

January 2024

Dear Friends,

Rob Lutts: Since the day I founded Cabot Wealth Management in 1983, I have acted as the President and leader of the firm in addition to my role identifying and managing growth investments. In 2017, I began the process of transitioning my ownership in the firm to the new leadership team – Jim Gasparello, Greg Stevens and Sonia Ernst. They, along with me, make up our Managing Partners group. Two other key team members, Craig Goryl and Tom Vautin, have become owners in the last few years. So today we have six owners of the firm. With this new ownership and leadership team in place, I have decided it's time for me to step down as President. After considerable thought and discussion, our Managing Partners group has appointed Greg Stevens as our President effective January 1, 2024. Greg has been with the firm for 20 years and has been instrumental in managing its growth and success. Greg has worked closely to oversee a large portion of our wealth management activities and has been instrumental in growing and supervising our tax team. Further, Greg serves the important role of the firm's Compliance Officer. I am confident that Greg will be a solid leader for the firm and, along with other senior leadership, will continue to ensure that our key focus is the same as it has been for forty years – doing whatever it takes to ensure our clients' goals are achieved. My role going forward will be to mentor and assist the team to ensure my experience and expertise is shared with the new leadership.



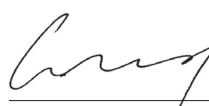
Greg Stevens: I am excited to take on the role of President of Cabot Wealth Management! Along with our management team, I will work to ensure that Cabot continues to adapt to the ever-changing financial landscape while always keeping to our mission of offering high-quality wealth management service to our clients. In July, I will celebrate my 20th year with Cabot. My start with the firm coincided with Cabot's transition toward offering a more holistic wealth management platform for our clients that extended beyond solely managing their portfolios.

This evolution required adding staff with the experience necessary to help our clients with their financial and tax planning needs. Today, I am fortunate to work with the best group of wealth management professionals that we have ever had here at Cabot. Our team works well together, and we do the best every day to live up to your high expectations. I have had the pleasure of working with many of you for well over a decade and I am excited to continue our relationship into the future. For those of you that I haven't yet had the chance to speak with, I look forward to meeting you in person or speaking to you on the phone sometime soon.

Thank you for being part of the Cabot family. We appreciate the trust and confidence you have placed in our team.



Robert T. Lutts
Founder and
Managing Partner



Greg Stevens
President and
Managing Partner

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Client Service Reminder



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Review of Equity Markets

Craig Goryl, CFA®, Partner, Chief Investment Officer

Equities rebounded nicely in 2023 after a dismal 2022. US and international markets posted strong returns, as pessimism turned to optimism about the outlook for the global economy.

Recall that in early 2023, markets faced widespread worry about high inflation and the nasty medicine that would be required to tame it. The prevailing wisdom was that higher interest rates would slow down price increases at the grocery store, but could also result in lower home prices, layoffs, and a recession.

Yet our economy proved surprisingly resilient. Businesses and consumers, having built up a savings cushion in recent years, were not especially sensitive to higher borrowing costs. Companies continued to hire, and consumers continued to spend. Big contributors to inflation like supply chain snarls, oil supply squeezes, and labor shortages all eased. By the end of the year, recession fears had subsided and talk of a “soft landing” grew louder. A soft landing is the ideal economic scenario where inflation gets down to the Fed’s target of 2% (it’s currently a little over 3%) without a recession.

Our economy is not entirely out of the woods, but the picture is considerably brighter than it was 12 months ago, and markets have reacted accordingly.

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ASSET CLASS UPDATE

4th Quarter = 9/30/23 to 12/31/23; 1 Year Return = 12/31/22 to 12/31/23

| INDEX | QTR Return | 1 YEAR Return | 3Y ANN Return | 5Y ANN Return | DESCRIPTION (What does this Index represent?) |
|-------------------------------------------|------------|---------------|---------------|---------------|-------------------------------------------------------------------------------------------------------------|
| US EQUITIES | | | | | |
| Dow Jones Industrial Average | 13.1% | 16.2% | 9.4% | 12.5% | US Large Cap Stocks (30 select large US corporations) |
| S&P 500 Index | 11.7% | 26.3% | 10.0% | 15.7% | US Large Cap Stocks (Largest 500) |
| Russell 1000 Index | 12.0% | 26.5% | 9.0% | 15.5% | US Large Cap Stocks (Largest 1000) |
| Russell 2000 Index | 14.0% | 16.9% | 2.2% | 9.9% | US Small Cap Stocks (2000 small public companies) |
| GLOBAL EQUITIES | | | | | |
| MSCI All Country World Index | 11.0% | 22.2% | 5.8% | 11.7% | Combination of major global markets: United States, Foreign Developed, and Emerging Markets |
| MSCI EAFE (Europe, Australia, Far East) | 10.4% | 18.2% | 4.0% | 8.2% | Large and mid-sized companies in mature foreign markets like Japan, Europe, Australia, etc. |
| MSCI Emerging Markets | 7.9% | 9.8% | -5.1% | 3.7% | Large and mid-sized companies in developing economies like China, India, Brazil, Russia, South Africa, etc. |
| MSCI Frontier Markets | 4.0% | 11.6% | -0.5% | 3.3% | Large and mid-sized companies in the world's least advanced economies like Kuwait, Argentina, Kenya, etc. |
| FIXED INCOME | | | | | |
| Bloomberg Barclay's US Intermediate Bonds | 5.5% | 5.2% | -2.1% | 1.1% | US Bond Market: government, corporate, and mortgage bonds |
| Bloomberg Barclay's US Aggregate Bonds | 6.8% | 5.5% | -3.3% | 1.1% | US Bond Market: government, corporate, and mortgage bonds |
| Bloomberg Barclay's US High Yield | 7.2% | 13.4% | 2.0% | 5.4% | Higher risk, higher yield "junk" bonds |
| “ALTERNATIVE” ASSETS | | | | | |
| GOLD, Dollars/Oz. | 11.6% | 13.1% | 2.8% | 10.0% | Gold bullion |
| NYSE Arca Gold Miners Index | 17.9% | 11.8% | -2.2% | 10.5% | Companies that mine precious metals |
| Crude Oil, Dollars/Barrel | -21.1% | -10.7% | 13.9% | 9.6% | The price of a barrel of oil |
| Bloomberg Commodity Index | -5.9% | -12.6% | 8.1% | 5.2% | Commodities like Gold, Copper, Natural Gas, Corn, etc. |
| Dow Jones REIT Index | 17.9% | 11.3% | 5.6% | 7.6% | An index of Real Estate Investment Trusts |
| Alerian MLP Infrastructure Index | 2.9% | 23.4% | 31.6% | 10.6% | MLPs: Energy infrastructure assets such as pipelines |

Review of Equity Markets continued...

One notable area of equity market strength in 2023 was the “Magnificent Seven.” Apple, Microsoft, Alphabet, Google, Amazon, Nvidia, and Tesla are the seven largest companies by market value in the US, and their stocks all had a stellar year. These stalwarts did so well and comprise so much of the market that without their contribution last year, the S&P 500 would have returned under 10% instead of over 25%! Though very different companies, all seven are tech-enabled, and widely seen as benefiting from the rise of artificial intelligence (AI). Society is in the early innings of harnessing this promising technology, but we expect that the list of AI beneficiaries will be much longer than seven!

As always, we’ll be looking out for investment opportunities on our clients’ behalf.

NEW WHITE PAPER

Research Analyst Bo Tang honors investing legend Charlie Munger whose thinking and writing has influenced many investors, including us here at Cabot. Visit our website to read this new white paper:

<https://www.ecabot.com/cabot-white-papers>

*"At the end of this past November, we lost an investment legend in **Charles Thomas Munger**. He passed away peacefully at a hospital in Santa Barbara, CA just 34 days shy of his 100th birthday. If the name doesn't ring a bell, you may recognize his long-time investing partner, one Warren E. Buffett. Together, they grew Berkshire Hathaway into the most famous investment company in the world."*





Fixed-Income Review and Outlook

Pat Creahan, CFA®, CAIA®, *Portfolio Manager*

2023: A YEAR OF RESILIENCE

In 2023, the global economy navigated a path that few had predicted at its outset. Despite fears of recession, the year unfolded with a surprising level of economic strength. The expected downturn caused by higher interest rates was remarkably absent while inflation trended lower without inflicting significant economic pain. In Q4, fixed-income markets responded to this “Goldilocks” scenario with lower long-term interest rates, lower default expectations, and strong returns across the entire risk spectrum. Treasuries, Municipals, Mortgages, Investment Grade and High Yield Corporate Bonds all posted positive returns and ended a two-year streak of poor performance.

The best news for markets was that inflation showed signs of conforming to the Federal Reserve's 2% target at a pace faster than expected. Inflation, as measured by CPI (Consumer Price Index), has fallen from a peak of 9.05% in June 2022 to 3.35% in December 2023. Progress has been made, but victory over inflation may be a long road. Not all components of inflation have moderated in equal amounts. Improved supply chains have eased the temporary price hikes of things like new and used cars, and energy prices have even exhibited deflation. However, 90% of US inflation in December came from “Core Services”, a category that is predominantly driven by housing and rental costs. Given the context of a growing economy with low unemployment, the remaining inflation may prove more structural in nature.

LOOKING INTO 2024

Bond markets are pricing in an optimistic outlook for 2024 as market pricing anticipates several rate cuts by the end of the year. At the same time, credit spreads are nearing their tightest levels since the aftermath of the great financial crisis. Effectively, the bond market reflects the belief that inflation can come down without causing too much economic pain. It has become our preference to move “up in quality” and be extra vigilant about choosing well-capitalized entities to lend to. In my opinion, lower-rated bonds do not offer adequate compensation (extra yield) for the additional risks they carry.

While selectively embracing opportunities in the bond market, we maintain a balanced approach, combining Treasuries, Mortgages, and Municipals with carefully chosen Corporate Bonds. In the current interest rate environment, a portfolio of conservative fixed-income assets can produce a compelling return without taking excessive credit risk. Given the higher starting yields of bonds, it's reasonable to expect that fixed-income assets may resurface as a dependable haven in turbulent times. They can help to preserve wealth and provide additional capital when risks are priced attractively.



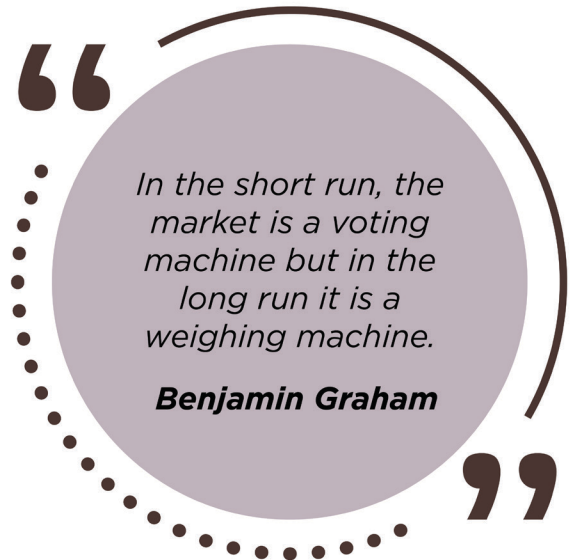


Equity Outlook

Taylor Haselgard, *Portfolio Manager*

Based on valuation and the stellar run of earnings growth we have seen recently, many argue we are in for more muted equity returns in 2024. However, innovation is happening every day and through every part of the economic cycle. For Instance, Google was founded in 1998 just before the dot-com bubble and went public in 2004. Also, Airbnb was founded in the middle of 2008! At Cabot, we feel that clients with a long enough time horizon to weather volatility could benefit from investing in long-term growth opportunities. We look forward to elaborating more about themes and markets that get us excited and how we look to navigate financial markets for you, our clients.

As always, there is much debate around short-term market direction, but we have provided a very simple approach looking at the two main drivers of long-term investment returns for stocks. These are valuation changes and earnings growth.



VALUATION

If you miss the Black Friday rushes of old, try purchasing limited editions of Stanley cups at Target. People were trampling each other for the latest limited edition color releases. The suggested retail price for these cups is \$45, but resellers are listing these for over \$100. Are these cups worth \$100? No. Are these cups worth spending \$45? Maybe. As a consumer product, they will not sell aftermarket at \$100 forever. This is a simplified way to describe mean reversion in financial markets. Some participants make the argument that markets will drift towards an average “price” over the long term.

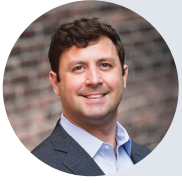
If you look at the US equity market today it looks very expensive versus the historical average “price”. The “price” of the market, as defined by price to earnings ratio, is ~63% higher today than it was over a decade ago. This rise in the “price” of the market from 2011-2023 attributed to roughly a third of the S&P 500’s low teens return over the last decade plus. If we saw a decade of similar levels of earnings growth but with mean reversion bringing the market price down to its historical average, we would expect US equity returns to be closer to 6%.

EARNINGS GROWTH

Earnings growth in the US has seen some of the best rolling 10-year growth rates, ever. Growing at ~7% over this long stretch has helped generate most of the remaining returns seen in the S&P 500. During that period, we saw corporate tax rates move to historical lows and interest expenses drop off a cliff due to lower for longer rates. Both things were tailwinds to company profits that will not improve growth in profits moving forward. Could we see continuing 7% earnings growth? It seems unlikely but possible.

WHAT ABOUT INTERNATIONAL MARKETS?

In aggregate, international and emerging markets remain far cheaper than the US on a valuation basis but not as much of a discount to their own long-term average “price”. A big part of that has been that earnings have not grown much which has led to very meager 10-year annualized returns of 4-5% for both regions. Some markets seem poised to eventually return to growing profits but in many instances, they face stiff competition from US native companies that operate globally more than ever before.



Long-term Investing Considerations for Year End

Alex Castrichini, CFP®, *Wealth Advisor*

As 2023 concluded, it was great to see a strong finish for financial markets after a challenging year in 2022. Coming off of several volatile years, it is perfectly normal for investors to wonder what will come next. With global uncertainty and an election coming up, investors could reasonably have cause for concern as we start a new year.

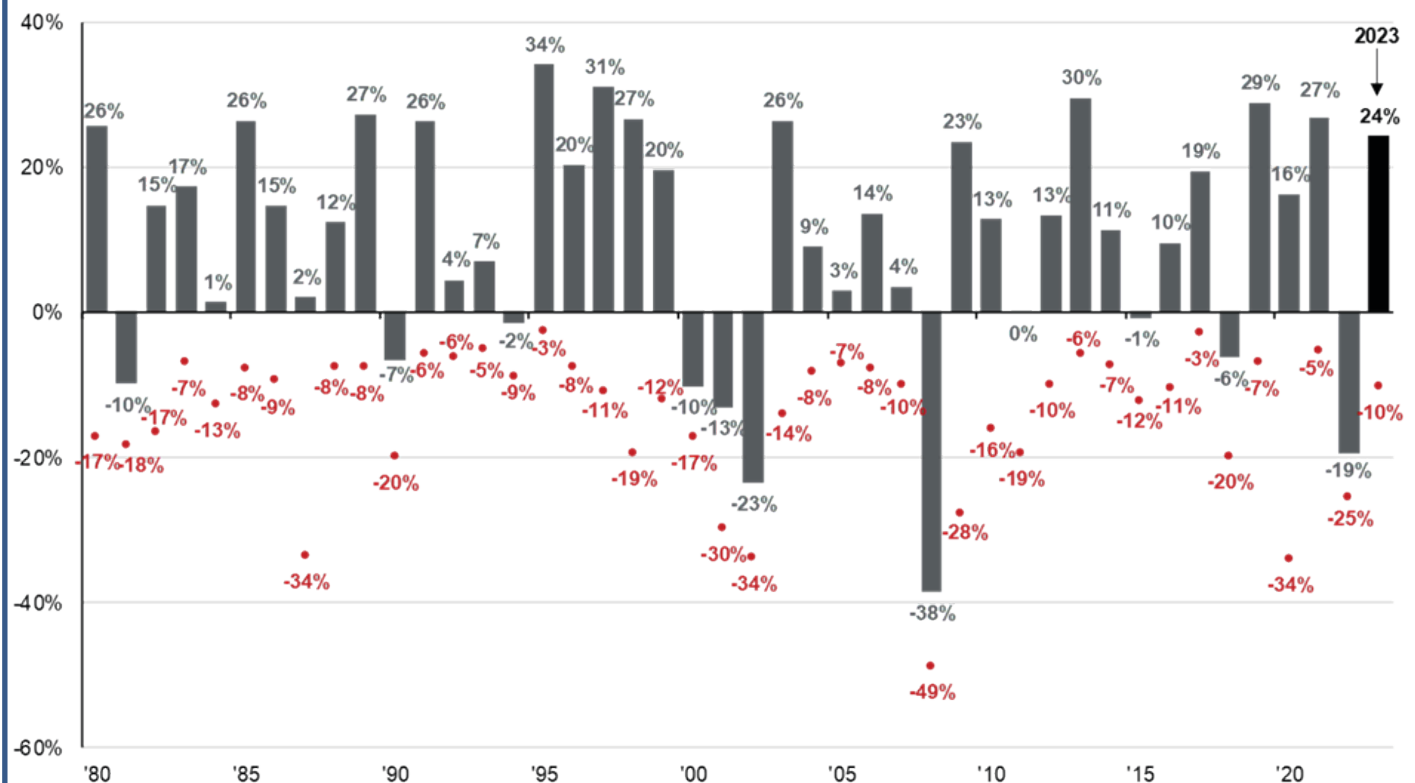
At Cabot, we believe that when it comes to investing, it is crucial to have a longer-term perspective, particularly when it comes to investing in stocks. While headlines might look foreboding and market experts sound negative, no one can know the future of the markets in the short term. Additionally, short-term volatility does not guarantee that the markets will have a bad year. The illustration below does a great job highlighting this point. The gray solid bars show the year-end performance in a given calendar year for the S&P Index, a widely used measure of the US Stock market. The red dotted lines illustrate the intra-year decline of the S&P 500.

2023 is an important example for investors to remember: The S&P 500 finished the year with over 20% gains, but at one point during the year it was down 10%. By overreacting to short-term market moves, an investor could miss out on a strong year of market performance. While not every year will be positive, as highlighted in 2022, annual returns of the S&P have been positive in 33 of 44 years. While it is easy to remember these lessons in a strong year, it is important to consider if 2024 starts off with volatility.

As always, work with your Cabot Wealth Advisor to ensure your portfolio risk matches your goals and objectives.

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.2%, annual returns were positive in 33 of 44 years



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2023, over which time period the average annual return was 9.0%.

Guide to the Markets – U.S. Data are as of December 31, 2023.



Preventing Fraud

Sonia Ernst, *Managing Partner, Manager of Trading and Operations*

Cyber threats are all around us; we hear about them from friends, we see them in the news, and we may wonder about suspicious emails and popups we receive. Together, we can take steps to protect your identity and your assets.

HERE ARE SOME GUIDELINES IN ORDER TO SAFEGUARD YOUR ASSETS:

Make sure to inform Cabot of any changes to your personal information. This may include change of address, beneficiary, marital status, or recent fraud attempts or personal breaches of information.

It is Cabot's policy to verify all money movement requests verbally before any action is taken.

Check your Charles Schwab statements regularly as well as all your financial account statements. It is critical to monitor them for any unexpected activity.

Take extra precautions with any emails, text, and phone calls that you were not expecting.

Be cautious of clicking on videos, links, and advertisements on social media. Many of these are imbedded with viruses and clicking on them will download threats to your device without your knowledge.

Avoid sharing personal information on social media. Information to avoid includes your birthdate, mother's maiden name, and when you are away on vacation.

Use multi-factor authentication (MFA) whenever possible.

When doing business with other companies that involves any movement of funds (such as a home purchase or sale), verify all money movement instructions verbally. Emails are often hacked, and instructions changed without your knowledge.

Keep your technology up to date with the latest software. Often software updates are released to combat vulnerabilities to known viruses.

Avoid public Wi-Fi. Use your personal hotspot instead.

Be wary of connecting to public chargers. Carry a charger with you (including the electric edge plug so that you can plug into an electric outlet instead of public USB chargers).

Dispose of old hardware in a secure manner.

Create unique passwords that have at least 12 characters. It is important that you do not reuse passwords across financial accounts. A password breach could mean access to all your accounts instead of just one.

As we head into tax season, remember that the IRS doesn't normally call, email, or text. There are many known scams that look like IRS notices. Please be wary of any notices received.

CYBERSECURITY

Around Cabot

Welcome Oliver and James!

In 2023, Cabot continued to grow as a business, but also celebrated a few of life's significant moments with some new additions. On October 8th, **James Sayaji Ross** was born to Steve Ross (Tax Advisor) and his wife Riddhi. Continuing the trend of new arrivals, **Oliver Bennet Swaim** was born on November 3rd to Tyler (Senior Wealth Advisor) and Megan Swaim. Both little boys are happy, thriving, and bring a world of love to their parents. We look forward to watching these two grow over the coming years!



James Sayaji Ross



Oliver Bennet Swaim

Client Service Reminder



Please remember to keep us informed and up-to-date on any significant changes you may have in your personal/financial situation. Some important changes may include:

 Change of street address

 Change in health status

 Change of email address

 Change in beneficiaries

 Change in job status

 Change in planned date of retirement

 Change in marital status

 Purchase or sale of a home

Contact Us: 800-888-6468 | info@ecabot.com

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