October 2024

THE ADVOCATE

Presidential Elections and the Stock Market: The Sky Isn't Falling

TCJA Sunset

Market Review

Events

Hurricane Helene

Cravens & Co.
WEALTH MANAGEMENT

PRINCIPAL

Wayne Cravens
wcravens@cravensco.com

CHIEF INVESTMENT OFFICER

Woody Welch
wwelch@cravensco.com

RELATIONSHIP MANAGERS

Sandra Wilson
swilson@cravensco.com

Jenny Ashburn
jcross@cravensco.com

SUPPORT STAFF

Caleb Rouse
crouse@cravensco.com

Leigha Gregory
lgregory@cravensco.com

TECHNICAL ADVISORS

Tyler Atkinson, JD, CPA

Taylor Asberry, CPA

Sam Sandlin, CPA

Allen Blevins, JD, CPA

LOCATION

1080 Interstate Dr.
Cookeville, TN 38501

Phone 931-528-6865
Fax 931-646-3619
Web www.cravensco.com

Table of Contents

A Note from the Principal

The leaves are beginning to change, and 2024 is coming to an end. During this time, the air is thick with election chatter. It's a season of opinions, predictions, and emotions running high. While politics and markets are often intertwined in the public consciousness, it’s important to remember that markets are more resilient and less predictable than any one election result.

In this quarter’s feature article, “Presidential Elections and the Stock Market: The Sky Isn’t Falling,” we explore why trying to time the market based on political outcomes is, at best, a roll of the dice—and at worst, a costly mistake. History shows us that markets can move forward regardless of which party is in power.

While the election buzz fills the headlines, a more certain event looms on the horizon: the scheduled sunset of the Trump 2017 tax cuts at the end of 2025. With just over a year until these provisions expire, now is the time to assess how this might affect your tax strategy. Our article highlights what this could mean for your financial plans. Next quarter we will discuss actionable steps to ensure you’re prepared for whatever comes next.

At a time when unpredictability feels like the new normal, the importance of steady, thoughtful financial planning cannot be overstated. As we navigate these eventful months together, I encourage you to take a moment to reflect on your goals and how far you’ve come. Change, after all, is inevitable, but we can embrace it confidently with the right strategy.

Here’s to a quarter filled with opportunity and a steady course through all that lies ahead.

Wayne H. Cravens

President

Cravens & Company Wealth Management

Email: wcravens@cravensco.com

How Election Outcomes Affect the Market: The Sky Isn't Falling

Caleb Rouse

As the 2024 election season unfolds, all eyes are on the political landscape in the United States, where electoral outcomes can significantly influence economic policies and sway investor sentiment. However, history illustrates that the relationship between election results and market performance is a complex tapestry, interwoven with unpredictable variables. While investors may feel compelled to adjust their portfolios in response to the latest electoral developments, data suggests that such short-term reactions often yield suboptimal outcomes.

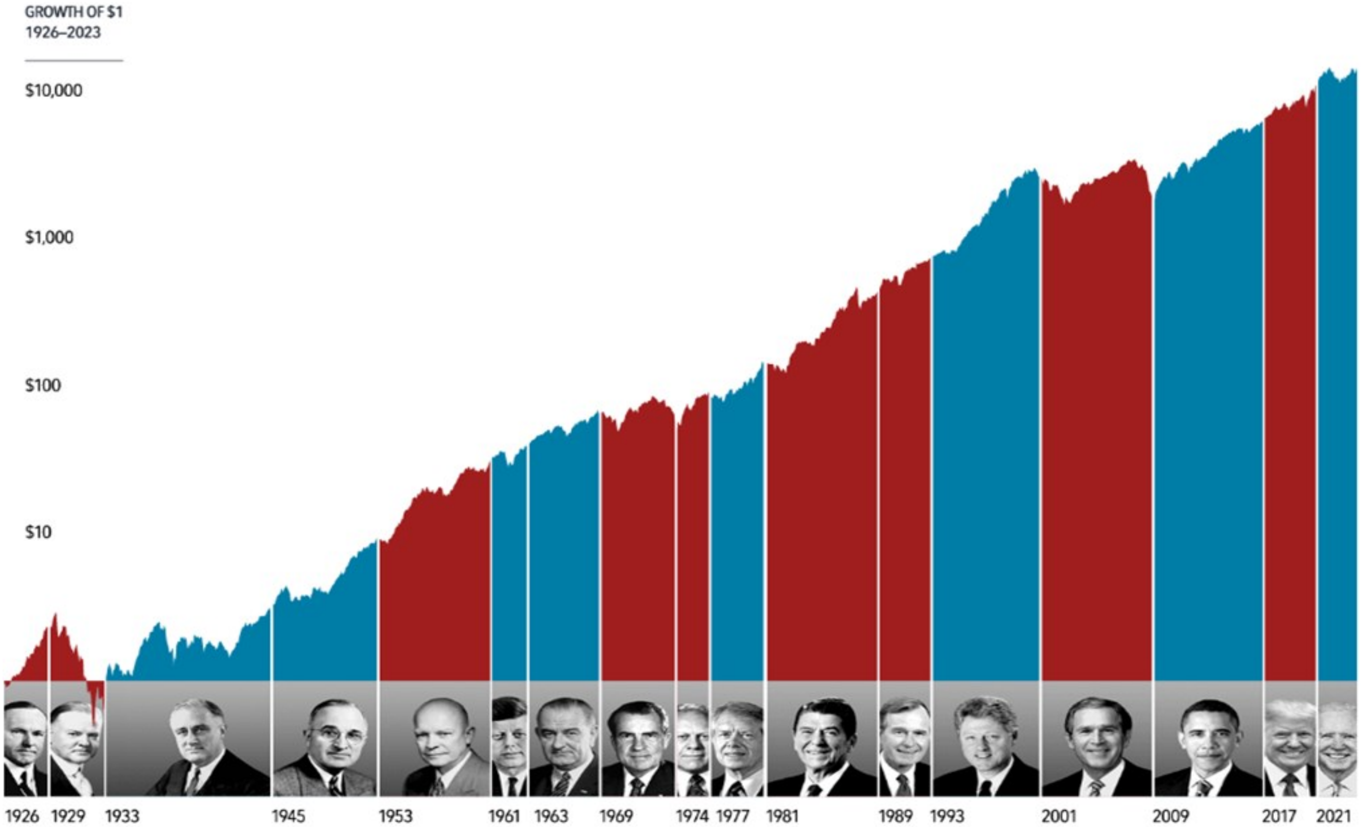
The Historical Context of Election and Market Performance

One of the first questions investors ask during an election year is, "How will the market respond?" Historically, U.S. markets have tended to rise during election years. While this might seem reassuring, it is important to recognize that these gains reflect the market's general long-term upward trend rather than being specifically driven by election events. In other words, the market's natural growth over time makes it difficult to isolate elections as a singular market-moving factor.

Election Cycles and Market Volatility

One of the reasons investors might feel anxious during election cycles is the increased news coverage and political rhetoric. Headlines often predict massive market swings depending on which party is expected to win. However, research consistently shows that markets are relatively unaffected by election outcomes in the long term. While we have seen increased volatility around election day, the months in which elections take place are not noticeably more volatile than any other period.

Part of this can be attributed to the efficiency of financial markets. Stock prices generally reflect the expectations of millions of investors, which include assumptions about the



Source: Dimensional Fund Advisors. Investments involve risks. The investment return and principal value of an investment may fluctuate, which means that an investor's shares, when redeemed, may be worth more or less than their original value. Past performance is not indicative of future results, and there is no guarantee that any investment strategy will be successful.

political landscape. These expectations are already "baked into" market prices, making it difficult for election outcomes to trigger major surprises. Elections are just one factor among many, and they are rarely the dominant driver of market performance.

The Myth of the Politically-Driven Market

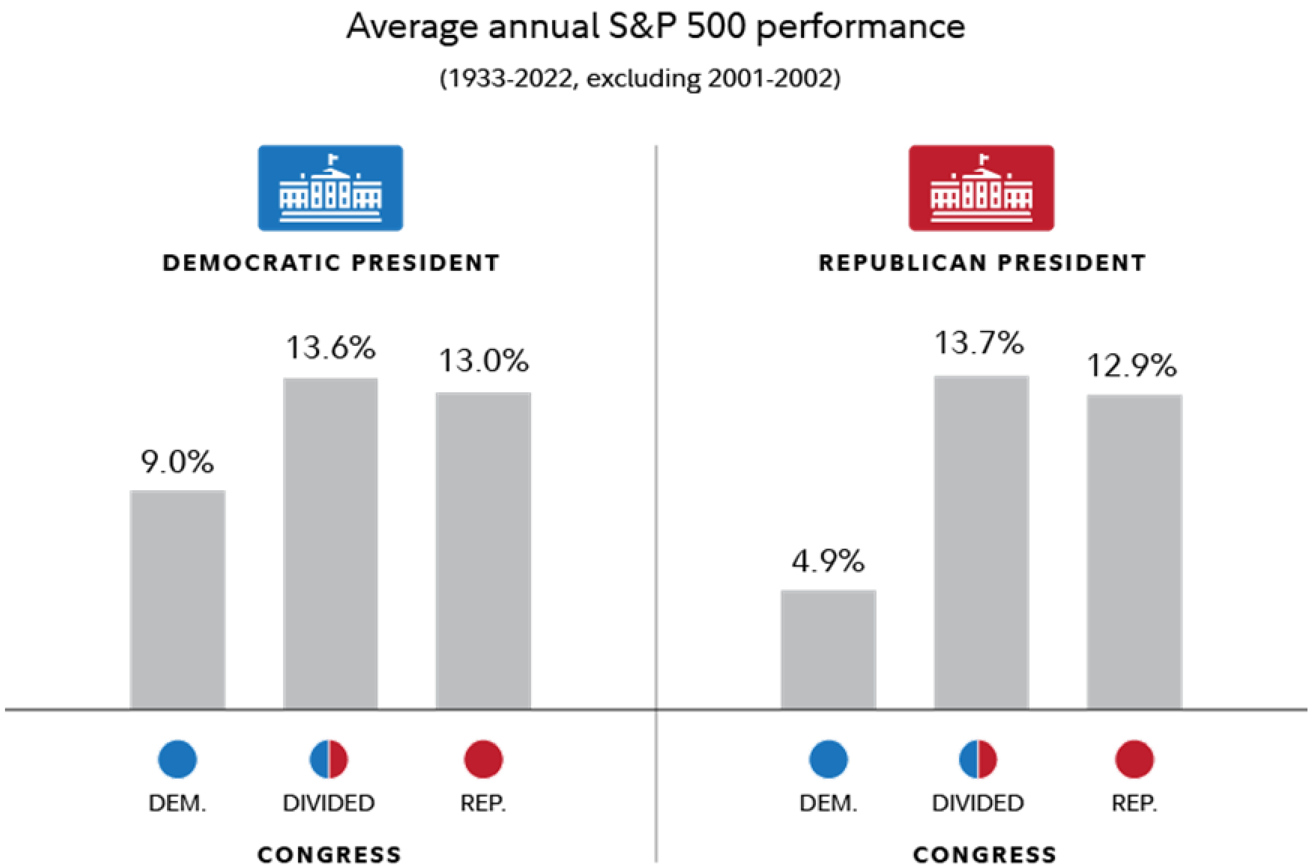
A persistent myth among investors is that one political party is better for the markets than the other. While it is easy to find arguments supporting either side, the data does not substantiate a strong correlation between party control and market returns. Whether the Democrats or Republicans hold the presidency, the market has historically averaged positive returns under nearly every combination of party leadership.

Historically, the S&P 500 has shown positive returns under almost every type of political leadership. Interestingly, there is evidence to suggest that a divided government has often coincided with stronger market performance. This may be because political gridlock tends to reduce policy changes and create a more predictable environment for investors.

The markets are fundamentally nonpartisan. Companies operate in a wide array of economic environments, and their ability to innovate, adapt, and serve their customers is more critical to their long-term success than any single administration's policies. This nonpartisan nature of markets further underscores why making investment decisions based on political outcomes is a risky and often ineffective strategy.

Sector Performance and Policy Impact

It's tempting to assume that certain sectors will benefit or suffer based on the policies of the next administration. For example, a Democratic win might be seen as favorable to sectors like renewable energy, while a Re-



Past performance is no guarantee of future results. Data excludes 2001 to 2002 due to Senator Jeffords changing parties in 2001. Calendar year performance from 1933 through 2022. Source: Strategas Research Partners, as of November 5, 2023.

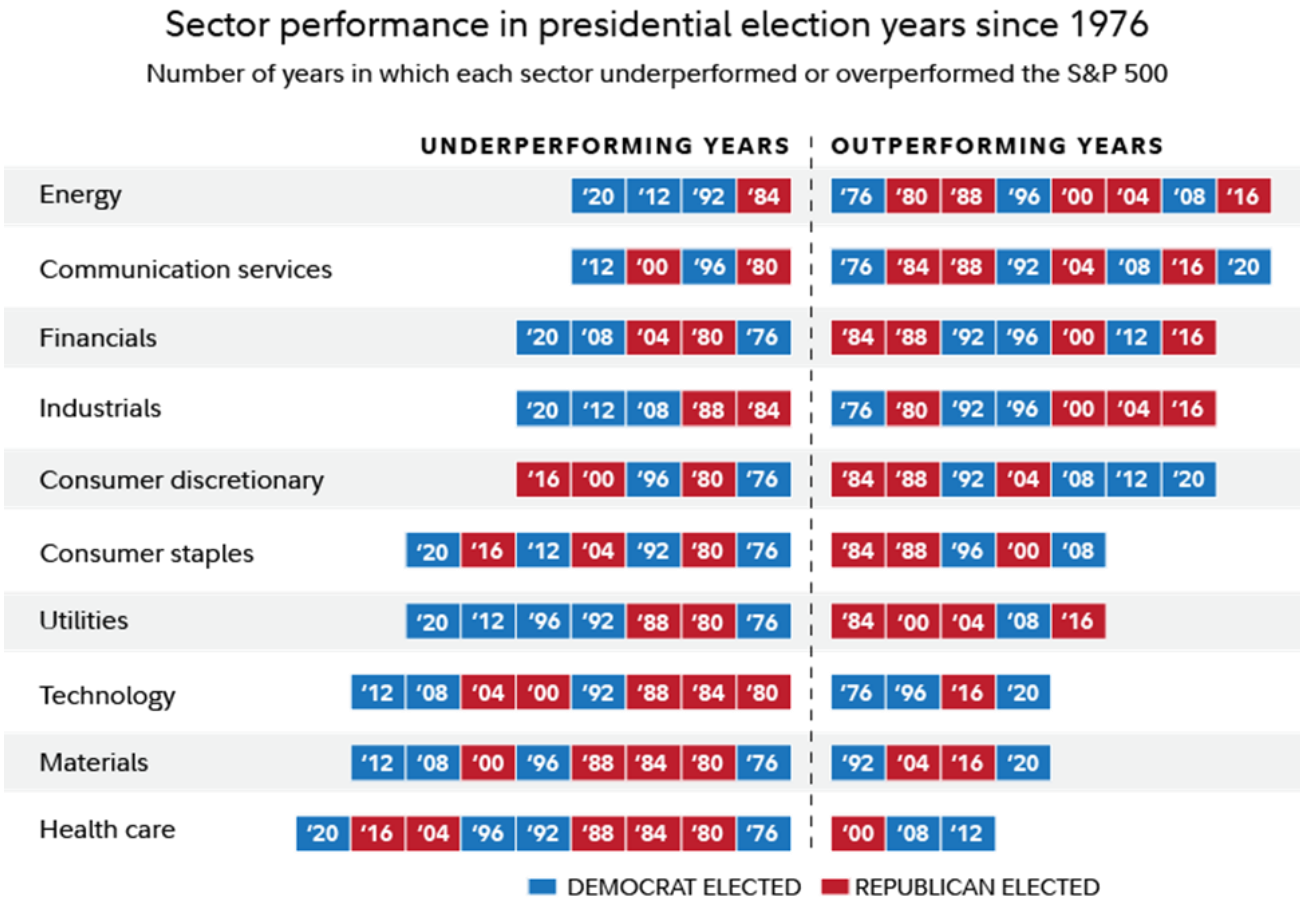
publican win might be expected to benefit traditional energy companies. However, sector performance in election years is notoriously difficult to predict. Historical data shows little consistency in how different sectors perform during election years, further reinforcing the argument that making investment decisions based on anticipated policy changes is speculative.

One reason for this is that campaign promises often do not translate directly into policy. There are many stages between an election promise and an implemented policy, and the legislative process can dilute or alter proposals significantly. Betting on sector performance based on election outcomes, therefore, can be a hazardous approach.

Focus on Fundamentals

For investors, the takeaway from election cycles is clear: focus on economic fundamentals, not political outcomes. Corporate earnings, interest rates, and macroeconomic factors such as employment and GDP growth are far more reliable predictors of long-term market performance than the identity of the sitting president.

Rather than attempting to time the market around election events, investors are better served by sticking to a consistent, long-term investment strategy. This means maintaining a diversified portfolio that aligns with individual risk tolerance and financial goals. Emotional reactions to election results or



Past performance is no guarantee of future results. Each box represents 1 calendar year of performance for a calendar year that included a US presidential election. Underperforming indicates that price performance was lower than the S&P 500, while outperforming indicates price performance exceeded the S&P 500. Color of each box indicates whether a Democrat or Republican candidate was elected to the presidency that year. Real estate is omitted due to a lack of sufficient performance history, as it was not established as an independent sector until 2016. Each sector is represented by companies included in the S&P 500 that are classified as members of that sector. Source: Strategas Research Partners, as of November 5, 2023.

political rhetoric can lead to costly mistakes.

Conclusion: Long-Term Stability in a Politically Charged World

While elections are undoubtedly important events with wide-reaching implications, their direct impact on financial markets is often overstated. Over the long term, markets have shown resilience and an upward trajectory regardless of which party holds power. Attempting to predict or time market movements based on election outcomes is a high-risk endeavor that often fails to deliver reliable returns.

Investors should focus on fundamentals and stick to a well-thought-out financial plan rather than being swayed by political cycles. By doing so, they can navigate the uncertainties of election seasons without sacrificing their long-term financial objectives. As history has shown, disciplined, long-term investing is the best strategy for weathering political and market changes.

The TCJA Sunset: Impacts on Estate and Gift Tax Planning

Jenny Ashburn

The Tax Cuts and Jobs Act (TCJA), passed in December 2017, brought significant changes to tax laws, including estate and gift taxes. However, many provisions of the TCJA are set to sunset (expire) after December 31, 2025. This sunset will have profound implications for individuals and families, particularly those involved in estate and gift tax planning. Here's an overview of what the sunset means and how it may affect estate and gift taxes.

Current Estate and Gift Tax Provisions under the TCJA

Estate tax is a federal tax imposed on the transfer of assets from deceased individuals to their heirs or beneficiaries. Gift tax applies to lifetime transfers of assets from one person to another, excluding certain gifts under the annual gift exclusion limit (currently set at $18,000 per recipient as of 2024 for each individual).

The lifetime gift and estate tax exemption allows individuals to transfer a certain amount of wealth, either during their lifetime or at death, without incurring federal taxes. The TCJA doubled the exemptions, raising them from approximately $5.5 million per individual in 2017 to $11.8 million per individual (adjusted for inflation) in 2018, making it easier for families to transfer wealth without a large tax burden. Currently, the exemption is $13.61 million per individual (as of 2024), which amounts to $27.22 million per married couple.

In addition to raising the exemption, the TCJA also maintained a 40% tax rate on transfers above the exemption amount and continued to allow the use of "portability," which permits the unused portion of one spouse's exemption to transfer to the surviving spouse upon their death.

What Happens When the TCJA Sunsets?

Once the TCJA sunsets at the end of 2025, the estate and gift tax exemption will revert to pre-2018 levels. Unless Congress acts to extend or revise the law, the exemption is expected to return to an estimated $7 million per individual, or around $14 million per couple, adjusted for inflation.

Returning to the lower exemption amount means that estates worth more than the forecasted $7 million will be subject to federal estate taxes, at a rate of 40% on the amount above the threshold, less any lifetime gifts that didn't fall under the annual exclusion amount. This reduction will dramatically change estate planning strategies for high-net-worth individuals. Families that have not fully utilized the higher exemption for wealth transfers will have significantly less room for future tax-free gifts or estate transfers. High-net-worth individuals who haven't acted yet may face substantial estate tax burdens.

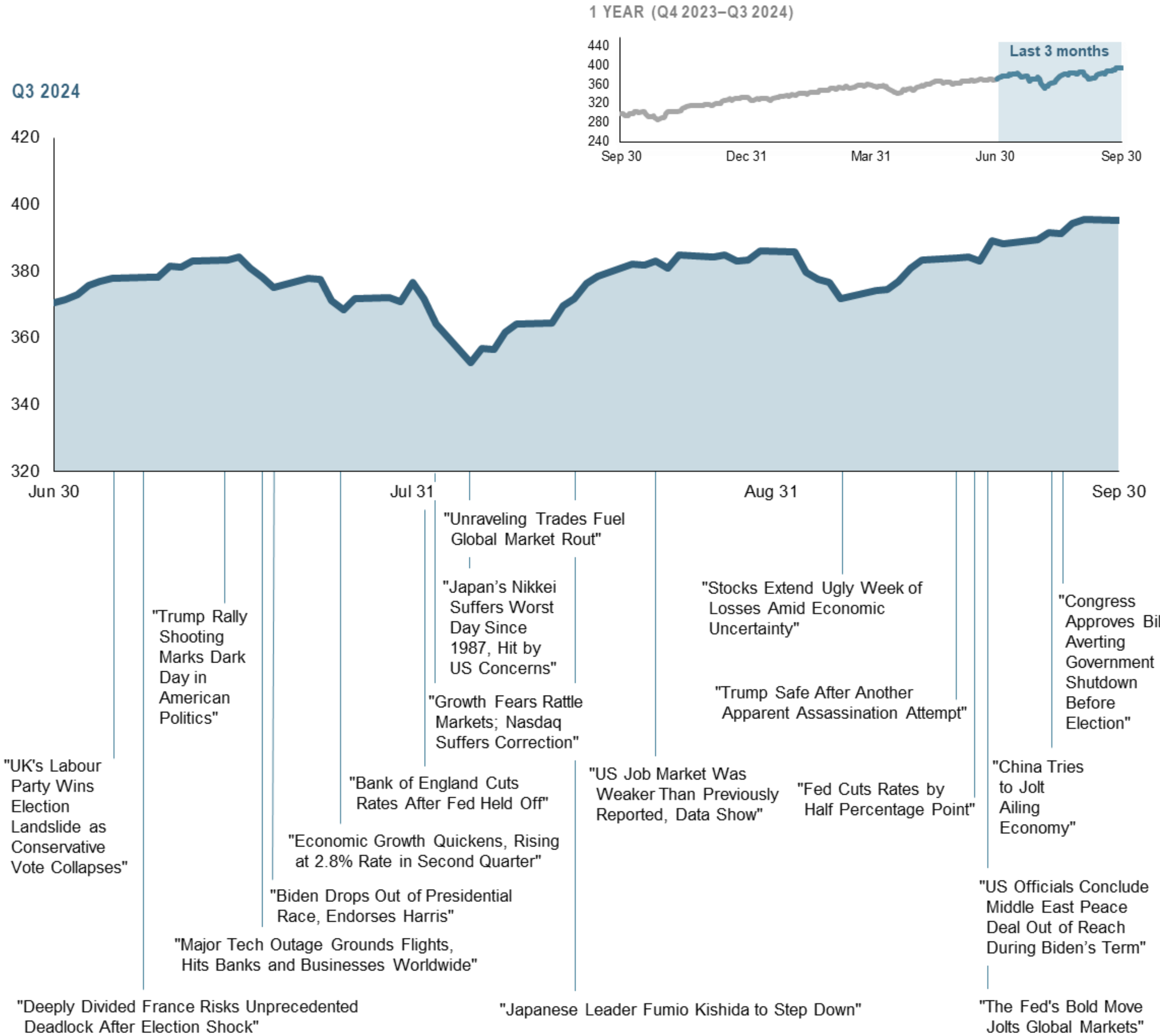
One important clarification from the IRS has been the anti-clawback regulation. This rule ensures that gifts made under the current high exemption amounts won't be subject to taxes if the exemption decreases. So, any gifts made before 2026 using the current higher exemption will be "grandfathered in" and will not be taxed retroactively.

Conclusion

The expiration of the TCJA would result in major changes to estate and gift tax laws. In the next edition of The Advocate, we will outline strategies to assist individuals and families in preparing for potential changes in the tax environment after 2025.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2024



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

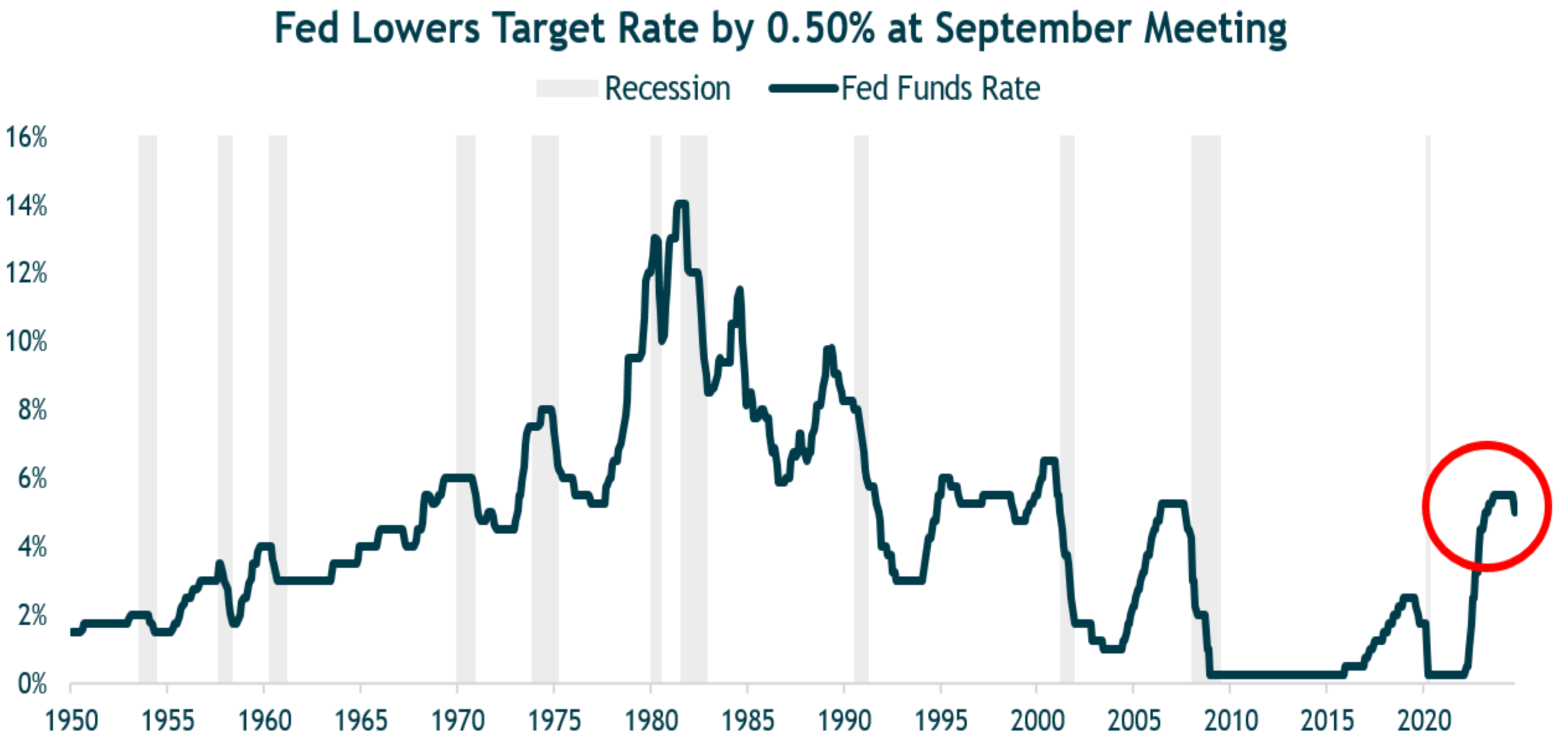
Woody Welch

Market Recap

It was far from a quiet summer for the financial markets, which have been volatile as investors parsed through economic data attempting to gauge whether the economy will slow, and how much the Federal Reserve would need to lower interest rates to prevent a recession. Toward the end of the quarter, the Fed opted for a bold start to its shift in policy, reducing rates by a half percentage point. This was the first cut since 2020, and Fed Chair Jerome Powell said the larger-than-average cut was intended to show the Fed's commitment to "maintaining our economy's strength" in the face a slowdown in the labor market. Year to date, the economy has proven resilient thanks to strong consumer spending, lower inflation, and healthy corporate earnings.

Despite the volatility, the stock market reached new highs with the S&P 500 gaining 5.9% in the third quarter, pushing its year-to-date return to 22.1%. Notably, there was a rotation out of large-cap growth tech stocks and into a broader range of sectors and styles. The Nasdaq, which led the market higher in the first half of the year, gained 2.8% but lagged other benchmarks in the quarter. Large-cap value (Russell 1000 Value) gained 9.4% and outperformed large-cap growth's (Russell 1000 Growth) 3.2% gain, and small-caps (Russell 2000) rose 9.3% outpacing large-caps' (Russell 1000) 6.1% gain. The equal-weighted S&P 500 index (up 9.6%) easily outperformed the cap-weighted S&P 500 during the quarter. At the sector level, traditional defensive sectors were by far the big winners, with utilities, real estate, and consumer staples gaining 19.4%, 17.2%, and 9.0%, respectively.

Outside of the U.S., developed international stocks (MSCI EAFE) gained 7.3%, finishing ahead of domestic stocks in the three-month period. Emerging markets stocks (MSCI EM Index) were relatively quiet for most of the quarter but rose sharply in the last week of the period after China announced their boldest stimulus in years in



Source: Board of Governors of the Federal Reserve System. Data as of 9/30/2024.

an attempt to boost their ailing economy. Emerging-markets stock finished the quarter up 8.7% thanks to a 23.5% gain for China during the month of September.

Within the bond markets, returns were positive across most fixed-income segments. The benchmark 10-year Treasury yield declined from 4.36% to 3.81% amid lower inflation and recession concerns. In this environment, the Bloomberg U.S. Aggregate Bond Index gained 5.0% and credit performed well as high-yield bonds (ICE BofA Merrill Lynch High Yield Index) gained 5.5% in the quarter.

Overall, domestic economic and corporate fundamentals remained relatively healthy in the quarter, although rich valuations remain a risk. Looking ahead, the expectation is that the Fed will continue to cut rates this year and next in an effort to guide the economy to a soft landing and avoid a recession.

Investment Outlook and Portfolio Positioning

The Fed's half-point rate cut in September came after one of the most rapid series of hikes in history that were an effort to combat the highest level of inflation since the early 1980s. Fed Chairman Powell said this larger-than-usual half-percentage-point reduction—rather than 25 basis points—demonstrates the Fed's commitment to its dual mandate of maintaining a strong job market while keeping inflation in check; balancing these two goals helps ensure a healthy economy. Powell emphasized that the recent cut was a "recalibration" of policy, bringing it in line with the current conditions and ensuring the Fed does not "get behind the curve" in normalizing rates.

The question now is the pace of cuts going forward. According to the Fed's so-called "dot plot," which indicates where various members of the Federal Reserve expect the fed funds rate to be over the next few years, the Fed expects another 150 basis points of cuts by the end of 2025, and more modest cuts in 2026. As is typical, the farther the outlook, the wider the range of estimates, i.e., there is less consensus on rate cuts for 2025 and 2026. Powell emphasized that the Fed remains "data dependent," meaning that any future policy decision will be based on economic data, and he was reluctant to commit to any level of cuts saying decisions will be taken "meeting by meeting."

Overall, economic data remains generally healthy. For example, real GDP for the second quarter was 3.0% and the estimate for the third quarter (according to the Atlanta Fed) is currently 2.5%. Meanwhile, inflation continues to moderate, corporate earnings remain relatively strong, corporate defaults remain low, consumers (and the government) continue to spend, and interest rates are heading lower albeit at a questionable pace. Our base case view is that a soft landing is the most likely outcome for the U.S. economy and that current conditions should be positive for both bonds and stocks, although we expect the pace of gains to slow.

We believe the Fed's recent shift puts us at a turning point in the fixed-income market, and the more accommodative stance will start a new chapter for bonds. As the Fed lowers short term rates, yields will move lower and reinvestment risk comes into play for short-term instruments. Investors will increasingly start to look for higher returns elsewhere.

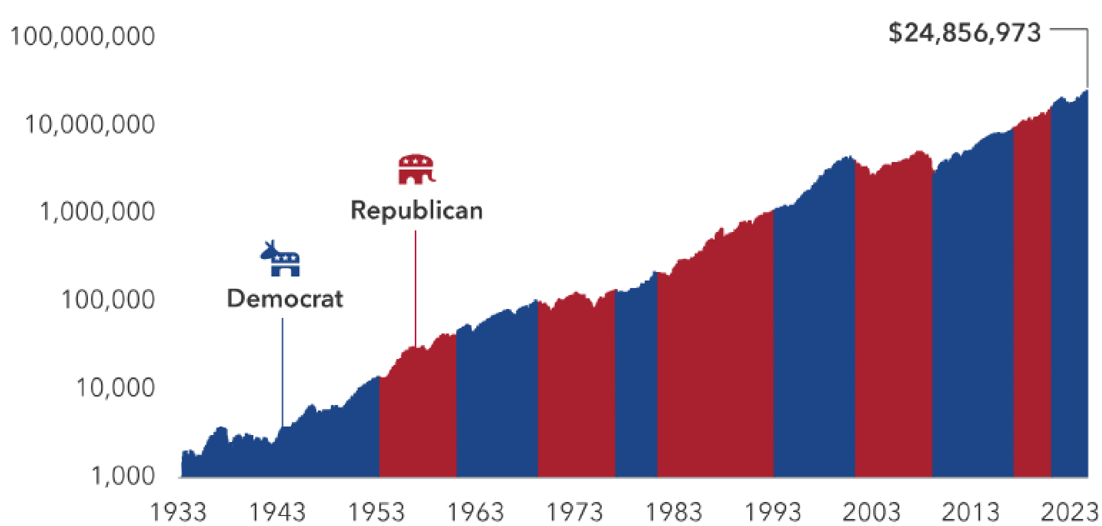
Stocks have posted one of the strongest year-to-date returns through September since the 1990s, with the majority of S&P 500 return due to expanding valuations. While it is normal for short-term equity returns to be driven by valuation expansion or contraction, we believe that earnings growth is the more reliable driver of long-term returns. With valuations now near historic highs, earnings growth will need to do the heavy lifting in order for investors to realize similarly strong returns as they have in recent years. While it is not out of the realm of possibilities, such an outcome will be harder to come by given historically high profit margins and valuations.

With the U.S. presidential election one month away, we want to reiterate our long-held view that portfolio positioning should be guided by an analysis of longer-term risks and rewards, not election outcomes. We recognize that it's natural for investors on both sides of the aisle—especially in today's polarized environment—to believe that an election outcome could have a big impact on the financial markets. This intuition, however, is not supported by the historical data, stocks have historically trended higher regardless of the political party of the President.

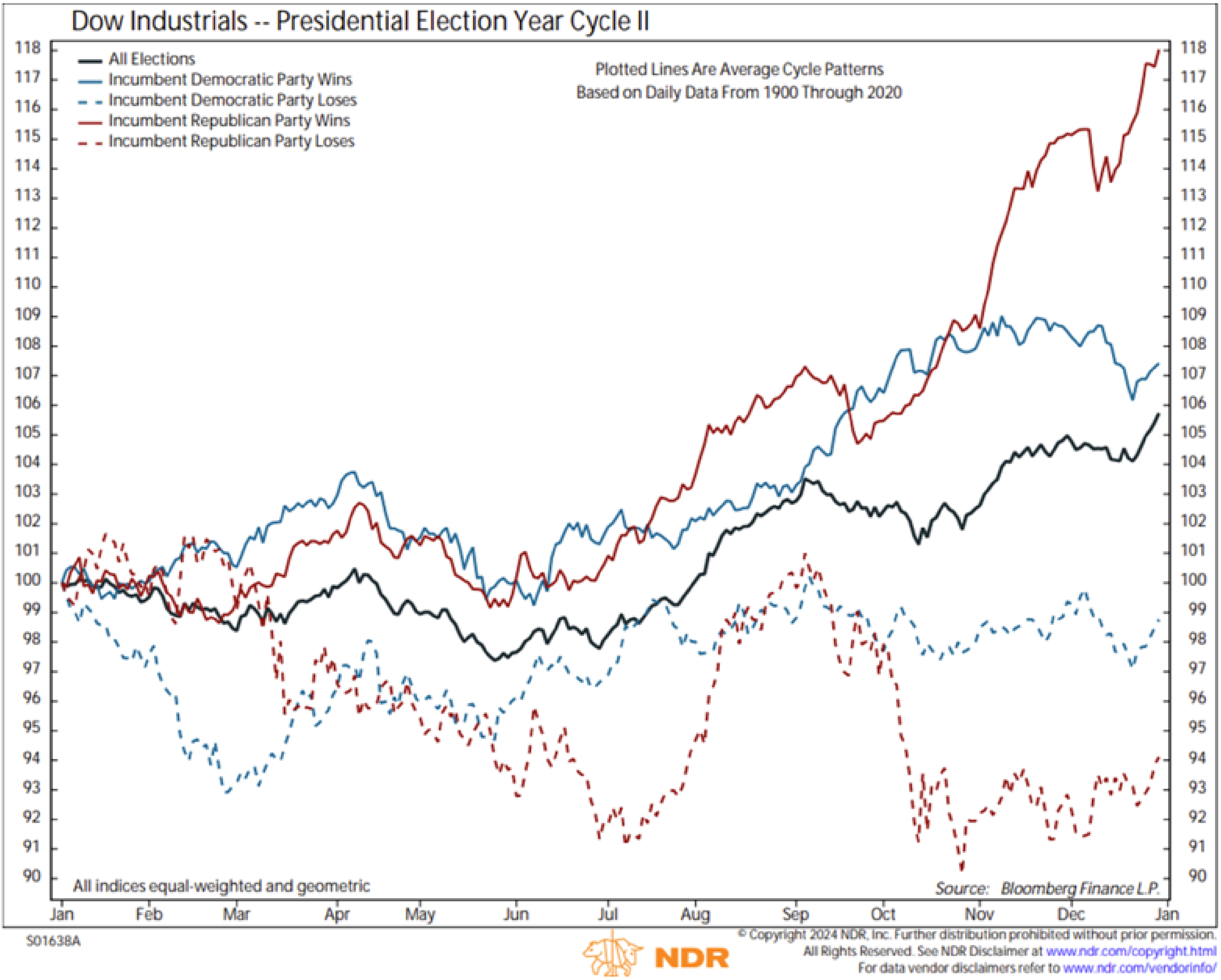
Ultimately, the market is driven by economic fundamentals, such as the fed funds rates, corporate earnings, valuations, fiscal imbalances, interest rates, inflation expectations, among other factors. Undoubtedly, headlines will influence short-term market fluctuations but longer-term, fundamentals are what drive market performance. Our intention is not to minimize the significance of the election, but to point out that the gears of the economy are not overhauled based on an election outcome.

As for market performance around elections, there have been elections that resulted in stock market volatility and declines, notably when incumbents lose (a result that begs the question of whether a bad economic backdrop is

Growth of a hypothetical $1,000 investment in S&P 500 Index



Sources: Capital Group, RIMES, Standard & Poor's. Chart shows the growth of a hypothetical $1,000 investment made on March 4, 1933 (the date of Franklin D. Roosevelt's first inauguration) through June 30, 2024. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale. Past results are not predictive of results in future periods.



what led the incumbent to lose). While technically there is no incumbent in this election, markets typically see a strong rebound in the year following any post-election declines. This shows that historically, elections have not had a meaningful or long-lasting effect on investment performance. That means investors are wise to remain focused on the longer-term drivers of markets and even be prepared to take advantage of any post-election market declines.

Closing Thoughts

We remain cautiously optimistic about the current investment landscape. While there are promising signs in the economy, we are also acutely aware of the potential risks that could impact market stability. Our focus will continue to be on identifying opportunities to improve long-term returns in line with the risk targets for the portfolios we manage. By staying disciplined and opportunistic, we aim to navigate the complexities of the market and position our investments for long-term success. We thank you for your continued confidence and trust.

SAVE THE WORLD

Community Events

Leigha Gregory

Save the World is back! After a year off, we are excited to inform you that they will meet on Thursday, November 14th! Special guest Randy Porter, Mayor of Putnam County, will join them. Mayor Porter has led our county with dignity through several trials, celebrations, and everything in between since 2014. Don't miss this opportunity to hear the state of the county. His presentation will be followed by a Q&A session.

If you do not know what Save the World is, its mission is to engage in the respectful exchange of experiences and ideas to elevate awareness and improve the quality of life for their members, community, nation, and the world. They cultivate conversations of change and reflection while connecting with those in the community.

As always, they will meet on the second floor of SmartBank at 1080 Interstate Drive in Cookeville, Tennessee. The doors will open at 5:00 p.m., and conversation will begin at 5:30 p.m. Light refreshments will be provided.

Hurricane Helene: How Can We Help?

Leigha Gregory

In the aftermath of Hurricane Helene, many communities across the Southeast struggle to recover from the widespread destruction. Though Cookeville, TN, was spared from the storm, our community knows the pain of natural disasters all too well. The devastating tornadoes that tore through Cookeville in 2020 left behind significant loss and hardship. Throughout the destruction and heartbreak, we saw a glimpse of hope, as neighbors and strangers alike came together to rebuild.

Now, it's our turn to extend that same support to those affected by Hurricane Helene.

The Extent of the Damage

Hurricane Helene struck with force, leaving behind catastrophic flooding that destroyed homes and towns without power. Coastal communities bore the brunt of the storm, with emergency services overwhelmed and vital infrastructure washed away. Families have been displaced in many areas, and the recovery will take years.

In Cookeville, we understand the long road ahead. Overcoming the destruction we faced in 2020 took time, effort, and a lot of heart. As we remember the outpouring of support we received during that dark time, we know that now is the moment to pay it forward to those facing similar challenges.

How You Can Help

Here are some meaningful ways we as a community can lend a hand to those impacted by Hurricane Helene:

1. Donate to Trusted Organizations

Organizations like the American Red Cross, United Way, and Salvation Army are on the ground, providing food, shelter, and medical care to those in need. Monetary donations allow these organizations to respond quickly and efficiently.

Consider supporting local recovery funds similar to the ones that helped Cookeville rebuild after our tornadoes. These funds ensure that aid reaches those hardest hit.

2. Volunteer Your Time

If you can, volunteer with local or national disaster relief organizations. Even a small contribution can make a huge difference, whether through remote assistance or in-person work.

Local organizations in Cookeville, like the same ones that helped after the tornadoes, may organize donation drives or need volunteers to assist in gathering supplies.

3. Donate Essential Supplies

Many relief organizations accept donations of critical items like non-perishable food, hygiene products, blankets, and more. Before donating, check what specific items are in demand to ensure they reach those who need them most.

4. Spread Awareness

Share accurate and up-to-date information about the disaster and relief efforts with your network. Social media and word of mouth can amplify the call for help and connect people to resources.

Cookeville: A Community That Understands

Having faced the devastation of the 2020 tornadoes, Cookeville understands these communities' immense challenges. We remember the support that flowed in from across the nation and how it helped us recover and rebuild stronger than ever. Now, we can be that source of strength for others. Whether through donations, volunteering, or simply spreading the word, we have the power to make a real difference.

Together, let’s show what it means to be a community that cares—just as others stood by us in our time of need, we can now stand with those affected by Hurricane Helene.

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.

Disclosures

Advisory services offered through **Cravens & Company Advisors, LLC**, an SEC Registered Investment Advisory Company. Securities offered through and advisory services may also be offered through, **Osaic Wealth, Inc.**, an Independent Registered Broker/Dealer. Member FINRA/SIPC. Not affiliated with **Cravens & Company Advisors, LLC**.

Investing involves risk including the potential loss of principal. Investing involves risk including the potential loss of principal. International investing involves additional risks including risks associated with foreign currency, limited liquidity, government regulation, and the possibility of substantial volatility due to adverse political, economic and other developments. The two main risks associated with fixed income investing are interest rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risks refer to the possibility that the issuer of the bond will not be able to make principal and interest payments. Investments in commodities may entail significant risks and can be significantly affected by events such as variations in the commodities markets, weather, disease, embargoes, international, political, and economic developments, the success of exploration projects, tax, and other government regulations, as well as other factors. No investment strategy can guarantee a profit or protect against loss in periods of declining values. Past performance is no guarantee of future results. Please note that individual situations can vary. Therefore, the information presented here should only be relied upon when coordinated with individual professional advice. Any opinions or forecasts contained herein reflect the subjective judgments and assumptions of the authors only and do not necessarily reflect the views of **Osaic Wealth, Inc**. There can be no assurance that developments will transpire as forecasted and actual results will be different. Data and analysis do not represent the actual or expected future performance of any investment product.

Cravens & Co.
WEALTH MANAGEMENT