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Quotes

Charlie Munger, Warren Buffet's long-term friend, investment partner, and vice-chairman of Berkshire Hathaway, died in November 2023 at the age of 99.

Here are some of his many popular quotes.

- "You'll do better if you have passion for something in which you have aptitude. If Warren had gone into ballet, no one would have heard of him."
- "We recognized early on that very smart people do very dumb things, and we wanted to know why and who, so we could avoid them."
- "Live within your income and save so that you can invest. Learn what you need to learn."
- "Spend each day trying to be a little wiser than you were when you woke up."
- "Having a certain kind of temperament is more important than brains. You need to keep raw irrational emotion under control. You need patience and discipline and an ability to take losses and adversity without going crazy."
- "Reputation and integrity are your most valuable assets – and can be lost in a heartbeat."

2023 in Review: Turbulent Beginning, Upbeat Ending

The economic picture at the start of 2023 had investors on edge. Stocks and bonds had dropped substantially throughout 2022: the Dow, the S&P 500, and the Nasdaq 100 experienced peak-to-trough declines of 21%, 25% and 35%, respectively. Inflation was running 6% and the Federal Reserve was aggressively hiking interest rates. Reliable economic indicators raised warnings of recession. Businesses braced for an economic downturn.

Despite the weak economic outlook, the Federal Reserve, unwavering in its commitment to combat inflation, navigated the delicate balance and appears to have achieved the elusive soft landing. Major job losses, an anticipated side effect of the Fed's actions, never materialized. Instead, the economy steadily added jobs and unemployment stayed historically low at 3.7%.

It wasn't the labor market but the banking sector which suffered the most obvious pain from the Fed's actions. Stressed to the extreme, two major regional banks ultimately failed in March 2023. But no depositors lost money: government regulators took action, the system rallied, and the collective financial system proved its strength. The banking system survived a historic test.

In a "Goldilocks" outcome, inflation gradually cooled throughout the year, consumer spending remained steady, and both U.S. GDP and corporate sales experienced a robust 6% growth. Stock markets rebounded and rose dramatically.

At the start of the year, 2023 looked like a terrible time to be a stock investor: this was proved right at some moments, but wrong at the end. Looking forward to 2024 and beyond, we remain confident of our economy's collective strength in the years ahead. The economy cannot be consistently forecast, nor the market consistently timed. The lesson repeats: the best method of capturing the markets' long-term return is simply to remain invested through good times and bad.

Index	*12/31/2023*	*YTD*
Dow Industrials	**37,689.54**	**13.7%**
S&P 500	**4,769.83**	**24.2%**
S&P Small-Cap	**1,318.26**	**13.9%**
MSCI EAFE	**2,236.16**	**15.0%**
Bloomberg US Bond	**2,162.00**	**5.5%**
US Treas 10-yr yld	**3.9%**	

Cash is King – Until It's Not

Through much of 2023, cash was seemingly king. Rising interest rates had lifted money market yields to 5%, recession calls were nearly unanimous, and stocks and bonds had both suffered double-digit losses in 2022. What could be better than the security of collecting 5% from a money market or a Treasury bill, with no long-term lockups to liquidity? In 2023, cash had its best year in decades: for a few brief and uncertain moments, there was no better place to be.

Cash can be precious during times of financial stress or bad stock markets, but those short-term moments can create an extended illusion of safety. Given a reasonable time period, cash isn't an investment strategy: holding cash indefinitely can't build or preserve your long-term wealth.

Pull up any long-term chart about investing, and cash always finishes in last place – by a lot – even losing to inflation! Going back a decade, cash returned less than 1% per year. Going back 25 years (including three major stock market crashes), cash returned only 2% annually vs. an 8% annual return on stocks. That's ten times the return from cash, after compounding.

Still, there are investors who feel that earning an eternal 5% on their cash would suffice. But cash yields don't remain at high levels. With inflation nearing 3% and economic growth leveling off, even the Fed's own forecast predicts lowered interest rates by the end of 2024.

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Key 2024 Updates and Reminders

Here are a few key updates and reminders to keep in mind as you plan for your 2024 financial goals:

Social Security payments increase by 3.2% as a Cost-of-Living adjustment.

The 401k Contribution limit is now $23,000 (plus $7,500 catch-up over age 50)

The IRA and Roth IRA contribution limit is $7,000 ($8,000 for 50 or older)

The Roth IRA Income limit phases out at $146-161k for single filers and $230-240k for married couples.

The annual Gift Tax Exclusion is now $18,000.

The Personal Lifetime Gift Exemption (Estate exemption) is $13,610,000. This is set to sunset at the end of 2025. If congress does not pass a new bill, the exemption will then drop back to the prior Tax and Jobs Act (TCJA) level of $5 million, adjusted for inflation.

The deadline for making 2023 contributions to IRA and Roth IRA accounts is April 18, 2024.

The deadline to make a SEP-IRA contribution, or for a solo 401k owner to make an employer contribution, is also April 18, 2024, or the extension deadline for late filers.

Cash Isn't King

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This results in reinvestment risk: for example, when a short-term Treasury bill paying you 5% matures, you'll only be able to reinvest it at 3%, as rates keep dropping. The rate might fall even farther the next time, to 2% or lower – less than inflation.

By then, moving back into stocks, bonds, real estate, or anything else pumped up by those lower interest rates won't make up for the lost time and opportunity. Those prices will have already rallied. Just since October, when the Fed gave a strong signal that rate hikes were over, stocks have rallied 15%, real estate investment trusts soared 23%, and even bonds climbed 8%.

Sitting in cash may have been nice in 2023, but it may be time to start putting that cash back to work for long-term success.

College Funding Policies and Strategies

For decades, every parent with a college-bound child faced their own dreaded final hurdle: completing the FAFSA (Free Application for Federal Student Aid). Change, and possible relief, finally came with the FAFSA Simplification Act, passed in 2020 and implemented in stages. The final set of changes have now come into effect.

The FAFSA form has been simplified, with fewer and easier-to-understand questions. The application also pulls information directly from IRS data when possible, so applicants have less information to enter manually.

Eligibility is now calculated using a new needs-based Student Aid Index (SAI), replacing the old Expected Family Contribution (EFC) metric. Eash student's SAI is calculated using a modified needs analysis formula, which could increase or decrease aid eligibility, depending on circumstances.

Key changes that could increase aid:

- Distributions from grandparent-owned 529 plans are no longer being reported as student income. Previously, these distributions could reduce aid eligibility by as much as 50%.
- Contributions made by grandparents, other relatives, or friends outside of the immediate family no longer need to be reported. In addition, only accounts in the individual student's name will be reported as parental assets (previously, sibling assets had to be included).
- The new eligibility formula now allows higher levels of parental income and assets.
- The Federal Pell Grant program has been expanded to be more generous to lower-income students, in the hope of increasing aid for those most in need.

Key changes that could reduce aid:

- The discount for having multiple children in college in the same year has been eliminated.
- Small business owners and farmers must now report the net worth of their business or farm, regardless of size; there is no longer an exemption for businesses with fewer than 100 employees.
- In the case of divorced or separated parents, students must report the income and investments of the parent who provides the most financial support, regardless of which parent they live with most of the year.
- Income reduction for child support payments or for state taxes paid has been eliminated.

Beyond the FAFSA, the law governing 529 accounts now allows new options for 529 funds to continue to benefit former students and new graduates. Eligible individuals can move money (such as unused funds after a degree has been completed) from a 529 College Savings account directly into a Roth IRA in the student's name. The 529 account must have been maintained for at least 15 years, and other limitations and restrictions apply.

For those parents still in the planning stage for their children's higher education, another option is the Private 529 Plan, prepaid tuition plans that allow individuals to lock in current tuition rates at today's prices for over 300 participating private schools. The prepaid tuition certificates can be redeemed 36 months after the first deposit, meaning even a freshman could lock in tuition rates for their senior year of college.

Although the certificates only cover tuition and fees, this strategy can be combined with traditional state-sponsored 529 savings plans to cover other education-related expenses.