Comprehensive Investment Management, LLC
Fee Only Personal Financial Planning
Summer 2023

WHAT DO YOU WANT FIRST? THE GOOD NEWS OR THE BAD NEWS?

Government funded studies find that most people want the good news first. The good news is the economy is strong, the unemployment rate continues to be historically low and corporate profits are up. The bad news is the economy is doing very well, the unemployment rate continues to be very low and corporate profits are up. Economically speaking, good versus bad is in the eyes of the beholder. In the eyes of the Federal Reserve a strong economy with low employment is highly inflationary. That means interest rates have to go higher and be kept there longer. There is a 97% expectation that the Reserve will increase the federal funds rate on July 26 by one quarter of a percent.

Economic cycles have always been and will always be. The Roman Empire had them. The Panic of 1792 was the initial challenge for the First Bank of the United States. There are continuous cycles of expansion and contraction. The pattern is primarily the result of changes in levels of employment, productivity and the demand for and supply of goods and services. Expanding demand eventually peaks. Prices rise as suppliers struggle to keep up. A quick way to reduce demand is to raise prices. Sometimes consumers taste simply change. Consumers, who are responsible for 70% of the economy, may run out of money and hit the limits on their credit cards.

The financial markets also have their own cycles. Usually short. Sometimes “risk is on” and other times “risk is off”. Generally it’s a matter of investor sentiment in reaction to recent events, for example a bank failure. Prudent investors don’t guess about what may be on or off. They know it’s better to maintain a suitable (for them) allocation and diversified portfolio. Bonds normally do well when

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Recent market and economic activity is newsworthy but mostly can be dismissed as “noise” and not indicative of a trend. Investment performance over longer periods, while not predictive, is significantly more meaningful.

Average Annual Returns of Select Mutual Funds

At the close Friday July 21, 2023	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
Large Cap US Stocks	13.6	14.2	13.2	9.9	12.2	11.9
Mid Cap US Stocks	15.8	12.4	9.6	7.8	11.6	11.7
Small Cap US Stocks	15.3	8.7	7.1	5.3	9.9	10.7
Foreign Stocks	12.1	9.6	1.6	4.1	6.6	6.8
Short Term Bonds	1.9	.9	-1.3	1.3	1.3	2.1
Intermediate Bonds	3.0	-.9	-2.8	1.6	1.9	3.2
High-Yield Bonds	5.3	4.8	1.6	3.4	4.0	5.8
Wellesley Fund 65/35 bonds/stocks	3.6	3.2	2.5	4.9	5.4	6.7
Wellington Fund 35/65 bonds/stocks	9.1	8.4	6.9	7.6	8.0	8.1

Over 15 years $100,000 in Wellington would grow to $335,700 exceeding Wellesley by $63,000 (23%.)

risk is off, but that has not been the case dating back to the financial crisis of 2008. In an effort to help the economy recover the Federal Reserve increased liquidity in the system (called quantitative easing) and lowered interest rates. Rates were kept low right up to and through the Covid pandemic. The return on bonds since 2008 was so low, some investors gave into temptation, reduced their bond allocation and took on more risk. They concluded stocks were the only game in town.

In 2022 a big and not unexpected increase in inflation caused the Federal Reserve to increase interest rates at ten consecutive meetings, the fastest pace ever. Bonds, which are usually the place to invest when risk is off, never had a chance. They were hit with both nemeses at the same time: higher interest rates and inflation.

Government intervention can be a good thing if it helps people keep their jobs, protects bank savings and stabilizes sections of the economy. The bad news is it can't go on forever because deficits matter.

The future performance of bonds is looking up. Yields on intermediate bonds are averaging above 5%. Yields are set by supply and demand in the bond marketplace. Yields represent expectations, in other words a prediction of the future. Treasury Secretary Janice Yellen just announced she believes the strong labor market will help the US avoid a recession. The prevailing opinion on Wall Street is there will be a mild recession.

Inflation at Vanguard

Customers with an aggregate investment in Vanguard funds of at least $1,000,000 are designated Flagship. They get discounts on certain brokerage fees and can send and receive on line messages to Vanguard. They lost a special phone number to call and they were not charged for mailed statements. They also used to have a designated contact person with whom they could schedule a telephone appointment. Two years ago the designated person went away unless you have $5,000,000 invested in Vanguard funds. One million to five million is an increase of 500%. Now that's inflation.

Effective September 1, customers with less than $5,000,000 in Vanguard non retirement brokerage funds will be charged $25 per year per account if they want confirms, statements and fund information mailed to them. That's up from a $20 fee introduced within the last two years. You will not be charged if you elect to have tax forms mailed to you. Statements, etc. can be viewed on line. It's a matter of whether you or Vanguard are going to print them. Or maybe they just won't ever be printed.

The details on service fees vary depending on the type of account. Vanguard reserves the right to periodically amend or cancel qualifications, features and benefits at anytime without prior notification.

Mail Fraud / Online Payments

The U.S. Postal Inspection Service reported roughly 300,000 complaints of mail theft in 2021, more than double the previous year. Bank officials (who are on the hook for the losses) are warning Americans to avoid mailing checks if possible, or at least to use a secure mail drop such as inside the post office. According to the investigators, some perpetrators use technology that melts the ink so they can change the checks. Recently Upper Merion Police arrested four suspects in connection with mail thefts from mailboxes, one of which was right in front of a post office. Over six months there were documented losses of more than $2 million.

No checks to CIM have ever been intercepted. Fees have been paid by check since 2013 when Vanguard decided to disallow online payments. CIM has been researching custodial options that would make it easier for it to provide services to clients. The relationship with Vanguard restricts CIM staff to activities available only as Limited Agents. That is why we often have to ask clients to call Vanguard or do Zooms while we log in together. Most custodians facilitate the payment of advisory fees directly from accounts under management. For CIM presenting that option is down the road a bit, so in the meantime it has set up a system with a well known third party for online payments. Let us know if you want more information or want to try it.

ESG Investing: Opportunities and Challenges

ESG is an abbreviation for environmental, social and governance. Investing in ESG refers to investment strategies that attempt to match up financial returns with corporate social responsibility. The goal is to allow investors to align their values with their investment choices. The premise that companies can be just as profitable while adhering to ESG principles has gained widespread, but by no means unanimous acceptance in recent years. Come to think about it, what idea or principle ever gets unanimous acceptance? Maybe apple pie.

An investment identified as ESG may focus on one or more of these initiatives:

Environmental: This aspect examines how a company contributes to the planet's well-being. It includes efforts to reduce greenhouse gas emissions, promote renewable energy and conserve natural resources.

Social: The social component examines how an organization treats its employees, customers, suppliers and local communities. Factors considered include labor standards, racial diversity, inclusivity and support for human rights.

Governance: Governance refers to how a company is managed, including administrating shareholder rights, executive compensation and communication with shareholders. Key principles include aligning executive pay with performance, ensuring accountability and promoting transparency.

While supporting socially responsible practices seems appealing, there are drawbacks to consider. One primary concern is the lack of standardized criteria for evaluating ESG performance, leading to unreliable data. Metrics used to determine whether a business is genuinely ESG-worthy are often subjective, which has raised skepticism about the credibility of some ESG investment funds. Furthermore, a wide range of opinions on what constitutes social good makes it challenging to establish a universally accepted framework.

For example, regarding energy sources, some argue that nuclear power is clean and efficient, while others raise concerns about safety and waste disposal. Similarly, opinions vary on carbon capture and storage as a means to combat climate change and the use of fossil fuels. Additionally, some funds choose not to invest in specific industries, such as alcohol. However, others would say that alcohol consumption in moderation is safe and enjoyable.

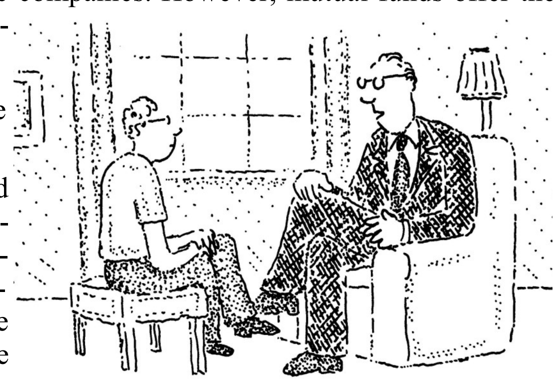
Despite these challenges, it is generally recommended, with careful review and research, to include ESG funds in investment portfolios. Many ESG funds have shown excellent past returns, indicating that their strategies have not negatively impacted shareholders. When adding any investment to a portfolio, it is crucial to consider the overall asset mix, industry sectors, international exposure and investment types.

The Parnassus Core Equity fund, in operation since 1992, has an annual return of 11.4% for the last fifteen years. Vanguard's FTSE Social Index fund opened in 2003 is at 11.6%. The S&P over the same 15 years is 11%.

It's important to note that funds not categorized as ESG can still invest in companies with positive social attributes. Various sources, such as Morningstar, provide good social attribute ratings for mutual funds that are not explicitly defined as ESG. Another option for investors is to invest in specific companies. However, mutual funds offer the advantage of diversification across multiple companies, thereby reducing risk.

Some folks don't see climate warming as a problem. I'd hate to be the one to try to explain that to the residents of Death Valley.

Surprisingly, ESG investing is viewed differently by Democrats and Republicans. Through the Department of Labor the Trump administration issued regulations intended to restrict ESG investment offerings in 401k's. The Biden has reversed them. 401k's are covered under federal ERISA regulations, which requires employers to have the components of their retirement plans be in the best interest of the plan participants.



"And don't include any tobacco stocks in your portfolio —they'll only stunt its growth."

Comprehensive Investment Management, LLC

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The CIM investment strategy:
Control risk yet outperform the market by using well managed, no commission, low cost mutual funds. Maintain appropriate asset allocation and diversification. Minimize taxes.

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WE GET MAIL

Q. Is Social Security running out of money?

A. Jack Bogle, Vanguard's founder, famously said he could fix Social Security in five minutes. Unfortunately he passed on before being given the chance.

Actuaries know what needs to be done. A successful formula considers factors such as the number of workers paying into the fund, the amount of benefits being paid and the overall growth of the economy.

According to the latest estimates, cash reserves will be depleted by 2035. That's if Congress doesn't take action, which is a distinct possibility. But running out of funds doesn't mean social security benefits will vanish. On a cash-in cash-out basis Social Security will still be able to pay around 80% of benefits. "Those who claim that Social Security won't be around at all when today's young adults retire either misunderstand or misrepresent the trustees' projections," writes Kathleen Romig, director of Social Security policy at the Center on Budget and Policy Priorities.

It's impossible to overstate the importance of Social Security because 66 million Americans depend on it. For over half of households led by someone aged 65 or older, social security benefits are at least 50% of their income. It keeps more than 26.5 million people from falling below the poverty line.

To avoid any shortfall, Congress will have to take measures like increasing maximum taxable earnings (it's $160,200, up from $10,000 in 1973), extending the retirement age, reducing benefits overall (or perhaps based on the individual's income) and redirecting government revenue, or a combination of some of the above. During recent negotiations over raising the nation's debt ceiling, Congressional leaders agreed to take Social Security reductions off the table. They know how important Social Security is and also know that for politicians it's an electrified third rail.

Some folks agonize over when to take social security (see photo). The quick answer is at 70 unless you need the money and/or you have health issues. 37% of recipients take it as early as they can. Only 5% wait until 70. If you like the idea of lifetime annuity payments you want to maximize this one.