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Strategist’s Corner - September 2024

To Find the Bust, You Need to Find the Boom

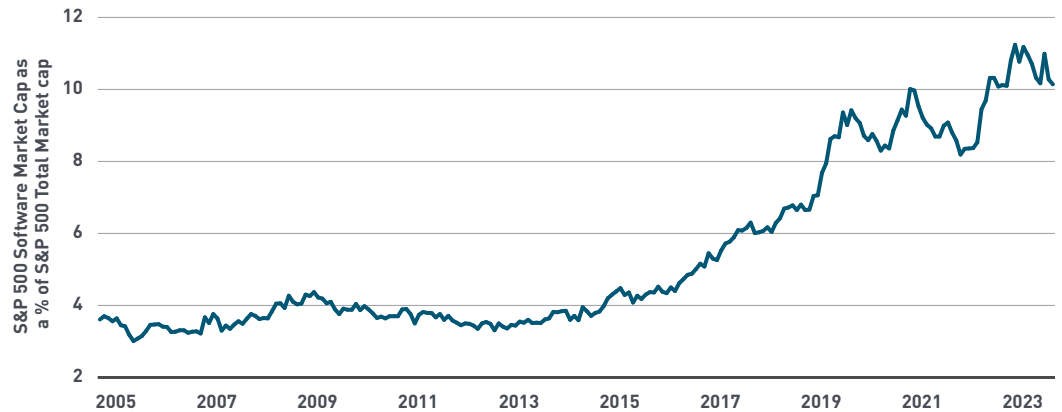
Capitalist economies allocate resources by pulling capital from industries with falling values and returns on capital and investing it in industries with rising values and returns. While the capital cycle drives innovation, progress and change, cycles are imperfect, often moving through booms and busts. Historically, high-return projects have been flooded with capital, creating a boom. At first, supply meets demand, but eventually supply exceeds demand. Returns on capital collapse and the bust is underway.

Many forecasts for a US recession in the last year have come up short, giving investors a renewed appetite for risk assets. However, we think that investor emphasis may be misplaced. Allocating capital to industries with excess supply is a far greater risk. Conversely, investments in industries with structurally constrained supply and durable returns on capital may offer better outcomes versus trying to time markets based on economic and interest rate predictions.

Exploring a boom

Following the 2008 global financial crisis (GFC), companies repurchased their stock, shifted manufacturing to China or purchased software. This manifested in the software industry doubling its share of the S&P 500 market capitalization.

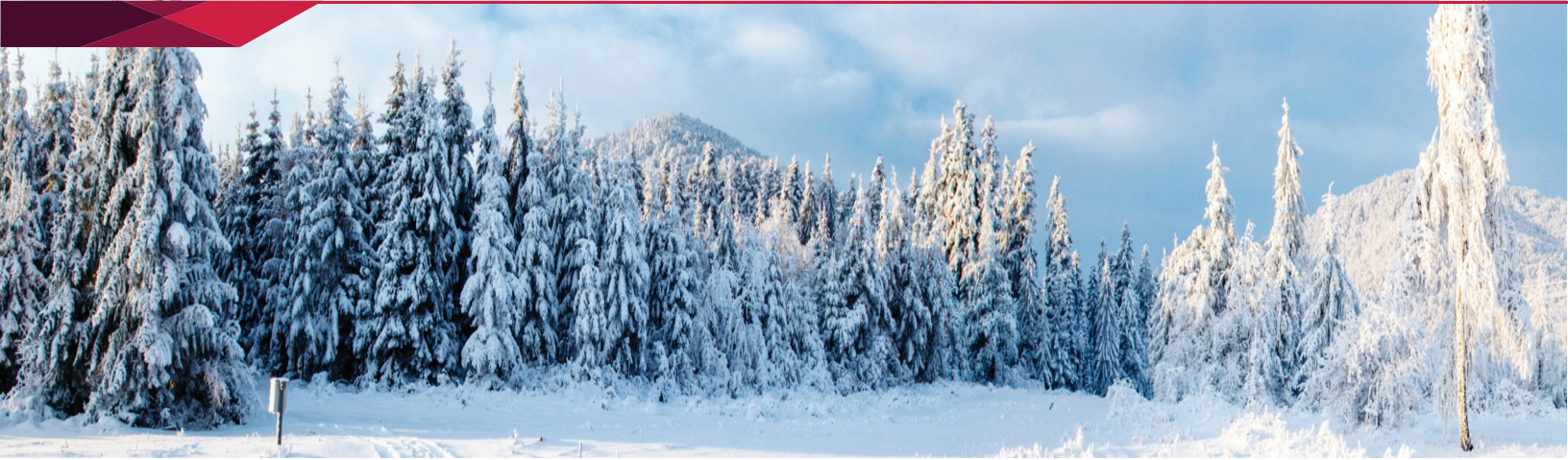
Exhibit 1: Market Cap of Software Industry Doubled Its Share of S&P 500 Market Cap Post GFC



Source: FactSet. Monthly data from 30 September 2005 to 30 August 2024.

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Software spending has been in decline for the last couple of years. Why? In general, companies are digesting software, and Artificial Intelligence (AI) is taking wallet share. Technology is deflationary over time. Replacing old technology with new provides cost savings and efficiency gains. When most people think of AI, they think of the benefits and



positive impact to productivity. That's true. But what about the revenues tied to the technology AI is replacing? Many of those companies are driving the exhibit above and are facing collapsing returns.

Looking for the bust

Many investors are following cues from economists and policy makers. The boom wasn't in GDP, the labor market or household spending. The boom was in software. And while that boom was justified by attractive return on capital and efficiencies for companies, AI can potentially do more for a fraction of the cost. We expect IT budgets will shift from software to AI. While the software industry is saturated with too much competition, AI may not be able to duplicate mission critical software. Avoiding challenged companies while owning mission-critical software providers may prove a powerful recipe for performance. That's why we believe active management will be important after years of dormancy. ▲

Retirement Planning

Tips for Transferring Wealth to the Next Generation

Transferring wealth to the next generation may seem simple, but unfortunately, many transfers fail. For instance, the estate may pay too much in taxes or get caught up in the court system. Family members or heirs may fight over the estate or spend all their inheritance. So, how can you create a successful wealth transfer plan? It comes down to effective planning and communication. Below is some high-level information to help you start thinking about your estate plan.

Plan to avoid mistakes

When starting to plan, be comprehensive. The more detail you put into an estate plan, the less chance of family conflict. An easy place to start is to make a list of the documents you should have or may need to create, such as:

- A will, especially for naming guardians for minors
- Trusts, including special needs or noncitizen spouse trusts or trusts for larger estates, property or a family business
- A durable power of attorney
- Beneficiary designations for all IRAs, employer-sponsored plans, insurance policies and annuities

Next, explore some of the steps you may need to take, including:

- Assigning an executor and introducing them to your financial professional, tax advisor and estate attorney.
- Ensuring your designee knows that they've been named and what your intent is.
- Introducing your beneficiaries or trusted contact to your investment professional so they can get to know each other.
- Creating a family financial map (Exhibit 2) to identify who you want to provide for, such as children from current or previous marriage(s), grandchildren, nieces/nephews, special needs relatives, parents or charities.
- Update the plan on a regular basis to capture any changes such as moves to a different state, divorces, marriages, births or deaths.

Exhibit 2: Sample Family Financial Map

Sample family financial map

<p>PARENTS John's parents' names</p> <p>_____ + ages _____ _____ _____</p>		<p>PARENTS Pat's parents' names</p> <p>_____ + ages _____ _____ _____</p>
<p>OTHER John's other family members</p> <p>_____ + ages _____ _____ _____</p>	<p>CLIENT INFO John Smith Pat Smith</p>	<p>OTHER Pat's other family members</p> <p>_____ + ages _____ _____ _____</p>
<p>John's children from previous relationships</p> <p>_____ + ages _____ _____ _____</p>	<p>CHILDREN John and Pat's children</p> <p>_____ + ages _____ _____ _____</p>	<p>Pat's children from previous relationships</p> <p>_____ + ages _____ _____ _____</p>

This example is for illustrative purposes only.

Communicate your plan

Once you have the plan in place, it's important to share it. The more detail you put into an estate plan, as well as taking the time to communicate that plan with your family, the less chance of conflict. You may want to consider hosting a family meeting. This is a great way to articulate your wishes with your heirs.

While it can be hard to talk about money with family members, sharing your plan — your hopes and dreams for the future — can help it succeed. Make sure to meet with your financial professional, tax advisor and estate attorney when developing or updating your plan. ▲

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Life Events

How to Recognize AI Scams

AI is changing every-day life as people find new ways to use this technology. Unfortunately, fraudsters are using AI to improve their scams. The good news is that the scams are just a new twist to an old theme. To help you recognize these new versions, below are AI-powered scams to look out for.

Voice cloning scams: AI can take a short clip of someone speaking and clone their voice. Scammers might clone celebrity voices and use the clones for fake robocalls, asking for donations to a worthy cause or recommending an investment. Alternatively, scammers might find a video of a relative on social media and clone their voice. They might call you, pretending to be the person and say they need money to pay a ransom or bail.

Deepfake video scams: AI-generated videos with cloned voices/deepfakes of celebrities and news anchors are used on social media or online advertisements to point viewers to a website where the scammer then tries to collect personal information or trick you into buying or investing in a scam product.

AI images and deepfake scams: Scammers also might create AI-generated images as part of an advertisement or post on social media and link to scam websites in the comments. There are also cases of criminals creating explicit deepfake images of people and then extorting victims.

AI-generated website scams: Scammers might use AI to create websites. A fake online store might offer a popular item at a deeply discounted rate and prompt quick purchases. The scammers could steal your payment information and sell it or use it to make fraudulent purchases. These sites could also be part of a triangulation fraud. When you place an order, the scammer uses stolen payment information to buy and ship the product to you. Although you're getting the item for cheap, you won't be able to return or replace it if there are any issues. And the scammers might take and use your payment information to buy products to fulfill someone else's order and keep their money.

AI-enhanced phishing emails: The scammers often disguise their email to make it look like it's coming from a friend, family member, government agency or well-known company. In the past, one could look for unusual phrases and grammatical errors to identify a phishing email. But with AI, scam emails have become more convincing. The scammers also might use AI to personalize the message based on information they find about you online.

AI-generated listings: Scammers can also use AI to create images and descriptions for fake online marketplace listings. They might list a hot item for sale and ask you to pay a deposit to hold the item or direct you to a different website that they use to steal your payment information. Scammers could also list apartments and homes as part of a rental property scam.

To keep from getting scammed, keep your guard up when it comes to unfamiliar email accounts, phone numbers or social media profiles. Don't take the bait if you feel pressured to act quickly. Stop an exchange and reach out via a trusted channel or look for a different source. Remember, don't click on links, and if it sounds too good to be true, it's likely a scam. ▲

Source: Experian, "What Are AI Scams?" April 2024.

Information Regarding the MFS[®] Heritage Trust CompanySM ("MHTC") Trustee Fees

If you are an MFS Heritage Trust IRA shareholder, then you are subject to an annual trustee fee in the amount of \$25. MHTC assesses this fee based on accounts with a value lower than \$50,000. Your account value is determined by aggregating accounts within the same plan type registered to you. If invested in multiple plan types, you are assessed a fee for each.¹ For account values \$50,000 or greater, the annual fee is waived.

MHTC evaluates accounts for the assessment of the fee in January, April, July and December of each year. Upon assessment, if the value of the aggregated accounts is less than \$50,000, the fee is deducted from your account. If you have multiple accounts within one plan type, a portion of the fee is taken from each (e.g., \$12.50 taken from your traditional IRA and \$12.50 from your Roth IRA, totaling \$25). Although MFSC evaluates the value of your account each quarter, the fee is deducted only once a year.

If you prefer to prepay this fee and not have it deducted from your account balance, please send a check for \$25, payable to MFS Heritage Trust Company, to MFSC. Below are the 2025 "trustee fee sweep" deadlines. If you have an existing account as of January 2025, your payment must be received at least five business days before the January 15 deadline to avoid having it deducted from your account(s). If you set up a new IRA at any time during the year 2025, your payment must be received at least five business days before the next deadline. ▲

- January 15, 2025
- April 16, 2025
- July 16, 2025
- December 10, 2025

¹ Accounts within the same "plan type" include a Traditional IRA, Roth IRA or Rollover. An account in a SIMPLE Plan would be considered a separate plan type.

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