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DOW THEORY: CURBING EMOTIONAL INVESTING

In addition to starting the company that publishes *The Wall Street Journal*, Charles Dow (1851–1902) also lent his name to one of the most popular U.S. stock market indexes (the Dow Jones Industrial Average) and created a theory regarding major shifts in stock market trends. While neither Dow nor those who refined the Dow theory after him believed they were creating a sure-fire way to beat the market, they did believe that following its principles could at least avoid the mistakes associated with greed and fear.

THREE ASSUMPTIONS

Behind the Dow theory is a set of assumptions about how the stock market works:

- **THE STOCK MARKET MOVES IN BROAD CYCLICAL TRENDS.** According to Dow, there are primary trends, which are long-lasting (from months to years), and minor trends, which don't last very long and run in the opposite direction of the primary trend. Primary up trends are called bull markets and primary down trends are called bear markets — these primary trends are marked by peaks and troughs in price charts. Within these broader trends, there are secondary (minor) countertrends called corrections, which can retrace anywhere from 33% to 67% percent of the primary trend's movement. Of course, no one ever knows in advance how long trends will last (that's a key principle of the Dow theory). And since market prices fluctuate from day to day, it can be dangerous to read too much into a single day's movement.
- **PRIMARY TRENDS CAN'T BE MANIPULATED.** While it may be possible for private interests to manipulate the price of one security for a relatively short period of time, the Dow theory holds that the primary trend in the stock market as

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FINANCIAL PLANNING FOR MARRIED COUPLES

Marriage is a partnership. You and your spouse are a team both personally and financially. But sometimes, that partnership needs a little work. Even if you've been married for decades, you may need a refresher course on financial planning basics. Here are six financial moves married couples should make.

START TALKING — Talking about money isn't always fun. Some couples avoid having conversations about finances because they're boring, while others skip the talk because of money anxiety or conflicts. But your financial lives are deeply intertwined, through both good times and bad. You and your spouse need to be able to sit down with each other and talk honestly about your finances. If talking about finances is hard for you, consider having a monthly check in, where you sit down together and go over important issues. Or set up a meeting with a financial advisor. Having a neutral third party guiding the conversation may make it easier to talk seriously about your finances.

GET ON THE SAME PAGE — No, you're not going to agree on everything, money-wise. But when it comes to major financial moves — like saving for retirement or managing spending and debt — you should be on roughly the same page (or at least in the same chapter). If you're both working together for the same things, you're much more likely to get to where you want to be.

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Dow Theory

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a whole is driven by forces much bigger than any single individual, cartel, breaking news, or rumor.

❍ **The stock indexes reflect all available information.** The Dow theory believes everything there is to know about a stock and the economy at a given moment is factored into the prices of stocks. This includes hopes, fears, and expectations of such factors as interest rates, earnings, revenue, and product initiatives. Unexpected events can occur, but usually they affect the short-term trend.

Three Primary Trend Phases

According to the Dow theory, major trends consist of three phases of varying length:

Stage 1: Accumulation or distribution. In this phase, the smart money — typically large institutional investors like investment banks, pension funds, or mutual funds — start major buying or selling programs. Initially, this looks like a secondary countertrend, but trading volume on the major exchanges noticeably increases on up days, while volume tends to be lighter on down days. In a bull market, stocks are cheap but no one other than value investors seems to want to buy them. In a bear market, there's a high level of enthusiasm for stocks, and few people believe the bull market is over.

Stage 2: The big move. In this phase, there are many more days in which the indexes move in the direction of the primary trend than in the opposite direction. In bull markets, there are strings of up days, followed by shorter strings of down days, reflecting the spread of enthusiasm for stocks. In bear markets, the opposite occurs, as anxiety and pessimism that the prior bull market is over mounts. The result is a significant, long-term increase (bull markets) or decrease (bear markets) in the market averages.

Stage 3: Excess. The final phase of a primary trend is marked by extremely high levels of emotion — enthusiasm in bull markets and pessimism in bear markets — which are signs that the primary trend is about to change. These extremes can be seen in the behavior of individual investors. In bull markets, even the most conservative investors are buying stocks. On the other hand, in the excess stage of a bear market, everyone is concerned about safety of principal, while those who bought stocks at high prices have finally given up and sold their stocks at a loss.

The Indexes Confirm the New Trend

For Charles Dow, the primary trend was reflected in the Dow Jones Industrial Average, which today comprises 30 stocks. But Dow also looked to another index to confirm the emergence of a new trend. In his day, that was the Dow Railroad Index. Today, it's the Dow Transportation Index of 20 companies engaged in the shipping and transportation of manufactured goods. The idea was that a true change in the trend of business activity in the big manufacturing firms would show up in business for the companies they hire to move the goods they make.

For the second index to confirm the first, the Dow theory looks for both averages to be moving in the same direction. And, new highs or lows in one index are accompanied by new highs or lows at the same time or shortly thereafter in the other index.

The Dow theory isn't intended to help short-term traders. What it's designed to do is tip off long-term investors to changes in the trend, so they can shift their money from stocks to another asset class, like bonds or cash, during a full business cycle.

Please call if you'd like to discuss this in more detail. ❍❍❍

When Adult Children Return Home

Once your child has graduated from college, don't assume that your financial responsibilities are over. Adult children return home to live for a variety of reasons — they can't find a job, they have too much debt to afford living alone, or they have divorced and need financial support. Use the situation to help reinforce basic financial concepts:

❍ **Set a time frame.** Don't let your child move in for an open-ended time period. Financial goals should be set and followed, so your child is working toward financial independence and living on his/her own.

❍ **Charge rent.** There are increased costs when your child returns home — additional food, phone bills, utilities, etc. Although you don't have to charge a market rental rate, you should charge something. If you're uncomfortable taking money from your child, put the rent money aside in a separate account and use it to help your child when he/she moves out. Also decide which chores your child is expected to perform.

❍ **Put your agreement in writing.** While putting everything in writing may seem too businesslike, it gives you an opportunity to clearly spell out your expectations and the rules of the house. This can prevent future misunderstandings. ❍❍❍

Financial Planning

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But Be Willing to Compromise — Ideally, you and your spouse will be of one mind when it comes to money matters, but in reality, you might not always agree. That's where compromise comes in. For example, you may want to keep working until age 70 for maximum financial security, while your spouse may be dreaming of quitting his/her job at 60. You might want to meet in the middle by planning for a retirement that starts at 65 for both of you — a little earlier than you might like and a little later than your spouse might prefer.

Put It in Writing — Don't let inertia lead you and your spouse to skip key financial and estate planning tasks. Even if you want all your money and personal effects to go to your spouse, a will is still helpful in clarifying your wishes should you die unexpectedly. You may also want to set up a financial power of attorney to ensure that your spouse can make financial decisions on your behalf if you're incapacitated. If you don't do this, your spouse may have difficulty selling stocks or real estate while you are unable to make decisions on your own. Meanwhile, a living will and medical directive can make it clear to your spouse and your other family and loved ones what medical interventions you would want (or not want) if you are seriously ill.

Share Information — If the worst happens, will your spouse have the information he/she needs to keep the household running? Make sure that each of you knows how to access the bank and investment accounts — even the accounts for the household utilities. You each should also know how to locate important documents, like insurance policies, financial records, birth certificates, and the deed to your house.

Meet with an Advisor Together — It's not unusual for one spouse to take on a bigger role in the day-to-day financial planning process, either out of choice or necessity. But even if one spouse takes a hands-off approach to money, both of you should still be present at meetings with your financial advisor. That's because you're a team, and your advisor will be better able to provide appropriate advice if he/she can hear from both of you.

Please call if you'd like to discuss this in more detail. ❍❍❍

Giving Back

Leaving behind a legacy is important to many people. A charitable giving strategy can provide a number of tax-saving benefits, ultimately preserving more of what you're able to leave behind.

There are many ways to build charitable giving into your estate plan. Here are just a few items to consider:

❍ **Lifetime Giving**: In addition to the rewarding experience of donating, you'll enjoy the added benefit of tax deductions as well. If you're concerned with exceeding state or federal estate tax exemptions, lifetime giving is an advantageous option, since you reduce your taxable estate while also receiving a current income tax deduction.

❍ **Charitable Trust:** There are several types of charitable trusts that are mutually beneficial for your selected charities as well as you and your family. Estate tax savings, income tax deductions, and even income payments are all possibilities while benefitting your favorite causes. For example, a charitable remainder trust (CRT) is a private fund you can establish to provide yourself or selected beneficiaries with taxable income over a designated number of years. After your death, the remainder is passed to your chosen charities tax-free. Your contributions are tax-deductible based on the projected remainder value allocated for charity.

❍ **Private Foundation:** This is an entity run in your name and funded throughout your lifetime, enabling you to endow others while deducting these contributions on your federal tax return. This can be an especially attractive option for people with a high net-worth or highly appreciated assets.

If you have many current and upcoming expenses, such as paying off debt, saving for your children's college education, or saving for retirement, beginning a charitable giving strategy now may not be feasible. There are still ways to donate after your death:

❍ **A Gift in Your Will:** Simply request that your last will be drafted or revised to include your chosen organizations. This not only benefits the causes near and dear to you, but also helps reduce or eliminate estate taxes.

❍ **Retirement Accounts:** Because retirement accounts are among the highest-taxed assets in your estate, listing your favorite charities as the beneficiary could be a good estate tax savings route (although you may need your spouse's written consent). The charities are not subject to income or estate taxes, enabling them to put your entire gift to good use. ❍❍❍

Financial Data

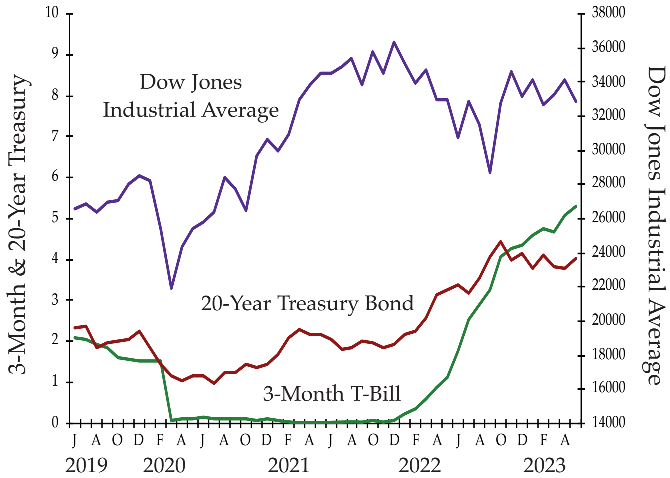
Indicator	Mar-23	Apr-23	May-23	Dec-22	May-22
	Month-end				
Prime rate	8.00	8.00	8.25	7.50	4.00
Money market rate	0.48	0.51	0.53	0.33	0.08
3-month T-bill yield	4.68	5.07	5.30	4.35	1.12
10-year T-bond yield	3.48	3.44	3.64	3.88	2.85
20-year T-bond yield	3.81	3.80	4.01	4.14	3.28
Dow Jones Corp.	5.36	5.26	5.60	5.54	4.27
30-year fixed mortgage	6.93	6.97	7.24	6.80	5.30
GDP (adj. annual rate)#	+3.20	+2.60	+1.30	+2.60	-1.60

Indicator	Mar-23	Apr-23	May-23	YTD	12-Mon.
	Month-end			% Change	
Dow Jones Industrials	33274.15	34098.16	32908.27	-0.7%	-0.2%
Standard & Poor's 500	4109.31	4169.48	4179.83	8.9%	1.2%
Nasdaq Composite	12221.91	12226.58	12935.29	23.8%	7.1%
Gold	1979.70	1982.55	1964.40	8.4%	6.8%
Consumer price index@	300.84	301.84	303.36	1.9%	4.9%
Unemployment rate@	3.60	3.50	3.40	-8.1%	-5.6%

\# — 3rd, 4th, 1st quarter @ — Feb, Mar, Apr Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

June 2019 to May 2023



Past performance is not a guarantee of future results.

News and Announcements

Distributing Personal Possessions

Organizing and planning an estate is not a simple process. Dealing with major assets like your house, business, investments, and retirement accounts may be so time-consuming that you don't even think about your personal possessions, leaving distribution decisions up to your heirs. But disputes over personal possessions are more apt to cause conflict among heirs than disputes over money. Some points to consider include:

- **Take time to think about who should receive treasured personal possessions.** You might want to detail your wishes in a separate letter to your heirs to prevent disagreements. Indicate why you are distributing those possessions in that manner.
- **Ask your heirs what possessions are important to them.** Otherwise, you may inadvertently give a treasured possession to one child without realizing its importance to another child. Children may then try to read motives into your decisions that didn't actually exist.
- **Don't distribute assets based on arbitrary criteria.** You don't necessarily have to give your jewelry to your daughter or your tools to your son. Your son might want to pass on some of your jewelry to his wife or daughter. Likewise, don't give your most valued possessions to your oldest child without considering younger siblings.
- **Devise a method for heirs to distribute personal possessions.** You probably won't want to decide how every personal possession should be distributed. After you have determined how to distribute your most valued possessions, detail a method for heirs to distribute the rest of your possessions. It can be as simple as having heirs take turns selecting items or flipping a coin if more than one person is interested in an item. ❍❍❍ FR2023-0118-0019

Robert Jensen