

The Archvest Advantage Semi-Annual Newsletter

July, 2024

This year we celebrate a decade of Archvest! We are so grateful to you, our clients, for your trust and partnership. When we founded Archvest our goal was to change the way people think about financial planning—emphasizing a comprehensive approach that includes not only investment management, but also tax, insurance, and estate planning. This comprehensive “life planning” approach is the foundation of our client-centered philosophy. While this perspective was considered progressive at the time, over our ten years we’ve watched the industry as a whole shift to a focus on planning beyond investment management, further validating our vision.

In our first decade, we’ve worked to grow a sustainable organization, recently adding Amy and Sean to our team in order to ensure you always have access to experienced and dedicated professionals with a broad scope of expertise.

As we look forward to the next decade, we are committed to continuing to offer high-quality, well-researched, sustainable guidance and support for each of our clients. We’re so thankful for your continued trust in us.

In this newsletter, we’ll look at several practical concerns we know may come up for you and encourage you to reach out with any questions or to schedule a check-in on your portfolio and future plans.

Market Overview

First half of 2024: In many ways, the economy has defied expectations, with the Nasdaq and S&P 500 Index each up ~15%. This is in part due to the rise of Artificial Intelligence (AI, more on that below) with semiconductors and related utility industries outperforming other sectors.

Year to date market performance as of 6/30/24 was:

- Nasdaq 16.56%
- S&P 500 14.22%
- Dow Jones Industrial Average 4.57%
- US Bond Index 0.08%

Interest rates: At the start of the year, we hoped the Fed would ease up on its hawkish rate stance, as multiple interest rate decreases were initially anticipated. With the upcoming annual Jackson Hole Economic Symposium, we anticipate further clarity around future rate cuts from Jerome Powel with the first rate cut likely post elections. In light of the potential rate cut, we made changes where appropriate in your bond allocation to maximize return and manage duration/maturity risk.

The AI Explosion

2024 so far has seen the rise of Artificial Intelligence driven by ChatGPT and with a concurrent rise in related technology, especially superconductors and chip-makers, led notably by Nvidia. Other AI-related stocks like Adobe, Amazon, and Microsoft performed well in the first half of 2024 as demand for the technology becomes more widespread.

While we expect to see continued growth in the applications of AI technology, especially in software development, research analysis, insurance and banking, the current energy demands and limitations are worth considering as well. Sustainable use of new technologies will require thoughtful development as well as updated and improved power grids.

It's clear the rapid integration of new AI technology presents exciting new business and investment opportunities, but we caution against concentration of assets in any one sector and always advise a diversified portfolio.

Insurance Challenges in CA

California home and auto owners are facing increased insurance cancellations, rate hikes, reduced coverage, and limited options for umbrella policies—up to **70-90% of insurers** are now declining to offer new property insurance in the state. Farmers, State Farm, Nationwide, AIG and Safeco are just some of the carriers who have pulled out of the state market.

While an increase in wildfires and other natural disasters is a factor in California's insurance crisis, the biggest issue is regulation. **In 1988, CA passed Proposition 103** which, among other things, mandated that insurance companies must seek approval from the California Department of Insurance before implementing rate increases. This regulatory oversight aimed to prevent excessive rate hikes and ensure fair pricing for consumers.

However, Proposition 103's emphasis on rate regulation and consumer protection has led to conflict with risk-based pricing principles. Insurers argue they need to price policies based on risk factors to remain financially stable, and that regulatory constraints could limit their ability to do so. Without approved rate increases, insurance carriers left the market, leaving many homeowners only able to access insurance via the California FAIR Plan—**considered the insurance of "last resort"**. The CA Fair Plan is expensive and coverage is limited—homeowners must still seek separate contents and liability coverage.

While further regulatory changes are needed to fully address the current crisis, **we wanted to share these action steps you can take to protect your home and auto coverage:**

- Only make a claim if you have a catastrophic loss. Otherwise, you risk the likelihood that your insurer will cancel your policy and you won't be able to find replacement coverage.

- Consider increasing your deductible as high as possible to reduce your premium.
- Since many companies are now using drones to surveil properties, ensure your landscaping and brush maintenance is in full compliance with all requirements in your area. If you have needed roof maintenance or any other external issues, this is a good time to invest in those repairs and/or updates.

IRAs and Estate Planning

If you plan to pass on an IRA to a child or other beneficiary, it's wise to consider the after-tax implications of this estate planning choice. For example, if you have two children and one earns more income than the other, you may choose to pass your IRA to the lesser-earning child as it will be taxed in their lower bracket rather than the higher-income earning child. While this may seem uneven at first, we want to emphasize fairness on an after-tax basis and ensure the maximum amount of any accounts is passed on to the beneficiaries of your choosing.

For this reason, Roth conversions may also be a strategic choice. In this case, you would convert your IRA into a Roth IRA during your retirement, assuming the tax liability before it is passed on to your designated beneficiary.

To discuss other tax-advantaged estate planning strategies, reach out to schedule a meeting.

Making the Most of Retirement - Purpose and Routine

The transition into retirement is one of the most significant life changes people experience. While we spend many years saving and planning, the abrupt shift from a consistent working life can present new challenges along with many opportunities. Chief among these, [according to one survey](#), is the need to find a new sense of purpose.

Because we take a comprehensive approach to our planning philosophy we encourage clients to think beyond the financial aspect of this new chapter and think seriously about where and how each of us find meaning. It may be in volunteering in your community, pursuing a new hobby, or spending intentional time with loved ones. Other recommendations for those embarking on their retirement journey include:

- **Create new routines:** you spent many years with a career to provide structure and now, with new freedom, you will benefit from patterns that give you joy and provide rhythm to your days and weeks.
- **Find your people:** community matters and forging and maintaining relationships through social clubs, hobbies, faith communities, and family will keep you connected and engaged.

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- **Keep learning:** whether it's finding time to read finally, doing daily crossword puzzles, traveling, or volunteering in a museum or other organization linked to your interests, [there's evidence](#) that keeping your brain active keeps you feeling younger.
 - **Stay active:** find a physical activity you enjoy—walking with a friend, dance classes, swimming, or any other physical activity—and do it regularly.

This year, we've added coaching to our service offerings to provide even more personalized guidance and accountability as you think about these routines and a holistic approach to your financial and overall well-being.

As we celebrate our 10-year anniversary this August, we celebrate you and re-commit ourselves to an always evolving, always informed, always comprehensive approach to your financial future and well-being now.

Thank you for your trust and partnership and we look forward to the next decade.

THE
Archvest Team