

# ITI Financial Management

## Planning Your Financial Future

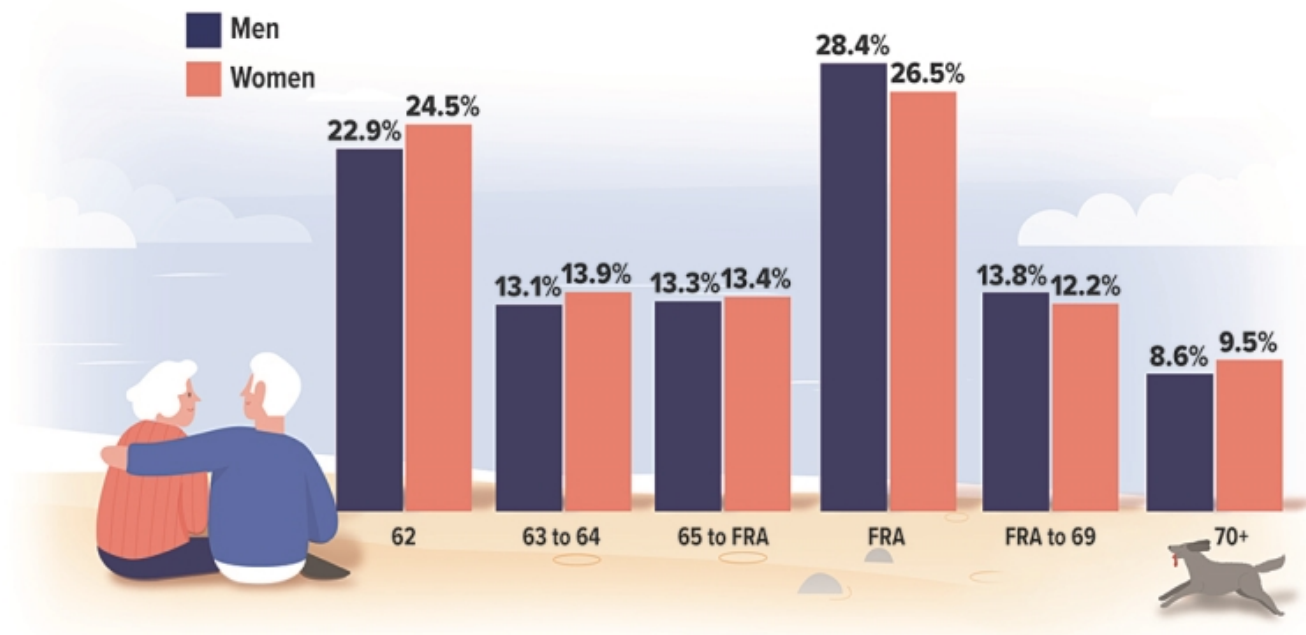


**Troy E. Kennedy**  
**Principal**  
**ITI Financial Management**  
4650 S. National • Suite A-1 • Springfield • MO • 65810  
417-889-2550 • 877-889-2660  
tkennedy@itifinancialmgt.com • ITIfinancialmgt.com



## When Do People Start Collecting Social Security?

There's no "right" age to begin receiving Social Security retirement benefits. It's a personal decision based on multiple factors, including how long someone wants to work and how much retirement income is needed. Workers are entitled to full benefits at their full retirement age (FRA) — 66 to 67, depending on year of birth. Claiming before FRA (as early as age 62) will result in a permanently reduced benefit, while claiming later will result in a permanently increased benefit due to delayed retirement credits, which can be earned up to age 70.



Source: Social Security Administration, 2023 (based on 2022 data)

# 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.<sup>1</sup>

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.

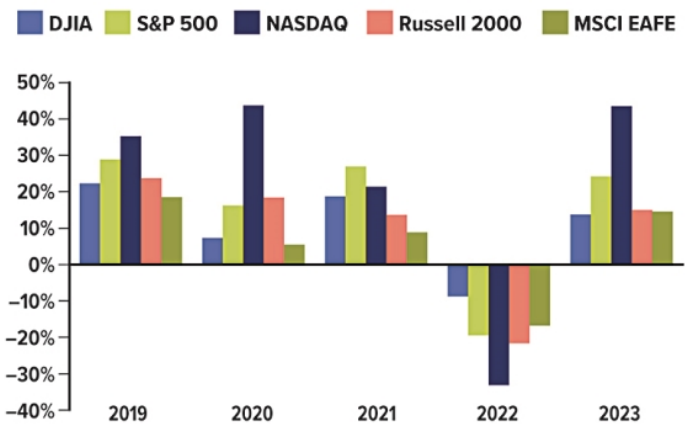
The **S&P 500** tracks a much broader range of large U.S. companies (large caps) than the Dow and is often considered representative of the U.S. stock market in general. However, it does not capture mid-size companies (mid caps) or small companies (small caps), which generally carry higher risk and higher 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.<sup>2</sup>

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.<sup>3</sup>

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.<sup>4</sup>

## 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.<sup>5</sup>

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.<sup>6</sup>

*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

# Housing Market Trends: Are They Helping or Hurting the Economy?

In an unusual twist, U.S. home values climbed to an annual record of \$389,800 in 2023, even as mortgage rates rose to the highest levels in a generation. The median price of existing homes rose 4.4% for the twelve months ended in December 2023 to reach \$382,600. (Buying activity and prices tend to peak during the summer and tick back down when the market slows later in the year.)<sup>1</sup>

Near the end of October 2023, the average rate for a 30-year fixed mortgage climbed to a 23-year high of nearly 8%, before retreating a bit.<sup>2</sup> But despite sky-high borrowing costs, buyer demand exceeded the supply of homes for sale.

As a result, sellers generally fared well, but 2023 was a challenging year for would-be homebuyers.

## A market in limbo

Rising mortgage rates and home prices made it harder to afford a home, causing many buyers to be priced out of their favorite neighborhoods and forcing others out of the market altogether. In August 2023, housing affordability dropped to its worst levels since 1985.<sup>3</sup>

Many people who already own homes have been reluctant to sell and move because they would have to finance their next homes at much higher rates than they currently pay — a conundrum that has worsened the inventory shortage.

This persistent lack of inventory combined with low affordability has cut deeply into home sales. For all of 2023, existing home sales fell to the lowest level in nearly 30 years (4.09 million).<sup>4</sup> An estimated 668,000 new homes were sold in 2023, an increase of 4.2% from the previous year, but new construction accounts for less than 15% of the total market.<sup>5</sup>

## Housing and GDP

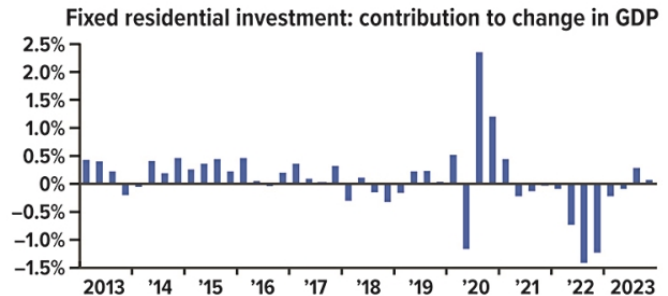
Housing contributes directly to the nation's gross domestic product (GDP) in two ways: spending on housing services and residential fixed investment. Housing services include rental payments, imputed rent (the estimated rental value of owner-occupied homes), and utility payments. Residential fixed investment includes new home construction, residential remodeling, production of manufactured homes, and brokers' fees. In the fourth quarter of 2023, housing accounted for \$4.4 trillion of U.S. GDP on a seasonally adjusted annual basis or 15.9% (12.0% for housing services and 3.9% for fixed residential investment).<sup>6</sup>

New home construction stimulates local economies by creating higher-wage jobs and boosting property tax receipts. Nationally (and locally), it benefits other types of businesses as well, by spurring production and hiring in industries that provide raw materials like lumber or that manufacture or sell building tools,

equipment, and home components such as windows, cabinets, appliances, and flooring. That's why the Census Bureau's report on housing starts, which were up 7.6% from the previous year's level in December 2023, is considered a leading economic indicator.<sup>7</sup>

## Home Building Stages a Recovery

In Q3 2023, fixed residential investment added to U.S. GDP for the first time since Q1 2021. But in Q4, an increase in new residential structures was mostly offset by a decrease in brokers' fees.



Source: U.S. Bureau of Economic Analysis, 2024

## Consumers are the key

The health of the housing market can also affect economic activity in other industries indirectly. For example, the "wealth effect" refers to how shifts in home prices, up or down, can influence consumer finances, confidence, and behavior. When home values and equity are rising, consumers who own homes tend to feel wealthier and may be more comfortable spending their money.

The "transaction effect" describes the increase in consumer spending that typically occurs when people move into new homes, which tends to generate demand for goods and services such as appliances, furniture, electronics, home improvement, and landscaping. On the other hand, extremely low affordability might influence younger consumers in a different way. When buying a home seems unattainable, it may cause them to give up on saving for that goal and shift to spending on other things.

Given housing's importance to the economy, there is some concern that a prolonged period of high rates could continue to constrain home building and sales, cause home prices to fall, and damage consumer confidence. When the Federal Reserve begins to cut interest rates, mortgages should gradually follow suit, but that's not likely to happen until GDP growth slows and inflation is no longer seen as the larger threat.

1, 4) National Association of Realtors, 2024; 2) Freddie Mac, 2023; 3) National Association of Realtors via Haver Analytics, 2023; 5, 7) U.S. Census Bureau, 2024; 6) U.S. Bureau of Economic Analysis, 2024

# New SAVE Repayment Plan Offers Key Benefits

In July 2023, the Department of Education launched a new income-driven repayment (IDR) plan for federal student loans called the Saving on a Valuable Education (SAVE) Plan. The SAVE Plan is the most generous IDR plan to date, and like all IDR plans, it calculates a borrower's monthly payment amount based on income and family size.

The SAVE Plan replaces the existing Revised Pay As You Earn (REPAYE) Plan, and all borrowers who are currently enrolled in REPAYE will be automatically transferred to SAVE.

## How SAVE helps borrowers

The SAVE Plan has many benefits, including lower monthly payments, a full interest subsidy for the entire time a borrower is enrolled in the plan, and shortened repayment terms compared to previous IDR plans. SAVE is being implemented in phases, with some benefits taking effect in 2023 and others that are scheduled to take effect in July 2024.

Key benefits that took effect in 2023:

- The amount of income protected from loan payments increased from 150% to 225% of the federal poverty level. Borrowers whose incomes are at or below the 225% threshold will have a \$0 monthly payment (this equates to about \$32,800 a year for a single borrower or \$67,500 for a family of four).
- Unpaid interest will not accrue, so loan balances won't grow as long as borrowers make their monthly

payments as calculated under SAVE (even when a borrower's monthly payment is set to \$0).

Key benefits scheduled to take effect in July 2024:

- For undergraduate loans, monthly payments will be capped at 5% of discretionary income (compared to 10% under REPAYE), and graduate loans will be capped at 10% of discretionary income. Borrowers who have both undergraduate and graduate loans will pay a weighted average each month of between 5% and 10% of their income based on the original principal balances of their loans.
- For borrowers with original principal balances of \$12,000 or less, all remaining loan balances will be forgiven after 10 years of payments. For original loan balances over \$12,000, the maximum repayment period will increase by one year for every additional \$1,000 borrowed. For example, a \$13,000 loan will be forgiven after 11 years of payments, a \$14,000 loan will be forgiven after 12 years of payments, and so on. The maximum repayment period under SAVE will be 20 years if *all* loans in repayment are undergraduate loans and 25 years if *any* loans in repayment are graduate loans. (The same maximum terms of 20 and 25 years applied under REPAYE.)

To learn more and to enroll in the SAVE Plan, borrowers can visit [studentaid.gov/idr](https://studentaid.gov/idr).

Source: U.S. Department of Education, 2023

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