to higher premiums.

Q: Are you seeing similar trends for homeowners' insurance and other property coverage areas?
A: Property insurance for both commercial and personal buildings is experiencing rate increases averaging more than 20% as well. The factors contributing to rising property costs are costlier building materials, labor price increases, more frequent weather events, assertive contractors and open floor plans. That said, there is some relief as the rates for personal and commercial umbrellas, renters' insurance and valuable articles policies have been stable.

Q: Mr. Gale, as Ancora's Head of Fixed Income, what role do you see higher overall interest rates playing in setting the "market" for property and casualty premiums?
A: Higher bond yields are positive for insurers but with some offsets. They support insurance company profitability through higher investment income on their investment portfolio. However, these advantages are partially offset by a higher cost of debt issuance and inflationary pressures on claims. In addition, higher interest rates can result in unrealized and/or realized losses on currently held bonds, depending on accounting guidelines. Most insurance companies seek to hold bond investments to maturity, however, and like bank investment portfolios, losses are only realized if the insurance company is forced to sell the position prior to maturity.

Q: Back to Mr. Neitzel, what recommendations does Ancora's insurance team have for consumers and business owners during this particularly difficult market for property-related insurance coverage?
A: In this environment, we recommend only filing claims when paying out of pocket for the loss would otherwise create financial hardship. Avoid filing small maintenance-type claims that can negatively impact your rates. We recommend opting for increased deductibles as well, which can give some premium relief on both property and auto insurance.

In addition, updating or replacing older roofs, electrical, plumbing and HVAC (heating, ventilation and AC) systems can mitigate risk as these are often the loss culprits in many situations. Replacing and properly maintaining these systems can limit losses from occurring in the first place and add value to your property. Preventative systems, such as water shutoff devices, can also prevent a small issue from becoming a large claim and installing them will typically result in a discount from the carrier.

Q: Lastly, are these shifts in the insurance industry more secular, in your opinion, or cyclical?
A: The insurance markets are cyclical in nature. My 27 years in the property and casualty industry tells me that, while we are in a tough, hard market and will be for the next 12 months or so, over time the market will turn, and we will be in a softer market again.

Our team is happy to discuss these concepts further. Please reach out to your Ancora relationship team for a review of your insurance needs. ◊

Update: What T+1 Settlement Means for You

As of May 28, 2024, most stock trades will settle in **one business day (T+1)** instead of the previous two (T+2). This may seem minor, but it is a big change for the industry and will shorten the length of time it takes for investors to receive the proceeds from stock and exchange traded fund (ETF) sales.

With proceeds from a sale settling a day sooner, investors will have more flexibility to reinvest or use their funds more quickly. Less time between a trade and a settlement can also reduce settlement risk.

The new standard will bring better alignment to all securities settlements as there is currently a mix of T+2 and T+1 settlement based on various security types. The improved alignment will be beneficial for the market's internal mechanics and efficiency as well.

There should be very little impact on investors directly, other than faster access to funds, but don't hesitate to contact your Ancora relationship team with any questions. ◊

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 4/30/2024

Stocks	1 month	3 months	6 months	YTD	1 year	3 years
S&P 500	-4.0%	4.3%	20.9%	5.9%	22.3%	24.8%
Dow Jones	-4.9%	-0.4%	15.5%	0.9%	12.9%	17.3%
Russell 2000	-6.8%	1.8%	19.8%	-2.1%	13.3%	-9.6%
Russell 1000 Growth	-4.2%	4.1%	23.6%	6.6%	31.6%	26.4%
Russell 1000 Value	-4.2%	4.2%	18.3%	4.2%	13.1%	14.9%
MSCI EAFE	-3.2%	3.0%	16.9%	2.5%	8.0%	7.4%
MSCI EM	-0.2%	6.8%	13.7%	1.9%	7.5%	-18.5%
NASDAQ 100	-4.4%	2.0%	21.5%	3.8%	32.4%	27.6%

Dividend Yield	NTM P/E	P/B
1.34%	20.1x	4.5x
1.82%	17.7x	4.8x
1.32%	21.8x	1.9x
0.55%	26.0x	11.7x
1.95%	15.3x	2.4x
2.90%	13.9x	1.8x
2.58%	12.2x	1.6x
0.57%	24.7x	7.2x

Fixed Income	Yield	1 month	3 months	YTD	1 year	3 years
U.S. Aggregate	5.31%	-2.5%	-3.0%	-3.2%	-1.5%	-10.0%
U.S. Corporates	5.81%	-3.2%	-3.6%	-4.0%	-0.3%	-11.3%
Municipal Bonds	4.14%	-0.9%	-1.2%	-1.2%	1.9%	-2.6%
High Yield Bonds	8.32%	-1.3%	0.0%	0.2%	7.2%	1.1%

Key Rates	4/30/2024	3/31/2024	1/31/2024	10/31/2023	4/30/2023	4/30/2021
2 yr Treasury	5.03%	4.62%	4.22%	5.06%	4.06%	0.16%
10 yr Treasury	4.68%	4.20%	3.95%	4.90%	3.45%	1.63%
30 yr Treasury	4.79%	4.34%	4.19%	5.06%	3.67%	2.30%
30 yr Mortgage	7.49%	7.25%	6.96%	8.06%	6.85%	3.11%
Prime Rate	8.50%	8.50%	8.50%	8.50%	8.00%	3.25%

Commodities	Level	1 month	YTD
Oil (WTI)	81.93	-1.5%	14.3%
Gasoline	2.52	-2.0%	22.5%
Natural Gas	1.99	12.9%	-14.4%
Propane	0.81	-3.4%	19.9%
Ethanol	1.54	4.4%	-4.7%
Gold	2,303	2.9%	11.2%
Silver	26.65	7.0%	10.7%
Copper	4.56	14.0%	17.6%
Steel	813	-12.7%	-28.4%
Corn	4.47	1.1%	-5.2%
Soybeans	11.59	-2.7%	-10.0%

Data Reflects Most Recently Available As of 4/30/2024