The Bottom Line - Q2 2024

THE BOTTOM LINE

SECOND QUARTER : 2024

BUFFALO FINANCIAL QUARTERLY NEWSLETTER

THE AI CRAZE

BY JEREMY I. BECK

In our offices, CNBC serves as a constant backdrop, offering a stream of financial insights as we go about our daily tasks. A particularly striking observation was made by Peter Mallouk, the esteemed President and CEO of Creative Planning, a formidable entity managing over $300 billion in assets. During a recent dialogue, one of his clients inquired about the longevity of the current technological rally. Mallouk's response was unequivocal: "For the rest of your life." He elaborated on the pivotal role of the Artificial Intelligence (AI) revolution, positing that it will propel technology stocks to unprecedented heights for many years to come.

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Artificial Intelligence is widely acknowledged as a transformative force, with potential applications spanning from autonomous transportation to advanced healthcare solutions. This optimistic outlook has catalyzed a surge in AI-related stocks, reflecting growing investor confidence. Nonetheless, amidst the fervor, there's a palpable sense of caution concerning the realization of these anticipated gains, mirroring the typical lifecycle of emerging technologies.

Despite being in its nascent stages, AI's potential is undeniable. However, the trajectory towards profitability remains obscured by considerable investment demands and the impending necessity to navigate regulatory and ethical landscapes. This uncertainty notwithstanding, AI distinguishes itself through its proven efficacy across various sectors. Its contributions range from enhancing operational efficiency in manufacturing to revolutionizing customer experiences in retail and bolstering cybersecurity measures.

In healthcare, AI's prowess in early detection of critical conditions, such as cancer, and its capacity to expedite drug development and clinical trials are poised to significantly reduce costs and improve outcomes. Similarly, financial services stand to gain from AI's advanced pattern recognition capabilities, offering robust defense mechanisms against fraud and cyber threats.

The domains of advertising and e-commerce are also set to benefit from AI-driven advancements. The ability to tailor advertisements dynamically ensures unparalleled personalization and timely delivery, thereby optimizing engagement and conversion rates.

As AI continues to evolve, it remains to be seen how its growth trajectory will compare to those of previous technological innovations. Whether it will follow a similar pattern or carve out a distinct narrative is a question that only time can answer. Investors, therefore, must remain vigilant, continually updating their knowledge base to make informed decisions in this dynamic landscape.

Enjoy the longer days and warmer weather,

Jeremy I. Beck

FIXED INCOME OUTLOOK: NOT IF... BUT WHEN

BY MATTHEW J. PITROLA

The Federal Reserve held its Effective Federal Funds Rate steady for the 5th meeting in a row in March. As they continue to await future data to determine when to cut interest rates.

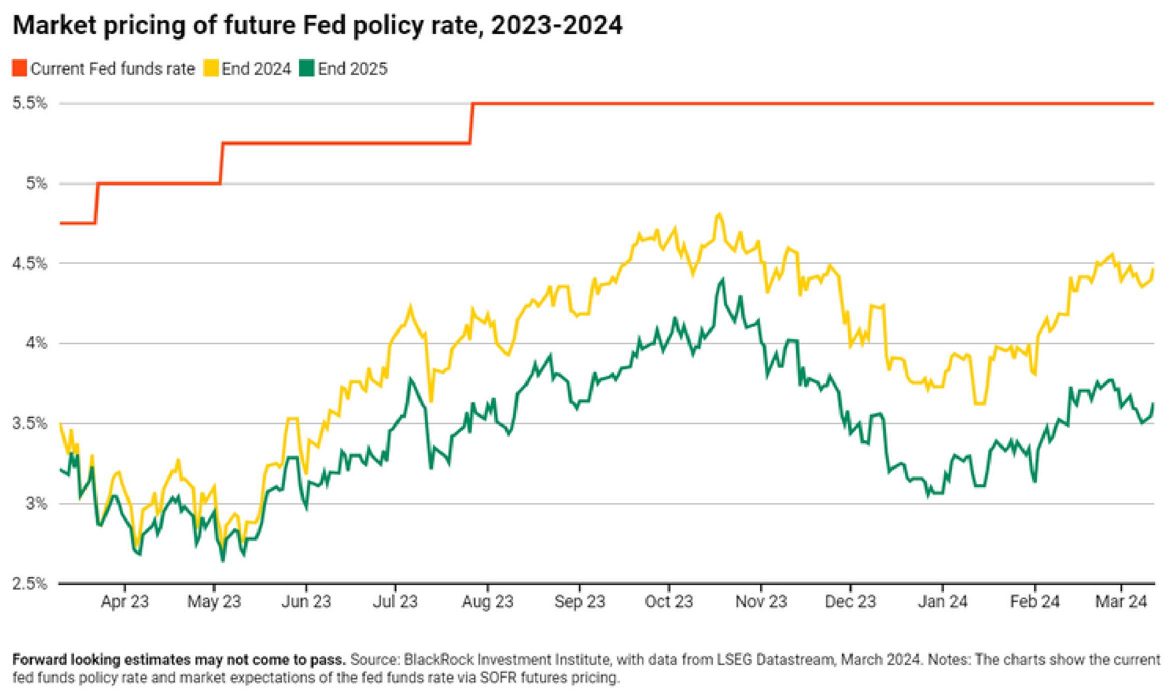
Fed officials are facing the difficult task of balancing the risk of cutting too soon with the risk of cutting too late — both of which come with consequences. That's why the timing of that first-rate cut is so critical. If Fed officials begin to cut rates too soon, they risk undoing the progress they have seen on the inflation front. In the same breath, if Fed officials begin to cut too late, it could fail to prevent the economy from sharply deteriorating.

The Federal Reserve chief Jerome Powell, repeated his usual phrase that inflation's journey back down to 2% will be a bumpy one.

Fed officials also released a fresh set of economic projections Wednesday. They show that central bank officials now expect fewer rate cuts in the coming years than they estimated in December. Most Fed policymakers continue to expect three .25% rate cuts this year, but they now see fewer in 2025 and 2026. The yearend target range for 2025 moved up to 3.75% - 4.00%, from 3.50% - 3.75% in December.

The yearend target range for 2026 also moved up to .25% to a range of 3.00% - 3.25%.
Fed officials expect interest rates in the longer run to be slightly higher than they projected in December. Moving their target long run range up to 2.50% - 2.75%.

FIGURE 1: Future Federal Funds Rates Projections (Current, Year end 2024 & year end 2025)



Source: Blackrock Market Intelligence

NOT IF... BUT WHEN - CONT'D

IMPLICATIONS:

The Federal Reserve has had the ability to keep their eyes on their end goal of 2.00% inflation thanks to the strong economic growth numbers of AI affiliated companies.

Over the first quarter of 2024, the fixed income markets have remained volatile. With the 10-year Treasury Yield drifting between 3.75% and 4.35% respectively. We expect that this volatility will remain over the course of 2024, as there ultimately can be surprise inflation data that sends yields higher.

But with volatility, comes opportunity. We believe that fixed income investors should take advantage of higher yields in several ways:

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Certificates of Deposit:
While we may have seen our highest yielding short-term CDs in late 2023, opportunities to yield over 5.00% continue to stay abundant for investors with a short-term time horizon (18 months or shorter).

CDs or Certificate of Deposits are an extremely low risk opportunity available to investors. CDs are federally insured up to $250,000, meaning that your cash invested is safe if you are under that limit.
For investors who enjoy earning interest with little to no risk, you may want to consider a CD ladder for your investments. As your major risk with owning a CD is re - investment risk. (Where will interest rates be in the open market when your CD comes due for maturity.) We recommend spreading your maturities over several years to ensure that if we do see an abrupt decline in interest rates, you will still have high yielding investments for years to come.

Money Market Holdings:
For investors who want to take on a minimum level of investment risk, maintain liquidity, but also earn current income. A money market fund could be a great destination. Money market funds use a mix of short-term investments such as (T Bills, Short term CDs and Repurchase agreements) to generate monthly income. While money market positions do not carry FDIC insurance like a Certificate of Deposit or a bank high yield savings account. They are historically safe due to the short-term nature of their investments.

Short term bonds - (Treasury and Investment Grade Corporates):
Investors who have a slightly higher risk tolerance and time horizon should begin to focus on allocating towards short term bonds. Short term bond positions could benefit directly from Federal Reserve interest rate cuts over these next few years. This is also the highest yielding area of the yield curve, so investors will be receiving high current income while they position themselves for declining interest rates.

Intermediate / Core Bonds:
Intermediate bonds will have longer durations based off their holdings mix. Meaning that their sensitivity to interest rate fluctuations will be greater than short term bonds. The risk reward in intermediate bonds could be very attractive in a recessionary scenario for the United States. As we would expect growth to moderate substantially, long term interest rates to fall, and the Federal Reserve to cut interest rates to begin to stimulate the economy. A recession in 2024 is not our base case, but for investors who are worried that one may materialize in 2024 or 2025, allocating towards intermediate duration treasuries could be a great hedge for the equity portion of your portfolio.

Summary:
While the fixed income landscape has been volatile to start the year, opportunities to safely earn interest continue to stay abundant for investors across the risk scale. Continuing to monitor current inflation data will be pivotal for those who would like to extend their duration beyond short term bonds!

SHOULD I CONTRIBUTE TO MY 401K OR IRA?

BY JACOB WOOD

Deciding between contributing to a 401(k) or an IRA/Roth IRA is a significant financial decision that can shape your retirement savings strategy. Both options offer tax advantages and the opportunity to grow your nest egg, but understanding the nuances of each is crucial in making the right choice for your financial future.

Contributing to a 401(k) offers several benefits, especially if your employer provides a matching contribution. This essentially means free money towards your retirement savings. Additionally, 401(k) contributions are made pre-tax, reducing your taxable income for the year. This can lead to immediate tax savings, allowing your investments to grow tax-deferred until retirement. However, it's important to consider the limited investment options and potentially higher fees associated with 401(k) plans compared to IRAs.

IRAs, including Roth IRAs, provide more flexibility and control over your retirement investments. Traditional IRAs offer tax-deferred growth, with contributions potentially being tax-deductible, depending on your income level. Roth IRAs, while funded with after-tax dollars, offer tax-free withdrawals in retirement, providing valuable tax diversification. IRAs also offer a broader range of investment options compared to many 401(k) plans, allowing you to tailor your portfolio to your risk tolerance and financial goals.

When deciding between a 401(k) and an IRA/Roth IRA, several factors come into play:

- Employer Match: If your employer offers a 401(k) match, contributing enough to receive the full match is often the first step due to the immediate return on investment.
- Contribution Limits: Consider your desired contribution level and how it aligns with the annual limits for each account type.
- Tax Implications: Assess whether the immediate tax benefits of contributing to a 401(k) (pre-tax contributions) or the potential tax-free withdrawals of a Roth IRA align better with your current and future tax situation.
- Investment Options: Review the investment options available within your 401(k) plan and compare them to the broader selection offered by IRAs.
- Fees and Expenses: Compare the fees associated with your employer's 401(k) plan, including administrative fees and investment expenses, with those of IRAs.
- Required Minimum Distributions (RMDs): Understand the RMD rules associated with both account types, as they may impact your retirement income strategy.

In conclusion, the decision to contribute to a 401(k), IRA or Roth IRA depends on various factors, including your employer's offerings, tax situation, investment preferences, and most importantly, retirement goals. While maximizing employer matches in a 401(k) is often recommended, diversifying your retirement savings across both account types can provide flexibility, tax advantages, and a well-rounded approach to building your retirement nest egg. Consulting with a financial advisor like the specialists at Buffalo Financial can help you navigate these choices and create a personalized retirement strategy tailored to your individual needs.

BRAD MCMILLAN MARKET COMMENTARY

What's Worrying Investors?

Every year or two, a new round of worries crops up. Some of them are real—the war in Ukraine, inflation, politics—but a surprising number are not. The challenge, of course, is telling which is which.

One good approach is to figure out what the agenda is for those reporting the worries. If they are trying to sell you something, that is a clue that you should take a closer look. If they are sharing "knowledge" that only they have figured out, you want to ask why (in the age of the internet) only they know this. If they claim that you must act quickly on whatever it is, question why it is so urgent that it can't be checked.

Today, I'd like to provide a summary of the latest round of worries showing up in my emails from advisors and clients. In all cases, one of the three filters above shows why they are not as big a problem as presented—and why, when you look at the details, there is much less to worry about than some would like you to believe.

Do You Own Your Investments?

Let's start with one that is showing up in multiple media, including a documentary, which is that you don't really own your investments. That somehow if they are held in "street name," they can be taken away by the broker or by the government. Not true. If you bought and paid for the securities, according to Fidelity Investments, they are held in segregated accounts that can't be used by the broker/dealer to finance their business. It is your money, and they are your securities.

The exception is for securities bought on margin, where the broker does have a lender's security interest and may use that as security for their business loans. This is something to keep an eye on, but it is your decision to margin your securities and, even more, to work with a broker that does that. For the record, Commonwealth and our clearing firm do not pledge even your margin securities—so you are safe here.

So, why are people calling this issue out? Generally speaking, as in most cases like this, they want to sell you something. Usually, it is gold, but it could also be bitcoin. Offering alternatives to the regular financial system by someone with a vested interest is a common pitch, with the end goal of getting some of your dollars.

What's Worrying Investors? - Cont'd

Will the Dollar Be Replaced by Digital Currency (and Other Fears)?

Other examples include the fear that the dollar will be replaced by digital currency. "Find out by subscribing to our newsletter, which you will pay for in dollars." Another is that the U.S. dollar is going away. "Get our report on how to protect yourself, just pay us in dollars." Then there is the fear that the Fed is privately owned, which isn't true. "To learn more, pay us in dollars." You get the idea.

Now, some of these issues have some truth behind them. That can make them more credible but still not right. Here at Commonwealth, we take issues that come up seriously and investigate them. But if they don't check out, we don't worry about them. We also have the benefit of having done this for a long time and have seen most of them before. But even there, we take a fresh look when warranted, just in case.

Focus on Real Worries

So, feel free to ask. But know that, if it is in the press, we have likely heard about it, checked it out, and either determined it isn't a real problem or, if it is, are preparing for it. There are lots of real things to worry about. Let's stay focused on them, not on the false worries.

Brad McMillan, CFA, CAIA, MAI, Commonwealth Financial Network

LEUKEMIA & LYMPHOMA SOCIETY®

LEADING THE WAY TO CANCER CURES

Our very own Jacob Wood is currently running for Western New York's Visionary of the Year to benefit the Leukemia & Lymphoma Society!!

We currently have numerous events coming up, the dates and times are listed below:

Meat Raffle - April 12th
NHL Playoff Pool - April 20th
Disc Golf Tournament - April 28th
Walking Challenge - May 1st

For more information on Jacob's upcoming events you can call us at 716-771-1888 or email: jacob@buffalofinancial.com

We are also selling blood droplets to support Jacob's campaign and hanging them all over our lobby! If you are interested in purchasing one, they are:

1 for $10 or **3 for $20**

To purchase a droplet, stop by our office at
4990 Transit Road
Depew, NY 14043
or email jacob@buffalofinancial.com

To donate directly to Jacob's campaign, please use the camera app in your phone to scan the QR code below

He's at it again! Jeremy Beck is once again going to be representing Buffalo Financial in the 117 Holes of Golf to benefit Oishei Children's Hospital. This fundraiser supports the specialized care provided at Oishei Children's Hospital (OCH), a one-of-a-kind facility and anchor institution for pediatric healthcare, caring for our region's children and families.

With your help last year, Jeremy was able to raise over $35,000 for Children's Hospital and he's really hoping to raise more in 2024.

We would be honored if you would consider a tax-deductible donation. Please take a picture of the QR Code below, visit http://chobf.convio.net/goto/beck or mail a check payable to "Children's Hospital of Buffalo" to our offices, 4990 Transit Road, Depew New York, 14043. Thank you so much!!!!