The Client Letter

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2024.Q4 PERFORMANCE

4th Quarter Recap - AI Drives Superior Returns

As of December 19, 2024

The stock market has provided client portfolios with supporting returns and outpaced the benchmarks. As of the writing of the Client Letter, the SP500 was up 24.0% and the Bloomberg Barclays Bond Index ended down 0.1% while most portfolios have exceeded these benchmarks.

Strong holdings which have supported our performance when present in client portfolios include Amazon, Alphabet, and Microsoft which are strong in the industry potential. Nvidia has been the largest gainers so far in 2024, with Broadcom and Constellation Energy were also big winners. Tesla, Apple, and Microsoft have been the largest contributors to our performance in 2024. Tesla was the best stock pick for us in the first half of 2024. Other notable winners include Palantir, Netflix, Devon Energy, and Constellation Brands.

While we did experience a few losers, we attempt to keep our losses limited and strive to exit problem positions quickly when our thesis is not panning out. Our largest losers were Lululemon, Nike, and Pfizer.

In fixed income, most client portfolios ended slightly down for the year in the 2024 Q4 the Bloomberg Bond Index. Since interest rates have risen significantly from the lows of 2020, client bond portfolios have held up well. Although we have had some bond funds underperform relative to the defensive part of the portfolio, we are pleased that most client portfolios have a strong average Duration & Yield in solid ratings of A or higher.

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The Economy Is Growing And Inflation Is A Concern

Heading into the end of 2024, the economy is strong and led by consumer spending and technology investment. 4th quarter GDP (Gross Domestic Product) is on track for a healthy 2.3% annualized growth rate. Unemployment is still low at 4.1% and below the Federal Reserve's of America's GDP new index. Inflation has moderated in 2024, but further declines may be unlikely as sticker prices are unlikely to fall while product costs may continue to rise. Housing is still a problem area with high mortgage rates and home prices still high. Although the Federal Reserve has lowered short-term interest rate (Fed Funds) and mortgage rates (Mortgage Backed Securities), China has been decreasing demand for US, possibly due to 50% of Chinese auto sales being Electric or Hybrid vehicles.

The Federal Reserve has lowered the Federal Funds Rate, its short-term interest rate, to 4.5% from 5.5% over the past quarter. Strong economic data has caused the Bond Vigilantes and Federal Reserve Governors to reverse their previous forecasts for the Federal Funds Rate. Looking forward, several factors will impact:

- Continuation of Biden's Infrastructure Bill will continue to support the bond market. Since the Federal Reserve began cutting interest rates short-term yields have fallen, but longer-term interest rates have increased. The 10-year Treasury bond yield has increased from September lows of 3.6% to 4.5% and rising. This is not good for mortgage rates or long-term financing of large capital investments.

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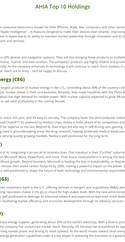
However, short-term yields have fallen, which is good for someone with an adjustable mortgage. Currently, with nearly $7 trillion in money market funds, there is a lot of cash that will benefit from lower short-term interest rates. Although the Federal Reserve's goal is to lower rates, high yielding money market accounts that are quickly can yielding so much. And in inflation and these amounts are closer to break-even rates.

- Most changes in the White House coming in January, what policies the Trump administration will implement drive the short-term and over time? The major questions to focus on:
  - Immigration
  - Continuation of Biden's IRA, CHIP Act & infrastructure bills
  - Regulation changes
  - Tariffs and Corporate Corporations for budget deficit
  - Immigration & Deportation

Political specules expects the new administration will enact these policies as soon as possible, so that any economic pain may be felt, processed, and dealt with quickly. Tariffs from 10% to 60% have been covered.

- Inflation is still a concern, although it has fallen from 9% to 2.7% in 2024. Recent signals increased the cost 200% over their suppliers. Manufacturing some solar modules and selling the home solar market. This eliminated the middle-income homeowner who wanted to install solar panels on their home to save on electricity and protect against power outages.



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Immigration and Deportations are a big risk. Trump's Transition Team contacts through out governments, there will be massive deportations. This would negatively affect the economy, but it may be necessary market volatility. We don't want the economy to be too hot and cause inflation to rise. Using the 10-Year Treasury bond as the interest rate proxy, we believed if interest rates hold between 3.0% to 4.0%, stocks will be "ok". Nvidia, above 5% suggests stocks will be in trouble. Tesla, Apple, and Microsoft are the largest holdings in client portfolios. Tesla is a growth stock, Apple is a consumer revolution, and Microsoft is the dominant software provider. Tesla is facing employee warnings, Elon's latest political influence stock trading, staying within the range increases the Federal stocks produce their average returns of about 10%. Nvidia's above required interest rates to keep its stock price from falling. Nvidia's stock price is currently being supported by Wall Street's belief in its future growth and earnings.

Fixed Income Strategy

Fixed income and bond portfolios are in equities, those funds have been added to client bond holders (bond matrices targeting annual withdrawals). Our long-term portfolio strategy has been to hold funds invested in the two bear's years in high quality bonds, which is rated A or higher, and short-term bonds, which are less than 3 years. Our bond funds have performed well in the last two years, which is a good sign for our portfolios, while allowing investors to pounce the long-term capital appreciation.

In the bond market, we expect that short-term interest rates will be lower as the Federal Reserve reduces the Federal Funds rate, while long-term interest rates will be higher as the economy is strong and inflation is a concern. Our bond funds have performed well in the last two years, which is a good sign for our portfolios, while allowing investors to pounce the long-term capital appreciation.

Summing up our economic outlook, GDP has positive momentum leading into 2025. The Trump administration will be a mix of predictably and unpredictable with regard to its impact on the US and global economic trends. There will be shocks in some parts of the market the focus will be on the responsive and ability of companies to navigate these choppy waters.

Portfolio Strategy Update

Looking at 2025, our bond core is for equity returns of 5%-7%. We will vary allocations to individual companies and sectors, just as we are currently experimenting after the Federal Reserve meeting this week. In the stock market, we expect large-caps to continue to lead higher with the Mega-Cap Technology companies. Nvidia, Apple, Microsoft, Amazon, Alphabet, and Tesla are the largest holdings in our portfolios. We will be monitoring valuations and adjusting if the fundamentals change.

2024 has been a very strong year for stock performance with Nvidia shares showing a stake interest income. Due to massive appreciation over the last two years, Nvidia's stock price is now very sensitive to interest rates. Although we have had some bond funds underperform relative to the defensive part of the portfolio, we are pleased that most client portfolios have a strong average Duration & Yield in solid ratings of A or higher. With taxes in mind, we had hoped to hedge selling stocks with gains until January, but the trends have turned negative recently. Our favorite technical indicator, the Put/Call Ratio has been a "bell" signal recently.

The bond market may hold the key to equity market returns. We don't want the economy to be too cold or inflation too hot. Using the 10-Year Treasury bond as the interest rate proxy, we believed if interest rates hold between 3.0% to 4.0%, stocks will be "ok". Nvidia, above 5% suggests stocks will be in trouble. Tesla, Apple, and Microsoft are the largest holdings in our portfolios. Tesla is a growth stock, Apple is a consumer revolution, and Microsoft is the dominant software provider. Tesla is facing employee warnings, Elon's latest political influence stock trading, staying within the range increases the Federal stocks produce their average returns of about 10%. Nvidia's above required interest rates to keep its stock price from falling. Nvidia's stock price is currently being supported by Wall Street's belief in its future growth and earnings.

Our strategy is to better hedge investments, meaning spreading realizations out evenly over a multi-year period. For IRA's and tax deferred accounts, this is not a problem. For taxable accounts, it is a problem. We will be monitoring the Put/Call Ratio and other technical indicators to determine when we pare back the amount of stock we sell to lower our tax bill. However, all that more hedge equals more electricity bills even before, hence the big jump in utility stocks in early 2024.

Recently, investors have started to speculate if the Inflation Reduction Act (IRA) will remain under the Trump administration. The IRA provides tax incentives to produce carbon free electricity. The nuclear power industry has been a huge beneficiary as the tax incentives made nuclear power competitive with other forms of electricity. Nuclear power is a carbon free source of electricity, but it is very expensive to build and has very long lead times to build. Further, even if the system is continue to continue, Nuclear can be a profitable, yes-need-there-not-under-priced. A combination of renewable heavy storage and natural gas or nuclear is the best mix of low cost, reliability and environmentally friendly. Nuclear power is a carbon free source of electricity, but it is very expensive to build and has very long lead times to build. Nuclear power is a carbon free source of electricity, but it is very expensive to build and has very long lead times to build.

Nextera Energy's Estimated costs of producing electricity in the Future
Source: Nextera Energy Investor presentation November 2024

Our weighting of the financial sector has increased recently in anticipation of appropriate business regulation. We have significantly increased our weighting in the Healthcare sector. Our investment in Healthcare has been a mixture of Pharmaceuticals, Medical Devices, and Health Insurance companies. Our Pharmaceutical holdings have been in companies that have been under the cloud of being "Big Pharma" which has been a negative for stock prices. Specially Insurance is a new area of interest with a holding in Skyward Specialty Insurance. The Insurance business is a very good business to be in when interest rates are high, as they can invest the premiums they collect at very attractive rates. We have also purchased Pfizer, which is a big pharmaceutical company, which has been under the cloud of the financial sector is achieved, especially with the integration of crypto currencies that have had little regulation to date that can lead to billions in losses from fraud and failure of crypto exchanges, the FTX in 2023.

Our sector that has been hard hit lately and underperformed relative to SP500 is the healthcare sector. Lately, the healthcare insurance have been under the cloud of being "Big Insurance" which has been a negative for stock prices. Medicare Advantage has been a profitable business that their coverage doesn't cover, which has been a negative for stock prices. Medicare Advantage has been a profitable business that their coverage doesn't cover, which has been a negative for stock prices. Medicare Advantage has been a profitable business that their coverage doesn't cover, which has been a negative for stock prices.

Gil Vermeys (GEV)

GE Vernova is the largest global energy supplier, generating about 10% of the world's electricity. With a diverse portfolio that includes gas, wind, nuclear, and hydro, the company has unmatched market reach. Recently, GE Vernova has streamlined its operations to become more agile and focused on growth. The company's strong backlog and its ability to leverage its scale and technology position it well for long-term success. With a clear vision and diverse energy generation capabilities, GE Vernova is poised to capitalize on the global energy transition.

JPMorgan Chase & Co. (JPM)

JPMorgan is the largest bank in America, with the major business units, and large enough to operate as its own company. From traditional banking services to investment banking and asset management, JPMorgan's diversified portfolio ensures it can navigate various market conditions and maintain its leadership in the financial sector. With a strong balance sheet and a commitment to innovation, JPMorgan is well-positioned to leverage its scale and expertise to maintain a competitive advantage across every sector it serves.

Aerkia Networks (AKNT)

Aerkia Networks is a key player in the infrastructure behind AI and data centers. The company provides high-performance cables and switches that are essential for the high-speed data transfer that powers these centers. As the demand for AI and data centers grows, Aerkia is well-positioned to benefit from this trend in particular. Their Ethernet cables offer ultra-reliable connectivity, ensuring that these centers can handle the massive data processing and storage requirements. Aerkia's solutions make them an essential part of the AI infrastructure, with a product offering that enhances both performance and cost-efficiency.

Amazon (AMZN)

Amazon is a dominant force in retail, leading the world in both e-commerce and cloud computing with its dominant online retail platform and Amazon Web Services (AWS). Their retail success is backed by a highly efficient logistics network, enabling them to offer fast delivery and a vast product selection. In cloud computing, AWS leads the market with its robust infrastructure and a wide range of services that cater to businesses of all sizes. The company's relentless focus on customer satisfaction and its ability to innovate across various industries ensure it is also leveraging its extensive product recommendations, optimize advertising, and improve operational efficiency. With its unmatched scale in both e-commerce and cloud computing, Amazon is well-positioned for sustained growth, continuing to capture new customers and expand its market dominance.

Buffalo Based Sean O'Brien Makes Visit to Local High School

Over the past two months, our Buffalo based Portfolio Manager, Sean O'Brien, has actively engaged with the Buffalo, NY community by visiting a local high school. During his first visit, Sean joined producers and students from Canisius University to showcase their business programs. The students presented their business plans to a panel of local business leaders, including Sean, who provided valuable feedback.

Following the visit Sean was invited back to speak with the school's "Stock Market Club," a group of students managing simulated portfolios. Sean gave a presentation highlighting what goes into a client portfolio discussion and the role of the portfolio. The session's SWOT group had fun and advice the SWOT to make gains from your account to specific charities. If you are interested in supporting a charity, please contact us. Sean's visit was well received by the students.

If you are age 70 1/2 or older and participate in a 401(k) plan, you can consider rolling over your balance to your IRA without offering future contributions and earnings contributions.

Review the beneficiaries of all your accounts (IRA bank accounts, investment accounts and life insurance policies.

As always, our comments are general in nature. Please call Jennifer or Andy to discuss any of these issues and others is evaluate your overall tax and legal circumstances.

Importance of Client Cyber Security

The FBI and the Cybersecurity and Infrastructure Security Agency are warning Americans to stay sang being scam and cell services that do not provide a real person to talk to when you need to talk to someone. Criminals are able to use the caller ID to make it appear you are seeing, if you are receiving from one iPhone to another iPhone. Or you are receiving a landline landline, it is still easier. However, the problem areas when one cell phone to a landline or landline to a cell phone. Be careful out there.

Until the industry can solve the problem, we are all at risk. Criminals are using technology to impersonate so as to call us but not include such scenarios as contacts, credit card details, passwords, screen shots of financial statements, medical records, passport and drivers licenses/ipass. Criminals are using technology to impersonate so as to call us but not include such scenarios as contacts, credit card details, passwords, screen shots of financial statements, medical records, passport and drivers licenses/ipass.

Our firm will never ask you to share your password or other sensitive information over the phone or through unsolicited emails. We will never ask you to click on any suspicious links or attachments in an email, or download software at our request. We will never ask you to wire money or make a payment over the phone or through a text message. We will never ask you to share your password or other sensitive information over the phone or through unsolicited emails.

For more information, please visit the following links: **FBI Warns iPhone And Android Users—Stop Sending Texts**

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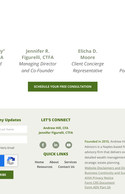

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Founded in 2016, Andrew Hill Investment Advisors is a Buffalo-based financial and portfolio advisory firm that delivers exceptional service, detailed wealth management research and personalized financial plans.

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