

NEWSLETTER

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3 BIG THINGS

1

August saw an unfamiliar leader in returns. Small company stocks in the US were the best performer during the month. It's been a tough go of things for small company stocks, but we could potentially see that tide shifting. These stocks look incredibly cheap and might benefit to a greater degree from lower interest rates which appears will take place this Fall.

2

Markets are expecting the Fed to continue its rate cutting cycle in September after being on pause for the entirety of 2025. Lower rates have historically been a strong sign for risk assets performing well. In theory rate cuts should also be beneficial for mortgage rates, right? As Lee Corso (who did his last college gameday show in August) would say, "Not so fast my friend!" Just because the Fed cuts the overnight rate it doesn't equate one to one to longer term interest rates falling which is what impacts things such as mortgage rates. While there could be some slight relief in those rates, don't expect large shifts downward across all interest rates.

3

In addition to small company stocks leading the way, it was really a month for what we'd consider our "diversifiers". Several areas of the market outperformed our large company high growth stocks which have been frequent residents atop the performance reports for years on end. International company stocks, value stocks, and even commodities all outperformed throughout August. This is a welcomed change. Not only does owning a variety of asset classes spread out of risk in accounts, but August showed us it can enhance returns as well.

Quote of the month: "The beauty about diversification is it's about as close as you can get to a free lunch in investing." - Barry Ritholtz

MARKET QUICKTAKES

ECONOMIC INSIGHTS IN A NUTSHELL

Economic data was mixed during the month. Job growth has slowed throughout the summer as only 73,000 jobs were added in July. There were also large revisions lower to the numbers from May and June. While the unemployment rate remains historically low, the slowing hiring rate could be foretelling of a slowing economy. Business confidence deteriorated during the month as well. The uncertainty around tariffs is making it difficult for businesses to want to do large investments as CEOs don't know where tariff rates will ultimately shake out. So far, companies have absorbed some of the increased costs, but this may not be sustainable for a prolonged period. If costs have to be cut to maintain margins, hiring is likely an area they will do so. This theory has market participants nervous given the slowing numbers in hiring seen already.

STOCKS

Another month, more gains for stock markets. As previously mentioned, the leaders looked different this month. Small company stocks were up over 7% in the month. This compares to the S&P 500 being up just 2%. All equity markets advanced. Some other notable leaders included real estate being up 4.5%, international markets up 4%, and value stocks being up 3%. We haven't seen many months in the recent past where nearly every market outperformed the S&P 500, especially in an up market.

FIXED INCOME

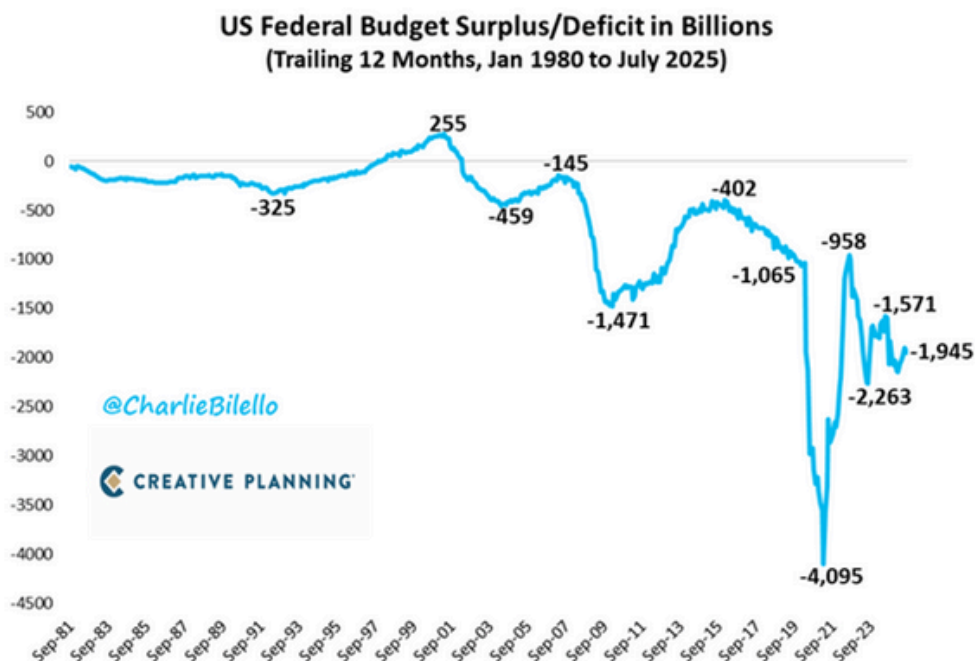
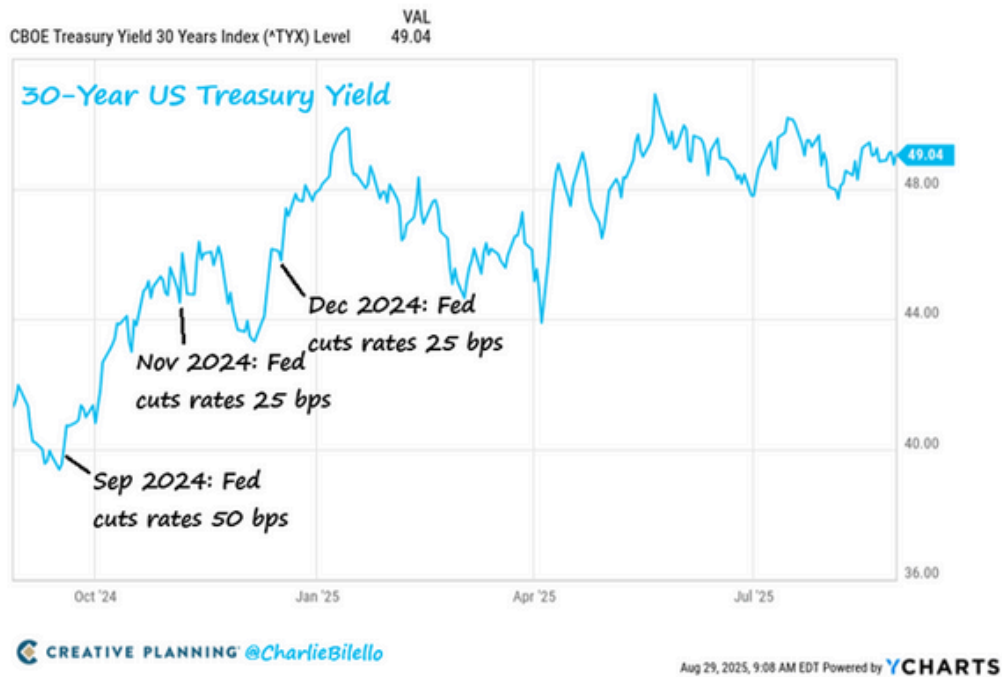
Bonds also saw gains during the month of August. Chairman Powell hinting at future interest rate cuts this Fall at their Jackson Hole, Wyoming meeting spurred lower interest rates and higher prices for bonds. The market is now pricing in near certainty that the Federal Reserve will pick back up their rate cutting cycle at their September meeting. These lower rates coincide with the strength in small company US stocks as these companies often carry more debt at higher rates than the larger, more mature companies.

COMMODITIES

While leadership in stocks may have changed in August, that wasn't the case in commodities as Gold continues to be a standout performer. The precious metal crossed above \$3,500 per oz for the first time in history during the month. Golds record run higher has carried broad commodities higher as well. Oil was volatile throughout the month with Russia-Ukraine headlines, but ultimately finished down 7%.

VIEWS FROM MARKET STRATEGISTS

As mentioned, the market is now expecting a rate cut in September, but we aren't confident that it will bring relief to the real estate market and mortgage rates. Traditional 30 year mortgages price off longer term bond yields. Below in the first chart, the 30 year treasury is shown dating back to a year ago when the Fed began cutting. What should stick out is despite the Fed lowering rates by 1%, the 30 year bond is now higher than it was prior to the Fed cutting rates! Now why would that be? Take a look at the second chart depicting our government budget deficit. Historically we ran large deficits for crises: 9/11, global financial crisis, Covid, but you can see that while we had always brought the deficit back from these large levels, following Covid we have not. Despite the economy growing, we continue to run a large deficit and this is putting pressure on longer term bond yields.



EVERGREEN REMINDERS

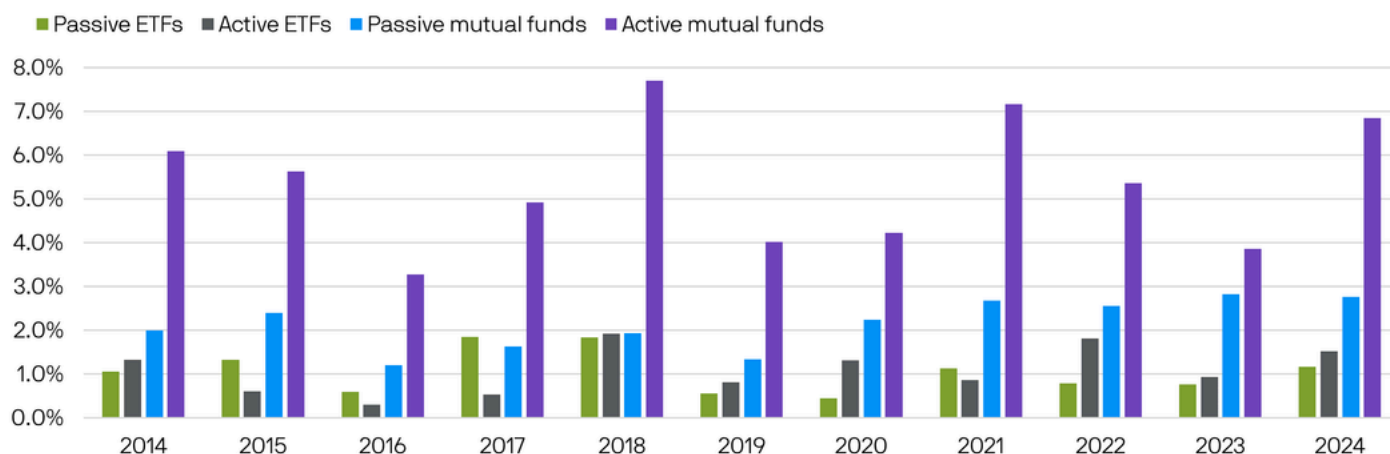
As we enter the Fall, capital gains season is quickly approaching. One of the main reasons we opt to utilize ETFs within portfolios is the enhanced tax efficiency that comes with them. The chart below lays out the percentage of mutual funds vs ETFs that have paid a capital gain in the last several years. In 2021 over 60% of active mutual funds paid out a capital gain which compares to only 13% of ETFs. This is a significant difference and not an anomaly as just last year nearly 40% of active mutual funds paid capital gains vs 8% of ETFs. In taxable accounts we are hyper focused on delivering the best after tax return we can. A key part of our strategy is being sure we don't pay unnecessary capital gains in years that we don't have to.



Percentage of funds paying capital gains in calendar year

GTE U.S. 48

Weighted average of % capital gains / net asset value (NAV)



% of funds paying capital gains by year

Fund type	# of funds that paid capital gains in 2024	Total # of funds in 2024	% in 2024	% in 2023	% in 2022	% in 2021
Passive ETFs	32	1,898	1.7%	1.2%	2.3%	8.4%
Active ETFs	107	1,230	8.7%	4.7%	8.0%	13.8%
Passive mutual funds	147	436	33.7%	23.7%	34.1%	54.3%
Active mutual funds	2,104	5,364	39.2%	28.5%	42.4%	61.5%

Source: Morningstar, J.P. Morgan Asset Management. Cost basis is the original purchase price used to determine capital gains and losses. Unrealized gain is the profit, if any, on a security that has not been sold (current price minus cost basis). Data as of December 31, 2024. Products are U.S. only.

Data as of July 31, 2025.

J.P.Morgan
ASSET MANAGEMENT

Principles of ETF Investing

LIFESTYLE HACK

Snack Basket System:

Keep a basket of pre-portioned, healthy snacks in the pantry or fridge. This makes it easy to grab a bag when you need a snack or something to hold you over until the next meal. Not only is it easy, but the pre-portioned nature keeps you from over indulging in those salty and addicting snacks.

Coming from a snacker myself, I'm going to implement this to keep from "accidentally" eating the whole bag of chips in one setting.

TECH TIP

Voice assistant reminders:

Have something come up in the middle of the day and then you forget to write it down or make note of it? Put your smart devices to work! Ask Siri to make a reminder in your phone or set an alarm with a name of what you need to do. Being able to do this audibly avoids having to stop what you're doing and type out a note you may not get back to anyways.

LOCAL EVENTS THIS MONTH

- The start of Fall means football season is back. The Huskers kicked off the year in Kansas City, but have several home games throughout September.
- Grease is playing at the Omaha Community Playhouse starting September 12 and running for a month.
- Omaha restaurant week kicks off on the 12 as well. Numerous restaurants around town will be doing special three course meals from the top chefs around town.
- The River City Rodeo takes over CHI Health center the 19th and 20th.
- Crescent Moon & Huber Haus has their popular Oktoberfest taking place the 26th.
- Runners will fill downtown on the 28th as the Omaha Marathon takes place that morning.

ARVADA TEAM HAPPENINGS

Back to school is a busy time for the Omaha office. Shawn has an 8th grader and Sophomore at Brownell Talbot. Melissa has a 5th, 3rd, and kindergartener all at Fremont Trinity Lutheran School, and one still at home!

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the Index proportionate to its market value.

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