THE JAFFE GROUP AT MORGAN STANLEY

# MarketWise

An exclusive newsletter for Morgan Stanley Clients

**November 2023**

# Financial Memories

*by Barbara G. Jaffe CIMA®*
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**Inflation Since the 1980's**

*Source: US Bureau of Labor Statistics*

Age has its rewards. Some of my earliest experiences in the financial investment business were so unworldly that, looking back, it is hard to believe some were once reality. As the politicians and television commentators say, I occasionally need to "fact check" my memory; Reuters and the US Treasury website usually do the trick!

Nearly forty years ago, on August 15, 1985, the highest paying US government bonds in history were issued. For 30 years—On time as prescribed, those bonds, "CUSIP 912810DS4" paid holders 10.625% in annual interest payments.

At the time of the bonds' issuance, Ronald Reagan was President and Paul Volcker was Chair of the Federal Reserve.

How much was issued in that August of '85? $7.15 billion. Would all that $7.15 billion be redeemed in 2015?

No. In March 2000, willing investors sold $1.3 billion of the $7.15 billion that was issued back to the US Government, marking the first buy-back of government securities in 70 years.[1]

### Many Redeemed

At the time of the 2000 redemption, the dot.com sector was booming—and who would have wanted to be stuck in 10%+ bonds? The Nasdaq Composite closed above 5,000 for the first time that same month in 2000.[2] Many remember years long ago when greater than 10% inflation had happened, so dot coms looked like a good alternative. Until it wasn't. The investing public was fearful rates were about to shoot up again.

According to Bureau of the Public Debt, Fiscal Service, Department of Treasury,

**Financial Memories** *continued on page 5*

# The Benefits of 50

*by Sanford I. Zimmerman CFP®*
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I will be turning 50 in January. Depending on your perspective, I am either still a baby or I am an old man. Just ask my mom or my kids. With this milestone comes a few newfound benefits for which I have been waiting. And I am not talking about joining AARP, although I hear they have some good discounts. The big benefit I have been waiting for is to be eligible for "catch-up contributions" for my 401k and my IRA.

In 2001, Congress created the "catch-up contribution" as part of the Economic Growth & Tax Relief Reconciliation Act. While originally set to expire in 2010, the Pension Protection Act of 2006 made these contributions permanent. This is until Secure 2.0 was passed last year (more about that in a minute). The premise for these additional contribution caps was based on Congresses realization that people over 50 years of age needed to save more to have a realistic shot at financial security in retirement.

For 2023, the catch-up raises 401k maximum contributions from $22,500 for people under 50 to $30,000 if you are lucky enough to be part of the over 50 club. This also applies to 403(b) plans and Thrift Savings Plans. For IRA's and Roth IRA's the limit is raised from $6,500 to $7,500. Simple IRA's have a catch up of $3,500 this year. It can add up![1]

When Secure 2.0 passed the US Congress in December of 2022, the catch-up rules were changed again. When I first heard about it, I felt like a teenager that was about to be old enough to drink right before the government raised the drinking age in the 1980's. Secure 2.0 was intended to be spending neutral, meaning there were as many benefit cuts as money for new spending programs. One of those cuts was to eliminate the catch-up contribution for those making over $145,000 from their employer beginning

***The Benefits of 50*** *continued on page 6*

# An Interesting Place to Observe

*by Bradley Zimmerman*
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Many years ago, the then famous investor from Fidelity Magellan Fund (1977-1990), Peter Lynch, suggested that investors invest with the companies that they are familiar with. His feelings were that the investor knows that company, its prospects, and its competitive edge. Peter Lynch was quite well known and respected. Mr. Lynch retired in 1990 at the age of 46.

His philosophy was to look around you and be observant of what is happening in your own universe. Then research it if you are interested in single stock picks. During his reign, Exchange Traded Funds and indexes were just coming into existence. Statistics in chart here.

Using his theory, I looked at household budgets to see what has changed over the past several years, and even going back 130 years. You will see the details that have been published by the Bureau of Labor Statistics.

Some very interesting observations from the way household budgets breakdown that might help us decide on which sectors we should focus.

A very interesting fact is the food category has continuously declined as a percent of our budget from 44.5% in 1888-90 period to only 12.4% today. Yet we continue to feel that grocery prices have risen too much. The indication is that this sector while necessary, is not a growing sector.

Shelter (housing) has continued to rise over the decades since 1888. Today, that cost occupies 33.8% of the average budget. According to the Peter Lynch theory, this would be an indication of investment opportunity.

Surprisingly, clothing has been a steady decrease in our budget. Going from 16% to 2%+ over this 130-year period. Yet when we look at some of the athletic clothing and the cost of them, that seems odd. I would suspect there was no cost of athletic clothing 130 years ago.

Furniture has stayed relatively constant as percent of our budgets. And that makes sense as well, when you give it thought.

Transportation went from 0 to 16.4%. I suspect the study didn't include the cost of feeding the horses used in those early days. But looking at transportation, since the

***An Interesting Place*** *continued on page 6*

# Morgan Stanley Global Impact Funding Trust Estate Planning with Donor Advised Funds

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*By Morgan Stanley*
*Courtesy of Diane Pauly*

A DONOR ADVISED FUND (DAF) with Morgan Stanley Global Impact Funding Trust, Inc. (MS GIFT) offers numerous benefits to those who wish to be charitable. Donors who include a DAF in their estate planning may save estate taxes, simplify estate administration and provide flexibility for post-death charitable giving. This is particularly true if the DAF is funded during life. How so?

- Assets placed in a DAF account during life avoid probate at the donor's death. They do not have to be administered by the donor's executor and are not subject to claims for taxes or claims by any creditors the donor may leave behind.
- Lifetime funding of a DAF also allows the donor to experience firsthand how a DAF works and, potentially, to give family members or others an opportunity to serve as advisors while the donor is living. By previewing how the DAF and its advisors will operate, a donor may test whether it makes sense to contribute additional funds during life or at death.
- Funding a DAF during life may allow the donor the additional benefit of taking a current federal income tax charitable deduction.
- Upon the donor's death, the DAF may be used for charitable giving without interruption.
- Some donors may prefer funding a DAF after death instead of during life. This approach, too, offers substantial benefits to the donor.
- By including a DAF in an estate plan, a donor will be assured the funds he or she contributes are dedicated to charitable purposes and managed by MS GIFT, a public charity with the resources and expertise to ensure the funds are administered, invested and distributed properly.
- At the same time, the donor may name family members or others to serve as current or successor advisors on the account, thus giving them a role in shaping how the DAF's funds are deployed and creating a legacy of charitable engagement. These advisors will have all the same rights to make grant recommendations (which are subject to approval by MS GIFT) and investment decisions as the donor had during his or her life.

Whether a DAF is created and funded during life or after death under the terms of a donor's estate plan, transfers of property to a DAF qualify for the unlimited federal gift and estate tax charitable deductions and may therefore reduce or eliminate estate taxes otherwise due at a donor's death.

Donors with estates large enough to exceed the federal estate tax exemption amount ($12.06 million in 2022 and adjusted for inflation in future years) are generally subject to an estate tax rate of 40% on property that does not otherwise qualify for a deduction. **Therefore, for donors whose estates would exceed the federal estate tax exclusion amount, each dollar that would otherwise be taxed and is given to a DAF saves 40 cents in federal estate tax.** If the donor is domiciled in a state that imposes a state estate or inheritance tax, the savings can be even larger. There is no limitation on the percentage of a person's estate that may pass to charity and qualify for the federal estate tax charitable deduction.

Please see the following sample language that may be used for bequests to a DAF that is already in existence or that is to be formed and funded following the donor's death. You should consult with an attorney prior to incorporating any bequest into your own estate plan.

For more information about Morgan Stanley GIFT and its donor advised program, please consult the Donor Circular and Disclosure.

BEQUEST IN WILL WHERE ACCOUNT IS ESTABLISHED PRIOR TO DEATH: I give to Morgan Stanley Global Impact Funding Trust, Inc., a Maryland nonprofit corporation, [the sum of __Dollars, ($__)] OR [__Percent, __%) of my estate], to be added to and held as a part of the [Account Name] (Account Number).

BEQUEST IN WILL WHERE ACCOUNT IS NOT ESTABLISHED PRIOR TO DEATH: I give to Morgan Stanley Global Impact Funding Trust, Inc., a Maryland nonprofit corporation, [the sum of __Dollars, ($__)] OR [__Percent, %) of my estate], to be held as a donor advised fund known as the [Name of the Fund]. I direct (advisor(s)) to have the same recommendation privileges which I would have had as an account holder during my lifetime.

DISTRIBUTION FROM REVOCABLE LIVING TRUST WHERE ACCOUNT IS ESTABLISHED PRIOR TO DEATH: Upon my death, my trustee shall distribute to Morgan Stanley Global Impact Funding Trust, Inc., a Maryland nonprofit corporation, [the sum of __ Dollars, ($)] OR [__Percent), (__%) of the trust principal], to be added to and held as a part of the [Account Name] (Account Number).

DISTRIBUTION FROM REVOCABLE LIVING TRUST WHERE ACCOUNT IS NOT ESTABLISHED PRIOR TO DEATH: Upon my death, my trustee shall distribute to Morgan Stanley Global Impact Funding Trust, Inc., a Maryland nonprofit corporation, [the sum of __Dollars, ($__)] OR [__Percent), (__%) of the trust principal], to be held as a donor advised fund known as the [Name of the Fund]. I direct (advisor(s)) to have the same recommendation privileges which I would have had as an account holder during my lifetime.

# Crystal Ball or Game Plan?

*by Raquel Zisman CFP®*
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At the time of this writing, the S&P had logged an increase of over 20% and the Nasdaq 100 of over 40% in 2023[1], albeit with some give back in the late stages of summer. Many investors have missed out.

When I think back to the 4th quarter of last year, results like this seemed unfathomable. There were jitters around the mid-term election, as usual, but more importantly, we were dealing with inflation the likes we had not seen in 40 years. The Federal Reserve had begun a very aggressive tightening campaign, and the only questions around recession was when, not if. Many pandemic high-flyers were down 50%-60%-70% off their highs as investors realized money wouldn't be free anymore, trees don't grow to the sky and that profitability matters. Both the broad stock and bond markets were selling off forcefully and while not at the bottom, ended the year significantly in the red. The market felt very risky and don't fight the fed was at the tip of the tongue of investors.

If stocks were down this much when things were still okay, what would happen when (if?) the economy actually weakened? Furthermore, TINA, the widely used acronym for "there is no alternative" to stocks quickly turned into there is a great alternative to stocks -- return on cash as interest rates rose above 5%.

And yet through all of that, barring individual asset allocation considerations and/or liquidity needs, our view was to remain invested. Did we know something others didn't? Did we predict the market correctly? Did the crystal ball finally work!? I hate to admit it, but after all these years, none of us at the Jaffe Group at Morgan Stanley believe we can predict the trajectory of the market.

However, one of the most important things we can remember as investors is that the market is a discounting mechanism. Bad news can come to fruition, but if expected, it's likely that the market will have already discounted it– meaning priced it in. Our view was that there was a significant amount of bad news priced into the market. Did that mean the market couldn't fall further? Of course not. But the risk/reward tradeoff had become more attractive, not less.

We knew that the market often bottoms on bad news (and conversely tops on good news). Importantly, we knew it would be impossible to predict the bottom. The bottom, inexplicably, was October 13, 2022[2], a day when ironically the Consumer Price Index (CPI) came in way higher than expected. There was no reason to think that could be the bottom as Fed tightening had yet to impact the broader economy. It was.

The market rarely does what people think it's going to do. 2023 is a reminder that successful investing is not about clairvoyance, but about following a well thought out game plan – a strategy for the investor's individual situation, goals, and risk tolerance. Humility is very valuable in investing; this year's performance has reminded us that believing we have the next move figured out can really hinder our long-term success.

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*For index, indicator and survey definitions referenced in this report please visit the following: https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions*

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1. ThompsonOne
2. ThompsonOne

### Year-End Reminders

- Make sure you complete your Required Minimum Distribution from your IRA if applicable
- Make your Qualified Charitable Distributions from your IRA if applicable
- Review your beneficiaries – update as needed
- Review your individual accounts – do you have a designated Transfer on Death?
- Use your Flexible Spending account if you have one
- Update your passwords
- Check your credit report and score
- Request or download a copy of your Social Security statement
- Schedule a checkup

# Proud Parent Moments

*by Sabrina Carter*
*Portfolio Associate*

This year is a milestone year for my oldest son, Corbin. As I am writing this article, he is a few weeks away from turning 21.He reminds me of his upcoming birthday, daily, as though I don't remember. It's quite endearing. As I prepare for this "momentous" occasion, I'm reflecting and trying to think of a gift that will make this day special.

Since he started getting an allowance, I have tried to educate him on the importance of money management. Now that he is an entrepreneur, I have stressed that even more. Most of the time, the way he responds to these conversations gives the impression that the information is going in one ear and out the other…..until recently.

Recently, he called and asked about "that savings account that pays good interest".I was elated! So much so, that I shared the conversation with Julie, his self-appointed Auntie and my business partner, and she was touched by his interest. Although he didn't know the exact name of "the savings account", he remembered the conversation, and was curious about putting some money into it.

I explained to Corbin that he needed a minimum amount to establish his savings account. While he has proven to be good at managing his finances, he has not proven to be the best saver. Once he grasped the concept, he committed to saving $1,000.

More recently, one of Corbin's friends called to ask about investing. This is a young man that has vacationed with us and we consider him family. He has been around for several of those conversations with Corbin. Like Corbin, he will be turning 21 this year. I was impressed with his questions and the research he had already done. I was smiling by the time our conversation ended.

Reflecting on this time in their lives and the growth that I have seen in them, confirmed my belief in the saying, "it takes a village". Corbin and his friend have been fortunate in that they have been surrounded by adults who share their wisdom and experiences with them. As parents we continuously pour into our children, and grandchildren hoping to eventually see mature, young, responsible citizens.

At the time of your reading this, I'm proud to say that Corbin saved $1,000, opened his "savings" account, and has committed to putting money into it weekly. While I did give him a material gift to celebrate his 21st birthday, I realize that the lessons that I've tried to bestow upon him are the best gifts ever. Hopefully they last a lifetime. Witnessing him use those lessons gives me great joy.

## *Financial Memories* Continued from Page 1

the buyback in 2000 was "because of the government's improved fiscal position that has caused the Treasury's borrowing needs to decline significantly." Times certainly have changed over the last 40 years.

### Inflation Volatile

Inflation has been volatile over the last century. It was double digits from October 1916 to October 1920; again, starting in January 1942 to August 1942 and August 1946 to October 1947. The next time we saw double digit inflation was February 1974 to April 1975. Then again from February 1979 to September 1981. Today we are dealing with 3 to 4% inflation according to the Bureau of Labor Statistics—so 10% treasuries don't seem to be anywhere in our near future.

Putting it in simple terms, an item that cost $1.00 in 1913, would cost $30.82 today—a 2,981.9% increase. Ouch! (US Inflation Calculator using the latest US government CPI published July 12, 2023).

Are we nostalgic and again wishing for those 10% US treasuries? Yes and no.

Even after those bonds matured, they lasted longer than several things that came out in 1985. The "new Coke" that came out in 1985 and the Commodore's Amiga computer. Coke reverted to its original formula after only 77 days calling the original Coke Classic—and Amiga was overtaken by Apple Macs and Windows PCs. The Amiga sold about five million computers and was discontinued in 1996. Meanwhile, that 10.625% coupon kept paying as promised through all of this.

Yes, distant memories are helpful when used in the proper perspective. Next time we wish for higher interest rates, remember all of the negatives that comes with them.

Memories!

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1. Source: History of US Treasury Bonds
2. Source: Reuters

## The Benefits of 50 Continued from Page 2

in 2024. The saving grace for me was that the catch-up changes to Secure 2.0 only applied to pre-tax contributions, not Roth contributions. Since I only make Roth contributions, my goal of finally making a catch-up contribution is still going to happen.

These new changes were set to take effect January 1, 2024. It wasn't until Congress started hearing push back from retirement plan administrators that it became clear the changes couldn't happen so quick. To allow time for plan administrators to allow for this change, the US Congress has delayed the changes until 2026.[2] This extra time will not only allow plan administrators time to get their ducks in a row, it will also give plan participants over 50 an extra two years to make pre-tax catch-up contributions.

Whether to make a Roth contribution or traditional contribution varies from investor to investor. The Roth advocates like to use a common farming analogy, "would you rather pay taxes on the seeds or on the harvest?"Advocates for traditional contributions regularly remind investors to delay paying taxes as long as possible so deduct now and pay later. The reality is there are many more factors to consider. What is your tax bracket now? What will it be in retirement? What rate of return will you earn? How long will you have to let it grow? And many others.

If you would like to have a conversation about if a Roth is right for you, don't hesitate to reach out to us.

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1. Source: Jackson National. 1/2023
2. Source: IRS notice 2023-62

## An Interesting Place Continued from Page 2

1972 time period to now, that percentage has stayed relatively constant. Once electric cars came into the picture, one might think that cost would go down as a percent of household budget.

Education is still only a small percent of budget at 2%.Yet we hear about the steady increase in the cost of education.

Recreation has increased constantly over the period, moving from 1.9% to 6.2% today. Yet big noise happens when amusement park day passes go up in price, and theatre tickets look really pricey.

If you are a DIY (do-it yourself) investor, or one that we can help with your investment preferences, this kind of information is both helpful and interesting.

**Household Budgets**

| Category | 1888-90 | 1934-36 | 1972-73 | 1991 | 2021 |
|---|---|---|---|---|---|
| Food | 44.5% | 34.7% | 20.7% | 14.4% | 12.4% |
| Shelter | 13.7% | 10.9% | 16.2% | 17.5% | 33.8% |
| Clothes | 16.7% | 10.9% | 5.7% | 5.9% | 2.6% |
| Utilities | 6.0% | 7.4% | 5.5% | 6.7% | 4.8% |
| Furniture/Equipment | 3.2% | 4.1% | 3.8% | 4.1% | 3.1% |
| Transportation | 0.0% | 8.5% | 16.1% | 17.4% | 16.4% |
| Health | 3.3% | 4.0% | 5.8% | 5.2% | 8.1% |
| Education | 0.0% | 0.5% | 0.7% | 1.5% | 2.0% |
| Recreation | 1.9% | 3.5% | 4.6% | 5.6% | 6.2% |
| Other | 10.7% | 15.5% | 20.9% | 21.7% | 10.6% |

Sources: The Evolution of Retirement, BLS

What wasn't available years ago is sector indices. Because now, if you are interested in a sector, you don't have to call the actual stock that will do well, rather, you can buy that whole sector—reducing your risk.

We enjoy studying these concepts and are happy to share then with you. Fortunately, our work allows us to do this every day.

*Neither the information provided nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Past performance is no guarantee of future results. Because of their narrow focus, sector investments tend to be more volatile than investments that diversify across many sectors and companies.*

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# Smart Money Moves When Travelling Abroad

*Article by Morgan Stanley*

*Courtesy of The Jaffe Group*

As we get into gear for international travel, spending some time preparing your finances before you board a plane could reduce stress once you've landed.

Vacationers often overlook money matters that may save precious time, money and just plain headaches when traveling internationally. Having a credit card declined because your bank suspected a fraudulent international charge could ruin a dinner on vacation, for example. Or failing to change your currency before leaving a "closed currency" country could force you to leave behind a significant amount of money. You could even run into problems after you've returned home, if you find you were charged a litany of ATM and foreign transaction fees.

Here are a few tips and considerations that can reduce such headaches related to foreign travel, along with a look at Morgan Stanley's cash management services that can help.

**1. Using Cash Abroad**

Cash can be one of the most cost-effective and convenient forms of payment when you're out of the country, but key considerations remain. For instance, you'll still need to know the exchange rate and whether it's a closed currency country—meaning money can't be exchanged outside the borders. Keep this in mind because you'll need to either spend or exchange any remaining foreign currency before you leave the country.

**2. Payment Cards**

These days, the ongoing battles between thieves and financial institutions can create some unexpected collateral damage. Banks can quickly shut down your account after noticing your card was used in a foreign country. With effective monitoring in place to protect your card from fraudulent activity, before departing, it's always a good idea to have a phone number on file with your bank in the event they need to contact you if a transaction comes into question. Also, foreign transaction fees can rapidly add up when using your debit card to make purchases or cash withdrawals abroad. International ATM options can sometimes be confusing. Bringing the right cards, knowing how to use them and picking the right ATM will help you avoid unnecessary fees.

If you withdraw local currency at an ATM, your bank could charge you $1 to $5, and you could pay 1% to 3% of the transaction amount. The owner of the ATM may even tack on an additional fee. Keep in mind, choosing the local currency will eliminate the ability for the ATM owner to charge a fee and exchange rate that your bank may not be able to identify or reverse.

With Morgan Stanley Smith Barney's CashPlus Brokerage Account, clients do not incur foreign transactions fees when they use the Morgan Stanley Debit Card and they receive unlimited ATM fee rebates worldwide at more than 2 million ATMs.[1]

**3. Protecting Yourself From Fraud**

While debit card fraud is a risk both at home and abroad, it's one of the last things you want to deal with while traveling. Take common sense steps to prevent criminals from gaining access to your card number. Also consider limiting your debit card use to ATM withdrawals at banks, which may have better security.

The Morgan Stanley Debit Card also helps reduce the risk of fraud through chip and PIN technology, a global standard in security that encrypts your information. In addition, you can stay up to date on your Debit Card activity with alerts that are right for you. You can monitor transactions made outside the U.S. or track transactions made online or over the phone.

1. In the event international ATM operators don't report these fees to Morgan Stanley, the client may need to contact Morgan Stanley to have the ATM fee rebated. Reserved and CashPlus clients are eligible for unlimited global ATM fee rebates. All other clients are eligible for up to $200 in annual global ATM fee rebates.



# Interesting Facts

**LOCKED IN THEIR MORTGAGES** According to the Bureau of Economic Analysis (BEA), the average rate on all outstanding residential mortgages stands at 3.6%, which is less than half the current national average 30- year fixed mortgage rate of 7.3%. The spread between the two has not been wider in more than 40 years and creates little incentive for homeowners to move. *(SOURCE: BEA)*

**NOT RAINING ON WALL STREET** Hurricane Idalia became the 19th major (category 3 or higher) hurricane to make landfall on the US since 1990. While hurricanes are destructive to property, they tend to have little impact on the stock market. In the week following each of the prior 18 major hurricanes that made landfall, the S&P 500's median gain was 1.22% with gains 15 times. *(SOURCE: BESPOKE)*

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# Interesting Facts

**NON-SAVERS VS SAVERS**
A recent survey from CNBC found that 41% of workers do not contribute to a 401(k) or employer-sponsored retirement plan. Of the nearly six in ten workers who do participate in these plans, nearly half (46%) max out their contributions, 24% put in as much as their employer will match, and 8% save whatever the default amount is that their employer sets. *(SOURCE: CNBC)*

**LOCATION, LOCATION, LOCATION** Home prices in the Northeast region of the US have seen the biggest gains in recent years according to monthly figures from Realtor. com. At $520.2K, the median listing price for a home in the Northeast is up 10.95% over the last year and 56.85% over the last five years. The West region, where prices are highest (median $608K), has only seen a gain of 1.98% over the last year. *(SOURCE: REALTOR.COM)*

**MILLIONAIRE SAVERS**
Through the end of Q2, there were 378,000 Fidelity 401(k) accounts with balances of a million dollars or more. That represents a 25% increase relative to the end of 2022 but is still down over 14% from the peak at the end of 2021. 401(k) millionaires tend to save more than most. They save an average of 17.2% of their pay and their employers contribute another 9.3% for a total savings rate of 26.5%. *(SOURCE: WSJ)*

**TIME IN THE MARKET**
When it comes to investing for retirement, think "time in the market" rather than "timing the market." Based on its annualized total return of more than 9% since 1928, a single $10,000 investment in the S&P 500 at age 20 would leave you with over $600,000 at age 65. If you don't start until you turn 40, at 65, you'd have just $97,840. *(SOURCE: BESPOKE)*



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