SALTMARSH FINANCIAL ADVISORS, LLC

2nd Quarter 2023

INVESTMENT UPDATE

ACCOUNTING TODAY RECOGNIZED SALTMARSH FINANCIAL ADVISORS AS A TOP WEALTH ADVISORY FIRM

We're honored to be recognized by *Accounting Today* as a top firm by total assets under management (AUM) for the third year in a row! Learn more at www.saltmarshcpa.com/cpa-news/blog/saltmarsh_fa_recognized_as_top_wealth_advisory_firm_by_accou.asp.

"We are thrilled Saltmarsh Financial Advisors has again been recognized as a Top AUM Firm," said Saltmarsh Financial Advisors, LLC's managing director, Christina Doss, AAMS®. "Markets routinely cycle, and we have diligently assisted clients in navigating the particularly volatile market and accompanying inflation of the past few years. Despite market fluctuations, our clients value our steady focus on their goals through planning and wealth management. We are so pleased clients continue to show their appreciation with referrals of like-minded individuals who will benefit from a consistent and team-based fiduciary relationship."

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BUILDING CONFIDENCE: A WOMAN-FOCUSED EVENT SERIES

MISSED PART 2: TAKING CARE WHILE GIVING CARE?

Women comprise 75% of informal caregivers. Whether a parent, spouse, or child needs additional care because of health challenges, becoming a caregiver has a significant impact on your life, including financial, emotional, physical, and logistical challenges. This panel speaks to the transitions women experience as caregivers and offer guidance on caring for themselves while caring for others. The panel features experts in the areas of financial planning, emotional wellness/mental health, physical health, and elder care/assisted living. Access the webinar and resources at www.saltmarshcpa.com/cpa-news/blog/buildingconfidence2023

NIGHT AT THE BLUE WAHOOS: A HOMERUN!

On Thursday, May 4th we hosted our 8th annual Night at the Ballpark and the weather, the atmosphere and food was just perfect. Thank you to our clients who were able to join us - you made the Blue Wahoos win against the Mississippi Braves even sweeter!

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HOW TARGETING SIZE, VALUE, AND PROFITABILITY CAN IMPROVE RETIREMENT OUTCOMES

BY MATHIEU PELLERIN, PHD, SENIOR RESEARCHER & VP, DIMENSIONAL FUND ADVISORS | MAY 1, 2023

KEY TAKEAWAYS

- Broadly diversified equity portfolios with a moderate emphasis on size, value, and profitability can help increase retirement assets.
- This investment approach can also sustain retirement income longer and lead to larger bequests.
- The improvement can be achieved at little additional risk compared to market portfolios.

Many retirement investors hold equity portfolios that track broad market indices, either directly or through other investments such as target date funds. Despite their widespread popularity, market portfolios may leave money on the table. Core equity portfolios—low-cost, broadly diversified equity portfolios with a moderate emphasis on the size, value, and profitability premiums—can provide higher expected returns while controlling the risk of underperformance relative to the market.

In [new Dimensional research](), we examine the benefits of core equity investing for retirement outcomes. The potential benefits can start building up in the accumulation phase. Consider two investors who contribute to a retirement account from age 25 to 65 and follow a conventional target date glide path, in which assets are heavily invested in equities at younger ages and converge to a 50/50 mix of stocks and bonds by age 65. The equity portion is invested either in a core portfolio or the broad market without any emphasis on the premiums. Our results, summarized below, show that an investor in the core portfolio will typically reach 65 with 15%–20% more assets than an investor in the plain market portfolio.

The observed benefits of core equity investing continue into retirement. Going back to our example, let's assume that both investors retire with a 50/50 split of stocks and bonds and spend a fixed amount every year. If future stock returns look like past returns, the probability of failure with either portfolio is low (see **Exhibit 1**), but the core portfolio still does better—and, as we show in the paper, also results in a higher average bequest. If future stock returns are lower than in the past, failure rates increase across the board, but so does the potential benefit of core equity, which reduces the average failure rate from 20% to 13%. Here, too, the cost of tracking a market index appears steep; the chance of running out of assets early jumps by 7 percentage points—nearly 54%.

Of course, these benefits come at the cost of tracking error relative to the market, something that market indexing avoids by definition. However, our results show that, when it comes to avoiding tracking error, the cure may be worse than the disease. The study finds that market indexing results in initial retirement assets that are 15% lower on average relative to the core approach. Would you give up an expected 15% of your retirement assets to avoid all tracking error?

Retirement investing involves long investment horizons, which help improve the reliability of capturing the premiums and magnify the effect of higher expected returns. This makes core equity investing an attractive, practical alternative to market indexing— one that can put retirement investors in a stronger position to reach their goals.

This paper can also be found on SSRN at [https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4425738.](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4425738)

TERMS & DEFINITIONS

- **4% spending rule:** The 4% rule was developed by William Bengen in the mid-1990s as a rule of thumb designed to help investors choose how much they want to spend annually in retirement.
- **Accumulation phase:** In the context of retirement investing, the accumulation phase covers all preretirement years.
- **Bootstrapping:** In the context of the results above, bootstrapping consists of drawing random subsamples from the historical return sample and computing a quantity of interest (e.g., assets at the beginning of retirement) on the subsamples.
- **Expected return:** Expected payoff of a security (price appreciation + interest/dividend payments) over a given period, divided by the current market price.

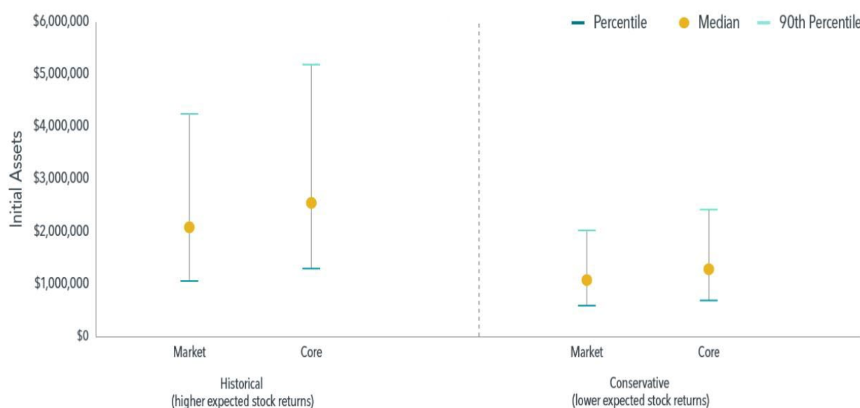


EXHIBIT 1

PREMIUM REWARDS

Distribution of assets at the beginning of retirement as a function of premium exposure in the equity sleeve.

The CRSP Deciles 1–10 Index is a proxy for the market portfolio, the Dimensional US Adjusted Market 1 Index is a proxy for the core portfolio, and five-year Treasury notes are a proxy for bond performance. Results are based on the first of 480 observations (40 years) of 100,000 sequences of 840 bootstrapped monthly, inflation-indexed returns—see the Methodology Appendix for a description of the sample data, data sources, portfolio construction, and spending rules. Assets at the beginning of retirement are based on 480 monthly contributions of $1,042 ($12,500 per year) during the accumulation phase. All numbers are inflation-adjusted using the US consumer price index. Results are based on a portfolio that incorporates equities and fixed income according to a glide path that starts at 100% equities at age 25. The weight in equities is stable until age 45, then linearly declines to 50% by age 65. The historical distribution assumes real expected stock returns of 8.1% vs. 5.0% under the conservative distribution.

- **Market indexing:** Refers to index funds that track a broad market index like the Russell 3000 or the MSCI ACWI.
- **Size, value, and profitability premiums:** The size premium refers to the tendency of stocks from issuers with a small market capitalization to overperform those of issuers with a large market capitalization. The value premium refers to the tendency of stocks with low relative prices (stock price divided by an accounting metric such as book value) to outperform. The profitability premium refers to the tendency of stocks of issuers with high relative operating profits (operating profits divided by an accounting metric such as book equity) to outperform.
- **Tracking error:** The standard deviation of the difference in returns between two portfolios, one of which is typically a benchmark. Essentially, tracking error provides a measure of how much a portfolio deviates from its benchmark.

HYPOTHETICAL INVESTOR (EXAMPLE)

We consider a hypothetical investor who retires at age 65 and spends until age 95 according to a 4% spending rule. Retirement spending is 4% of the initial balance at retirement. Spending remains constant in inflation-adjusted terms through retirement. The investor withdraws the spending amount at the beginning of each month. The balance then evolves according to portfolio returns. If the balance hits zero, we treat this as a failure.

All the returns used in the simulations are inflation-adjusted using the US consumer price index (CPI).

Portfolio returns are based on a constant, 50/50 split between stocks and bonds. The market portfolio is proxied by the CRSP Deciles 1–10 Index, while the core portfolio is proxied by Dimensional US Adjusted Market 1 Index. Five-year Treasury notes proxy for bond performance. The sample period runs from June 1927 to December 2022.

For each simulated retirement, we draw 30-year (360-month) return histories from our sample. We use block bootstrap with a mean block size of 10 years (120 months) to sample inflation-adjusted annual returns.

We bootstrap returns from the historical distribution and a conservative distribution. The conservative distribution is obtained by subtracting 1.65 times the standard error (1.65 x 1.89% = 3.1% of the average stock return from the historical average (8.1%). This is equivalent to assuming that the long-run inflation-adjusted equity return is 5.0%, which corresponds to the fifth percentile of the estimated distribution of the average historical return.

Average real historical returns were obtained by dividing CRSP Deciles 1–10 Index returns by monthly inflation according to the formula (1+ CRSP Deciles 1–10 Index return)/(1+CPI growth) – 1. Real monthly returns are then averaged and multiplied by 12 to annualize them.

The projections or other information generated by bootstrapped samples regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Results will vary with each use and over time.

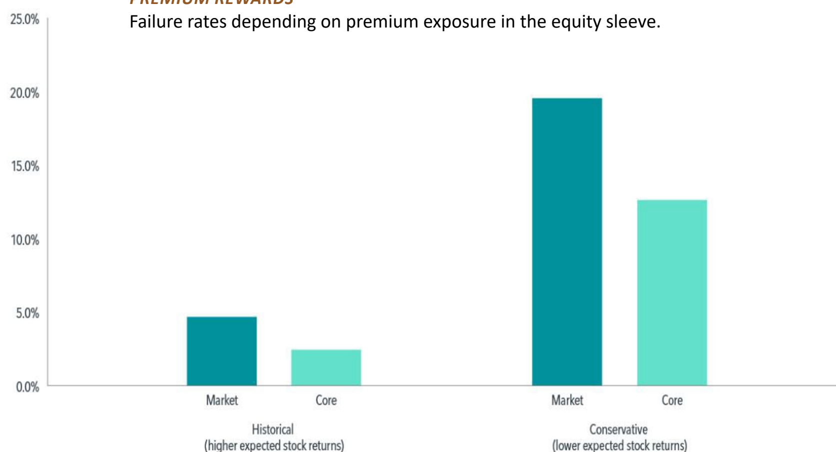
RISKS DISCLOSURE

Investments involve risks. The investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.

EXHIBIT 2

PREMIUM REWARDS

Failure rates depending on premium exposure in the equity sleeve.



The CRSP Deciles 1–10 Index is a proxy for the market portfolio, the Dimensional US Adjusted Market 1 Index is a proxy for the core portfolio, and five-year Treasury notes are a proxy for bond performance. Results are based on a portfolio with a 50/50 split between equities and fixed income. Failure probabilities are based on a 30-year retirement and a 4% spending rule. Simulation results are based on 100,000 sequences of 360 bootstrapped monthly returns adjusted using the US consumer price index. The average inflation-adjusted expected stock return is 8.1% under the historical return distribution and 5.0% under the conservative return distribution. The sample period runs from June 1927 to December 2022. See Methodology Appendix for details.

DIMENSIONAL WINS ETF ISSUER OF THE YEAR & BEST NEW ACTIVE ETF

Dimensional Fund Advisors, a global leader in systematic investing, was recently honored at the 2023 ETF.com Awards, winning ETF Issuer of the Year and Best New Active ETF (for Dimensional US Small Cap Value ETF—DFSV) at the awards gala in NYC.

The ETF.com Awards honor the most influential, innovative, and impactful players in the exchange-traded-fund space. Winners are selected through a three-part process based on the insights and opinions of leaders throughout the ETF industry. In less than three years since launching its first ETF, Dimensional has established 30 funds across equity, fixed income, and real estate strategies. Combined, these funds hold approximately $85 billion in assets under management (as of April 30, 2023, Morningstar), making the firm the largest active ETF issuer in the industry by AUM (as of April 30, 2023, Morningstar) and adding to its long-standing mutual fund and separately managed account businesses.

Learn more: www.saltmarshcpa.com/cpa-news/Blog/dimensional_wins_etf_issuer_of_the_year_and_best_new_active_.asp

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2023 HEADLINES – MIDWAY THROUGH THE YEAR

BY SALTMARSH FINANCIAL ADVISORS | JULY 3, 2023

After a very difficult year for investors in 2022, our team at Saltmarsh went to great lengths to meet with every client to discuss what transpired last year and how we're focused for the future. We've focused heavily on sweeping cash funds from 0% interest sweep accounts, to positions traded money market funds with yields near 5%. We've completed strategic rebalancing across many accounts to reflect changes in world market capitalization. As for the headlines outside of Saltmarsh:

- **Market Performance has been strong only 6 months into the year:**
  - S&P 500 up 15.86%
  - Ruseell 3000 up 15.22%
  - US Bonds (represented by BND) up 2.28%
  - After returning more than 20% from the October 12, 2022, low we are officially out of a bear market
- **Experts telegraphed a Recession that hasn't materialized:**
  - CNBC July 2022 "probability of recession over the next 12 months is 47.5%, up from 30% in June 2022 (www.cnbc.com/2022/07/20/economists-chance-of-a-2022-recession-is-rising-with-inflation.html)
  - In June 2023 Goldman Sachs lowered its odds of a U.S. recession in the next 12 months to just 25%
  - Unemployment has remained low, hovering at 3.5%
  - CPI is down to 4% after a June 2022 high of 9.1%
- **March 2023 Banking crisis:**
  - Over the course of one business week in March of 2023, three US banks failed (Silvergate, Signature, and Silicon Valley Bank; www.saltmarshcpa.com/cpa-news/blog/silicon_valley_bank_collapse_explained.asp)
  - Later in the month 2 more institutions, Credit Suisse, and First Republic, were forced acquisitions due to solvency concerns
- **Fed Pause on interest rate hikes:**
  - After a historic rise in interest rates in 2022, the Fed began slowing the rate of increases in Feb 2023 with a .25% increase (www.saltmarshcpa.com/cpa-news/blog/2022__a_year_to_forget_.asp)
  - A second .25% increase happened in March, and a third in May
  - In June 2023 the Fed announced a pause after 10 consecutive raises from .25% to 5.25% in 15 months