Financial Insight Quarterly

Your Source for Financial Well-Being

Blaise Benoist, AIF®
Benoist Wealth Strategies, Inc.
Managing Partner, BWS
Branch Manager, RJFS
390 N. Orange Avenue
Suite 2300
Orlando, FL 32801
407-900-2185
blaise.benoist@benoistws.com
www.benoistws.com

17%

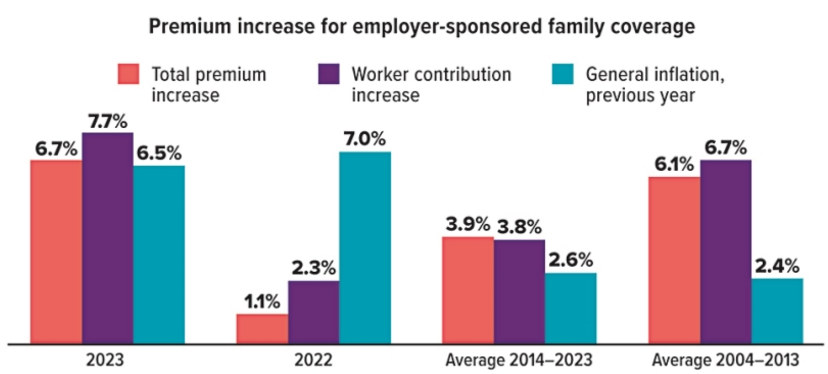
Average percentage of employer-sponsored health insurance premiums contributed by workers for single coverage. For family coverage, the average worker contribution percentage is 29%. These contribution levels have remained fairly steady over the last 20 years, while premiums have increased dramatically.

Source: Kaiser Family Foundation, 2023

Health Insurance Premiums Jumped in 2023

In 2023, the average total annual premium for employer-sponsored health insurance coverage was $8,435 for single coverage and $23,968 for family coverage, with average worker contributions of $1,401 and $6,575, respectively. Total premiums for both types of coverage increased a little more than 6.5% over 2022, the highest annual increase since 2011. The increase in worker contributions was 5.6% for single coverage and 7.7% for family coverage, the highest since 2017 and 2019, respectively.

On average, the pace of premium increases has slowed over the last 10 years. The big jumps in 2023 may reflect the cumulative effect of high general inflation in 2021 and 2022, because premiums are typically set before the beginning of the year.



Sources: Kaiser Family Foundation, 2023; U.S. Bureau of Labor Statistics, 2024

Investor, Know Thyself: How Your Biases Can Affect Investment Decisions

Traditional economic models are based on the premise that people make rational decisions to maximize economic and financial benefits. In reality, most humans don't make decisions like robots. While logic does guide us, feelings and emotions — such as fear, excitement, and a desire to be part of the "in" crowd — are also at work.

In recent decades, another school of thought has emerged. This field — known as behavioral economics or behavioral finance — has identified unconscious cognitive biases that can influence even the most stoic investor. Understanding these biases may help you avoid questionable financial decisions.

Sound familiar?

What follows is a brief summary of how some common biases can influence financial decision-making. Can you relate to any of these scenarios?

Anchoring refers to the tendency to become attached to something, even when it may not make sense. Examples include a home that becomes too much to care for or a piece of information that is believed to be true despite contradictory evidence. In investing, it can refer to the tendency to hold an investment too long or rely too much on a certain piece of data or information.

Loss aversion bias describes the tendency to fear losses more than to celebrate gains. For example, you may experience joy at the chance of becoming $5,000 richer, but the fear of losing $5,000 might provoke a far greater anxiety, causing you to take on less investment risk than might be necessary to pursue your goals.

The **endowment effect** is similar to anchoring in that it encourages you to "endow" what you currently own with a greater value than other possibilities. You may presume the investments in your portfolio are of higher quality than other available alternatives, simply because you own them.

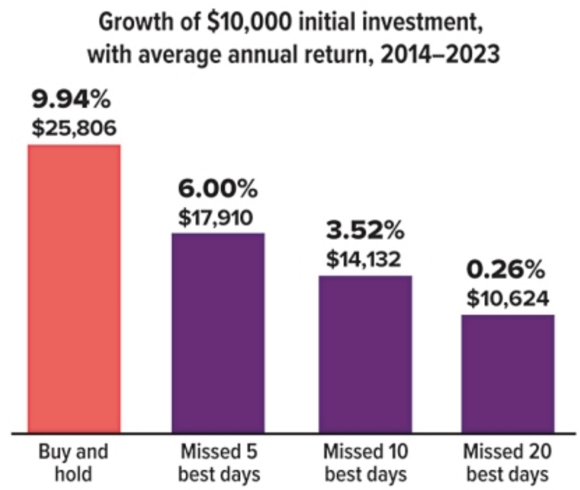
Overconfidence is having so much confidence in your own ability to select investments that you might discount warning signals or the perspective of more experienced professionals.

Confirmation bias is the tendency to assign more authority to opinions that agree with your own. For example, you might give more credence to an analyst report that favors a stock you recently purchased, in spite of several other reports indicating a neutral or negative outlook.

The **bandwagon effect,** also known as **herd behavior,** happens when decisions are made simply because "everyone else is doing it." This can result in buying high and selling low — what most knowledgeable investors strive to avoid.

Risk of Missing Out

Emotion-based decisions can have a significant impact on your portfolio over time. Consider how much a long-term investor might have lost by shifting in and out of the market due to fear, overconfidence, or following the herd, and subsequently missing the best-performing days over the 10-year period ended 2023.



Source: Yahoo Finance, 2024, S&P 500 Index for the period 12/31/2013 to 12/31/2023. The S&P 500 Index is an unmanaged group of securities considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in any index. Past performance is no guarantee of future results. Actual results will vary.

Recency bias refers to the fact that recent events can have a stronger influence on your decisions than those in the past. For example, if you were severely affected by market gyrations in the early days of the pandemic, you may have wanted to sell your stock holdings due to fear. Conversely, if you were encouraged by the stock market's strong performance in 2023, you may have wanted to pour all your money into equities. Yet either of these actions might not have been appropriate for your investment goals and personal circumstances.

An objective view can help

When it comes to our finances, instincts may work against us. Before taking any actions with your portfolio, it might be wise to seek the counsel of a qualified financial professional who can help you identify any unconscious biases at work.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. There is no assurance that working with a financial professional will improve investment results.

Market Measures: Beyond the Dow

When you hear or read that the market is up or down, what does that really mean? More often than not, it reflects movement in the two best-known stock market indexes, the Dow Jones Industrial Average and the S&P 500.

In fact, there are hundreds of indexes that track various categories of investments. While you cannot invest directly in an index, you can buy funds that track specific indexes, and you can look at indexes as a benchmark for certain portions of your portfolio. For example, the Dow or the S&P 500 might be a reasonable benchmark for your domestic stocks and stock funds, but you should not expect your entire portfolio to match the performance of those indexes.

Here are some commonly cited indexes.

The **Dow Jones Industrial Average** tracks stocks of 30 large well-known U.S. companies across a variety of business sectors. Originally a true average of stock prices, it now uses a divisor to adjust for stock splits, distributions, and substitutions — making it a *price-weighted index* rather than a true average.[1]

Unlike the Dow, the following indexes are weighted based on *market capitalization,* the value of a stock's outstanding shares. Market-cap-weighted indexes are skewed toward the performance of the larger companies in the index.

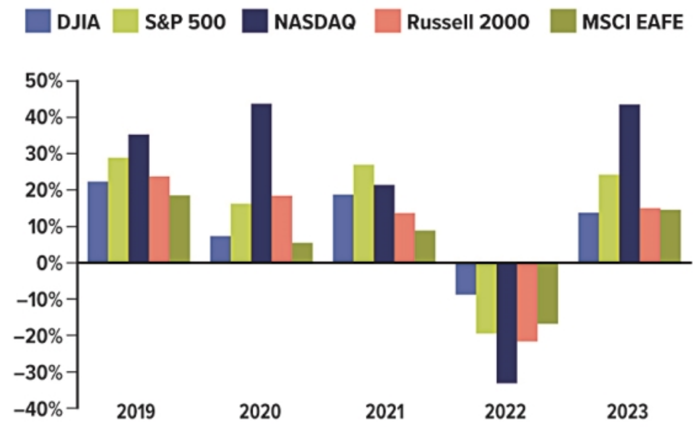
The **S&P 500** tracks a much broader range of large U.S. companies (large caps) than the Dow and is often considered representative of the U.S. stock market in general. However, it does not capture mid-size companies (mid caps) or small companies (small caps), which generally carry higher risk and higher growth potential than large companies and are tracked by the **S&P MidCap 400** and **S&P SmallCap 600,** respectively. Together these three indexes comprise the **S&P Composite 1500.** The number of stocks in S&P indexes may vary slightly from the number indicated in the name.[2]

The **NASDAQ Composite Index** tracks all domestic and foreign stocks traded on the Nasdaq Stock Market (about 3,400 in early 2024). It includes companies of all sizes across a range of industries but is heavily weighted toward technology companies. Many Nasdaq stocks carry higher growth potential but greater risk than the large domestic stocks tracked by the Dow and the S&P 500. The **Nasdaq-100** tracks the largest non-financial companies traded on the Nasdaq.[3]

The **Russell 3000 Index** tracks stocks of the 3,000 largest U.S. companies, ranked by market capitalization. The **Russell 1000 Index** tracks about 1,000 of the largest, essentially a combination of large caps and mid caps. The **Russell 2000 Index** tracks the rest and is the most widely used benchmark for U.S. small-cap stocks.[4]

Five Indexes, Five Years

Annual index performance (price only), 2019 to 2023



Source: London Stock Exchange Group, 2024, for the period 12/31/2018 to 12/31/2023. Dow Jones Industrial Average (DJIA) Price Index, S&P 500 Composite Price Index, NASDAQ Composite Index (price), Russell 2000 Price Index, and MSCI EAFE Price Index. The performance of an unmanaged index is not indicative of the performance of any specific security. Past performance is no guarantee of future results. Actual results will vary.

The **FT Wilshire 5000 Index** tracks the performance of all U.S. stocks with readily available price data, making it the broadest measure of the U.S. stock market. When established in 1974, the index contained around 4,700 stocks, and grew to more than 7,500 in 1998. The number has dropped since then, largely due to corporate consolidation, and the index included about 3,400 stocks in early 2024.[5]

The **MSCI EAFE Index** tracks about 800 large- and mid-cap stocks in 21 developed countries outside the United States and Canada and is a widely accepted benchmark for foreign stocks. The **MSCI World Index** includes the same 21 countries plus the U.S. and Canada and is heavily weighted toward U.S. stocks.[6]

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Investing internationally carries additional risks such as differences in financial reporting and currency exchange risk, as well as economic and political risk unique to the specific country. This may result in greater share price volatility.

Funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1–2) S&P Dow Jones Indices, 2024; 3) Nasdaq, 2024; 4) FTSE Russell, 2024; 5) Wilshire, 2024; 6) MSCI, 2024

How a Family Limited Partnership Can Power an Estate Plan

One challenge faced by family-run businesses involves transitioning both the ownership and operations from one generation to the next. A family limited partnership (FLP) is a legal agreement that enables business owners and their heirs to address succession, estate, and tax planning needs all at once.

Business owners who want family members to inherit their businesses in the future could use FLPs to transfer assets out of their taxable estates during their lifetimes. And to do so, the owners of a valuable business might begin this process many years before they intend to give up operational control.

Estate tax threat

The IRS calculates the estate tax due on an individual's gross taxable estate by adding the value of all owned assets, including a home and a business, and subtracting any applicable exemptions. Even if the taxable estate falls below the current generous federal estate tax exemption level ($13.61 million or $27.22 million for a married couple in 2024), the family might not be entirely out of the woods, especially if they live in a state that has an estate tax or an inheritance tax with a lower exemption amount. Perhaps more concerning, the federal estate tax exemption is scheduled to revert to lower, inflation-adjusted 2017 levels in 2026.

When business owners fail to consider that federal and state estate taxes could be due upon their passing, the funds needed to pay the taxes may not be available, and their heirs may be forced to borrow the money or liquidate the business.

Family discount

With an FLP, general partners run the business. Limited partners (such as the children of general partners) have no vote and no say about day-to-day operations, and they are not liable for the debts of the FLP.

A general partner (or a corporation or limited liability company controlled by the general partner) can gift ownership shares to limited partners in installments that conform to the annual gift tax exclusion of $18,000 per recipient (in 2024). Because limited partners have restricted rights, these annual gifts may be valued at a discount — typically 30% or more — from fair market value. For example, more than $25,000 worth of property or business shares (currently valued at $18,000 for gift tax purposes) could potentially be transferred to each limited partner without triggering gift taxes. Of course, every family's situation is different, and actual results will vary.

Setting up a family limited partnership can involve complex tax rules and regulations, and there are up-front costs as well as ongoing fees and operating expenses to consider. Be sure to consult with your tax and estate planning professionals.