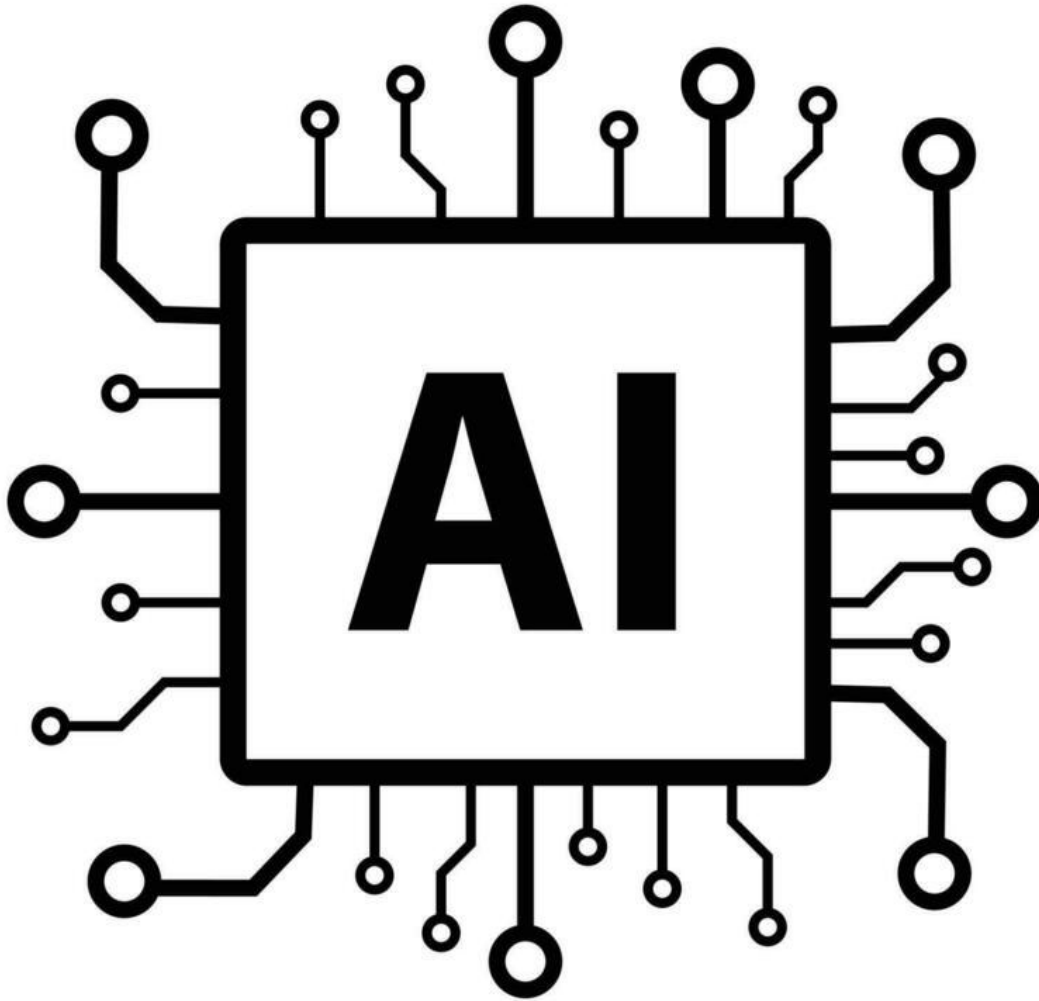


January 2024

THE ADVOCATE



A Change Gonna Come

Unlocking Backdoor Roth IRAs

Market Review

New Era Dawns for Tennessee Tech Football

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A Note from the Principal

As we usher in 2024, a year marked by the promise of change and progress, we reflect on the transformative power of technology and the pivotal moments ahead. In this edition, our leading article "A Change Gonna Come" thoughtfully examines the impact of Artificial Intelligence (AI) in shaping our world, a theme that resonates deeply as we navigate these evolving times.

2023 was a year of significant strides in AI, witnessing its transition from theoretical marvel to a dynamic force impacting every facet of our lives, from education to industry. This technology, once a distant vision, now intimately intertwines with our daily experiences, urging us to contemplate its far-reaching implications.

In this presidential election year, the importance of understanding and adapting to new technologies like AI becomes even more critical. As a community, we are at the forefront of discussions about the ethical use and governance of AI, ensuring that its growth is aligned with our societal values and needs.

This edition also brings a diverse array of topics. We explore innovative financial strategies in "Unlocking Backdoor Roth IRAs," provid-

ing insights on navigating retirement savings irrespective of income levels. We also discuss exciting changes taking place that should positively impact the success of TTU football and, in doing so, will also help elevate the university and the community. Finally, our regular Market Review offers a balanced perspective on economic trends and financial insights, which we hope you find helpful, especially in this election year.

As we step into 2024, let us embrace these changes with optimism and a commitment to informed engagement. Your participation in our community dialogues is not only valued but essential in shaping a future that reflects our collective aspirations.

In the year ahead, may we continue to grow, learn, and face new challenges with the resilience and optimism that define our community. Here's to a year filled with opportunities, breakthroughs, and meaningful progress.

Warm regards,



Wayne H. Cravens

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A Change Is Gonna Come

Wayne Cravens

The Transformative Impact of AI in the Near and Long Term

In the annals of human history, certain innovations have marked pivotal turning points, reshaping society and the course of our collective future. Today, we stand on the cusp of a new era where Artificial Intelligence (AI) emerges as a catalyst for transformative change. This technological phenomenon is akin to the printing press in the 15th century, the Industrial Revolution in the 18th and 19th centuries, and the Internet in the 20th century. Initially met with resistance and skepticism, these historical inflection points eventually led to profound societal transformations and altered the global landscape. Similarly, AI today is poised to reshape our world in equally significant ways, making it imperative to understand its impacts in the near and distant future.

Near-Term Transformations

The immediate effects of AI are already unfolding across various sectors. In healthcare, AI-driven diagnostic tools are revolutionizing how diseases are detected and treated. AI algorithms now analyze medical images with unprecedented precision, leading to earlier detection and more effective treatment of conditions like cancer. Personalized medicine, powered by AI, is paving the way for treatments tailored to individual genetic profiles, heralding a new era of patient-specific healthcare. This level of customization in treatment was unimaginable just a few decades ago.

In transportation, the advent of autonomous vehicles echoes the transformative impact of the steam engine during the Industrial Revolution. These self-driving vehicles promise safer, more efficient travel,

reducing accidents caused by human error and reshaping the urban transportation landscape. The potential for this technology to revolutionize the way we commute and transport goods is immense.

The field of customer service is witnessing a revolution of its own with AI. Chatbots and virtual assistants are transforming customer interactions. These AI-driven tools are enhancing user experiences, streamlining business operations, and personalizing services in ways previously unimaginable.

Long-Term Paradigm Shifts

Looking further ahead, the impact of AI on our workforce and economy is set to mirror the profound changes brought about by the Industrial Revolution. While AI may displace certain jobs, it simultaneously promises to create new industries and opportunities. This shift is reminiscent of the industrial era, which saw the birth of new professions and economic sectors. However, this transformation also requires rethinking of our educational and vocational training systems to prepare future generations for a new job landscape.

Ethical and legal considerations surrounding AI are paramount, particularly regarding privacy, surveillance, and decision-making. These challenges recall the societal adjustments prompted by the widespread use of printed material and industrial machinery. Navigating these issues requires the establishment of new norms and legal frameworks, ensuring that AI is developed and implemented responsibly.

Addressing Fears and Embracing Benefits

The journey of the internet provides a more recent parallel to the rise of AI. Initially, the internet spurred concerns around privacy, misinformation, and security. However, its unparalleled benefits in connecting the

globe, democratizing information, and fostering innovation have been undeniable. Similarly, while AI presents its own set of challenges, it holds immense potential for societal advancement. From revolutionizing healthcare to enhancing safety and efficiency across various sectors, the potential benefits of AI are vast and varied. Recognizing and addressing these fears, while focusing on the potential for societal good, is essential as we navigate the AI era.

Embracing the Inevitable

History teaches us that resistance to new technologies eventually gives way to acceptance and integration. The printing press, the Industrial Revolution, and the internet, each in their time, faced initial skepticism and fear, only to become fundamental to societal progress. AI is on a similar trajectory. As we stand at this crossroads, our challenge is not merely to accept the inevitable but to proactively shape and harness AI's potential for the greater good.

Conclusion

Echoing the sentiments of Sam Cooke's anthem, "A Change Gonna Come," the AI revolution, much like the revolutions before it, is inevitable and filled with possibilities. Our response to this transformation will define our future. Embracing AI with an informed, balanced approach and learning from past technological shifts allows us not just to adapt but to thrive. Our collective wisdom, ethics, and innovation can steer the AI revolution towards a future where its benefits are harnessed for all, ensuring that this transformative technology, like the printing press and the Industrial Revolution, becomes a cornerstone of societal advancement. The path ahead is not without challenges, but by embracing change and its potential, we can navigate this new era with optimism and purpose, shaping a future that reflects our highest aspirations and values.



Unlocking the Backdoor Roth IRA

Caleb Rouse

Understanding the Backdoor Roth IRA

A Backdoor Roth IRA is a financial strategy employed by high-income individuals who find themselves restricted from directly contributing to a Roth IRA due to income surpassing specific thresholds. Instead of directly contributing to a Roth IRA, the individual opts to contribute to a traditional IRA and subsequently converts it into a Roth IRA.

Benefits of Roth IRA

The Roth IRA, a popular retirement savings account, involves contributing after-tax dollars. If specific requirements are met, both the principal amount and earnings accrued on the money can be withdrawn tax-free in the future. This strategy is particularly advantageous for those anticipating a higher tax

bracket during retirement, with the key benefit being tax-free growth.

Income Limits & Eligibility

Income limits are crucial in determining eligibility for contributing to a Roth IRA. If an individual's modified adjusted gross income exceeds specified limits, the contribution amount to a Roth IRA undergoes a phased-out reduction. The phaseout occurs between \$146,000 and \$161,000 for single filers and \$230,000 and \$240,000 for joint filers in 2024.

The Backdoor Roth IRA method allows those with higher incomes to leverage the benefits of a Roth IRA despite being unable to contribute through conventional means.

Methods of Setting Up Backdoor Roth IRAs

Setting up a Backdoor Roth IRA involves two primary methods:

Contribution and Rollover:

Contribute funds to an IRA, ensuring the traditional IRA has no existing balance. Any existing balance may trigger a taxable event during the conversion process. After contributing and fulfilling any required holding period, proceed with converting the account to a Roth IRA.

Not For Everyone

The Backdoor Roth IRA is an excellent strategy, but it may not be suitable for everyone.

It is unnecessary for those who can make a Roth IRA contribution through standard means. If the front door is open why go through the back?

Additionally, individuals with a balance in a rollover IRA intending to contribute to that account may need to consider the "pro rata" rule, which mandates proportional withdrawals from pre-tax and after-tax contributions.

Conclusion

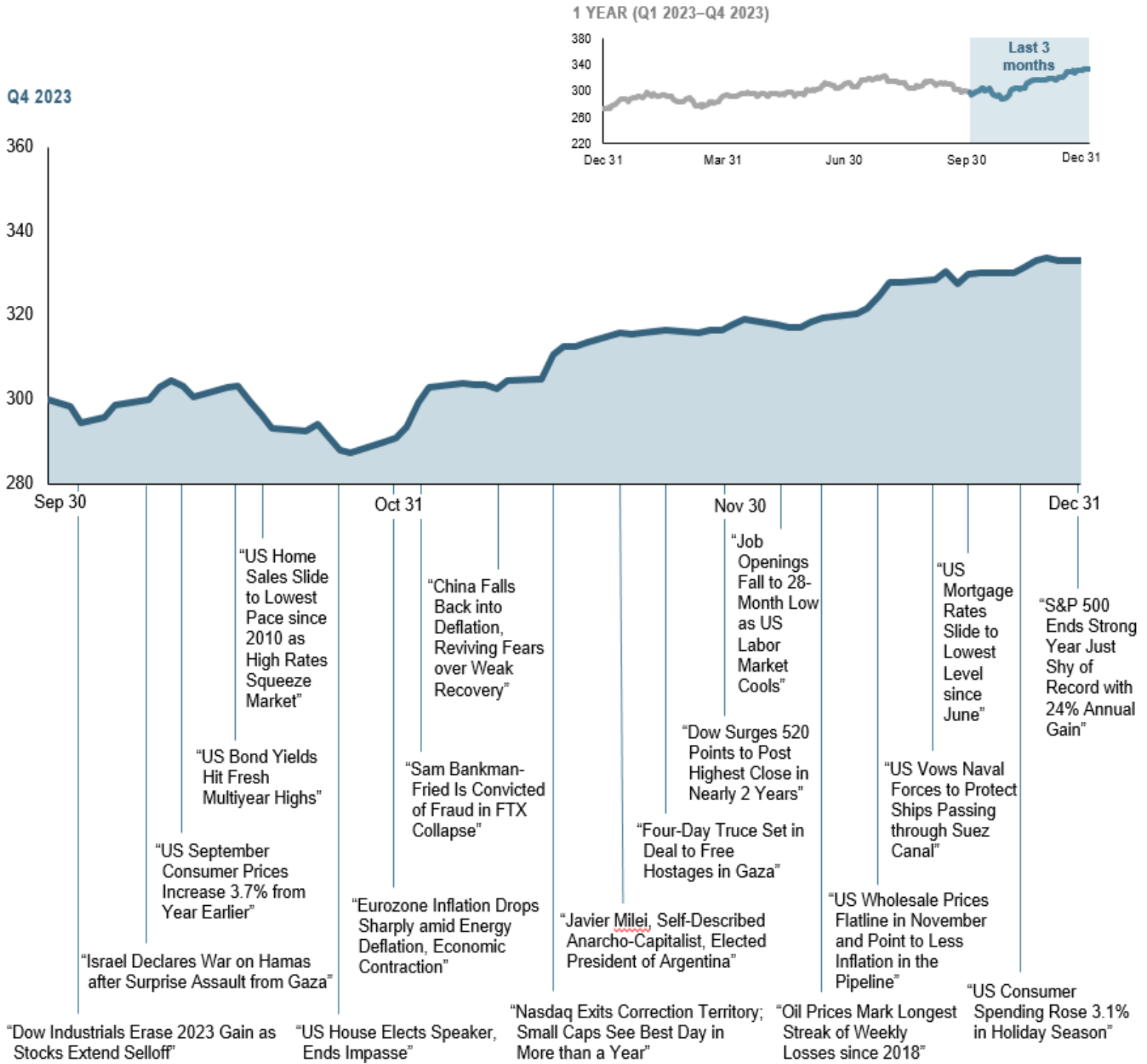
In summary, the Backdoor Roth IRA strategy is a valuable option for high-income individuals aiming to capitalize on the benefits of a Roth IRA.

Tax implications, individual financial goals, and the overall financial plan must be factored in to ensure the strategy aligns seamlessly with your unique circumstances.

At Cravens & Co, our seasoned team of financial experts is here to guide you through the intricacies of the Backdoor Roth IRA. We understand that each financial journey is unique, and our personalized approach ensures that this strategy becomes a valuable asset in your wealth-building toolkit.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q4 2023



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2024, all rights reserved. Index level based at 100 starting January 2000. It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

Market Review

Woody Welch
Wayne Cravens

Market Recap

What a difference a year makes. In 2022, high inflation and the Fed's commitment to tame it, led to sharply rising interest rates and negative returns for both stocks and bonds. In 2023, much to the surprise of many forecasters, global stock and bond markets ignored widespread expectations that we were headed for a recession and were able to shake off a host of uncertainties to post strong gains for the year.

Aided by a powerful year-end rally, U.S. stocks (S&P 500 Index) jumped nearly 12% in the fourth quarter to finish up 26% for the year, and end within a whisper of its all-time high. Smaller-cap stocks (Russell 2000 Index), which lagged their larger counterparts for most of the year, also rallied sharply in the fourth quarter (+14%) to end the year with a respectable gain of 17%.

Developed International and emerging-market stocks also posted solid gains. Developed International stocks (MSCI EAFE) finished the year up 18%, while emerging-market stocks (MSCI EM Index) posted a nearly 10% return.

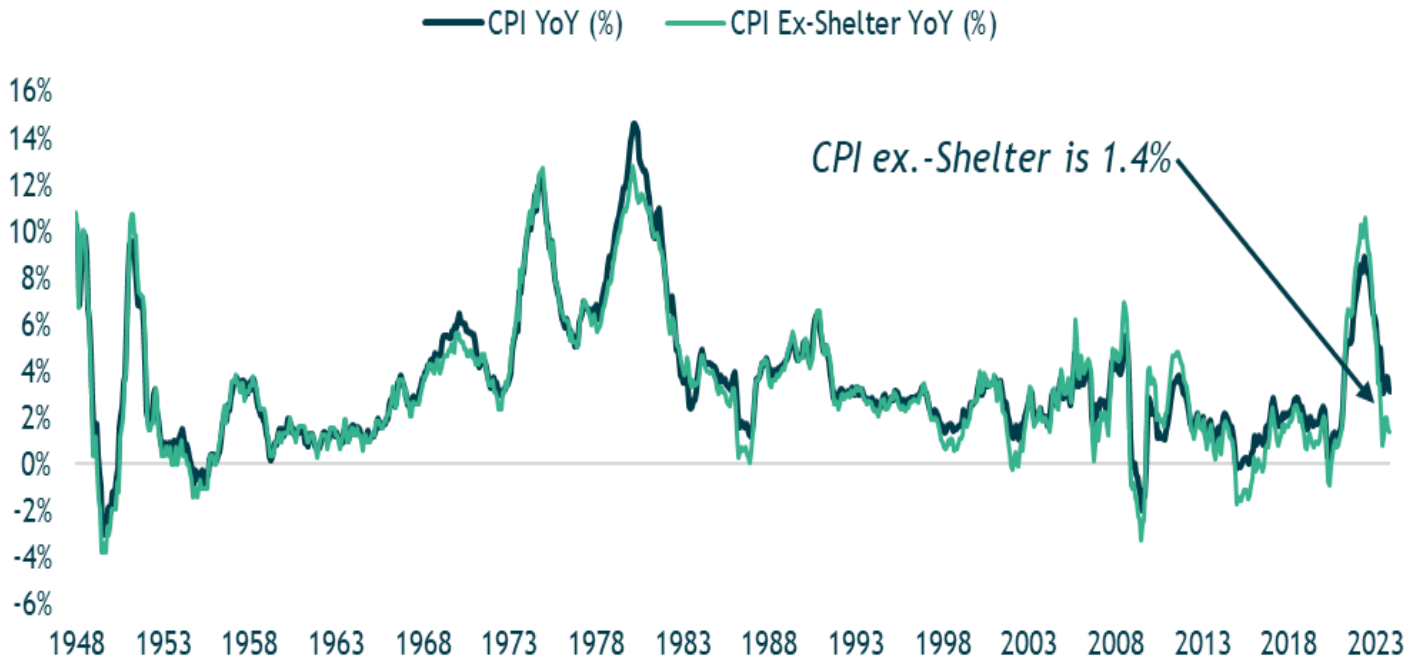
Bonds also rallied sharply in the fourth quarter aided by a significant drop in Treasury yields. The benchmark 10-year Treasury yield declined over 100bps in the fourth quarter resulting in a 6.8% return for the Bloomberg U.S. Aggregate Bond Index. Interestingly, despite massive intra-year volatility, the 10-year Treasury yield ended the year exactly where it started. For the year, U.S. core bonds (Bloomberg U.S. Aggregate Bond Index) finished up 5.5%.

Investment Outlook and Portfolio Positioning

Looking ahead to 2024, all eyes will continue to be on the Fed. When will the Fed start to cut rates, by how much, and why? Will the Fed cut rates enough to meet the markets' lofty expectations? While these questions will be in focus, monetary policy is just one of many factors that will influence markets. Geopolitical risk, the U.S. presidential election, labor markets, and inflation will likely fill the headlines and all could be sources of volatility.

From an economic perspective, we enter the year on solid footing and believe a recession is unlikely in the first half of 2024.

Inflation Has Fallen Towards Fed's Goals



Source: U.S. Bureau of Labor Statistics. Data as of 11/30/2023.

There are several factors supporting solid economic and corporate earnings growth, while inflation continues to decline. We think the biggest recession risk will come from weakness among consumers in the latter half of the year and we will continue to closely monitor economic data and adjust our views accordingly.

We thought the Fed had the upper hand on inflation and that it would continue to trend lower. That has been playing out and we continue to believe that inflation will grind lower in the near term. Many of the metrics we observe suggest that inflation is already at or below the Fed's target.

The chart above illustrates the year-over-year inflation rate and year-over-year inflation rate excluding shelter costs, which is a key CPI input. (It makes up about 30% of the CPI.) While year-over-year inflation recently came in at 3.1%, this number drops to 1.4% when excluding shelter. These levels are near the Fed's goals, which suggests that the Fed's policy has been working, and with time inflation could continue to fall, particularly if shelter continues to decline.

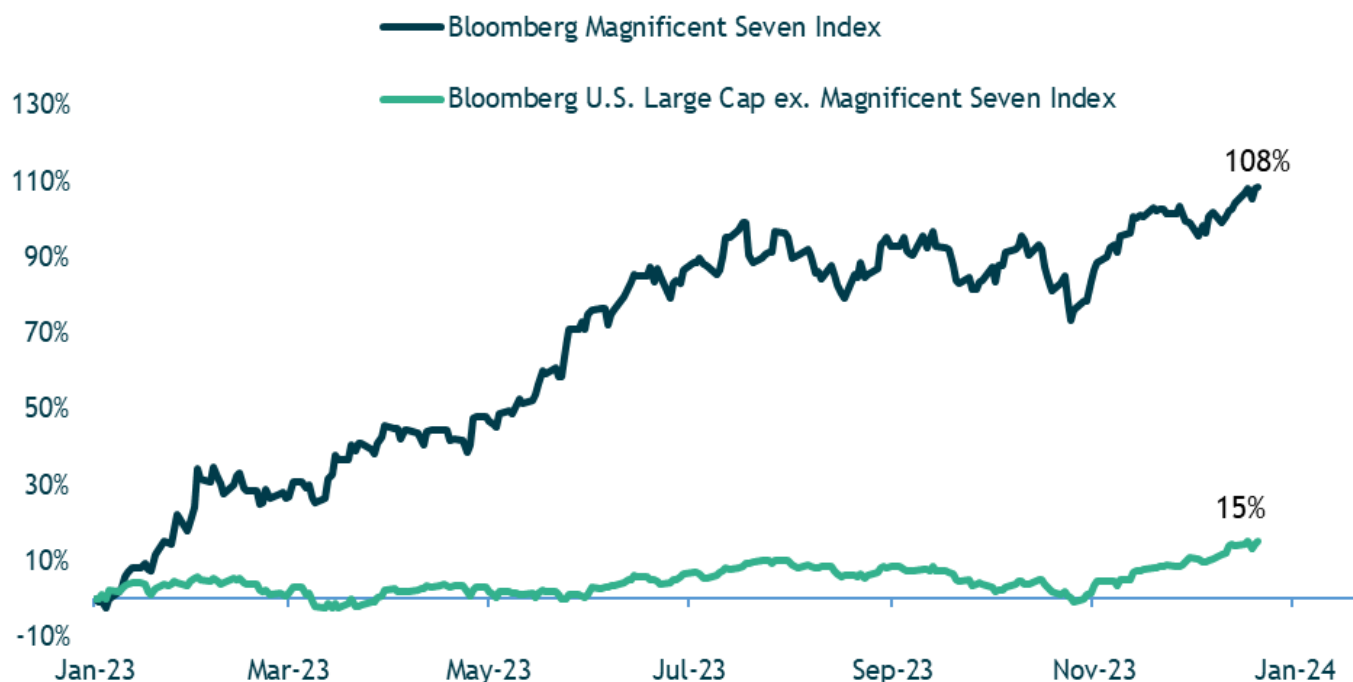
Since the Fed started their aggressive tight-

ening cycle, the debate has been about the odds of a "soft landing" or "hard landing" for the economy. In other words, would the Fed be able to thread the monetary policy needle and raise interest rates enough to stamp out inflation, but not so high it slams the brakes on the economy and tips it into recession.

The National Bureau of Economic Research (NBER) is the scorekeeper when it comes to determining recessions. Their definition of a recession is a "significant decline in economic activity that is spread across the economy and that lasts more than a few months." The business cycle since the onset of the pandemic has been anything but ordinary. Instead of a simultaneous and broad-based decline in economic activity, we've observed specific industries struggling with isolated declines over time, while the board economy has managed to stay afloat.

Throughout 2020, Covid had an unprecedented impact on societies around the world. Many non-essential service-oriented businesses such as air travel and tourism experienced a depression-like scenario as demand evaporated. Conversely, goods-related businesses experienced a boom. Then through 2021 and 2022, consumer habits

Top Heavy Performance in the U.S.



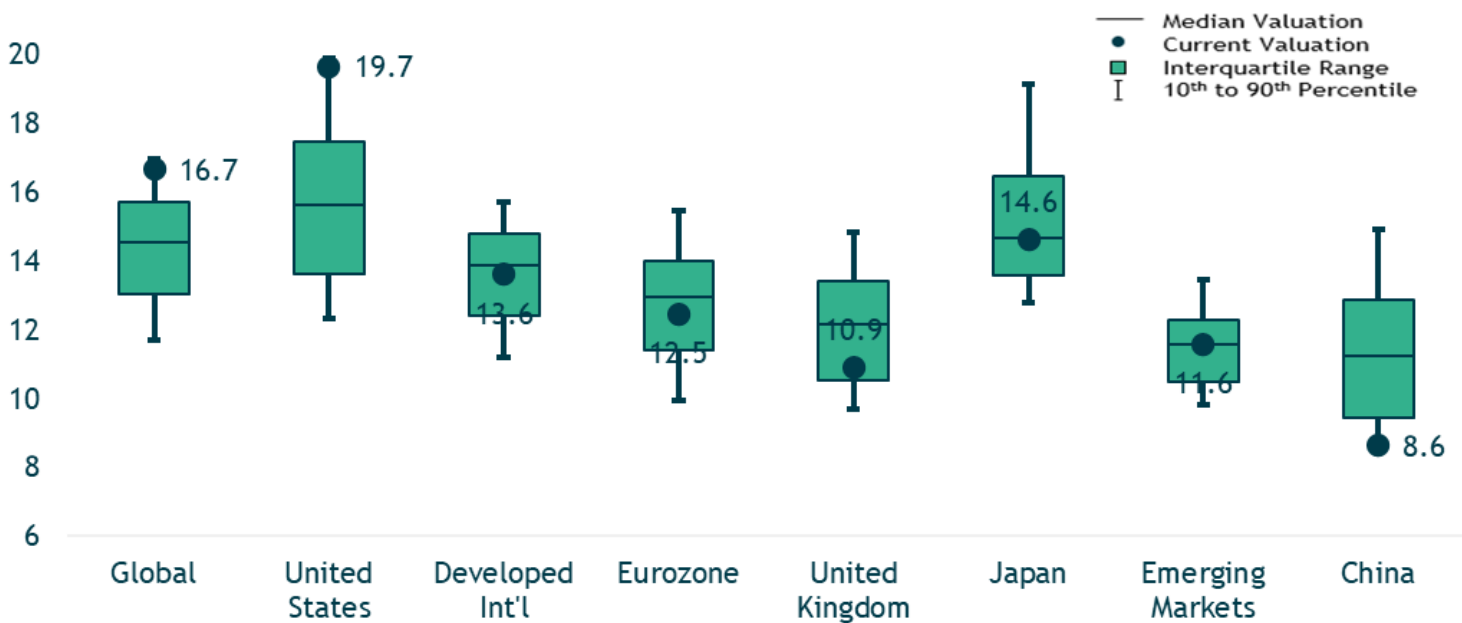
Source: Morninestar Direct. Data as of 12/31/2023.

flipped and demand for services surged as economies around the world re-opened. As inflation took hold and interest rate increases became inevitable, rate-sensitive areas of the economy contracted. The housing market froze, and a higher cost of capital for technology firms caused funding to dry up and there were layoffs across the sector. In 2023, we have seen regional banks and commercial real estate face declines.

Indeed, the most anticipated recession ever has yet to happen. Many economists now expect it to happen in the second half of this year. With various sectors of the economy experiencing contractions at different times over the last few years, we would anticipate more of a mild slowdown, not a deep economic downturn across sectors. But of course, we will be closely monitoring corporate earnings, labor statistics, and financial conditions to best assess the ultimate type of “landing.” There is growing consensus that a “soft landing” may occur in the U.S. in 2024, and we are not ruling that out, especially if the Fed cuts rates sooner than later. That said, we recognize that soft landings are quite uncommon, occurring only four times in the last 75 years.

Within the U.S. stock market, performance in 2023 was driven by the handful of mega-cap growth stocks, dubbed the “Magnificent 7” (Apple, Microsoft, Nvidia, Facebook, Alphabet, Netflix, Amazon). These stocks had an average return in excess of 100% for 2023 and now represent a combined weight of more than 28% in the S&P 500 and 47% in the Russell 1000 Growth Index – near historic highs. However, much of the return in these stocks were driven by expanding valuation multiples leaving them expensive relative to the broader market. With the market confident that interest rates have reached their cyclical peak, we also saw a shift in market leadership with equity gains broadening out beyond the “Magnificent 7.” As seen in the chart above, the remaining 493 stocks in the S&P 500 index rallied 15% to end the year. We believe the recent broadening out of equity performance has the potential to persist over the course of 2024, and we could see areas of the market that have significantly lagged perform much better. For example, small-cap stocks beat large-cap stocks and value stocks outperformed growth stocks late in the year. Our overall equity allocation continues to favor another unloved segment of the market – for-

Equity Valuations are Far More Attractive Outside the U.S.



Source: Bloomberg LP. Data from 1/1/2006 to 12/27/2023.

eign stocks. Heading into 2024, the valuation discount for developed international and emerging-market stocks versus the U.S. is the widest it's been in decades. From 2006 through 2016, the U.S. and developed markets traded within one multiple point of each other. The average forward P/E for the S&P 500 over the period was 14x compared to 13x for MSCI EAFE. Since 2016, the valuation gap has widened substantially. The S&P 500 now trades at nearly 20x forward earnings while the MSCI EAFE remains close to 13x. The story can be seen in the chart above—U.S. stocks trade toward the top end of their valuation range while other regions offer up better relative values. Most other markets are trading roughly in-line or slightly below their historic averages. All else equal, lower starting valuations imply better long-term expected returns and provide more of a valuation cushion should multiples contract in a stock market sell-off.

We think it is quite possible that 2024 will be a year where investors again enjoy some of the classic underpinnings of investing, where

stocks and bonds are less correlated and provide diversification benefits to portfolios. This was not the case in 2022 and 2023, when stocks and bonds both declined meaningfully and then posted gains.

While there are likely to be bouts of volatility, this inevitably creates opportunities. Currently, we see opportunities within the stock market, particularly as we expect a broadening out into areas of the market that have lagged. Within fixed-income, we believe that rates have peaked, inflation is under control for now, and that interest rates will decline though not back to zero. We will also look for any opportunities that arise as a result of the Fed not meeting market expectations around the timing and magnitude of rate cuts.

As we enter 2024, we wish you and your loved ones peace, happiness, and good health in the new year.

Thank you for your continued trust and confidence.

1 The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. 2 The MSCI Emerging Markets Index is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. 3 The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. It is a market value weighted index with each stock's weight in the index proportionate to its market value. 4 The U.S. dollar index (USDX) is a measure of the value of the U.S. dollar relative to a basket of foreign currencies.



New Era Dawns For Tennessee Tech Football

Caleb Rouse

Tucker Stadium

Tennessee Tech University's Tucker Stadium has been a stalwart presence on campus since 1966, witnessing the triumphs and trials of generations of student-athletes. However, as times change and expectations evolve, the university has embarked on an ambitious journey to revitalize its iconic football facility, signaling a new era for Golden Eagle football.

At the recent Tennessee Tech Football Alumni Reunion and Golf Classic, University President Dr. Phil Oldham announced plans for a new football stadium, marking the culmination of years of planning and fundraising efforts. The decision to rebuild the west side of Tucker Stadium reflects a commitment to providing enhanced amenities and a superior game day experience for fans and sup-

porters.

The revitalization of Tucker Stadium aligns with broader efforts to elevate school spirit and foster community engagement.

Bobby Wilder

In tandem with the stadium redevelopment, Tennessee Tech welcomed Bobby Wilder as the 13th head coach in the history of its football program. Wilder's proven track record and strategic vision position him as a transformative leader poised to propel the Golden Eagles to new heights of success.

Wilder's coaching pedigree, highlighted by his tenure at Old Dominion University, underscores his ability to cultivate winning teams and foster a culture of excellence. His emphasis on aggressive offense and

tenacious defense bodes well for Tennessee Tech's football program, signaling a bold new direction that resonates with players, alumni, and fans alike.

Director of Athletics Mark Wilson expressed confidence in Wilder's ability to lead the Golden Eagles to championship glory, citing his unparalleled leadership and unwavering commitment to excellence. As Tennessee Tech prepares to embark on a new chapter in its football legacy, anticipation is palpable.

Football Operations Center

In the same spirit of exciting developments, Tech is establishing a new Football Operations Center. The Football Operation Center will be a state-of-the-art facility that will not only modernize the student-athlete experience but also elevate Tennessee Tech's profile in collegiate sports. With enhanced amenities and cutting-edge resources, the

center will serve as a catalyst for both recruitment and player development. Success on the field leads to a more vibrant student experience which directly enhances TTU's competitive edge. By supporting this ambitious project, donors have the opportunity to assist, not only, in the program's success but also that of the university and Cookeville!

Conclusion

As the university community rallies behind its football program and embraces the promise of renewal, Tennessee Tech stands poised to advance the standards of excellence in collegiate athletics. With Tucker Stadium set for a dramatic transformation, the unveiling of the new Football Operations Center, and Bobby Wilder at the helm, the Golden Eagles are primed to soar.

Welcome to Cookeville Coach Wilder!



Your Financial Advocate

You have goals you want to achieve... places you hope to go... things you want to do... people you desire to spend time with.

These dreams have motivated you over the years to work hard and to sacrifice.

Fully realizing your dreams also takes planning and execution to get them “over the top”.

Whether you aspire to...

- ...travel the world with your spouse...
- ...spend more time on hobbies like flying, cooking, or wine collecting...
- ...live on a ranch in the country or a cabin in the mountains...
- ...create a legacy for your children and grandchildren...
- ...support the charities and causes that you hold dear...

We can help you create and execute a comprehensive plan for financial success. One that will give you the confidence to spend your free time on the other things that are important to you.

At Cravens & Company Advisors, our mission is to help successful individuals and their families realize and enjoy their life goals. We are an SEC-Registered Investment Advisor that combines holistic planning, personalized investment management, tax and estate strategies, and business planning with a proactive, solutions-oriented mindset. The result is a fiduciary with a plan and a culture centered on your success; however you define it.

Since 1996, we have been serving the specialized needs of family businesses and their owners, professionals, and successful retirees. While prudent investment advice is a foundational component of our service, we believe developing an intimate understanding of your overall financial situation and goals is essential to formulating your strategy. Our holistic approach enables the development of solutions with the highest possibility for success. Because goals cannot be measured by return, we benchmark our progress as a firm in the same way you do as our client; by successful outcomes.

As we discuss your situation, goals, and concerns; we hope you will recognize the benefits that come with our independence and objectivity. As your fiduciary, we are held to the highest standard of transparency, objectivity, and disclosure. Simply put, we have not only an ethical but also a legal requirement to always act in your best interest.

Our goal is to provide each client with the leadership, relationship, and creativity needed to allow them to achieve their life's goals and, even more importantly, the confidence to enjoy the journey. After all, what is the point of all the work and worry if you do not get the satisfaction of realizing the results?

At Cravens & Company, we have a team that is by design, ready to work for you. If you have complex financial issues and/or desire a relationship of this type, please contact us to arrange an introductory meeting. We can be reached at 931-528-6865 or by email at info@cravensco.com.



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