

### Bond Prices and a Teeter Totter By Sandy

I am pretty sure we all played on teeter totters or seesaws at some point in our lives and we all remember them. Teeter totters operate the same as bond prices and interest rates. When interest rates rise, bond premium prices fall in a corresponding manner, one going up and the other goes down. Large increases in interest rates by the Federal Reserve result in falling bond prices by the same degree. I have been holding many individual bonds and bond funds over the past year even though they have fallen an average of 13-15%

Why would I still hold them? The cash flow, or yield from the bonds, continues to be paid at the same rate, many paying 5 or 6%. Bonds pay interest two times a year so we get the same payments from the bond, no matter what the premium price of the bond is. When the Federal Reserve has concluded raising rates, maybe after one more increase, they will pause and then begin to cut rates. When they reduce rates, the bond prices rise. When we have parity or are back to equilibrium, our bonds and bond funds will have their deficits reduced and we have continued to earn the interest cash flow while waiting. We can also buy new bonds while their bond prices are depressed and hold until maturity for a gain.

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### Strategies to Avoid full Inherited Property Tax Reassessments By Erin

With the passage of Prop19, major changes to California property tax reassessments went into effect February 16, 2021. Prior to the law change, individuals could leave their children or grandchildren any real estate without triggering a property tax reassessment.

Under the new law, to avoid a property tax reassessment, the inherited property must have been the parents' primary residence and must also be used as the child/grandchild's primary residence to qualify. Furthermore, only 1 million dollars will be excluded from reassessment. Please note, the state has yet to clarify just how long an heir must keep a property as a primary residence to avoid reassessment.

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### Market Review By Carol

The third quarter started off positively but rising global bond yields, fears of a rebound in inflation and concerns about a future economic slowdown weighed on the major indices in August and September and the stock market finished the quarter with losses, while retaining modest gains YTD.

Large cap companies once again outperformed small caps, as they did in the first two quarters of 2023, although both posted negative returns. The relative outperformance by large caps is consistent with rising treasury yields. Smaller companies are typically more reliant on debt financing to sustain operations and rising interest rates create stronger financial headwinds for smaller companies, when compared to their larger peers.

On a sector level, nine of the eleven S&P 500 sectors finished the third quarter with negative returns, which is a stark reversal from the broad gains of the second quarter. Energy was the best performing S&P 500 sector in the third quarter, thanks to a surge in oil prices. Communications Services also finished Q3 with a slightly positive quarterly return on hopes integration of advanced artificial intelligence would boost search and social media companies' future advertising revenues.

The following are the market returns as of September 30, 2023 YTD and September 2022-2023. Please note, each client's portfolio is individually constructed, and the benchmarks are presented as a comparison tool.

Benchmarks:	YTD
	Sept. 2023
60% Equity/40% Fixed	2.22%
50% Equity/50% Fixed	1.27%
40% Equity/60% Fixed	0.59%
US Agg Bond	-3.04%
S&P	11.68%
DOW	1.09%
REIT - Real Estate index	-8.27%
iShares (EFA) Foreign	5.00%
Benchmarks:	Sept. 2022-
	Sept. 2023
60% Equity/40% Fixed	11.08%
50% Equity/50% Fixed	10.01%
40% Equity/60% Fixed	6.31%

**Strategies to Avoid full Inherited Property Tax Reassessments by Erin Continued...**

In light of these changes, LLC's are being utilized to avoid or minimize property tax reassessments for heirs. In California, when real estate is owned by a legal entity, the property avoids reassessment if the change in ownership is less than 50%. In short, if parents put their property in an LLC, they can make children and grandkids owners of the LLC as long as no more than 50% changes ownership. Of course, there are reasons you may not want to give children property prior to your death or perhaps your properties will have to be sold upon death to split among many heirs. However, if you are concerned about property taxes on a property you will inherit or leave to heirs, please reach out to us for referrals to attorneys experienced in this area.

**Bond Prices and a Teeter Totter By Sandy Continued...**

The S&P 500 is off -9.4% from the high of 2022. The Nasdaq is off -17.5% from the high of late 2021. It has paid to be cautious so I continue to hold the bonds and be patient, collecting interest payments and dividends.

"Have patience. All things are difficult before they become easy." Saadi



**Market Outlook By Carol**

There are real risks to both the markets and the economy as we begin the final three months of the year. But these are largely the same risks that markets have faced throughout 2023 and over that period the economy and markets have remained impressively resilient. Excess savings from the pandemic and government stimulus have caused the economy to stay stronger for longer. At the same time, inflation has stayed stubbornly high, prompting the Fed to raise interest rates more than five percentage points in less than two years. The Fed might be done with increasing rates, but it does not look like there will be any cuts until they see the economy slowing. The most likely scenario for the market is a shallow recession around the middle of 2024. Sectors that are doing ok now: homebuilders, automakers, and consumer discretionary stocks could be under serious economic pressure as consumers have less money to spend.

Note- while we have been moving more funds to treasury bonds, CDs and money markets that are yielding 5+%, we still believe equities (stocks-mutual funds-etfs) play an important role in a long-term investment portfolio. We cannot time the market, but we want to be able to take advantage of any overreaction of selling which leads to attractive entry points for investment in good funds and companies.

**TD Ameritrade to Charles Schwab Transition Updates by Melani**

The transition from TD Ameritrade to Charles Schwab happened over Labor Day weekend and so far, it has been a pretty smooth process. We wanted to make you aware of some important items below:

- You will get two statements for the month of September, one from TD Ameritrade and one from Charles Schwab.
- Some clients still have dividends being paid to their accounts at TD Ameritrade. Your account statement from TD Ameritrade will show these transactions and may even show an account balance as of the end of the month. Rest assured, these dividends are being transferred to your accounts at Charles Schwab and we expect the dividends to go directly to your accounts at Charles Schwab in the upcoming months.
- If you had a checkbook or debit card for your TD Ameritrade account, you should have automatically received a replacement of these items from Charles Schwab. Please discontinue using the TD Ameritrade issued ones and only use the Charles Schwab versions going forward.
- If you did not set up your Charles Schwab online access before the conversion you will need to go directly to schwaballiance.com to set up your user ID.

For detailed instructions, questions regarding the new online experience or any other questions about the transition please feel free to email melani@assetplanninginc.com or call the office at 714-827-5794.

The 2023 Gail Memorial Golf Tournament was a big success. We would like to say a thank you again to all of our clients and sponsors who donated.



*"There are three ways to ultimate success: The first way is to be kind. The second way is to be kind. The third way is to be kind." —Mister Rogers*

