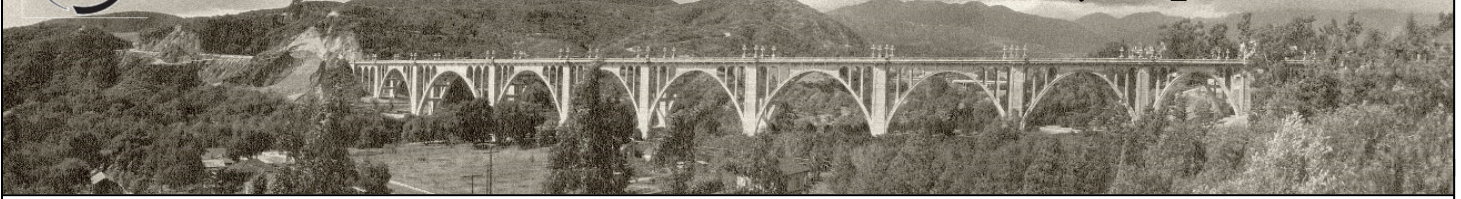




Osher Van de Voorde Quarterly Update



The Fed Recalibrates

October 2024

Since we first issued our Outlook 2024 in January and in subsequent April and July newsletters, we have been confident in our prediction for the inevitable comeback of an equally weighted investment strategy. For almost two years now, market returns have been disproportionately led by a small group of mega-cap technology stocks, the so-called "Magnificent Seven." The fever may have finally broken as the average stock delivered a stellar third quarter return relative to the overall market.

For the third quarter 2024, the S&P 500, Dow Jones Industrial Average and NASDAQ Composite rose 5.53%, 8.21% and 2.57% respectively. Meanwhile, the equally weighted S&P 500 climbed 8.72% in the third quarter. That the average stock as measured by the equally weighted S&P 500 outperformed the technology-heavy NASDAQ by such a wide margin bodes well for a continued broadening of market breadth as this bull market advances. Year-to-date, the S&P 500, Dow Jones Industrial Average and NASDAQ Composite are up 20.81%, 12.31% and 21.17% respectively. The equal weighted S&P 500 is now up 14.10% year-to-date.

As anticipated, the Federal Reserve cut the benchmark Fed Funds rate from a range of 5.25% to 5.5% to a lower range between 4.75% to 5%. With the previously higher range in place since July 2023, Fed Chair Powell has finally shifted the Fed's primary focus from curbing inflation to stabilizing the labor market. The Fed's decision to cut rates by 50 basis points, instead of the more widely expected 25 basis points, was somewhat surprising and illustrates the Fed's "commitment to make sure that we don't fall behind." At his press conference following the rate cut announcement, Chair Powell used variations of the term "recalibration" no less than eight times, emphasizing this important pivot in Fed policy.

Although Powell has been reticent to claim as much, the need to recalibrate implies victory in the Fed's hard-fought battle against inflation. In-

deed, core personal consumption expenditures (PCE) rose by 0.1% in August, a deceleration from core readings of 0.2% in both June and July. Core PCE excludes volatile food and energy prices. Headline PCE rose just 0.1% in August, below consensus and cooler than July's 0.2% rate. On an annualized basis, core and headline PCE have gained 2.7% and 2.2% respectively, a distant cry from the 7.1% PCE peak of June 2022 and within close proximity to the Fed's 2% target. Interestingly, annualized core PCE for the last three months has been running below the Fed's target, so disinflationary momentum seems to be building.

In turning its primary focus away from inflation to the other half of its dual mandate, the Fed is intent on preventing further degradation of the labor market and the much-anticipated soft economic landing is at hand. While nonfarm payroll employment increased by a respectable 142,000 jobs in August, previous months were revised lower. According to JP Morgan, the average job gain over the last three months is 116,000, well below the average 202,000 monthly job gain over the last year.

Unemployment stood at 4.2% at the end of August and the Fed expects the unemployment rate to rise to 4.4% by the end of 2024 and stabilize at that slightly higher rate throughout 2025. This will be the single most important metric to follow and any material acceleration in unemployment will usher in more aggressive rate cuts by the Fed. For now, consensus expectations are for two more 25 basis point cuts in 2024 and four 25 basis point cuts in 2025, bringing the Fed Funds rate down to 3.5% by the end of next year.

Other signs of a cooling economy, consumer spending increased by 0.2% in August, below expectations and below the 0.5% increase in July. Since consumer spending accounts for two-thirds of the US economy, this trend bears watching. In addition, the personal savings rate dropped to

4.8% in August from 5.2% in July, illustrating the need for US consumers to spend rather than save a higher level of disposable income. Despite these trends, the US economy is on track for steady gains in 2024 and the Fed's median expectation calls for 2% GDP in both 2024 and 2025.

With interest rates falling and an amazing \$6.8 trillion still resting in money market funds, there is considerable dry powder to support equity prices as the relative appeal of cash continues to abate. In addition, Goldman Sachs expects corporate buybacks to surpass \$1 trillion for the first time in 2025. As long as the Fed is able to successfully steer the economy away from recession, we suspect that a buy-the-dip mentality will prevail.

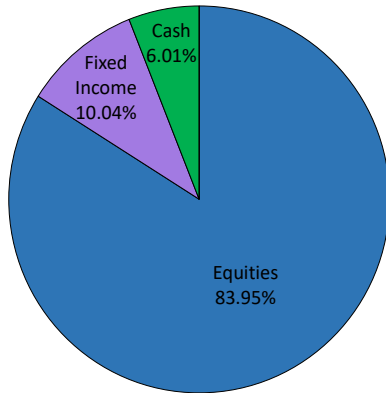
That said, high valuations are somewhat concerning, especially for the mega-cap technology cohort. As investors ratchet down the market cap ladder, bargains become more widely available. According to Yardeni Research, the forward PE for the Mega-Cap 8, S&P 500 LargeCap, S&P 400 MidCap and S&P 600 SmallCap is 28.8, 21.4, 15.9 and 15.6 respectively. Meanwhile, the forward PE for the S&P 500 Equal Weight Index is approximately 18.

With the stock market near record highs, the looming Presidential election may stir profit taking by traders speculating on outcome. We believe the Fed's recalibrated attention to the US economy trumps (pun intended) potential election year volatility. Regardless of who wins the White House, the odds favor continued gridlock where no single party sweeps. We intend to stay the course with our stable of world-class leading businesses that offer durable competitive advantages and provide both consistent earnings growth and predictable, persistent growth of income.

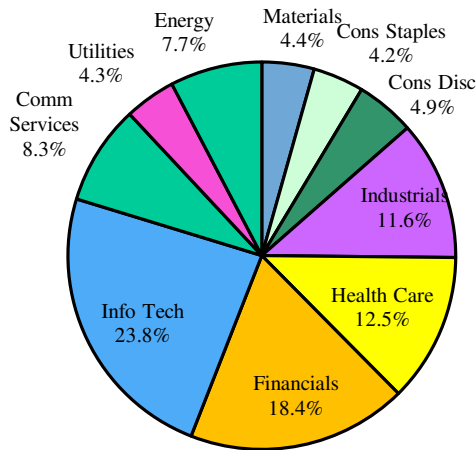
Investment Strategy Summary

As of September 30, 2024

Firmwide Asset Allocation



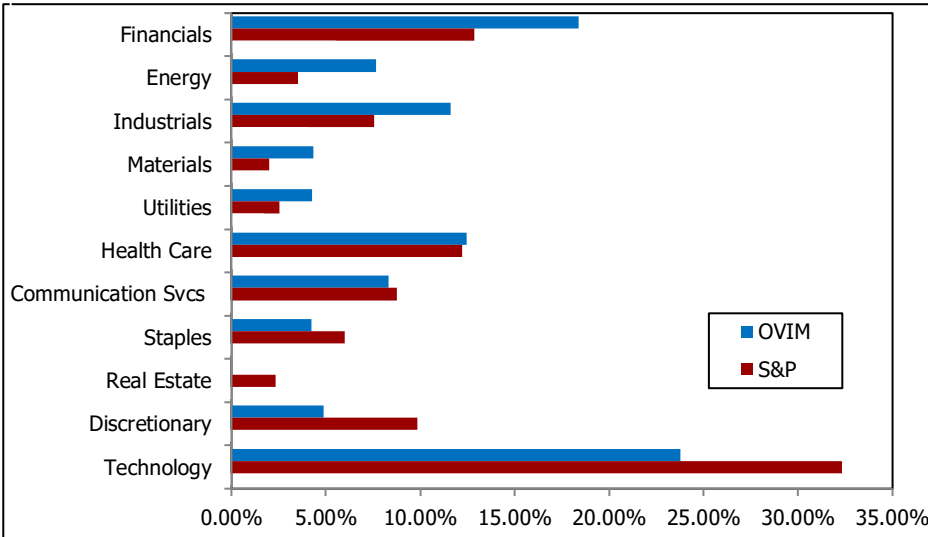
Equity Sector Allocation



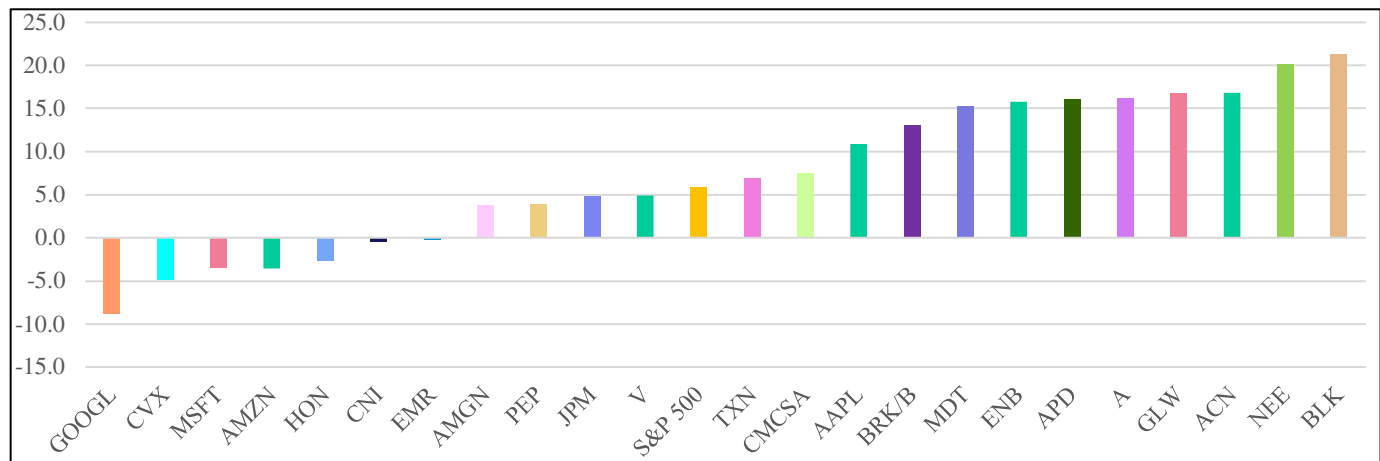
Top Core Global Equity Holdings

BlackRock Inc.	BLK
Apple Inc.	AAPL
Amazon.com Inc.	AMZN
Amgen Inc.	AMGN
Microsoft Corp.	MSFT
Corning Inc.	GLW
Visa Inc.	V
Berkshire Hathaway Inc. Cl. B	BRK/B
Alphabet Inc.	GOOGL
Air Products & Chemicals Inc.	APD
Texas Instruments Inc.	TXN
NextEra Energy Inc.	NEE
Emerson Electric Co.	EMR
JPMorgan Chase & Co.	JPM
Medtronic PLC	MDT
Accenture PLC	ACN
Enbridge Inc.	ENB
PepsiCo Inc.	PEP
Comcast Corp.	CMCSA
Honewell International Inc.	HON
Chevron Corp.	CVX
Agilent Technologies Inc.	A
Canadian National Railway	CNI

Sector Weightings Relative to S&P 500 Ranked by Largest Overweight



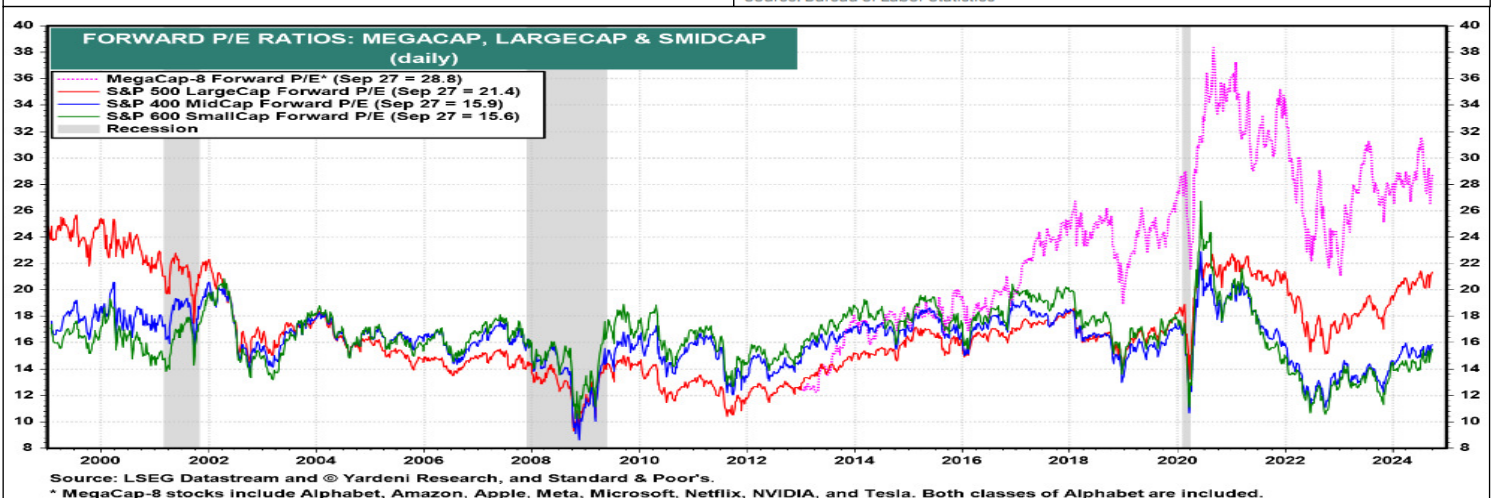
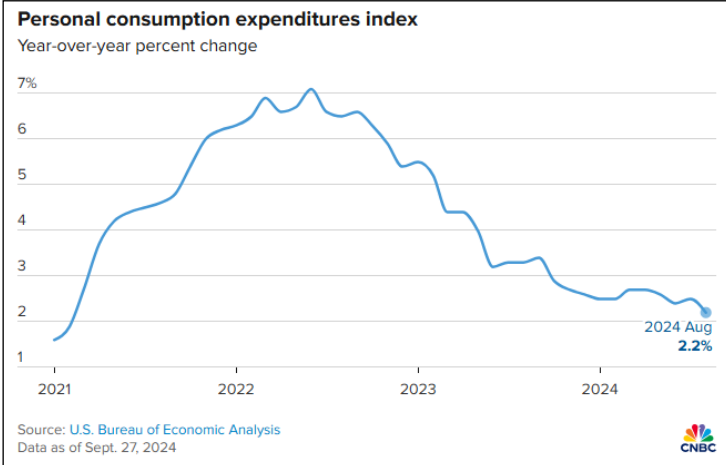
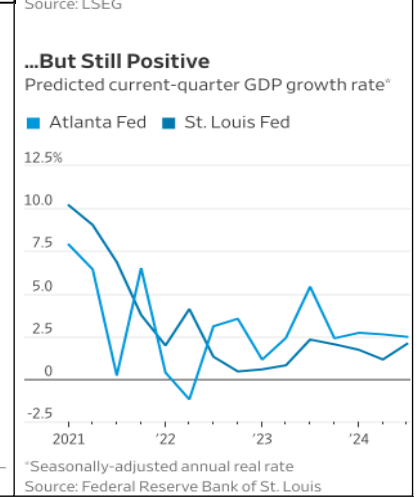
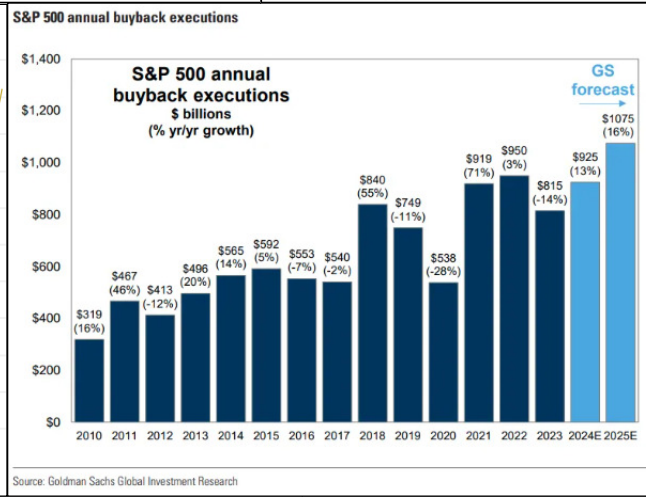
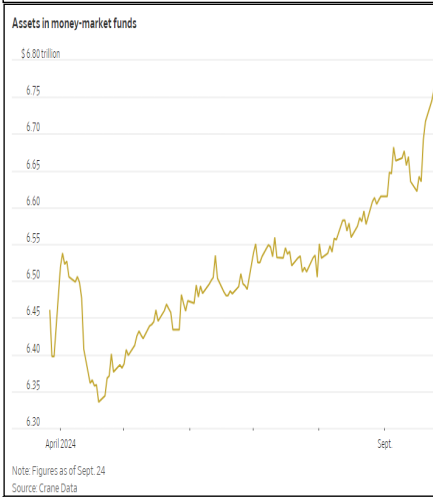
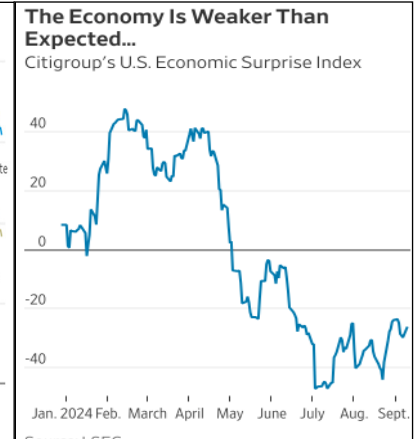
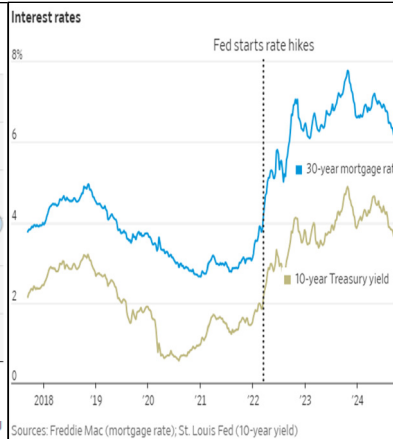
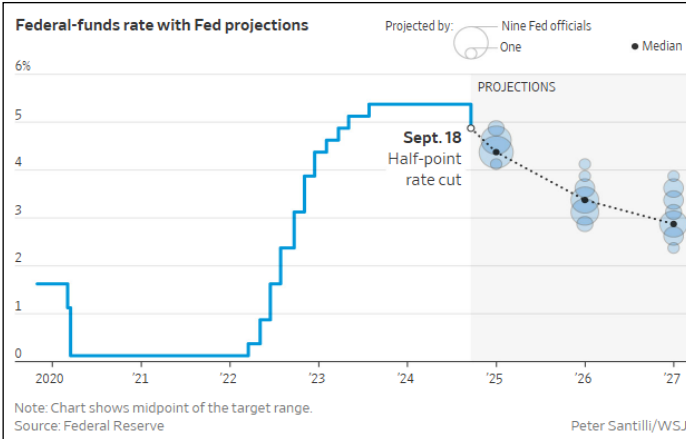
Q3 2024 OVIM Core Equity Rankings vs. S&P 500



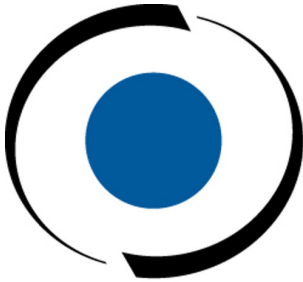
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The S&P 500 Index or the Standard & Poor's 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies. The S&P 500 is a float-weighted index, meaning company market capitalizations are adjusted by the number of shares available for public trading. Note: Investors cannot invest directly in an index. These unmanaged indices do not reflect management fees and transaction costs that are associated with most investments.

Charting the Markets



*Empowering clients to realize
lifelong goals with confidence
and peace of mind.*



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As we approach year-end, it's a great time to consider your plans for charitable giving to help maximize the impact on philanthropy you care about and possibly lower your tax bill. Below, we have included a general overview of a few basic strategies to consider. The tax benefits of specific strategies will depend on each donor's personal financial circumstances.

Gifts of Cash:

For those who claim itemized deductions on their tax return, gifting cash to qualified charities can lower your tax bill. For taxpayers in a high tax bracket, deductible cash contributions can be particularly valuable, subject to annual limits. The 2024 limit on cash donations is 60% of the taxpayer's adjusted gross income (AGI). A charitable donation that exceeds the AGI limitation may be carried forward for up to five subsequent tax years.

Gifts of Stock:

The full fair market value of publicly traded securities held more than one year, donated to a qualified charity, can be claimed as an itemized deduction in the year the gift is made up to 30% of the taxpayer's AGI. By donating appreciated stock to charity, you will avoid the capital gains tax that would have been incurred if you sold the stock and donated cash proceeds, resulting in a larger gift to charity. This can be a particularly effective strategy for clients with significant unrealized gains. Donations that exceed 30% of the donor's AGI can be carried forward for five subsequent years.

Qualified Charitable Distribution from an IRA:

For those over age 70 ½, a qualified charitable distribution (QCD) is a non-taxable distribution directly from your IRA to a qualified charity. For those over age 73 who are subject to annual required minimum distributions (RMD), the QCD will count toward your RMD requirement up to \$105,000 per individual in 2024. The QCD can be particularly effective for those who do not itemize since the QCD is not reported as taxable income or an itemized deduction, allowing the taxpayer to utilize the standard deduction and still benefit from a gift to charity. In addition, some taxpayers may benefit further from the QCD by lowering taxable income that would have otherwise been recognized by taking their RMD, possibly pushing the taxpayer into a higher tax bracket, subjecting the taxpayer to higher Medicare premiums, reducing AGI based deductions such as medical expenses, or subjecting the taxpayer to the 3.8% net investment income tax. Amounts donated to a charity through a QCD that exceed the IRA owner's RMD for the tax year will not satisfy a future year's RMD.

Charitable Gift Annuity funded with an IRA QCD:

The SECURE Act 2.0, effective January 1, 2023, gave individual donors ages 70 ½ or older the ability to direct a one-time distribution of up to \$53,000 in 2024 directly from their IRA to a qualified charity to create a charitable gift annuity (CGA). The CGA is a contract between a donor and a qualified public charity that will pay the donor, the donor's spouse, or both, a fixed income for life. The fixed income payout is based on the donor's age, life expectancy, and the number of income beneficiaries. CGA payout rates vary among charities and may be lower than regular annuities since part of the gift is meant to benefit charity, in addition to the donor. The distribution will be treated as a QCD and subject to annual QCD and CGA limits (2024 QCD limits are \$105,000 and 2024 CGA limits are \$53,000, adjusted for inflation in future years). While the donated amount will not qualify as a charitable deduction, the CGA distribution from your IRA will satisfy all or a portion of your RMD as non-taxable income. Income payments received from an IRA-funded CGA begin immediately and are fully taxed as ordinary income. CGAs are an irrevocable one-time opportunity to fund a qualified charity directly from your IRA. Future annuity payments will depend on the charity's ability to pay.

Donor Advised Fund:

A donor-advised fund (DAF) is a fund sponsored by a public charity that allows donors to make a charitable contribution, take an immediate tax deduction, and recommend grants from the fund to a variety of qualified charities. While the tax deduction for a donation to a DAF is immediate, the DAF allows a donor to decide which charity to support over time. Once assets are contributed to the DAF, the funds can be invested for potential tax-free growth. Deductions for contributions to a DAF are subject to AGI limitations, 60% for cash gifts and 30% for non-cash assets held more than one year. Charitable contributions exceeding the current year AGI limitation can be carried over for five subsequent years. While a QCD cannot be contributed to a DAF, publicly traded securities held more than one year from a taxable account can be contributed to a DAF subject to AGI limitations. All contributions to a DAF are irrevocable.

Other more complex strategies such as charitable trusts may be appropriate for some investors depending on personal circumstances. Please contact us if you would like to evaluate how a certain charitable giving strategy may fit into your personal financial plan.

DeLynn Russell and James Van de Voorde

Sources: Schwab, IRS.gov, Fidelity, Bankrate.com, American Council on Gift Annuities