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the SGROI FINANCIAL
NEWSLETTER

The New Retirement Security Rule and You

In late April 2024, the Department of Labor passed the Retirement Security Rule which promised to implement sweeping changes across the wealth management landscape. While there are many important changes for you, the investor, held in the new Retirement Security Rule, the most notable change made by the rule is when someone in an adviser's position is deemed a fiduciary.

The fiduciary relationship is an important one in the financial planning and wealth management industry because when an adviser is acting as a fiduciary, they first and foremost must treat the client's needs and interests above and beyond any personal interest they may have. It is simply the highest standard of care a service professional can have with a client. There are of course some extreme examples of this playing out in practice, but at its core the principle is that an adviser must make sure that whatever purchase, sale, recommendation, etc., they are making to or for a client is in the client's best interest even if it is theoretically harmful to the adviser.

The new Retirement Security Rule now increases the reach of who is defined as a fiduciary in the eyes of the Department of Labor. This is important because the Department of Labor has a significant amount of oversight over many investors in the country through their retirement, or qualified, investment accounts. There are numerous types of qualified investment accounts, but the most common are 401(k)s, IRAs, and Roth IRAs. If you have one of these types of accounts, you are what the Department of Labor now defines as a Retirement Investor who is now protected by the new fiduciary requirements of the Retirement Security Rule.

"Retirement assets are amongst the most sacred for the American public, and rightfully so, as they constitute the basis for many beginning the post-career chapter of their lives."

In essence, the Retirement Security Rule states that if a financial adviser provides a recommendation to you in regards to your qualified investment account(s), whether that is to buy,

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sell, transfer funds, roll over funds, amongst other actions, and the adviser is to be paid for such a recommendation in some fashion and you, the investor are relying on the advice to be in your best interest, that adviser is a fiduciary.

In summary, the purpose of the Retirement Security Rule is to provide broader protections for Retirement Investors in their dealings with a financial adviser or other financial professionals. Retirement assets are amongst the most sacred for the American public, and rightfully so as they constitute the basis for many beginning the post-career chapter of their lives. In broadening the definition of who constitutes a fiduciary, the Department of Labor is attempting to put more of a burden on the adviser to ensure the investor's retirement assets are being handled in the best interest of the investor, and not in the best interest of the adviser.

If you have any questions about the impact of the Retirement Security Rule on your investments with Sgroi Financial, please reach out to your adviser at 716-674-6700.

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like growth has.

In our portfolios, we will continue to allocate towards these growth names, but will also keep our value exposure as well. If we do see a shift to value, we will benefit from this, and conversely, if the market continues to be technology-driven, we will see gains from here. Bonds have been under pressure, and have been in a drawdown for 47 months, by far the longest bond bear market in history. A big part of this is the Fed hiking interest rates at a very aggressive pace, and investors dialing back rate cut expectations. However, the silver lining is that 86% of global fixed-income assets are now yielding 4% or more versus 20% in the decade leading up to the pandemic. This means investors no longer need to take on extra risk to generate income. With yields at these levels, there is potential for double-digit returns in a recession scenario.

As always, we want to thank everyone for all of the trust you have put into Sgroi Financial over the years, and encourage you to reach out to your financial advisor should any questions arise. Cheers to a great summer!

Market Moves

Stay informed with the latest financial updates through our quarterly market review segment! Join Vincent Scarsella, our Director of Research and Investment Development, as he reviews the key events of the past quarter and explores future opportunities. You can watch this on our website and YouTube page!

A Letter from the Partners

Welcome to summer 2024!

We hope that you have had a great start to the summer season. Our feature article this month is about the Department of Labor's new retirement security rule that will go into effect later this year. The details are on page # but we wanted to comment on it as well. At Sgroi we welcome the new rule which is meant to ensure that all financial advisors act in the best interest of their clients. This has been a foundational theme at Sgroi Financial since our beginning in 1971. We have always believed in transparency and have put our clients and their interests first. We don't think there should be any other way! If you have any questions on this please feel free to reach out to your financial advisor.

If you have been in the office recently you may have heard the sound of construction off of the reception area. Due to our continued growth, we have run out of space so we are renovating what had been a vacant spot in the office into usable office space for our staff and clientele. Along those lines we want to wish a warm welcome to Meredith Miller who is the newest addition to our Sgroi Financial team. Meredith is training to become an administrative assistant to support our growing roster of financial advisors.

In closing we hope that you all enjoy these beautiful summer months no matter what your preferred activities are. As always, we thank you for putting your trust in Sgroi Financial and appreciate your business.

All the best,

Patrick Sgroi, Partner

John Clouden, Partner

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Welcome!

Meredith Miller

We are happy to welcome Meredith Miller as our new Administrative Assistant! Meredith received her Bachelor of Fine Arts in Theatre Design & Technology from Penn State University and brings over 10 years of experience in managing large-scale events in the theater industry. Originally from Erie, PA, she has recently relocated to Orchard Park from Charlotte, NC, along with her husband, son, and three rescue dogs!

IRS Notice 2024-25

As of April 2024, the IRS extended the temporary relief from required minimum distributions (RMDs) for inherited retirement account holders that inherited an IRA on or after January 1, 2020. Even if you are not technically required to make a withdrawal, it may still make tax sense to make a distribution in 2024 and you should consult with your financial advisor.

This IRS Notice does not affect lifetime RMDs, RMDs from inherited IRAs from "eligible designated beneficiaries," or RMDs for beneficiaries who inherited before 2020. It only applies to beneficiaries with annual RMDs subject to the 10-year rule.

PENCIL PROJECT*

Classroom Giveaway

Are you a teacher or know a teacher that would like to win $500 towards classroom supplies for the 2024-23 school year? Each year Sgroi Financial rewards five hardworking teachers in Western New York through our Pencil project promotion. Be sure to check our website over the summer as we'll be announcing our 6th Annual Pencil Project Classroom Giveaway contest starting on July 29th and running through August 18th!

More details to follow on our website!

First Quarter 2024 Market Review

"History shows us, over and over, that bull markets can go well beyond rational valuation levels as long as the outlook for future earnings is positive."

Peter Bernstein

Equities continued their positive streak in June to close out the first half of the year. The S&P 500 made 31 new all-time highs, with the 15.30% gain making 2024 the 15th-best start to a year going back to 1928. But a rising tide has not lifted all boats, small-cap stocks finished the first half up 1.70%, while the Dow finished up 4.80%. Even more telling is growth versus value. The Growth Index which includes the AI darling Nvidia was up 20.70%, while the Value Index was up 6.60%. Time will tell if this wide dispersion between assets will continue, and there are more questions about the path of interest rates, inflation, and how strong the US economy is.

Markets were choppy to start the second quarter, as stubbornly high inflation dimmed the outlook that the Federal Reserve would cut interest rates. However, by the final days of the quarter, the outlook changed, as inflationary data came in better than expected, which made investors certain that the Fed could cut interest rates in September. Currently, the Fed Funds Rate stands at 2.7% above Core PCE, which makes this the most restrictive monetary policy we have seen since September 2007.Currently, there is a 59% chance that the Federal Reserve will cut in September, however, the market has been very wrong about the Fed. Coming into the year, it was expected the Fed would cut 6-7 times, now that number is down to 1-2. The Fed has been data-dependent, so if inflationary data continues to come in below expectations, the chances for a rate cut get better and better.

The US consumer is a big part of US GDP and a lot has been said about the strength of the consumer and if it can continue to propel the economy higher. The biggest asset consumers have is typically their house. Most likely, many have not felt the strain of higher rates as only 11% of current mortgages have an Adjustable Rate, so the vast majority of Americans with existing fixed-rate mortgages have not been negatively affected by the Fed's 11 rate hikes. This is a big factor in explaining why many households are still in decent financial shape. So, with a still resilient economy, increasing corporate profits, and a still strong consumer, the equity markets have proven to be resilient to higher rates as well.

The outlook for stocks for the back half of the year is blurry. One key trend that has continued from 2023 is the outperformance of technology companies tied to Artificial Intelligence. While the broad market has been able to post nice gains so far this year, this can largely be attributed to AI. The top 5 stocks in the S&P make up 27% of the index, the highest concentration we have seen with data going back to 1980. If the market does want to go higher from here, we will most likely need to see a shift from growth to value, as value has not seen the price appreciation

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