Third Quarter Letter September 30, 2024

"October: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February."

- Mark Twain

Market Statistics as of 9/30/24

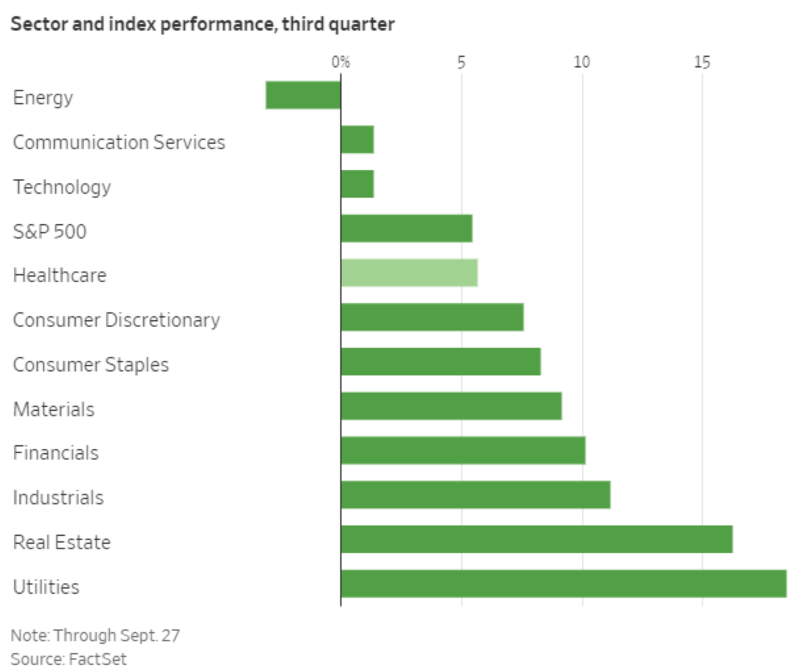
Index	2024 3rd Quarter	2024 9 Months
DJIA	8.72%	13.93%
S&P 500	5.89%	22.08%
S&P 500 (equal weight)	9.60%	15.16%
S&P Mid Cap	6.94%	13.54%
Russell 1000/Growth	3.19%	24.55%
Russell 1000/Value	9.43%	16.68%
Russell 2000	9.27%	11.17%
NASDAQ Comp.	2.76%	21.84%
Long Term Treasury Bonds	7.80%	3.02%
Inv. Grade Corp. Bonds	5.72%	5.76%
Gold	12.83%	26.54%
3 Month T-Bill	1.37%	4.03%

What a difference a year can make in the capital markets! As we were writing the 2023 Q3 newsletter last year, it felt like chaos was reigning in the stock and bond markets. Bond yields were soaring to multiyear highs, 30-year mortgage rates were nearing 8%, the utility sector was plummeting to 2-year lows, and consumer staple stocks like Coca Cola, Unilever, and Procter & Gamble were struggling as higher interest rates competed for investors' capital. The stock market was relatively flat or slightly down for the year until Fed Chair Jerome Powell hinted that the Fed was done with rate hikes and might start cutting rates. Once investors and algorithms picked up on this, money started flowing into the stock and bond markets, sparking a powerful rally.

However, as we mentioned in some of our recent newsletters, most assets flowed into the Mag 7 names and other AI (Artificial Intelligence) themed companies. A perfect example of this is the valuation that OpenAI is being given today. It is valued at $157 billion and is expected to lose $5 billion this year! That valuation is larger than many well-known companies such as Lowe's, Union Pacific, Lockheed Martin, Honeywell, and Conoco Phillips. In fact, this AI fixated market continues to favor the mega cap technology companies but in the last quarter (Q3 2024) we saw a rotation into the broader market.

The investment markets in the third quarter of 2024 posted the strongest Q3 in years. The S&P 500 gained 5.89%, marking its best Q3 since 2020. However, the real strength was in the S&P 500 Equal Weight Index, which rose 9.60%, its best Q3 since 2010. Notably, 67% of stocks in the S&P 500 outperformed the index this quarter, compared to the historical average of 31%. Value stocks outpaced growth stocks for the first time since Q4 2022, with gains of 9.43% versus 3.19%. As shown in our market statistics chart on page one, all asset classes had positive returns for the quarter and are positive for the year. Gold was the best-performing asset both for the quarter and year-to-date.

Within the market internals, all sectors were up except for Energy, which declined by 3.1% due to supply and demand concerns, mainly from China. In sharp contrast to Q3 last year, the Utilities sector was the top performer with an 18.46% gain, followed closely by Real Estate at 16.29%. Both sectors are highly correlated to interest rates. This is the opposite of Q3 2023, highlighting the importance of patience and diversification in successful investing. The Industrials sector gained 11.15%, and Financials rose by 10.21%, both achieving double-digit returns. Materials increased by 9.20%, Consumer Staples by 8.28%, and Consumer Discretionary by 7.59%. Health Care saw a 5.65% gain, while Communication Services and Information Technology had modest increases of 1.42% and 1.44%, respectively. It will be interesting to see where these returns stand this time next year.

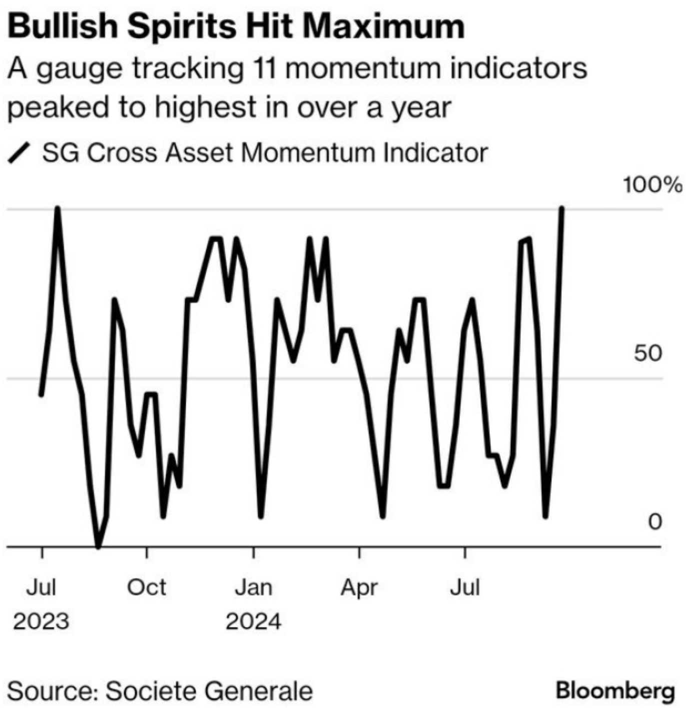


The Federal Reserve has begun their path of monetary easing as we recently were given a 50-basis point cut with more cuts expected to come this year and in 2025. One thing that concerns us is the

Fed cutting rates while the markets are at all-time highs. Normally we might think rate cuts would be expected to stimulate the economy, and perhaps they are doing just that, but the market seems to be stretched on valuation compared to previous easing cycles. We prioritize valuation because it matters. Our foremost concern is ensuring the return of our client's principal, with the return on that principal being our secondary focus. We have and always will be laser focused on trying to achieve good risk-adjusted returns. Our experienced team has seen many ups and downs in the markets and in today's investing world it seems like less and less investment professionals are worried about drawdowns and more interested in chasing the stocks du jour. We differ there and will always be primarily concerned with our clients hard-earned capital.

"Invest for the long haul. Don't get too greedy and don't get too scared"

- Shelby M.C. Davis



Portfolio Activity in the Third Quarter 2024*

Value Strategy

During the third quarter, the Value strategy added one new name to our portfolios and sold 3 positions. Our purchase was Schlumberger (SLB), a global technology company and the largest oil field services company in the world. They service areas worldwide and are the world's leader in digital solutions for subsurface and surface engineering. SLB is headquartered in Houston, TX and is ranked as the 349th largest company in the world.

We exited positions in both Coca Cola (KO) and Unilever (UL) as the companies were trading at multi-year highs as rates were low and defensive stocks were in favor. Our other sell was Warner Bros. Discovery (WBD) based on recent price strength. The media industry has been in turmoil with streaming services changing the business models for traditional media companies and causing much uncertainty regarding profitability.

Growth Strategy

In the Growth strategy we did not add any new positions or sell out of current holdings during the 3rd quarter. In taxable accounts, and where it made sense, we doubled-up on Dollar Tree (DLTR), to take advantage of weakness after their earnings call. To remind investors, we occasionally will double up on positions if the thesis remains intact, so that we can reset the cost basis and to also realize a loss while still maintaining the position. While activity was light, we continue to monitor and appraise our current positions. We did participate in Brookfield Investor Day and continue to feel that this company is well positioned to take advantage of its leading position in global infrastructure, real estate, renewable power and credit. We are also monitoring the activity out of Omaha, as Berkshire sold almost 50% of its stake in Apple (AAPL) and continues to sell Bank of America (BAC), which they have reduced by approximately 23% at the end of the quarter. We are also paying close attention to Alphabet (GOOG) as the Department of Justice considers whether to demand a breakup of the company for anti-trust reasons. The DOJ has until November 20 to make a decision.

International Strategy

We did not initiate any new positions in International strategy, nor did we remove any positions. Recently, due to weakness, we took Nestle (NSRGY) to a full weight position by adding it to accounts that may have been underweight. Nestle is one of the premier global brands and is under pressure for global macro concerns. We view Nestle as attractively positioned in categories that have long term tailwinds such as coffee, pet food, water, and nutritional health. Additionally, we continue to monitor our investments in Diageo (DEO), Heineken (HEINY), and Pernod Ricard (PRNDY) as the trend of non-alcoholic beverages continues to grow. The Chinese government has embarked on major stimulus measures, including lowering interest rates and freeing up capital at banks that propelled their equities to two-year highs. While we own businesses that derive revenue from China, we do not own any Chinese companies.

**Not every client account will have these exact holdings. The actual holdings with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account, (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment.*

Thoughts from Tiburon

I would like our readers to refer to the Q1 2024 letter, specifically the paragraph under *Ignore the Noise*. My comments were in reference to all things that can distract an investor from staying the course, and potentially making a financial behavior mistake. Obviously, we are still in the "silly season"; defined by my partner Bill Coleman as something that happens every four years i.e.: the presidential election. We expect that the 4th quarter, could have heightened volatility due to not only the race for the White House but also the conflicts in the Middle East and the war in Ukraine. As I wrote in March, the data suggests you should not make an investment decision around who is going to be in the White House. In fact, historically the markets love gridlock, and the odds for this happening are higher than one party sweeping White House, Senate and House. Plan for some volatility, but don't make drastic changes to your investments based on polls or beliefs about who will win the White House.

In the Spring of 2021, I wrote a blog *Patience Pays Dividends*. In investing, being patient can have its benefits. In fact, you can combine the discipline of being patient while ignoring the noise. Many of you may know that I spend a lot of time in Western North Carolina. I happened to be in downtown Asheville when Hurricane Helene hit. We were fortunate to be able to get my daughter and some of her friends and bring them safely back to Wilmington. While driving over the French Broad River we could see the destruction to the River Arts district. I am sure many of you reading this have seen pictures or videos of the destruction as well. It will take lots of hard work, money, and patience to rebuild not only the town of Asheville, but many rural communities that were also destroyed. I am inspired by the response of the local communities, but the need for assistance remains critical. If able, please contribute or donate to our friends and neighbors who are in great need of many things, including lots of patience.

As we conclude the investment summary for Q3 2024, we want to express our gratitude for the trust and confidence you place in us to manage your assets. We hold this responsibility in the highest regard and are committed to doing everything we can to help you achieve your goals and plan for the future. As always, please feel free to reach out with any questions or concerns. Thank you once again from all of us at Live Oak Private Wealth.

Elections, Taxes and Planning During the Golden Hour

From the LOPW Planning Team

The 2024 U.S. presidential election cycle has felt a lot like a high-speed roller coaster ride with unprecedented twists and turns. We do not know what is around the next bend, but clients can prepare for some of the potential ramifications of the election for individuals, businesses, and capital markets by taking time to appreciate the "sunset" on the horizon.

Tax policy has become a large focus of the presidential election. One of the most notable and consequential tax policy issues that will be impacted by the next administration centers on the 2017 Tax Cuts and Jobs Act (TCJA) and its provisions that "sunset" (i.e. expire) at the end of 2025. The TCJA altered taxes for businesses and individuals. It reduced average tax rates for taxpayers at all income levels by lowering marginal tax rates, expanding tax brackets, zeroing out personal and dependent exemptions and suspending several itemized deductions and the alternative minimum tax, while contemporaneously increasing the standard deduction and doubling the child tax credit, among other changes.[1] For a more comprehensive overview of the expiring provisions of the TCJA, you can visit our blog on the Live Oak Private Wealth website.

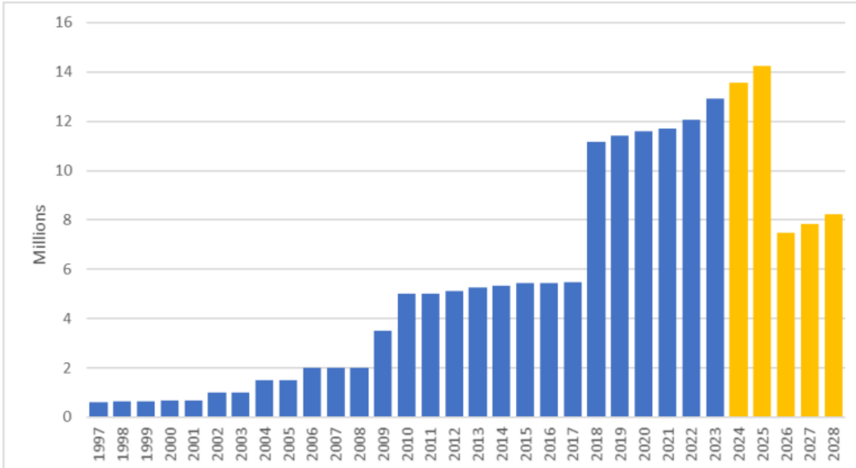
In the world of wealth preservation planning, the TCJA **doubled** the federal gift, estate and generation skipping transfer (GST) tax exemption amounts from $5 million to a historically high $10 million per person. Because this amount is indexed annually for inflation, the lifetime exemption amount for 2024 is $13.61 million per person. This means that an individual can transfer up to $13.61 million (a married couple can transfer up to $27.22 million) to their heirs or beneficiaries without paying federal gift, estate or GST tax.

What is important to understand about this "sunset" is that several tax benefits of the TCJA (including the increased gift, estate and GST tax exemptions) are **not permanent** and will **expire** at the end of 2025 **unless Congress passes legislation**. Upon expiration, the temporary provisions of the TCJA revert to their pre-TCJA status. The below chart illustrates how high the current lifetime exemption is in relation to what it has been over the past twenty-five years and estimates the exemption amount following the expiration of the temporary TCJA provisions on December 31, 2025.

---

[1] https://taxfoundation.org/data/all/federal/tax-calculator-tcja-expiration/

Federal Estate Tax Exemption: 1997 - 2028



Source: Schwab Center for Financial Research. Note: Blue bars represent the past/present where the estate exemption is a known value. The yellow bars represent the future and an estimation of what the estate exemption will be. Assumes 5% inflation, exemption reduces to $7.48 million in 2026. Forecasts contained herein are for illustrative purposes only, may be based upon proprietary research, and are developed through analysis of historical public data.

Will Congress act before or after the sunset? Will the temporary provisions of the TCJA be made permanent? Will they revert to pre-TCJA status? The answers to these questions may remain unknown until the time for tax-sensitive planning has expired. There is, however, a question we can help you ask and answer – **how can you confidently plan amid the uncertainty during this golden hour?**

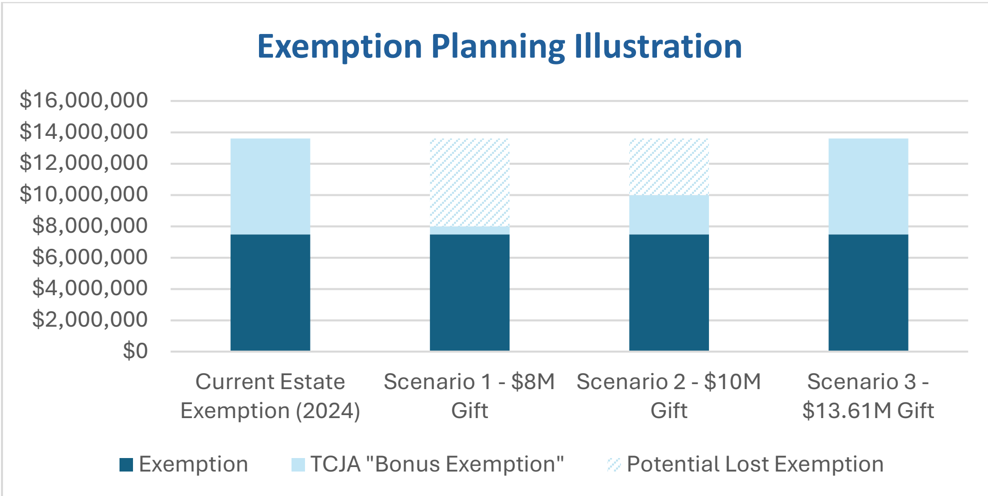
Over the next **twelve to fifteen months**, individuals at any wealth level would benefit from reacquainting themselves with wealth transfer tax laws and the provisions of their current estate plan. For families of significant wealth who may face estate tax liability in 2026 and beyond, **prioritizing discussions with financial, legal and tax advisors** about tax-efficient estate planning strategies **before the sun goes down** could result in substantial estate tax, GST tax and creditor protection benefits to their heirs and beneficiaries.

Background on the Taxation of Wealth Transfers

Gift, estate and GST taxes are the three categories of federal taxes that could be imposed on the transfer of wealth. The **gift tax** is a tax on the **transfer of wealth during life**. The **estate tax** is a tax on the **transfer of wealth at death**. The **GST tax** is a **second tax** on the **transfer of wealth** (in addition to the gift or estate tax) when the recipient of the transfer is **a "skip person"** such as a grandchild. The federal gift, estate and GST tax exemptions reflect the amount of wealth that can be transferred without paying the applicable wealth transfer tax (i.e., federal gift, estate and GST tax). The tax is triggered when the transferred amount exceeds the exemption amount, and the tax rate is applied to the amount of the transfer in excess of the exemption amount. For 2024, the top federal gift and estate tax rate is 40%. The GST tax is currently a flat 40%. In addition to lifetime exemption transfers, individuals can make tax-free annual exclusion gifts of up to $18,000 per recipient in 2024, without reducing their available lifetime exemption.

Potential Tax Implications

Many estate planning practitioners are referring to the difference between the currently available exemption amount of $13.61 million and the estimated future exemption amount available after "sunset" of approximately $7.48 million as the **"TCJA bonus exemption" amount**. If you make lifetime gifts in excess of $7.48 million and up to $13.61 million before January 1, 2026 and Congress lets the temporary TCJA provisions "sunset", you will have capitalized on up to $6.13 million of exemption that would be no longer available, resulting in up to $2.45 million tax savings based on the current 40% tax rate.



If you can afford to make large gifts to your heirs and beneficiaries before the 2026 "sunset", you can capture this tax-savings and the gifted assets (along with any growth on those assets) can be removed from your taxable estate avoiding estate taxation at your death.

Wealth Transfer Strategies to Consider

There are numerous estate planning techniques available to help individuals and families achieve their financial and nonfinancial goals. Trusts have been used by families for ages to protect, oversee and manage wealth, passing it through the generations. Many wealthy individuals are reluctant to make lifetime transfers of wealth because of the perceived loss of control and management over the gifted assets or seeming inflexibility of the trust structures available. Another common concern is that lifetime wealth transfers would disincentivize heirs and beneficiaries from being productive members of society. These are valid concerns, however, effective planning with a skilled team of advisors and draftsmen can address these issues and help individuals and families achieve their objectives. Below is a brief overview of **three estate planning strategies** to consider.

Lifetime & Annual Gifting

Lifetime gifting provides a methodical approach to estate reduction in a way that removes assets from the estate, shielding the assets from estate taxes on future appreciation. Beyond annual exclusion gifts of $18,000 per recipient ($36,000 per couple) in 2024, direct payments of medical expenses or tuition have no gift tax limitation.

Spousal Lifetime Access Trust (SLAT)

A SLAT is an irrevocable trust that can provide flexibility for married couples wanting to make lifetime gifts of up to $13.61 million per person ($27.22 million per couple). It is employed to remove the assets (and future growth) from both spouses' taxable estates at death, while allowing the continued enjoyment of lifetime benefits from the gifted assets by the beneficiary spouse.

Intentionally Defective Grantor Trust (IDGT)

An IDGT is an irrevocable trust that allows the transferor to:

- transfer and remove assets from the estate for gift, estate and GST tax purposes
- continue to be treated as the owner of the assets for income tax purposes
- make additional tax-free gifts to the trust through the payment of the trust's income taxes without being deemed to have made additional taxable gifts.

Course of Action & Considerations

Tax policy changes could have important implications for you, your family, your business and your legacy. Just as **tax-efficient <u>investing</u>** is a key factor affecting your portfolio returns, **tax-efficient wealth preservation <u>planning</u>** is a key factor affecting your ability to preserve wealth through generations. Taxes and other costs can add up over the years and create drag on the horsepower of your wealth. Understanding the impact of taxes on your wealth preservation plan is as important as understanding its impact on your portfolio, investment selection and asset allocation. With the election around the corner and the "sunset" on the horizon, now is the time to revisit your wealth plan to ensure it achieves your financial and nonfinancial goals and objectives.

While the future of the temporary TCJA provisions remains uncertain, proactive and strategic estate planning during the golden hour could help individuals and families preserve wealth through generations. Before making a wealth transfer to minimize potential estate taxes in the future, you should evaluate your liquidity and cash flow needs to ensure you retain what you need to sustain your desired standard of living. While exploring advanced planning strategies, including those discussed above, it is important to discuss your short- and long-term needs, goals, and wishes with your wealth advisors. People's circumstances change year over year and reviewing your wealth plan to see if improvements are necessary or advisable is a valuable exercise. Working together with your advisors to establish your financial baseline through the review of balance sheets, sources and uses of cash flows, forecasting of anticipated future income and expenses and appreciation within your estate, will empower you to make **informed decisions about your wealth**.

A **current and comprehensive estate and wealth plan benefits individuals at any wealth level.** Non-tax driven planning can offer heirs and beneficiaries several benefits, including creditor protection, protection from claims of spouses, continuity in the event of disability or death, and post-mortem estate planning. If you do not have a comprehensive estate plan or have not reviewed your plan in several years, it would be beneficial to connect with your advisors over the next twelve to fifteen months to ensure your plan addresses where things stand currently and where your estate will likely be in the future.

DISCLOSURES:

This material is not financial advice or an offer to sell any product and is not a recommendation to buy or sell any particular security. Past performance is not indicative of future results. The opinions expressed are those of the Live Oak Private Wealth Management Investment Team. The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass.

Live Oak Private Wealth is a subsidiary of Live Oak Bank. Investment advisory services are offered through LOPW, LLC, an Independent Registered Investment Advisor. Registration does not imply a certain level of skill or training. More information about Live Oak Private Wealth, including our advisory services, fees, and objectives, can be found in our ADV Part 2A or 2B of Form ADV, which is available upon request.

This should not be construed as tax advice. You should always consult with your tax professional with regard to specific tax questions and obligations.