Comprehensive Investment Management, LLC

Fee Only Personal Financial Services

Quarter Ending December 31, 2024

The S&P 500 index, which tracks the stock performance of 500 of the largest companies listed on US stock exchanges, returned 23.6% in 2024. That follows virtually the same return in 2023. Market commentators note that is the best two year period in a quarter of a century. However, they did not mention that 2023 followed a 19.4% decline in 2022, so 2023 was a make-up year. Still, it is a fact that for the six years 2019 through 2024 the S&P has averaged an annual return of just under 17%. In recent years it has been driven by seven companies. Six are involved with artificial intelligence: Apple, NVDIA, Microsoft, Amazon, Meta and Alphabet. The average return of those six in 2024 was 30%. Company #7, Tesla, was +61% in 2024 (all since the election), +110% in 2023 and –68% in 2022.

So how have the other US publicly-owned companies been doing? Quite well, as long you don't include healthcare. But you have to include healthcare because it represents over 15% of the US economy. The only larger sector is technology (33%). Until election day in November the Health Science Fund from T. ROWE Price was +23%. It finished 2024 +3%. Vanguard's Healthcare fund was +16% and finished -1%. The downturn in the industry results not only from the potential appointment of a vaccine skeptic to head the Department of Health and Human Services but also broader expectations of a Republican attempt to crackdown on programs like Medicaid and Obamacare. On the other hand, Dr. Mehmet Oz has been nominated as Director of Medical and Medicaid services and he is a long time proponent of managed care. One hopes the vast innovations in healthcare over the last 60 or 70 years will continue. As with so many other potential changes directed from Washington we will just have to wait and see. The average investment in healthcare for CIM clients is 3% to 4% of their portfolio. The average annual 3 year performance of healthcare funds is –.9%, even so, at 15 years the funds average annual return is +13%.

Bonds had a rough quarter right from the start, perhaps anticipating the election results. More than stocks, bond investing is a bet on long term economic prospects. The outlook now is just way too fuzzy in that regard. The long term lethargy in bond performance can be traced in part to the average investor willing to take on more risk than in the past. The average investor has a bigger portfolio and the perception is that it can take a hit and keep on ticking. As the low returns have continued investors have asked: what have bonds done for me lately? CIM's recommendation is to let the stocks continue to run, allow bond allocations to drift lower and increase the

Average Annual Returns of Select Mutual Funds

As of December 31, 2024	QTR	YTD	1 Year	3 Years	5 Years	10 Years	15 years
US Stocks (large, medium, small, sector)	-.5	13.3	13.3	3.3	10.3	11.1	13.2
Foreign Stocks	-7.4	6.3	6.3	-4.2	4.1	6.5	6.2
Intermediate Bonds	-2.9	2.1	2.1	-1.9	.8	2.0	3.0
High-Yield Bonds	.4	8.5	8.5	3.2	5.0	5.5	6.6
Mutual Fund 65/35 stocks/bonds	1.3	16.8	16.8	4.9	9.7	9.0	9.8
Mutual Fund 35/65 stocks/bonds	-2.6	5.9	5.9	1.0	3.9	5.2	6.6

Over the past 15 years $10,000 in a 65% stock fund would have grown to $43,000 vs $27,000 in a 35% stock fund.

portion of bonds in the higher yield category. With all the talk of tariffs, it would have been surprising if foreign funds didn't take a hit after the elections. By year end performance dropped by a third, but the funds still were up 6.3% for 2024.

"May you live in interesting times" sounds like somebody wishing you well, but apparently it's a curse. A common correlation is: *"It's better to be a dog in peaceful times than a man in a chaotic period."* In any case, whether they find it interesting or not, investors can expect volatility. Markets don't like uncertainty but it's here and more is coming. It's hard to imagine a bigger difference in political and social philosophies practiced by the current administration and what the incoming administration is promising. The standard advice from financial advisors is to dismiss politics as just noise. Sometimes it's harder to do that, but it is still solid advice.

Morningstar Adjusts Its Ratings

In September, Morningstar announced considerable changes in how it assigns medalist ratings to mutual funds. The medalist rating is a forward looking system that aims to predict fund's performance versus a relevant index or peer group. As you would expect, Morningstar describes the change as an enhancement and says the goal is to "improve the predictiveness of the ratings, which should confer even better outcomes to investors who incorporate the Medalist Ratings into their investment decisions." Probably 20% of 40,000 rated funds will see a change, and most will be downgrades.

The Morningstar medalist ratings are Gold, Silver, Bronze, Neutral and Negative. *Gold* is awarded to a fund which has an investment strategy for which Morningstar has the highest conviction possible that the fund will outperform. *Silver:* Morningstar has not quite so high a conviction but still a high conviction on expected outperformance. *Bronze* is another step down where there is just confidence the fund will provide good results. *Neutral* means no confidence. *Negative:* don't even think about it. Currently 5% of funds are Gold, Silver 10%, Bronze 15%, Neutral 49% and Negative 21%. After the changes percentages are predicted to be Gold down to 2%, Silver to 8%, Bronze to 12%, Neutral up to 55% and Negative up to 23%. Morningstar has concluded that some managed funds have not differentiated themselves enough from passive indexes with a goal of never being too far from the norm, while concentrating in just a few selections to get a winning edge. Observers describe the Morningstar change as declaring that from now on funds no longer get a trophy just for participating.

Along with a fund's overall rating Morningstar reviews its management's process, people, parentage and performance. It reports on expense and price-to-earnings ratios, the percentage of annual turnover of holdings and provides a listing of the holdings by sector. So there is much more information to consider other than just a medal. The project starts this month and is to be completed by year end.

CIM will monitor Morningstar's new approach, but, in fact, it has never considered the medals to be a definitive indicator of expected higher returns. It is surprising to see the CEO make that claim. The more credence you gave the ratings the more you have to be concerned that, for example, 80% of the funds that were gold are now going to be something less. Morningstar is just one of the sources available to evaluate mutual funds and it is clear that its assignments of medals is subjective and the distinctions between levels of confidence quite refined.

An example: The Fidelity Puritan fund is rated bronze. Its investment process described as prudent. Vanguard's Wellington fund is rated gold and its process is considered well disciplined. Puritan's people are talented with deep resources. Wellington's are experienced with a strong bench. Puritan's parent, Fidelity, has myriads of strengths while Wellington's Vanguard parent still gets a high rating "as its new CEO settles in." That understatement indicates a bias favoring Vanguard. Morningstar typically reduces a fund's rating when there is a management change, regardless of how experienced the replacement is. The Vanguard change seemed hasty, sudden, and brought in an outsider as CEO for the first time ever. Long term performance counts. Puritan has consistently higher annual returns than Wellington, despite a higher expense ratio by .3%. Sometimes you get what you pay for.

Making Money Last

A very important component of a CIM client's annual review is establishing a safe withdrawal rate. The standard goal is for the portfolio to last 30 years. For a 65 year old that's quite reasonable. The life expectancy for a 65 year old male is 84 and a female 87. In recent years it has become more common to hold off on retirement closer to age 70 and beyond. 30 years takes a 70 year old to 100.

The initial withdrawal percentage rate that most financial advisers and crystal ball enthusiasts have settled on is no more than 4.5% for a 65 year old. The first year is 4.5% and the following year the dollar amount is increased accumulatively by the actual rate of inflation. Historically annual inflation has been 3.5%. If the first year was $50,000 then the second year would be $51,750 and the third year $53,560 and so forth. By age 95 the original $50,000 draw would have grown to $140,000. That's because 3.5% inflation over 30 years reduces purchasing power by 65%.

An alternative method is to increase the safe withdrawal percentage (not the dollar amount) by 3% each year and calculate the draw using the current portfolio balance. If 4.5% plus inflation works for the 65 year old retiree, obviously the number for the 70 year old should be higher. That's also the case for anyone who reaches 70 without having tapped their retirement savings. Using the alternative method a 70 year old would use 5.2% for the first year and the 75 year old 6.0%.

Surprisingly, even though the 70 and 75 year old held off drawing from their investments, the 30 year projection shows them running out of money at 95 the same as the 65 year old. That's because, even though they built a larger portfolio (assuming a 5 or 10 year period of typical growth) the projection is they will draw more money each year. But even if they were on a pace to use up their savings at 95 they will have enjoyed a retirement with higher spending. More importantly they will have more money and therefore flexibility for come what may. As a practical matter, an individual's spending most likely decreases as they get into later years. It would be reasonable to assume, for example, that at age 86 the 70/75 year old retiree spends at the same level as the 65 year old retiree. With that adjustment to the projection the assets of the 70/75 year old would last an additional 5 and 10 years.

SPOILER ALERT: It is impossible to predict how long a retirement portfolio will last over long periods of time. Just change the assumed rate of return by just a half percentage point and the results change dramatically. And there are so many other factors to consider, some truly unknowable. Inflation fluctuates and it impacts individuals differently depending on their spending habits and life style. A fixed rate mortgage doesn't change with inflation but apartment rent and monthly charges at a continuing care center do. Another factor is the percentage of the portfolio in taxable accounts like Traditional IRA's and 401K's versus regular accounts and tax free ROTH's.

Home ownership, although not part of an investment portfolio, is an asset that adds significant stability to anyone's financial position. The house can be sold and a significant amount ($250,000, $500,000 for a couple) of any gain will be tax free. Also, a house provides a reverse mortgage option. It's sold but the owner continues to live there indefinitely. Or the proceeds from a sale can be applied to the entrance fee at a continuing care center. Depending on details in the contract, most CCRC's provide financial assurances of some kind.

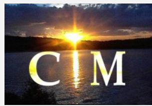
For many reasons, at any age, building flexibility into a long range financial plan is the ticket.

CIM

Comprehensive Investment Management, LLC

Investment Management &
Personal Financial Services
Fee Only—Fiduciary

It's still morning in the personal financial services industry



Our new suburban address:
109 Savory Lane, North Wales, PA 19454

The CIM investment strategy:
Control risk yet outperform the market by using well managed, no commission, low cost mutual funds. Maintain appropriate asset allocation and diversification. Minimize taxes.

CIMONTHEWEB.COM
Newsletters, information, and other features are available

Referrals are welcome.
Friends don't let friends invest any other way

Harry McCullough, CPA, CFP®
Phone 610.580.5554
H@cimontheweb.com

Mercedes M. Petrellis, WMS, EA, PMP
Phone 610.960.1068
Mercedes@cimontheweb.com

Associates

Michael C. Collins, CPA, CFP®
Brian A. Collins, CPA, CFP®
Phone 610.566.4760

In January 2025 the CIM ADV was amended as follows: An office in North Wales, PA was added, different management fee rates for new clients have been set and for most clients the calculation of the managed balance for billing the CIM fee will now be more accurate using a daily average.

Upon request a complete copy of the ADV is provided to clients.

The CFP® mark is owned by the Certified Financial Planner Board of Standards, Inc.

ROTH's

Q: What's the difference between a backdoor ROTH and a ROTH conversion? Are they the same thing?

A: If you are thinking about transferring money into a ROTH you should first talk to an adviser who can review your situation and run the numbers. You can make an initial assessment yourself using conversion calculators at the websites of companies like Fidelity and Vanguard.

A backdoor ROTH is where an individual whose income is so high it prohibits him or her both from directly contributing to a ROTH and to defer taxes by contributing to an IRA. There is no income limit for adding to an IRA, but there is for taking a tax deferral for the contribution. After a period of time the IRA funds are converted into a ROTH. There are no immediate tax savings but now the individual has a ROTH which will grow tax free. In a way it's the same as a conversion. With a $7,000 annual limit on adding to an IRA, this strategy is not going to make anybody rich quickly.

ROTH conversion refers to transferring funds from a tax deferred account into a ROTH. The transferred amount is taxed. Conversions only make sense for those who expect their tax brackets to be higher when they draw from the IRA.

In past issues of our newsletter we have covered ROTH conversion and the very questionable advice you may have seen on TV. If you have misplaced your copies (June 2015 and June 2022) your CIM representative will gladly get you free reprints.

Who should definitely consider a conversion? Those currently in a low tax bracket and have a deferred IRA. For example, a retiree not yet of the age (73) that requires minimum IRA distributions. Even more so for those delaying collecting social security. If that's you, contact a financial adviser. If you are a CIM client, expect to hear from your rep.

Putting after tax dollars into a ROTH can be a good idea. For that reason, many employer plans now include a ROTH option. On the other hand, converting dollars into a ROTH and incurring the resulting income tax needs to be given serious thought.