

Market Perspective

THE WATT GROUP
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Market Overview

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By James Watt

We are all navigating an unusually complex risk-reward environment in today's financial markets. Interest rates have moved higher, conflicts in the Middle East have contributed to rising energy prices, and tariffs around the world have created additional uncertainty regarding both inflation and economic growth. At the same time, higher yields offer investors attractive alternatives to equities and could eventually place pressure on stock valuations while also weighing on the value of existing bonds.

Yet there is another side to the story. Corporate earnings have remained remarkably resilient, and both economists and Wall Street analysts are projecting strong earnings growth in 2027. If those forecasts prove accurate, rising profits could provide a solid foundation for another positive year for equities, particularly if inflation continues to moderate and interest rates eventually move lower.

The question is not whether there are reasons to own stocks. There certainly are. Rather, the question is whether current valuations adequately compensate investors for the growing list of risks. We continue to believe that equities should remain an important component of a diversified portfolio, but we are also being selective about what we own and are maintaining a modest cash position. With expectations for 2027 already elevated, the margin for disappointment has narrowed. We would rather remain invested, emphasize quality and diversification, and recognize that periods of volatility are likely to be part of the journey.

Financial Planning Corner

Your Spending is Your Number

By Jonathan Robinson, CFP®

There is a well-known calculation of how much one can spend in retirement called the 4% rule. It traces back to William Bengen's research from the early 1990s and published in 1994. He tested decades of U.S. market history and found that a retiree could withdraw about 4% of their portfolio in the first year, then adjust that amount for inflation each year, and still have money left after 30 years. It is a useful starting point when thinking about how much you can spend, but only works as a general guideline. It was built on a specific stock to bond mix over a particular period in market history. It does not know anything about your individual and unique financial life.

The real question is whether 4% fits what you actually spend. Some clients will spend more than that and others less. That amount will also vary greatly depending on your goals in retirement. Are you going to move to a bigger house at the beach or a smaller house in the mountains? Will you payoff your current mortgage or will you no longer have college expenses for your children that have now graduated?

Our planning process starts with what you spend today. We look at your current lifestyle, the things you value, and the big financial goals you have for the future. Then we project those expenses forward with inflation, layer in your other income sources like Social Security, and test whether your portfolio can support that spending through retirement. The result is a rate that reflects your life, not a 4% average.



Everyone's number will be unique to them. When we get through this process many of our clients then want to ask how they compare to other people their age. We understand the impulse, but it is an impossible question to answer. People spend at very different rates, hold very different portfolios, and have very different goals. Two couples of the same age can both be on track with very different numbers. Someone else's savings total or withdrawal rate tells you very little about whether your plan will work.

What matters is finding a spending level that fits the life you want and confirming that you can afford it. Not someone else's lifestyle.

If you have not revisited your spending lately, now is a good time. Your plan may show you have more room than you think, or it may show you where to adjust. Either way, you'll have a clearer picture of what you can count on.

Please reach out to schedule a review. We are glad to help you find your number.

Quarterly Case Study

TOD Accounts: Avoiding Probate v. Disadvantages

By Peter Watt

Recently we have had conversations with multiple clients who are interested in changing their taxable investment accounts to Transfer on Death (TOD) registrations. The appeal is understandable: TOD accounts allow you to name beneficiaries who will receive the assets in a taxable account upon your death, thus avoiding the probate process. With more families looking for ways to simplify estate planning and make wealth transfers more efficient, it is easy to see why these accounts have become a frequent topic of discussion.

However, while TOD accounts can be a valuable planning tool, they are not the right solution for every situation. Understanding both their advantages and limitations is essential before making a change.

The Benefits of TOD Accounts

The primary advantage of a TOD registration is simplicity. By naming beneficiaries directly on an eligible account, assets can generally transfer to those beneficiaries without going through probate.

Additional benefits may include:

- **Simplified wealth transfer** through direct beneficiary designations.
- **Faster access to assets** for beneficiaries compared with assets subject to probate.
- **Flexibility** to name multiple beneficiaries and designate specific ownership percentages.
- **Reduced administrative burden** for families settling an estate.

For clients with relatively straightforward estate plans, a TOD registration can be an efficient way to transfer investment assets without the added complexity of trust structures or court proceedings.

When TOD Accounts May Not Be the Best Fit

Despite these advantages, TOD registrations have important limitations. Assets pass according to the beneficiary designation, not the instructions contained in a will or trust. As a result, more complex family or estate planning situations may require additional planning.



Potential drawbacks include:

- **Limited control over distributions:** Beneficiaries generally receive assets outright rather than according to conditions or timelines that could be established through a trust.
- **Potential family complications:** Outdated designations or unequal beneficiary allocations can lead to unintended results.
- **Challenges involving minors or vulnerable beneficiaries:** Additional legal arrangements may be necessary when a beneficiary is unable to manage assets independently.
- **Incomplete estate planning:** TOD registrations do not address incapacity concerns or coordinate the disposition of all assets.

Families with blended households, substantial wealth, special circumstances, or a desire to control how assets are distributed may find that a trust or other estate planning strategies are more appropriate.

If you are considering a TOD registration, or would like to review existing beneficiary designations, please contact our team. We can help evaluate how these accounts fit within your overall plan and coordinate with your estate planning attorney when appropriate.

The Standard & Poor's (S&P) 500 Index tracks the performance of 500 widely held, large-capitalization U.S. stocks. NASDAQ Composite Index (NASDAQ) is a market-value weighted index that measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ stock market. The performance of an index is not indicative of the performance of any particular investment; however, they are considered representative of their respective market segments. Please note that indexes are unmanaged and their returns do not take into account any of the costs associated with buying and selling individual securities. Individuals cannot invest directly in an index.

Dollar cost averaging does not guarantee a profit and does not protect against loss in declining markets. Investors should consider their ability to continue making purchases through periods of fluctuating prices.