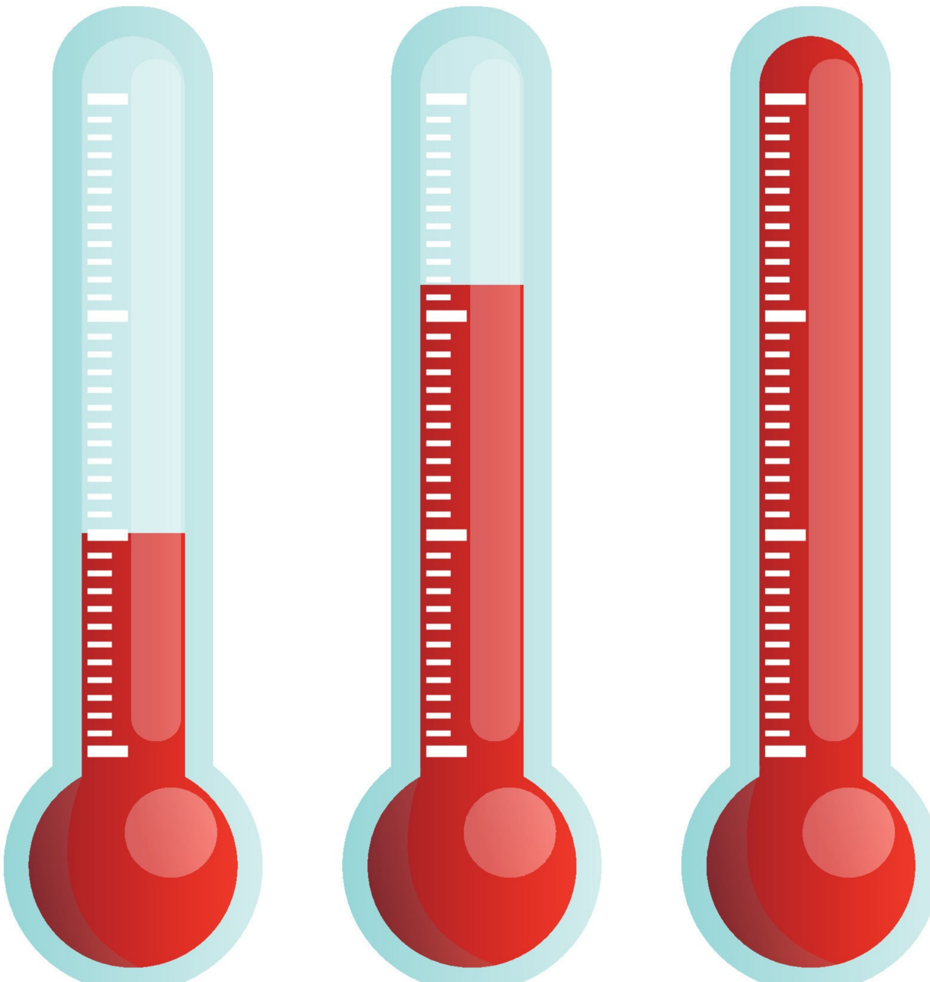
October 2023

THE ADVOCATE



Taking the Temperature of Our Nation

Transforming 529 Plans into a Roth IRA

Market Review

Highlands Economic Partnership

Cravens & Co.
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A Note from the Principal

The Nature of Evil

As we see the magnificence of Fall unfold in our beautiful country, we are once again reminded that the world is also full of evil beyond description. As we saw in scenes from Bucha, Ukraine, last year, just as Spring flowers brightened our home, we now see scenes of children intentionally massacred in Israel. While nature is beautiful, this is the nature of evil.

It may be difficult to define formally, but any reasonable person can instinctively recognize evil when confronted with it. The harrowing acts committed by Hamas militants on Oct. 7 stand as a testament to this, representing actions that most would undeniably deem evil. Words like wicked, gruesome, and atrocious might come close, but the intensity of these deeds demands the weight of "evil."

I get it; the concept of evil is complex, encompassing both large-scale genocides and the more subtle malicious intent we encounter in everyday life. It is also true that I haven't walked in anyone else's shoes. Accordingly, I don't know how I might feel after living for generations oppressed by multiple masters and in the absence of hope. However, if we accept that alone as justification for acts of this kind, we should write a different essay on the concept of rationalization.

The events of Oct. 7 underline the extent to which political ideologies can be manipulated to justify heinous acts. In conflict, letting emotions blur our judgment of what constitutes evil is easy. This is evident when viewing the impact of Israel's defensive actions on the lives of innocent Palestinian children.

Throughout history, evil acts have often been met with retribution, leading to a cycle of blame and justification. Each side of a conflict tends to vilify the other, basing judgments on deep-seated biases and emotions. As much as evil is a factual presence in the world, it thrives on human subjectivity.

History reminds us that small acts of cruelty can resonate profoundly. Even seemingly minor actions can carry the weight of malevolence. Continuous exposure to such instances can accumulate and manifest as rage, another form of evil that damages the soul and often ripples and amplifies over time.

As we view the cruelty transpiring in other parts of our planet, should we not step back and ask ourselves, are we sowing our own seeds of hatred? Seeds that, if continually nurtured by self-interest, could spring forth similar evil on a similar scale in our own country. Why not recognize there is another path? A path that preserves life as well as dignity and prosperity. All it takes is a tiny bit of openness and respect.

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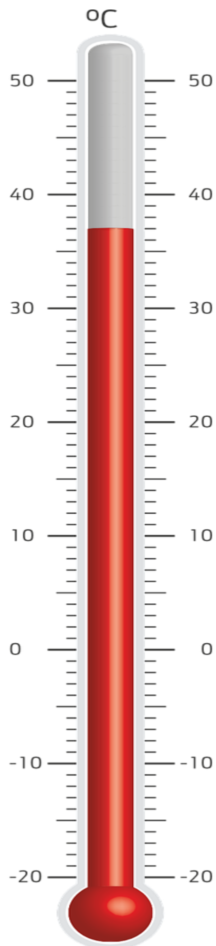


Taking the Temperature of Our Nation

Wayne Cravens

Having worked in the financial world for over 35 years, if there is one thing that has become abundantly clear to me, it is that we often revisit history. In fact, I have yet to see the phrase, “It is different this time,” actually bear itself out. Unfortunately, most folks, markets, governments, etc., want to believe that it is true and are surprised – sometimes tragically, when it isn’t.

If we can appreciate that it rarely, if ever, is different this time, why don’t we learn from the past and avoid making the same mistake more than once? If I could answer that question, well, there are a lot of things I would do.

Learning from the Past

Over the past few years, I’ve read quite a lot of Ray Dalio’s writings, including his book "Principles for Dealing with the Changing World Order." Dalio is famous for being the founder of the world’s largest hedge fund, Bridgewater Associates. In addition he is a meticulous researcher whose viewpoints are grounded in historical fact. To sum it up in an over-simplified manner, he connects today's issues with historical cycles. While his is just one of many perspectives, it’s a reminder that understanding our past can clarify our future.

Where Do We Stand?

Let’s get real for a moment and ask ourselves how strongly we trust our political leaders, the news media, and our judicial system. Polling suggests that our level of trust, in these once highly regarded institutions, has declined significantly and is not on a good trajectory. Politics has moved from spirited debate with compromise to divisive arguments and angry condemnation. Media sources continually fan these flames because it serves their interests – hate sells. And, sadly, our courts seem to more and more follow the demands of the mob rather than the framework of our founders. Even if they hold to the letter of the Constitution, whichever faction of the media who disagreed would go to great lengths to demonize their actions. Let's face it, trust is far scarcer these days than the most precious of metals.

How did We Get Here?

Historically, these moments of distrust and disconnect can be traced back to:

- **Economic Disparities**: Large gaps in wealth and opportunity often lead to societal tensions. When the majority feels left behind or feel that a minority holds disproportionate power, it erodes trust in systems and leaders.
- **Competing Values**: When societal values diverge significantly, the institutions representing those values (like media or political entities) come under scrutiny and are seen as biased or untrustworthy.
- **Declining Empires**: History has shown that as dominant powers or empires start to decline, internal fractures become more evident. Trust in institutions wanes as different factions blame them for the decline or see them as not representing their interests.
- **External Threats**: The rise of a competing external power or a significant external threat can exacerbate internal tensions. The narrative around dealing with these threats can polarize societies, leading to further distrust. Obviously, our distrust and discord benefits potential foes such as China and Russia.

Should We be Alarmed?

History says we should. When there's widespread distrust in key societal pillars like politicians, media, and the judicial system, it often signifies a transition towards a period of disorder. When such conditions prevail, societies typically face increasing disorder, manifesting as protests, civil unrest, or even civil wars. The rule of law can become weakened, and there's a rise in more autocratic or non-democratic measures to restore order. It's a complex interplay of various factors, but distrust in core societal pillars is a significant red flag.

Moving Forward Together

While there are no easy answers that instantaneously fix everything, there are steps we can take together:

1. **Engage in Conversations, Not Arguments**: If something doesn't sit right, talk about it. Whether it's a chat with friends or a post on social media, open conversations can lead to deeper understanding.
2. **Walk the Talk**: We can be part of the problem or part of the solution. By being intentional, we can develop positive habits that contribute to a positive future for us all.
3. **Respect the System**: Our laws and regulations, while not perfect, have supported our democracy for 247 years. Let's understand them, respect them, and work to improve them where needed.

Final Thoughts

We're living in interesting times. But together, armed with knowledge and understanding, we can navigate them. "People do not decide their futures, they decide their habits and their habits decide their futures." F.M. Alexander.

We will do our best to keep you updated, not just on market trends, but on the broader topics and issue that may shape our financial future.

As always, we value your feedback.

Converting 529 Plans into Roth IRAs

Caleb Rouse

Introduction

As families celebrate the academic achievements of their graduates, the transition from college tuition bills to financial planning for the future becomes a focal point. Amid the sea of advice, one powerful idea stands out: the potential of the 529 to Roth IRA rollover.

Expanding the Possibilities

Consider a scenario where your 529 plan beneficiary doesn't require the full extent of the saved funds for educational expenses. What if they receive a scholarship, opt for a less expensive school, or choose a different path altogether? Recent legislative changes offer an exciting solution. Starting in 2024, you have the option to convert up to a lifetime limit of $35,000 per beneficiary from a 529 plan into a Roth IRA owned by the 529 beneficiary, provided that the 529 account has been open for at least 15 years. This rollover is subject to annual Roth IRA contribution limits, less any other IRA contributions made by the beneficiary. The beneficiary must also have earned income in the amount of the available Roth IRA rollover.

The genesis of this financial maneuver lies in the SECURE 2.0 Act, passed by Congress in late 2022. Its objective is to enhance the flexibility and benefits of education savings. The Act acknowledges that not every beneficiary will follow a traditional educational trajectory, offering an alternative means to secure their financial future.

Building Wealth with a 529 Plan

A 529 plan offers lots of flexibility, but with the $35,000 Roth IRA rollover option, a 529 plan becomes even more effective. 529 to Roth IRA rollover presents a strategic financial move that not only enhances the potential for wealth accumulation but also empowers families to adapt to changing circumstances and prioritize financial well-being.

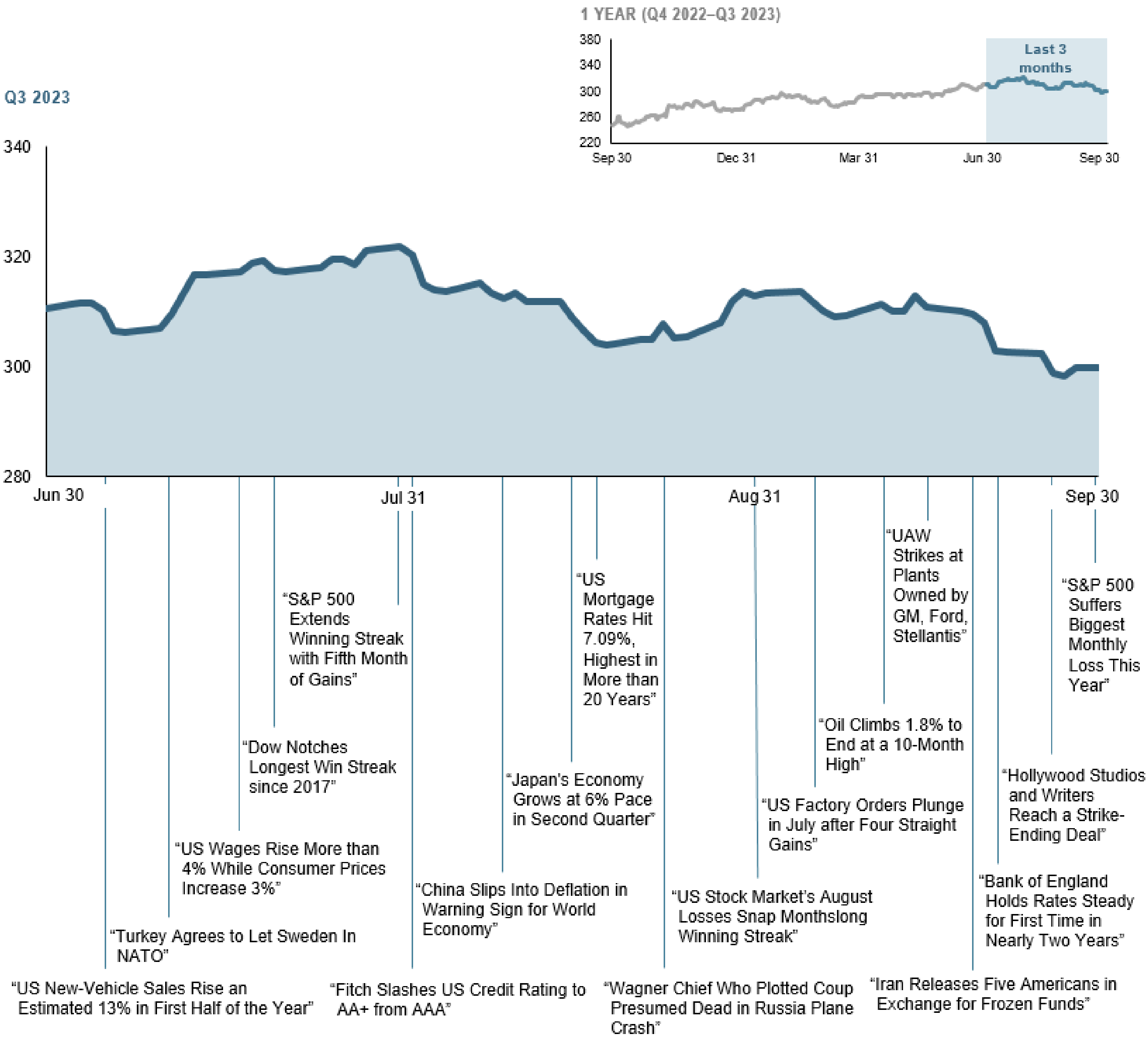
The Power of Roth IRA Rollover

Imagine this scenario: A beneficiary of a 529 plan graduates at the age of 24, slightly surpassing the national average. They decide to take full advantage of their educational investment and roll over the maximum allowable amount of $35,000 over 5 years into a Roth IRA. Assuming there is an average annual growth rate of 6%, compounding annually (which we know it does not) and they leave the investment untouched until retirement at age 67, the Roth IRA would have blossomed into an account valued at just over $380,000. More importantly, these funds could be withdrawn entirely without taxation! This highlights the incredible potential for financial growth and security through prudent financial planning.

In summary, the 529 to Roth IRA rollover is another great strategy to maximize generational wealth while maintaining significant flexibility.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 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 2023, 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

The S&P 500 reached a 2023 high at the end of July before selling off 7.5% through August and September to finish the quarter down 3.3%. Year-to-date the index remains up a solid 13%. Smaller-cap stocks (Russell 2000) also had momentum early in the quarter but changed course and ended the quarter down 5.1%, though are still positive 2.5% year-to-date.

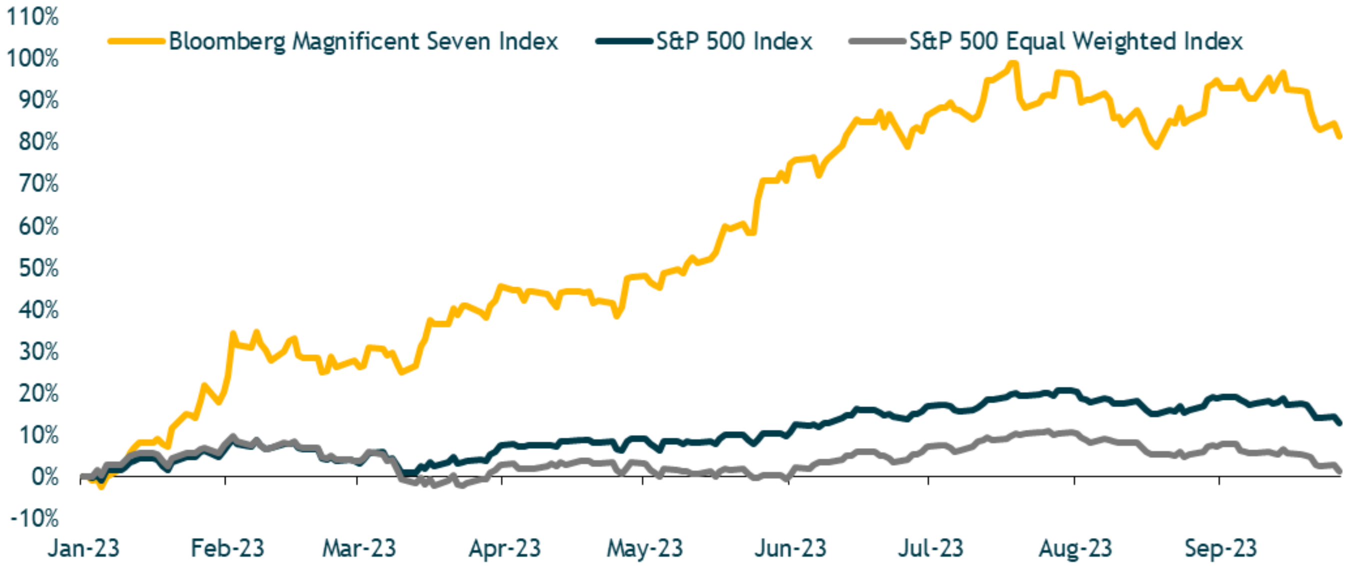
Within foreign markets, developed international stocks (MSCI EAFE) declined 4.1% in the quarter yet remain up just over 7% year-to-date. Emerging market stocks (MSCI EM) fell 2.9% bringing down their year-to-date return to just under 2%. The U.S. dollar (DXY Index) climbed over 3% during the quarter, resulting in a headwind for foreign stock returns.

In bond markets, the 10-year Treasury yield climbed nearly 70bps in the quarter, ending the period at 4.59% – the highest point since before the financial crisis in 2008. As a result, core bonds (Bloomberg U.S. Aggregate Bond Index) fell sharply, declining 3.2% over the quarter.

The "Magnificent Seven" Continue to Power U.S. Equity Returns

With virtually all segments of the stock market posting gains this year through September, one might think that we're in the midst of a broad-based rally. However, stock gains have remained unusually narrow, with the largest stocks in the index leading the way. The standout performers are those sectors with the largest stocks, while most other sectors have been relatively flat. Consumer discretionary has been driven higher by a 51% gain from Amazon.com and a 103% return from Tesla. The information technology sector has outperformed thanks to Apple (+32%), Microsoft (+33%) and NVIDIA (+198%) year-to-date. Communication services has been propelled higher by a 48% return for Alphabet (Google) and 149% from Meta Platforms (Facebook). Despite stalling in the latter half of the third quarter, the year-to-date performance of the "Magnificent Seven" stocks continues

S&P 500 Performance Continues to be Driven by the "Magnificent Seven"



Source: Bloomberg LP. Data as of 9/26/2023. Magnificent Seven stocks: Alphabet, Amazon.com, Apple, Meta Platforms, Microsoft, Nvidia, Tesla.

to explain most of the U.S. stock market's returns. These seven stocks have increased collectively more than 80% this year, while the remaining 493 stocks in the S&P 500 are basically flat.

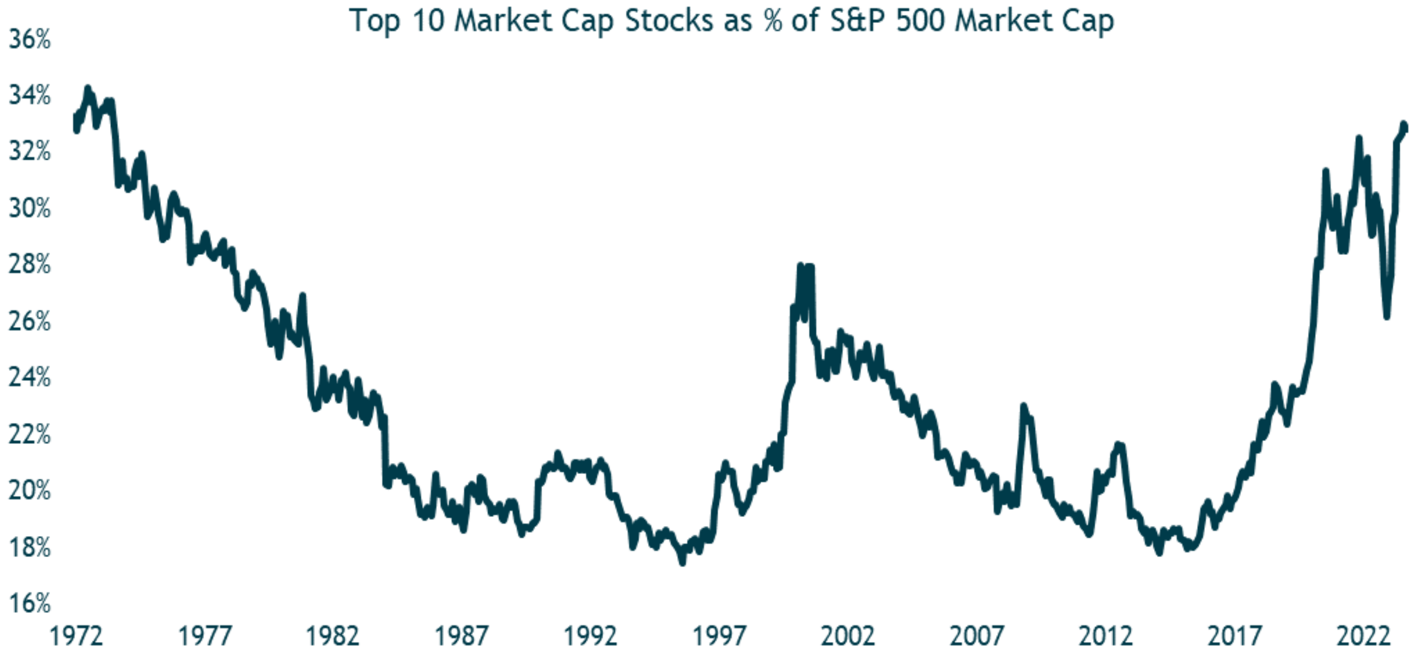
As a result of their massive outperformance, the "Magnificent Seven" have a combined $10.7 trillion market cap and constitute more than 30% of the S&P 500 index. This level of concentration at the top of the U.S. market exceeds what was witnessed in 2021 and the tech bubble of the late 1990's / early 2000's. We have to travel all the way back to the early 1970's (remember the "Nifty Fifty"?) to see a market as concentrated as it is today. As pictured on the graph on the next page.

Investment Outlook and Portfolio Positioning

From a macroeconomic perspective, the big question remains whether the U.S. economy can avoid recession or not, and the timing if it does occur. It goes without saying that the answer will likely lead to meaningfully different market outcomes. If the Fed can manage to slow the economy while avoiding recession, economists would expect to see the market's gains broaden out beyond the large-cap technology-related sectors. Conversely, if the Fed's monetary tightening cycle leads to recession, it would likely lead to broader-based declines.

We have seen one of the quickest and sharpest tightening cycles in history, and lending standards have tightened considerably. Both factors create recessionary conditions, particularly as the Fed has a history of raising rates too far, tipping the economy into recession. Since 1931, there have been 19 hiking cycles and in only three instances did the economy avoid a recession.

However, on the positive side, if the economy falls into recession, numerous economists believe it will be relatively mild. One consideration is that the economy has been experiencing a "rolling recession" where slowdowns are spread across industries over time, dampening the impact compared to a recession when industries experience a simultaneous slowdown all at once. For example, housing has already experienced a slowdown and detracted from GDP for several consecutive quarters. In the tech sector, layoffs have already occurred. Finally, a perhaps counterintuitive point is that this reces-



Source: Ned Davis Research. Data as of 9/30/2023.

sion has been so widely anticipated for so long now, it may actually reduce the risk of a deep recession. Going back to 2022 and early 2023, the press termed this the "most-anticipated recession ever." Amid all this built-up anticipation, some companies, have already laid off workers and slowed hiring. These corporate moves help loosen the labor markets and potentially ease inflationary pressures.

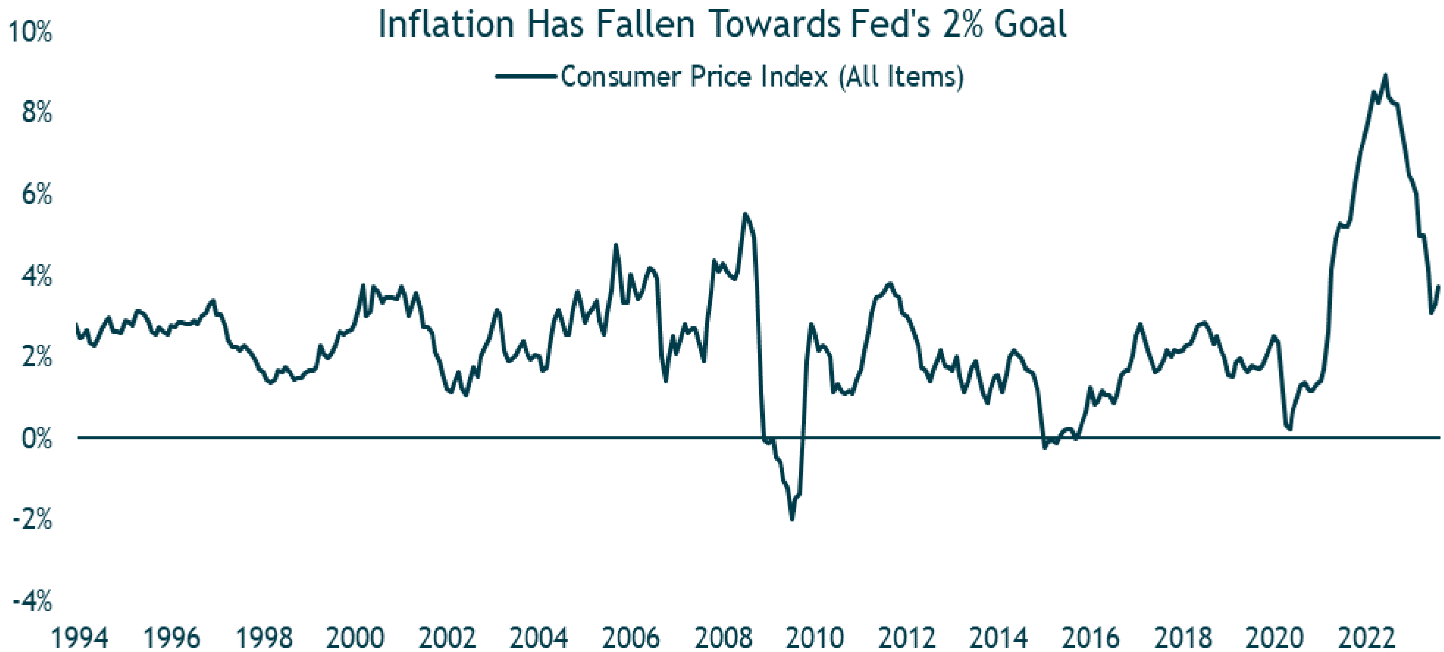
Speaking of inflation, it has come down meaningfully from its June 2022 high of 9.1%, thanks in part to the Federal Reserve's rapid rate hikes. The chart above illustrates year-over-year inflation data, which recently declined to 3.7%, and suggests the Fed's policy has been working and with time inflation could continue to fall.

At this point, it is clear the rate-hike regime is close to an end and we believe the Fed has gotten the upper hand on inflation. The aggressive hiking cycle that started roughly 18 months ago was finally put on pause in late-July—although one more 25 basis point hike could still happen. Since March 2022, the Federal Reserve increased rates from zero to a target level of 5.25%-5.5%.

The rise in interest rates has taken a bite out of bond returns, which have suffered steep losses over the past couple years. The silver lining is that looking forward, interest rates (and bond yields) ended the third-quarter at levels not seen in nearly 20 years (the Bloomberg Aggregate Bond Index ended the quarter yielding 5.4%). Higher starting yields, all else equal, should lead to higher expected returns. We remain positive on core bonds given their combination of healthy fundamentals, attractive current yields, and the downside protection they provide portfolios in the event of a recession.

Historically, stock market returns over the next six to 12 months following a pause in a tightening cycle are mixed depending on the inflation environment. Most of the negative outcomes occur during bouts of higher inflation when the Fed will typically maintain a more restrictive policy, i.e., it will take them longer to pivot and cut rates (i.e., pre-1980's). On the other hand, when inflation is not elevated, the Fed can move to a more accommodative stance much sooner, leading to better equity market outcomes (i.e., post-1980's).

Today, inflation remains elevated but on a clear path downwards. Of note, however, since the day of the Fed's last rate hike (potentially) the



Source: U.S. Bureau of Labor Statistics. Data as of 8/31/2023.

S&P 500 began its current 7.5% drawdown. This may be a signal that the market expects inflation to persist and for the Fed to maintain interest rates "higher for longer."

Within our portfolios, we maintain significant exposure to U.S. stocks overall and hold many of the mega cap tech stocks mentioned in this commentary. However, given the strong performance of the "Magnificent Seven," we believe they are trading at expensive valuations not adequately reflecting a potential softening. That said, other parts of the U.S. stock market are more reasonably valued, so we remain diversified across styles (i.e., growth, value, blend) and market caps (larger and smaller cap stocks) to take advantage of those opportunities.

Closing Thoughts

As we look ahead to 2024, the outcome will significantly hinge on the Federal Reserve's response to economic data in terms of timing and magnitude. The possibility exists that the Fed may navigate the economic landscape toward a rare soft landing, characterized by lower inflation and slower economic growth. Given the inherent uncertainty, increased volatility is expected, underlining the importance of maintaining readiness to seize market dislocations. It's crucial to emphasize that our core principles as long-term investors remain unchanged. We continue to advocate for a disciplined, long-term perspective and will sustain a balanced approach, exploring attractive risk-reward opportunities backed by comprehensive analysis.

Thank you for your continued trust and confidence.

CCA Investment Team

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.

Highlands Economic Partnership:

Foundational Principles of Retirement Workshop

Highlands Economic Partnership

In 2006, the Cookeville-Putnam County Chamber of Commerce introduced the visionary "Highlands Initiative," which has since evolved into the remarkable "Highlands Economic Partnership." This collaborative endeavor unites the forces of the public and private sectors to ignite economic growth and foster community development within Jackson, Overton, Putnam, and White counties.

Shared Commitment to Financial Literacy

At Cravens & Co, we're proud to stand alongside the Highlands Economic Partnership, supporting their goal of elevating financial literacy in the workplace. By leading their retirement readiness workshops, we join hands to promote a brighter future for our community. The Highlands Economic Partnership expresses its vision for the financial literacy workshops: "*Our primary mission is to enhance the quality of life for the citizens in our region, and long-term financial planning is a crucial step toward achieving this goal.*"

Building the Foundation for Retirement and Legacy Planning

Our journey with Highlands Economic Partnership recently took a significant stride as we completed our first workshop, "Foundational Principles of Retirement and Legacy Planning," hosted at ATC Automation. This event was brought to life by Woody Welch, who engaged a room full of ATC managers in a comprehensive discussion. The workshop covered the essentials of retirement planning and delved into an exploration of the current market conditions, equipping participants with valuable insights for their financial future.

Appreciation

We want to thank the Highlands Economic Partnership and ATC Automation for making this opportunity a reality. Together, we are charting a path toward financial empowerment and a prosperous future for our cherished community.

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.

Cravens &Co.

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WEALTH MANAGEMENT